Reference Point

T. Rowe Price Defined Contribution Plan Data | As of April 2023

ON UNSETTLED GROUND, PARTICIPANTS HOLD STEADY

For two years, the retirement industry closely watched participants to capture their reactions to market volatility related to the coronavirus pandemic. In short, participants largely stayed the course.

Fast-forward to 2022, a year that started with market volatility caused by war, dealt out significant inflation and fears of recession, and ended with one of the most substantial pieces of retirement legislation in years. It's enough change to unsettle even the most prepared retirement savers. But through it all, participants mostly stayed the course—just as they have since 2020.

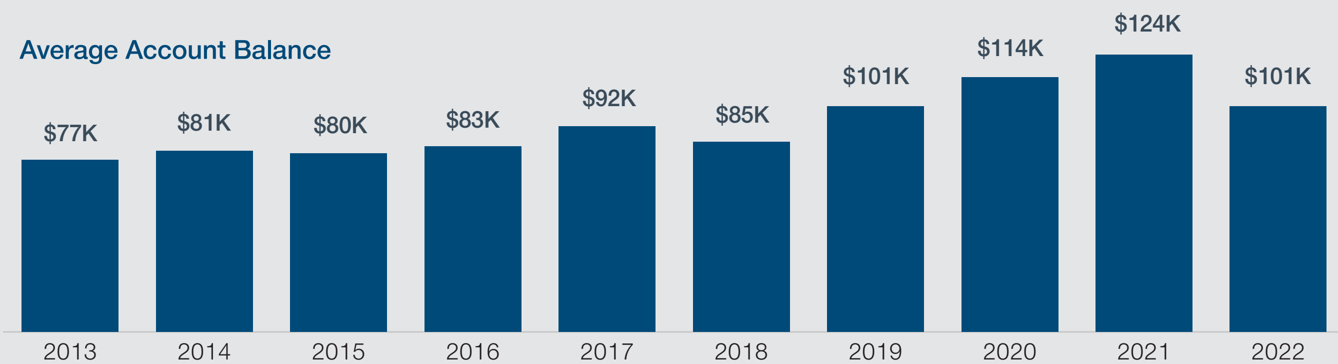
In the latest edition of Reference Point, our annual benchmarking report, we analyze retirement trends over the past 10 years to determine what new or changing behaviors emerged in 2022 and how plan design influences participant behavior. Looking at plan and participant trends is particularly important this year, as plan sponsors--and the retirement professionals who serve their retirement plans–start to evaluate SECURE 2.0 opportunities.

THE IMPACT TO ACCOUNT BALANCES

After steadily rising since 2018, average account balances dropped from $124K in 2021 to $101K in 2022—a decrease of 18% compared with the 20% drop experienced by the S&P 500 Index. This was the second-largest decline in the past 15 years, with the first being the 27% drop from 2007 to 2008. However, participants generally did not stop or reduce contributions in reaction to market volatility, so the decreases in account balances were somewhat muted relative to the drop in the stock market.

How did the decline affect retirement plans' oldest participants? Account balances for participants age 70+ decreased by an average 8%, potentially because these participants tend to allocate more to money market/stable value and less to stocks, which suffered the greatest losses in 2022.

Average Account Balance

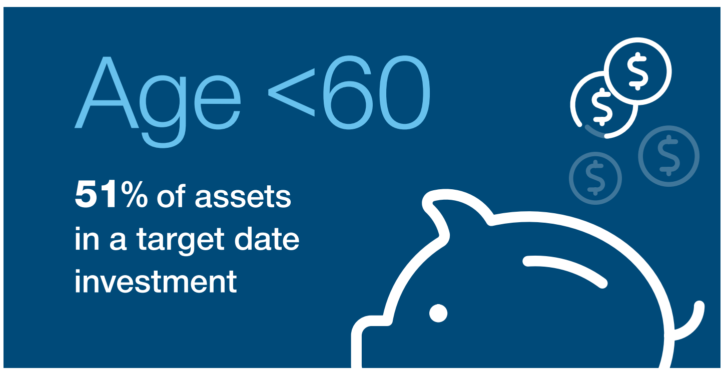


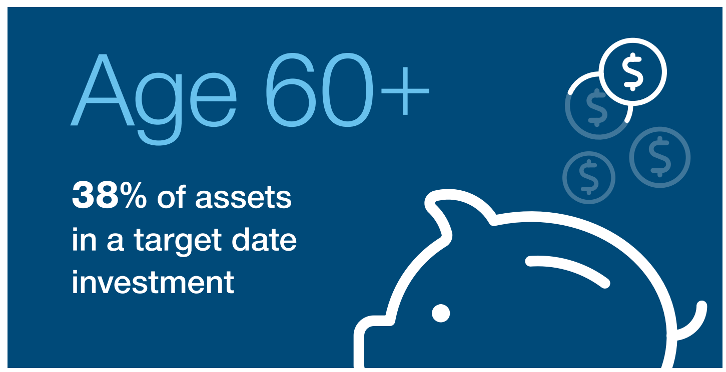
UNSTEADY MARKETS BUT RELATIVELY STEADY ALLOCATIONS

Periods of market volatility throughout 2022 led to drops in stock value, with the S&P 500 Index decreasing by 20%. Despite rocky market performance, retirement plan participants overall made few changes to their asset allocation.

Stocks experienced the biggest decline in allocation, decreasing from 34.8% in 2021 to 31.7% in 2022. Stocks, in this case, do not include company stock or any mixed portfolios that include an equity allocation, such as target date investments. In comparison to stocks, money market and stable value investments picked up two percentage points, mostly from participants age 60+. Allocations to money market and stable value increased from 7.5% in 2021 to 9.6% in 2022.

Allocations to target date investments also experienced modest gains for the third year in a row. The vast majority of retirement plans (97%) now offer target date investments, and 44% of overall assets are invested in a target date investment.





Across the total participant population, 85% of participants are age <60 and 15% are age 60+.

DEFERRAL RATES: STAYING FLAT (MOSTLY)

After climbing steadily since 2015, the average combined employee deferral rate (which includes all employee contribution types) remained relatively flat in 2022, down just slightly from 8.5% in 2021 to 8.4% in 2022. The declines occurred in all age groups under age 60, while those age 60 and older made no changes or slightly increased deferrals.

Participants age 70+ increased their catch-up deferrals by 8.5% in 2022, an increase to 15.3% from 14.1% in 2021. However, across all catch-up-eligible age groups, these contributions remained relatively flat in 2022 after multiple years of growth.

As plans continue to add the Roth contribution option, more participants across all age groups are opting in. Plan adoption of Roth increased from 83% in 2021 to 87% in 2022. As of the end of 2022, 13.2% of participants were making Roth deferrals, up from 4.7% a decade prior, pointing to the increasing popularity of this option.

EMPLOYER MATCH TRENDS REMAIN MIXED

During the pandemic, many plans reduced or suspended employer match. There was a resurgence of the employer match in 2021, and the percentage of plans offering a match increased again slightly in 2022, especially among larger plans.

In 2022, 94% of plans with $500 million to $2 billion in assets and 93% of plans with over $2 billion in assets offered a match, up from 92% and 86% in 2021, respectively. At the lower end of the spectrum, 40% of plans with less than $2 million offered a match, up from 28% in 2021.

From an industry perspective, the increases were most heavily concentrated in the information technology and health care and social assistance industries. The retail trade and leisure and hospitality industries experienced the biggest declines in the percentage of plans that offer an employer match.

HOW MUCH ARE EMPLOYERS MATCHING?

The most common match formulas in 2022 were:

- **50% up to 6%:** 20% of plans that offered a match in 2022 used this formula (down from 21% in 2021)
- **100% up to the first 3%, plus 50% up to the next 2%:** 19% of plans that offered a match in 2022 used this formula (no change from 2021)
- **100% up to 4%:** 15% of plans that offered a match in 2022 used this formula (up from 12% in 2021)

Also in 2022, 4% was the top match effective rate. The top match effective rate is the most common maximum amount employers contribute when you take into account all match formulas.

WHICH INDUSTRIES ARE ADDING OR REMOVING AN EMPLOYER MATCH?

The industries with the most significant changes from 2021 to 2022:

RETAIL TRADE — **6** Percentage Points Down (80% to 74%)

LEISURE AND HOSPITALITY — **4** Percentage Points Down (90% to 86%)

INFORMATION TECHNOLOGY — **8** Percentage Points Up (86% to 94%)

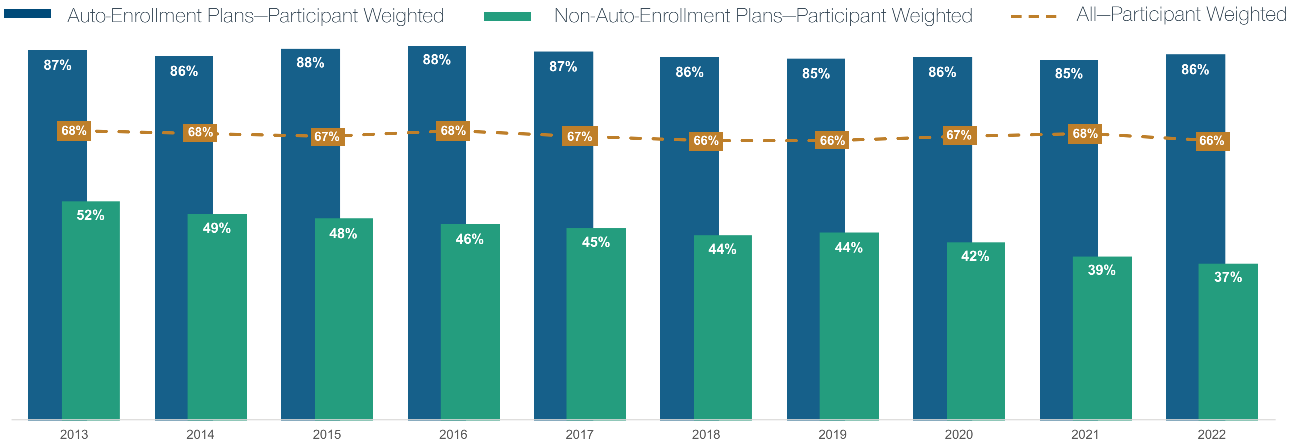
HEALTH CARE AND SOCIAL ASSISTANCE — **2** Percentage Points Up (55% to 57%)

PLAN DESIGN IS MAKING A DIFFERENCE

For years, retirement plans have proven that auto-solutions are effective plan design features to get participants enrolled, saving, and investing. This was apparent in 2022, even as market and economic uncertainties threatened to push participants off track.

Plan adoption of auto-enrollment rose in 2022 to 66%, continuing an eight-year trend. Auto-enrollment also continued to yield far higher participation rates: 86% in 2022, compared with just 37% for plans without auto-enrollment.

Participation Rate Auto-Enrollment vs. Non-Auto-Enrollment



Plan adoption of the opt-out method for the auto-increase solution also increased in 2022 to 49%, up slightly from 48% in 2021. This method automatically enrolls participants in auto-increase. While more participants declined to use auto-increase in 2022, regardless of the opt-in or opt-out method, the opt-out method continued to produce higher enrollment rates: 62% for the opt-out approach versus 10% for opt-in.

DEFAULT DEFERRAL: IS THERE A "MAGIC NUMBER"?

Over the past 10 years, we've seen plans move away from default deferral rates of 2% and 3% that were more common for early adopters of auto-enrollment. Plans have introduced higher default rates to encourage greater saving, and since 2018, more plans have used a 6% default rate than a 3% default rate.

But how high is too high? Is there a rate that would be high enough to motivate participants to decrease their contributions? Our data show that setting the default higher than 3% might be key. Any lower than 4%, and participants are more likely to increase their deferral rate manually. But when the default rate is set to 5% or 6%, only a small percentage decrease from the default:

3%

OLD STANDARD DEFAULT RATE:

16% increased their contribution rate over the default

6%

NEW STANDARD DEFAULT RATE:

Only **1%–2% decreased** their default deferral rate

BORROWING IS DECLINING, BUT BALANCES ARE UP

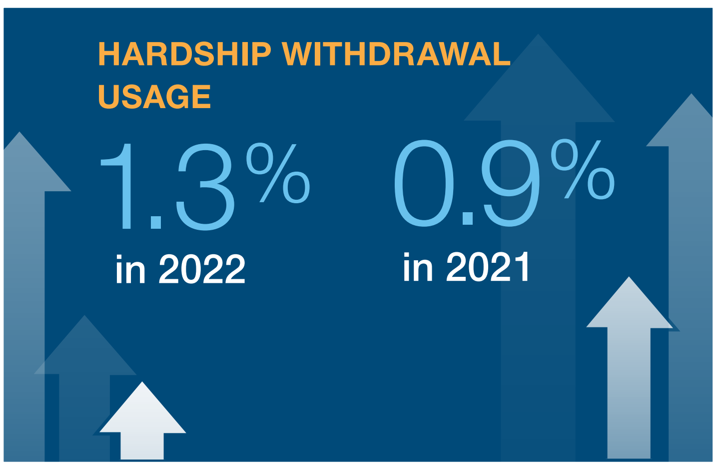
More plans now offer loans to participants, with the percentage increasing slightly to 91% in 2022 (from 89.5% in 2021). Loan usage remained below the pre-pandemic average: 18.3% of participants had a loan in 2022 compared with 18.5% in 2021 and 22.1% in 2019. In general, loan usage has been declining for the past 10 years.

Conversely, average loan balances continue to increase, growing to $9,837 in 2022 over a 10-year low of $8,435 in 2013. Among borrowers, 89% had a single loan in 2022 compared with just 11.5% who had multiple loans.

This could indicate that, during uncertain times, fewer participants borrowed, but those who did borrowed higher amounts.

MIXED HARDSHIP TRENDS

Hardship withdrawal usage returned to pre-pandemic levels in 2022: 1.3% compared with 0.8% in 2020 and 0.9% in 2021. Average hardship amounts, however, decreased from the 10-year high in 2021, dropping from $10,554 to $9,006.



LOOKING AHEAD TO SECURE 2.0

The SECURE 2.0 Act of 2022 introduces mandatory and optional provisions that will help increase coverage and allow participants to save more and longer for retirement. The law also helps sponsors to tailor their plans more specifically to the needs of their plan population.

How it will affect plan and participant trends is yet to be seen, given that many of the provisions will not go into effect until 2024, 2025, and beyond. We do anticipate that plan sponsors might implement new plan design features or make other changes based on SECURE 2.0, specifically in these areas:

- **Auto-enrollment and auto-increase:** New plans will be required to offer the two features, effective in 2025. While this provision applies only to new plans, plan sponsors might add or modify the auto-solutions in their existing plans.
- **Roth:** Starting in 2024, all catch-up contributions will be required to occur on a Roth basis for participants earning more than $145,000 in prior-year wages from the employer sponsoring the plan. This provision may substantially affect trends, as plans adopt Roth for the first time and more participants start contributing on a Roth basis. Beginning in 2024, RMDs are not required from Roth accounts in a plan, so there would be no need to roll over to an IRA to avoid RMDs.
- **Student loan match and emergency savings:** We expect that the retirement industry and employers will be tracking trends related to retirement plan matching contributions of student loan payments and emergency savings distributions with the financial wellness provisions included in SECURE 2.0.

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