2021 Universe Benchmarks

How workers are saving and investing in defined contribution plans

ACTIVITY DURING THE COVID-19 PANDEMIC

alight

About this report

This Universe Benchmarks report is the latest in a long line of annual reports provided by Alight Solutions to show how workers are saving and investing in defined contribution (DC) plans. The 2021 version is based on more than 100 plans covering three million eligible participants. The report highlights the most common benchmarking statistics for DC plans including participation rates, savings rates, plan balances, investment and trading activity, and distributions from accounts (e.g. loans, withdrawals, cash-outs, and rollovers). Deeper insights by age, gender, tenure, and industry are available by request.

About Alight Solutions

With an unwavering belief that a company's success starts with its people, Alight Solutions is a leading cloud-based provider of integrated digital human capital and business solutions. Leveraging proprietary AI and data analytics, Alight optimizes business process as a service (BPaaS) to deliver superior outcomes for employees and employers across a comprehensive portfolio of services. Alight allows employees to enrich their health, wealth and work while enabling global organizations to achieve a high-performance culture. Alight's 15,000 dedicated colleagues serve more than 30 million employees and family members. Learn how Alight helps organizations of all sizes, including over 70% of the Fortune 100 at alight.com.

There is no way to avoid mentioning COVID-19 when talking about 2020. The pandemic impacted nearly every aspect of our lives. Millions of Americans lost their jobs and many lucky enough to stay employed shifted to working from home. Sports were canceled. School became remote. Travel and entertainment slowed to a crawl. And social distancing and mask wearing became the norm.

With such a far-reaching impact, the COVID-19 pandemic also affected retirement plans — in ways good and bad. Volatility rocked the stock market in February and March of 2020, leading to near-record trading levels. With new legislation opening the door for people to tap their savings, withdrawals spiked in the wake of the CARES Act. However, participation rates and savings rates both increased, likely caused by a combination of people receiving economic stimulus checks and a decrease in discretionary spending that came with sheltering in place.

Key findings

- **The average plan balance is at an all-time high of $130,330.** At the beginning of 2020, it was $122,150.
- **The median plan balance fell slightly from $29,430 to $28,426.**
- **Trading volume was higher than previous years** — 2.2% of balances were traded in 2020 compared to 1.8% in 2019. Nearly all of this activity occurred over a six-week period that started in mid-February.
- **The median return for investors during 2020 was 16.9%.** Three-quarters of participants earned returns between 10% and 25%.
- **The average plan participation rate grew to 83%** — a 2 percentage point increase from 2019.
- **The average contribution rate increased to 8.3% from 8.1%.**
- **The percentage of people using target date funds decreased.** For the first time, there were fewer people using target-date funds at the end of the year than there were at the beginning of the year. The percentage dropped from 76% to 72%.
- **Fewer people took loans, but more took withdrawals.** Many opted to tap their balances by taking the special withdrawal provision in the CARES Act allowing people to repay their amount over a 3-year period.

The average plan participation rate during 2020 was 83%, a 2% increase from 2019. But this is only part of the story. More than half of plans have a participation rate of 90% or higher. Conversely, 1 out of every 10 plans has less than half of their eligible workers participating.

Distribution of participation rates

90%+	54%
80–89%	22%
70–79%	6%
60–69%	7%
50–59%	1%
<50%	10%

Automatic enrollment continues to boost participation — particularly for younger and shorter-service workers.

Plans with automatic enrollment have an average participation rate that is 20 percentage points higher than the average for plans without automatic enrollment (88% vs. 68%). While nearly all demographic groups see higher participation rates with automatic enrollment, it is perhaps most profound for two groups: younger workers and new hires.

Impact of automatic enrollment on participation rates (younger and shorter-services workers)

	With automatic enrollment	Without automatic enrollment
Age 20–29	86%	50%
<1 year of service	84%	42%
1–2 years of service	90%	54%

Average contribution rate

While more than 6 out of 10 workers say they reduced spending as a result of the COVID-19 pandemic*, average contribution rates increased from 8.1% in 2019 to 8.3% in 2020.

On average, workers saw more than $10,000 contributed to their accounts in 2020 with one-third of the contributions coming from employers. Workers contributed an average of $6,519 in 2020 and employers contributed an average of $3,624.

This year marks the first time we've seen the majority of participants saving above 6%. Now, one-third of participants are saving between 7% and 10%.

Distribution of savings rates — 2020 vs. 2015

	2020	2015
1–4%	20%	27%
5–6%	29%	32%
7–10%	32%	24%
11–14%	8%	6%
15–19%	6%	6%
20%+	5%	5%

*Alight Solutions, *Employee Wellbeing Mindset Study,* 2021

Average contribution rate

Across nearly every dimension, contribution rates increased in 2020.

Before-tax contributions
Average savings on a pre-tax basis

7.6% → 7.8%

After-tax contributions
Average savings on an after-tax basis

5.5% → 5.7%

The percentage of participants making after-tax contributions

4.7% → 4.8%

Roth contributions
Average savings on a Roth basis

6.4% → 6.7%

The percentage of participants making Roth contributions

15% → 16%

Contributions to the 402(g) limit
The percentage contributing the maximum amount allowed by the IRS

8.6% → 9.8%

Catch-up contributions
The percentage making catch-up contributions

13% → 14%

The average amount of catch-up contribution

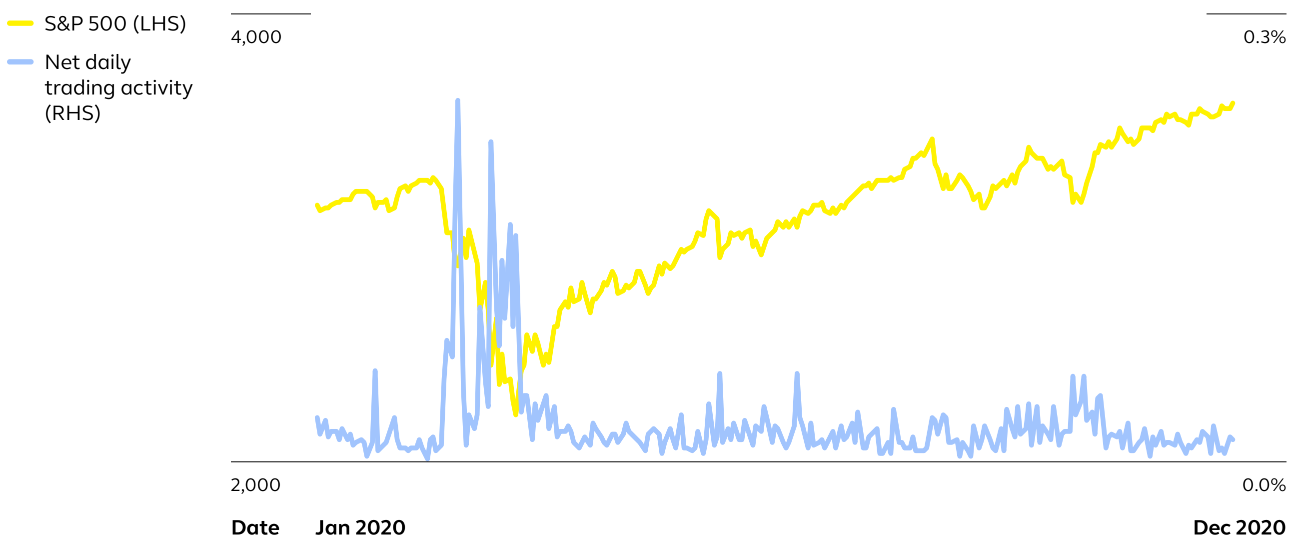
$5,041 → $5,573

Saving enough to receive the full matching contribution
Participants saving at or above the employer match threshold

81% → 84%

The COVID-19 pandemic caused a roller coaster on Wall Street. Over a six-week period from mid-February through March, stocks tumbled more than 30%. During this time, trading activity was at near-record levels. According to the Alight Solutions 401(k) Index which has tracked the daily trading activity since the 1990's, March 2020's trading levels approached those seen in October 2008 during the Global Financial Crisis and September 2001 in the wake of the terrorist activities on 9/11.

S&P 500 and trading activity in 2020



Spurred on by the $2.2 trillion economic stimulus package in the Coronavirus Aid, Relief and Economic Security (CARES) Act, stocks began a steady recovery in March and closed the year up almost 20%. As is typical for times when stocks rise, there was light trading activity for the last nine months of the year. Participants who weathered the storm by not selling during the downturn were rewarded with high returns for 2020.

Trading activity

- The percentage who made a trade in 2020 (23%) was similar to 2019 (22%)
- Net trading levels were 2.2% of balances in 2020, up from 1.8% in 2019. In the 5-year period before 2019, the average amount of balances traded in a year was 1.3%.
- Among those who made trades in 2020, the average number of trades was 3.2, up from 2.9 in 2019.
- Net trading activity almost universally favored moving money from equities to fixed income funds.

Target date funds (TDFs)

- For the first time since we've been tracking investment behavior, the percentage of participants who are using TDFs decreased, from 76% to 72%.
- One of every three TDF users has money in another fund — a strategy that goes against the turnkey solution for which TDFs are designed.
- TDF usage decreases as age increases — 84% of participants in their 20's use TDFs, but only 64% of participants in their 60's use them.

Equity exposure and diversification

- On average, participants had 75% of their portfolio allocated to equity funds.
- Between 2012 and 2019, there was a consistent increase from 68% to 78% — 2020 reversed this trend.
- As participants decreased their equities, they scaled back on the number of investment classes in their portfolio. In 2020, 13% of participants are invested in two or fewer asset classes.* This is a reversal of a movement that's been happening for a while. For example, over the 5-year period ending in 2019, the percentage of investors in two or fewer asset classes fell from 12% to 8%.
- The percentage of participants invested exclusively in one asset class more than doubled in 2020, from 4% to 9%.

*Our calculation of asset classes assumes that TDFs and target risk funds have 5 asset classes.

With almost all indices posting double-digit returns in 2020, it's no surprise the median rate of return for actively employed participants was almost 17%. While this is lower than 2019's value of 23%, it still exceeds what many use as long-term rates of return for planning purposes. The median 3-year and 5-year rates of return for the period ending December 31, 2020 were 9.2% and 11.2%, respectively.

Distribution of rates of return — 2020 vs. 2019

	2020	2019
<0%	4%	1%
0–10%	10%	11%
11–15%	23%	10%
16–20%	33%	17%
20%+	31%	61%

Median ROR by number of asset classes held

1 asset class	8.3%
2 asset classes	16.7%
3 asset classes	17.1%
4 asset classes	17.1%
5 asset classes	16.9%
More than 5 asset classes	16.9%

Because of the unique circumstances brought on by COVID-19, 2020 will likely be considered an outlier when it comes to leakage from retirement accounts. The CARES Act provided new ways for people to tap their retirement nest eggs through a special Coronavirus Related Distribution.* These withdrawals received more favorable tax treatments than typical withdrawals and can be repaid over a three-year period. As such, they were viewed by many to be a better way to take money out of retirement accounts than typical withdrawals or loans. Overall, about 5% of people took a Coronavirus Related Distribution, but this percentage varied widely between plans depending on how much the COVID-19 pandemic impacted their population.

The CARES Act also allowed plans to suspend loan repayments in 2020 for both new and existing loans. This effectively extended the time to repay typical loans from five years to six years. Interest continued to accrue during the payment suspension period.

Withdrawals

- Because of the Coronavirus Related Distributions, the percentage of participants who took a withdrawal jumped — from 6.0% in 2019 to 10.5% in 2020.
- In 2020, 9% of withdrawals were for hardship reasons, down from 25% in 2019.
- Almost one-tenth of plans had more than a quarter of their active participants take a withdrawal in 2020.

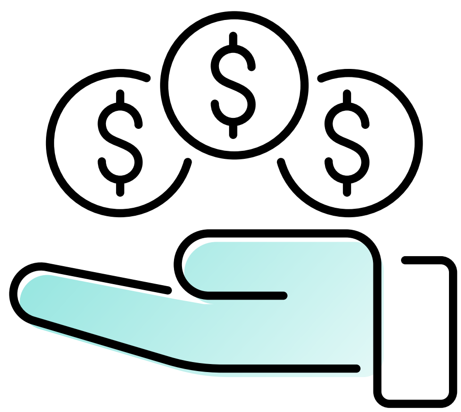
Distribution of withdrawal percentages in 2020

0–5%	26%
6–10%	31%
11–15%	21%
16–20%	12%
21–25%	2%
26%+	8%

*The special defined contribution provisions of the CARES Act were optional for plans. Nearly all plans covering the participants in this report allowed people to take Coronavirus Related Distributions and defer loan payments. Plan sponsors were also permitted to increase the amount people could take as a loan, but few plan sponsors added that provision.

Loans

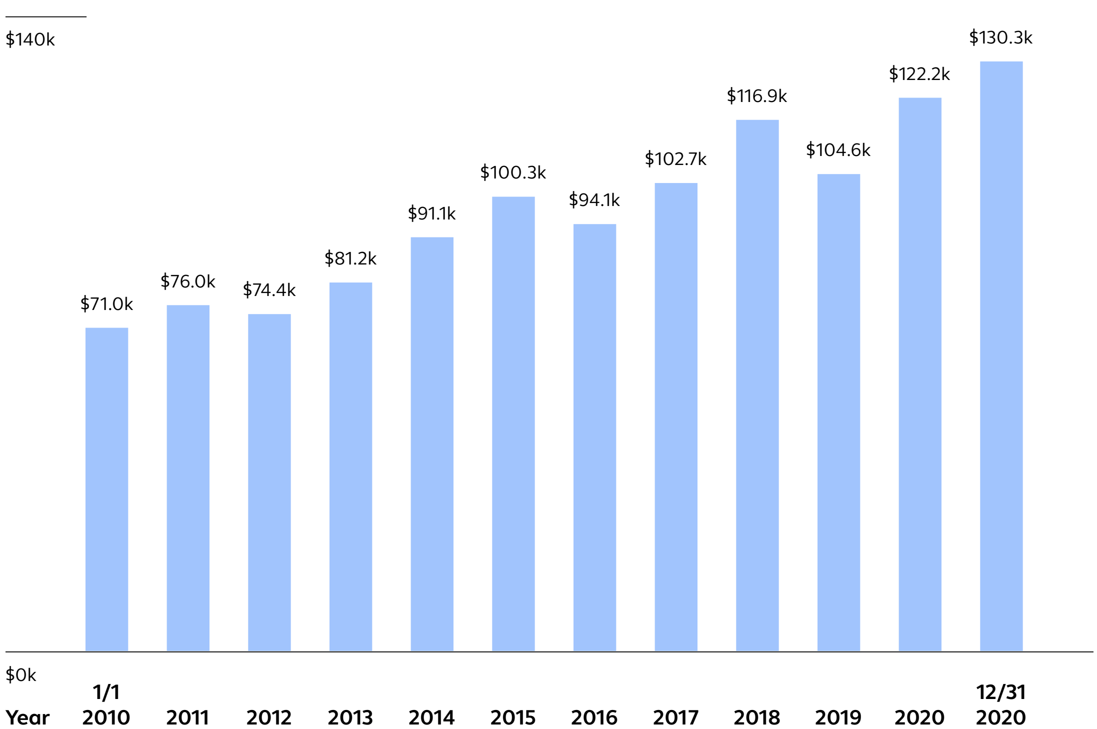
- The percentage of participants with a loan outstanding decreased from 24% in 2019 to 22% in 2020.
- 7% of participants initiated a loan in 2020, down from 11% in 2019. The decrease is likely due to people taking Coronavirus Related Distributions instead of loans.
- The average outstanding loan principal increased from 17% in 2019 to 21% in 2020. This is most likely caused by people deferring their loan payments as allowed by the CARES Act.
- The CARES Act also likely contributed to the decline in the percentage of terminated participants who defaulted on their loans. In 2020, 57% of terminated participants with loans defaulted on their payment, down from 65% in 2019.
- When more than one loan is available to participants, 40% of loan users have multiple outstanding loans.



Through a combination of high investment returns and increased contributions, the average plan balance for actively employed participants increased by 7% in 2020 to $130,330, an all-time high. Median plan balances fell in 2020 from $29,430 to $28,426.

Because averages and medians can be skewed by people entering and exiting the plan, it's helpful to look at the movement of plan balances across a steady population. Among workers who have participated in the plan for at least two years, the average plan balance increased from $114K to $183K — an increase of more than 60%.

Average plan balance, among actively employed investors



Distribution of plan balances

- One-third of workers had a balance of less than $10,000 at year-end 2020. This is the same percentage as 2019.
- Meanwhile, the percentage who had balances of $100,000+ doubled from 14% to 28%.
- In fact, when we segment the population by high balances, we find that nearly every percentage doubled:

	2020	2019
Balances of $100K+	28%	14%
Balances of $250K+	15%	7%
Balances of $500K+	7%	3%
Balances of $1M+	2%	1%

More than one-third of workers (35%) who left their employer in 2020* kept their assets in the plan, an increase from 32% in 2019. At the same time, the percentage who took a cash distribution fell in 2020 from 44% to 40%.

Similar movement occurred in the percentage of assets leaving the plan. In 2020, 39% of assets left the plan (34% by rollover and 5% by cash out), down from 45% in 2019.

Post-termination behavior by headcount and balances — 2020 vs. 2019

	2020	2019
Participants leaving assets in the plan	35%	32%
Participants rolling assets over to another account	25%	24%
Participants leaving via cash distribution	40%	44%
Assets left in the plan	61%	55%
Assets rolling over to another account	34%	39%
Assets leaving via cash distribution	5%	6%

*The post-termination analysis considers only people who terminated employment in the first nine months of the year and examines the behavior as of year-end. The three-month difference is to allow individuals time to act. Without that period, the percentage keeping money in the plan could be artificially high.

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