Reference Point

T. Rowe Price Defined Contribution Plan Data | As of May 2021

AN UNPRECEDENTED EVENT

In early 2020, the coronavirus pandemic began its global march, infecting millions of people and temporarily sparking extreme market volatility, causing true economic hardship—and heartbreak—around the world. We cannot assess and analyze data from T. Rowe Price's retirement plan book of business without acknowledging what has happened over the past 14 months. Therefore, our statement in last year's edition of Reference Point remains true today and tomorrow: We must continue to look to the past so that you, our clients, can plan for the future.

This newest edition of Reference Point provides data and actionable insights into plan and participant actions taken in 2020, year over year, and through the lens of the pandemic. We know the volatility of 2020 influenced trends we previously shared. And the financial, physical, and emotional strains caused by the coronavirus had, and will continue to have, repercussions on plan design and employee retirement savings outcomes.

SAVING FOR RETIREMENT CONTINUES

That all being said—and given the fact that market volatility at the beginning of the year caused many changes throughout 2020 and beyond—the data tell us that, overall, plan sponsors and participants continued to understand the value of retirement savings programs last year:

- Plans have continued to increase auto-enrollment—going from 61.8% in 2019 to 62.2% in 2020—as well as default deferral rates, which have increased from 4.4% to 4.5% over the last year.
- Participant participation increased from 66% in 2019 to 67% in 2020.
- The overall average pretax deferral rate for participants increased from 7.6% in 2019 to 7.8% in 2020—the largest annual increase since 2016.
- Despite market volatility early in the year, the overall average balance increased 13% from $100,600 to $113,900 by the end of 2020.
- Although the pandemic created economic uncertainty, more than 90% of participants stayed the course by not making a withdrawal from their retirement account.

+13%

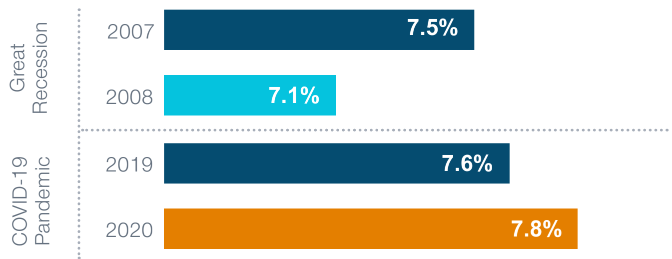
Average plan balances INCREASED from $100,600 to $113,900 by the end of 2020

BEYOND THE PANDEMIC

While much of the data we are discussing in this report were certainly affected by the pandemic and resulting economic uncertainty—indeed, we might say even despite it—this still speaks to the ongoing health of our clients' plans, our supportive approach to financial wellness, and our useful tools and resources to help both clients and participants achieve their desired outcomes.

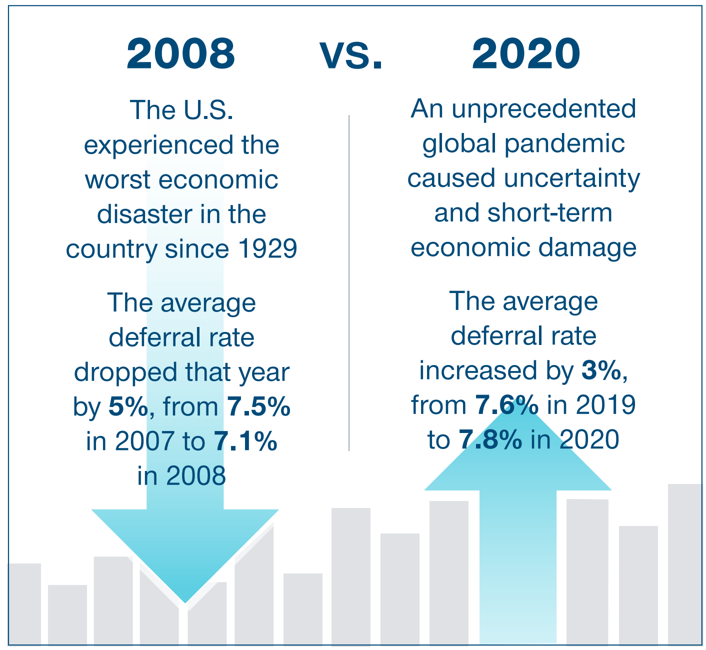
DEFERRAL RATES INCREASE

Despite the challenging year, the overall average pretax deferral rate for participants increased from 7.6% in 2019 to 7.8% in 2020—the largest annual increase we have seen since 2016.



While it's not necessarily "apples to apples," a glance back to 2008 is a natural consideration, as there are important similarities between the Great Recession and today's pandemic caused by the coronavirus. Both events resulted in federal legislation—the American Recovery and Reinvestment Act (ARRA) in 2008 and the Coronavirus Aid, Relief, and Economic Security (CARES) Act in 2020—intended to provide economic support and assistance to American workers, families, businesses, and industries.

Regarding differences between 2008 and 2020, average pretax deferral rates stand out:



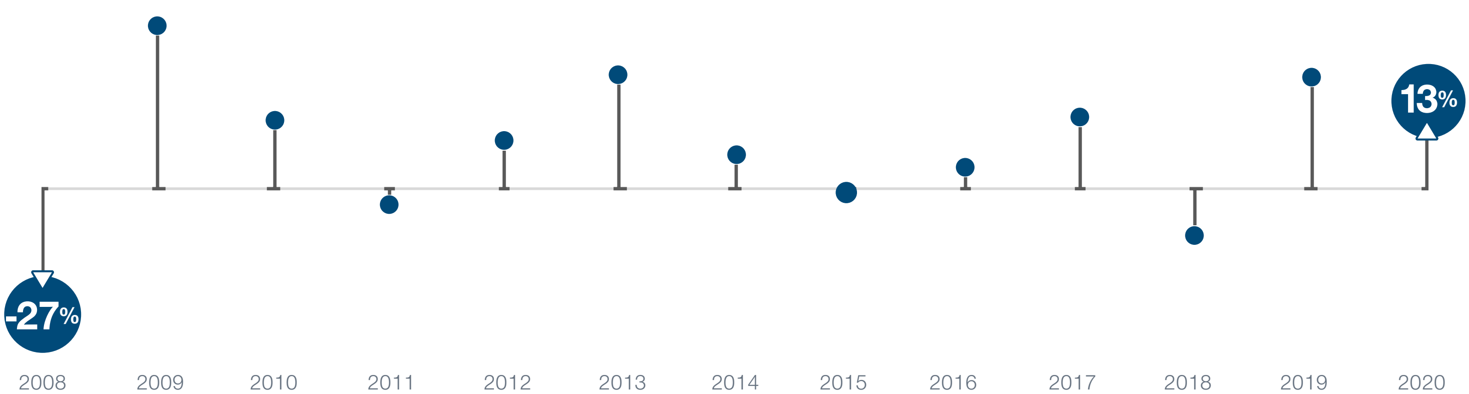
THEN AND NOW: 2008 VS. 2020

While the exact reason cannot be determined, the difference in average deferral rates may be due in part to the fact that today's employers and employees are more in tune with the benefits and importance of retirement savings.

The change in average deferral rate, from 7.6% to 7.8% in 2020 could be connected to several factors, including plans adopting auto-increase, increasing the match ceiling, and perhaps a participant population better educated in financial wellness and the benefits of saving for retirement.

That deferral rate increase, combined with the fact that the majority of participants did not react to the market volatility by making withdrawals from their accounts, contributed to the overall average balance increasing by 13% over 2019 when the market rebounded before the end of the year.

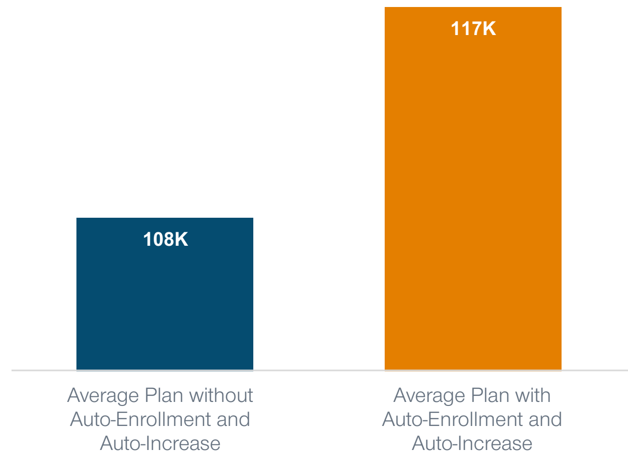
YEAR-OVER-YEAR AVERAGE BALANCE CHANGE



AUTO-SOLUTIONS MAKE A DIFFERENCE

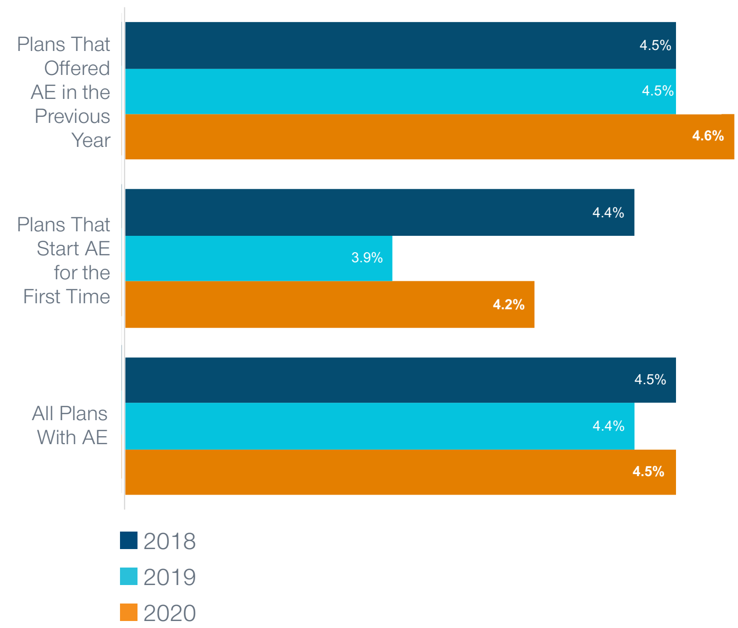
The number of plans adding auto-enrollment slowed in 2020, but there was still an increase in the share of plans using it, rising from 61.8% in 2019 to 62.2% in 2020. The same was true for auto-increase, which grew from 79.8% in 2019 to 81.2% in 2020. These solutions, when used in tandem, can make a notable difference to participants saving for retirement.

The average balance difference between plans that use auto-enrollment and auto-increase and those that don't is significant. On average, plans that offer both auto-enrollment and auto-increase together have balances that are 8% higher than plans that don't offer these options. Year after year, more and more plans see the value in offering this pair of solutions to their participants, to make it easier for them to enroll and save more each year.



Another action that plans are taking to help participants save more is increasing their default deferral rate in connection to their auto-enrollment. On average, throughout 2020, plans that had previously implemented auto-enrollment for their participants increased their default deferral rate from 4.4% to 4.5%. This positive movement is helping participants to start saving at a higher rate earlier in their employment. Even plans offering auto-enrollment for the first time, starting in 2020, are starting their default deferral rates on average 7% higher than they did in 2019.

AUTO-ENROLLMENT—AVERAGE DEFAULT DEFERRAL RATE



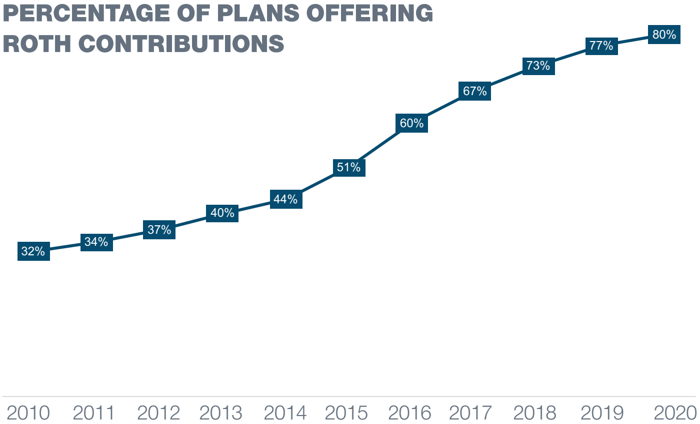
When we dig deeper into auto-increase usage, we can see that over the last six years, participants are five times more likely to use the service in plans that use an opt-out model versus those that adopt an opt-in model. Considering the difference in average balance between plans that use auto-increase and those that do not, paired with the fact that a greater share of plans are using opt in (53%) versus opt out (47%), perhaps plan sponsors would consider taking another look.

The increased usage of auto-enrollment and auto-increase, along with the increase in default deferral rates, may reflect a deeper understanding on the part of the plan sponsors regarding how important it is to provide their employees with ample opportunity to save, despite—or perhaps because of—the pandemic. T. Rowe Price continually communicates with plan sponsors, as well as financial professionals and third-party administrators, about the value of remaining steady regardless of market volatility, staying focused on long-term goals, and saving as much and starting as early as possible to improve retirement outcomes.

GROWTH IN ROTH 401(k)s

In 2020, 80% of plans offered the Roth 401(k) as an option to their participants, up from 77% in 2019. Further, nearly 10% of eligible participants took advantage of this feature in 2020, up from 8.5% the previous year. This was the case across all age groups with the exception of participants under 20 years old. Participants over the age of 60 saw the biggest year-over-year increase (18%) in Roth 401(k) usage versus younger participants. The Setting Every Community Up for Retirement Enhancement Act changes to the required minimum distribution rules, which accelerate distributions to certain beneficiaries, may have made Roth 401(k) contributions more attractive because of the tax-free treatment of qualified Roth distributions.

PERCENTAGE OF PLANS OFFERING ROTH CONTRIBUTIONS



Roth 401(k)s have grown more than 10% over the past four years. What could this continued growth in the adoption and usage of Roth 401(k)s indicate, taking the pandemic out of the equation? Increased financial awareness of tax implications in retirement might be a factor.

ECONOMIC CHALLENGES AND...PLAN DESIGN

Overall, plans across different segments decreased their matches. This finding is yet another of the changes we see, from both the client and participant perspectives, that may have been caused at least in part by the challenges of 2020.

From 2019 to 2020, the percentage of plans offering a match declined from 82% to 77% as some plans suspended their changes and matches in 2020.

PLANS HIT HARDEST BY THE PANDEMIC

While most plans maintained their plan design throughout the pandemic, some plans needed to make changes. One of the adjustments from these plans was a reduction or suspension of matched contributions, with the largest impact on plans with between 1,000 and 5,000 participants, as well as plans with assets between $150M and $500M.

Two industries affected significantly by the pandemic were retail trade and leisure and hospitality—both of which experienced a larger-than-average reduction in matched contributions in 2020, decreasing by 11% and 17%, respectively.

-5% OVERALL CONTRIBUTION MATCH DECREASE

-17% LEISURE AND HOSPITALITY

-11% RETAIL TRADE

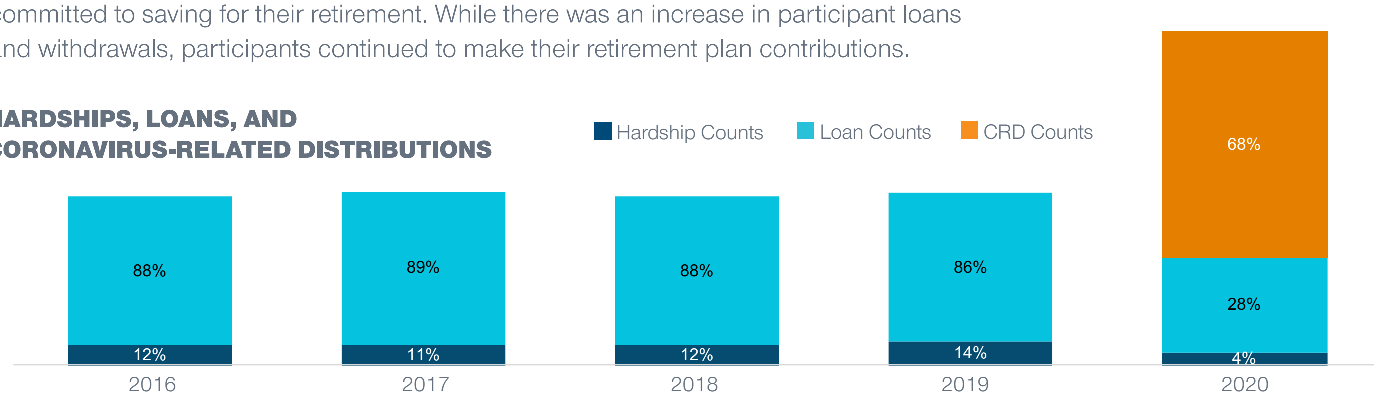
During the peak of the market volatility in 2020, 10% of plans suspended or made changes to their plan design. Almost half of these plans had reinstated part or all of their original plan design within the first month of the new year (46% in January 2021). This suggests that the changes were intended to be temporary and in response to economic uncertainty.[1]

[1]Data referenced from the 10th edition of "Reactions from Plan Sponsors and Participants to the Coronavirus-Impacted Environment," a T. Rowe Price research paper about market volatility that was published in 2020.

ECONOMIC CHALLENGES AND... PARTICIPANT LOANS AND DISBURSEMENTS

Despite the economic burden of the COVID-19 pandemic, most employees remained committed to saving for their retirement. While there was an increase in participant loans and withdrawals, participants continued to make their retirement plan contributions.

HARDSHIPS, LOANS, AND CORONAVIRUS-RELATED DISTRIBUTIONS



The number of plans that allowed loans to be taken in 2020 increased from 89% to 90% of plans, but 36% fewer participants took a new loan in 2020 versus 2019. The number of loans taken in 2020 may have decreased as a result of alternative access to funds in the form of coronavirus-related distributions (CRDs). Further, the number of participants with a loan declined by approximately 10%, while deemed loans increased by 6%.

Year over year, loans and hardship withdrawals were down 37% compared with 2019. But when CRDs are included with loans and hardships, the transactions nearly double. There were twice as many CRDs as there were loans and hardship withdrawals combined.

While **more than 90%** of participants **did not** leverage a CARES Act provision,

9% of participants used **at least one** CARES Act provision

While the vast majority of participants did not leverage any of the CARES Act provisions (more than 90%), other participants chose to access funds in the form of CRDs, hardships, or loans. The number of hardship withdrawals and loans taken declined in 2020, as participants took CRDs instead. In 2019, 86% of the total loans and distributions taken were loans, compared with 2020 when 28% were loans. Hardship withdrawals went down from 14% in 2019 to 4% in 2020.[1]

While CRDs accounted for 68% of loans and distributions, only approximately 8% of participants took at least one CRD in 2020.[1]

The average CRD taken was two times larger than the average hardship withdrawal over the last three years. And while there were far fewer hardship withdrawals taken in 2020—41% fewer than 2019—the average withdrawal amount did increase by 32% compared with 2019.

The number of new loans declined by 36% in 2020 versus 2019, but the average new loan amount increased in connection to the increased loan limits (ILL) provisions that were available from April 2020 through September 2020. While less than 1% of participants used the ILL provision, the average amount for an ILL loan was three times greater than standard/regular loans.[1]

[1]Data referenced from the 10th edition of "Reactions from Plan Sponsors and Participants to the Coronavirus-Impacted Environment," a T. Rowe Price research paper about market volatility that was published in 2020.

HOW THINGS CHANGED—AND HOW THEY DIDN'T

While market volatility certainly affected retirement savings, looking at the 2020 data, we still see continued growth. Participants saved more, account balances continued to grow, and plan sponsors remained steadfast in helping employees save for retirement.

Based on the data and metrics we captured for this report, here are some key considerations that plan sponsors and financial professionals may want to keep in mind moving forward:

DESIRED OUTCOME	POTENTIAL SOLUTION
Supporting participants' efforts to rebuild their retirement savings after taking a CRD, loan, or hardship withdrawal.	▪ CRD repayment ▪ Auto-increase ▪ Financial wellness solutions ▪ Targeted participant communications
Making it easier for participants to save more.	▪ Auto-enrollment can help participants save more. ▪ Using auto-increase can help encourage participants to contribute more each year. ▪ Using an opt-out auto-increase enrollment method can increase participant usage of this service. An incremental increase in an employer's contribution match could help participants save more. ▪ Increasing the match threshold can be another way to encourage participant saving. ▪ Increasing default deferral rate amounts could help increase participant saving. ▪ Giving participants the option to contribute to a Roth 401(k) can help them to save more while diversifying their tax situation in retirement (especially for participants who have a longer savings horizon).

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