How do 401(k) participants save? Vanguard knows.

By Editorial Staff *Thu, Jun 9, 2022*

Vanguard released its 2022 edition of 'How America Saves,' a compendium of data on millions of Vanguard-administered 401(k) plan accounts. Of participants ages 65+, half had balances under $88k. Photo: Vanguard CEO Tim Buckley.

Vanguard this week released the 2022 edition of "How America Saves," its annual **report** on 401(k) plan design and retirement savings habits. It is based on data from the nearly five million 401(k) accounts administered by the institutional division of Vanguard, the $6 trillion mutual fund supermarket.

"The report reveals additional plan design opportunities employers can address to further improve workers' retirement readiness," Vanguard said in a release. "While employers have made significant progress in adopting leading plan designs and features, many participants are facing increasingly complex financial situations and life events that can compromise their retirement savings efforts."

Findings of 'How America Saves' include:

Automatic savings

The adoption of automatic enrollment has more than tripled since year-end 2007, the first year after the Pension Protection Act (PPA) of 2006 took effect. At year-end 2021, 56% of Vanguard plans had adopted automatic enrollment, including 75% of plans with at least 1,000 participants.

In 2021, because larger plans were more likely to offer it, 70% of participants were in plans with an automatic enrollment option. Two-thirds of automatic enrollment plans have implemented automatic annual deferral rate increases. Additionally, automatic enrollment defaults have increased over the past decade.

Fifty-eight percent of plans now default employees at a deferral rate of 4% or higher, compared with 32% of plans in 2012. Ninety-nine percent of all plans with automatic enrollment defaulted participants into a balanced investment strategy in 2021—with 98%

choosing a target-date fund as the default.

Managed accounts

The rising prominence of professionally managed allocations has been essential to improvements in portfolio construction. Participants with professionally managed allocations have their entire account balance invested in a single target-date or balanced fund or in a managed account advisory service.

At year-end 2021, 64% of all Vanguard participants were solely invested in an automatic investment program—compared with 7% at the end of 2004 and 36% at year-end 2012. Fifty-six percent of all participants were invested in a single target-date fund; another 1% held one other balanced fund; and 7% used a managed account program.

Increased use of target-date funds

Ninety-five percent of plans offered target-date funds at year-end 2021, up from 84% in 2012. Nearly all Vanguard participants (99%) were in plans offering target-date funds (TDFs). Eighty-one percent of all participants used TDFs and 69% of participants owning TDFs had their entire account invested in a single TDF. An important factor driving the use of TDFs is their role as an automatic or default investment strategy.

Savings metrics: Participation

The estimated plan-weighted participation rate was 85%, up from 78% in 2012. The participant-weighted participation rate was 81% in 2021, up from 74% in 2012. Plans with automatic enrollment had a 93% participation rate, versus 66% for plans with voluntary enrollment.

Savings metrics: Deferral rates

The average deferral rate was 7.3% in 2021, up from 6.9% in 2012. The median deferral rate was 6.1% in 2021, in line with the past 10 years. These statistics reflect the level of employee-elective deferrals. Most Vanguard plans also make employer contributions.

Including both employee and employer contributions, the average total participant contribution rate in 2021 was 11.2%, and the median was 10.4%. These rates have increased slightly over the past five years.

Including nonparticipants, auto-enrolled employees saved an average of 10.9%, considering both employee and employer contributions. Employees hired under a voluntary enrollment design saved an average of 7.3%, due to lower participation.

Roth 401(k) adoption

At year-end 2021, the Roth feature was adopted by 77% of Vanguard plans, and 15% of participants within these plans had elected the option. Vanguard anticipates steady growth in Roth adoption rates, given the tax diversification benefits.

Account balances

In 2021, the average account balance for Vanguard participants was $141,542; the median balance was $35,345. Vanguard participants' average account balances increased by 10% since 2020, driven primarily by the increase in equity markets over the year.

Portfolio construction

Participant portfolio construction has improved dramatically over the past 15 years, with 78% of participants having a balanced strategy in 2021, up from 39% in 2005. Three percent of participants held no equities and 3% of participants had more than 20% allocated toward company stock in 2021. In 2005, 13% of participants had no equities and 18% of participants held a concentration in company stock.

Participant trading

During 2021, 8% of DC plan participants traded within their accounts, while 92% initiated no exchanges. On a net basis, there was a shift of 3% of assets to fixed income during the year, with most traders making small changes. Only 3% of participants holding a single target-date fund traded in 2021.

Loan activity

During 2021, loan use increased slightly when compared to 2020, but remained below the typical usage rates of years prior to COVID-19. Thirteen percent of participants had a loan outstanding in 2021, down from 16% in 2016. The average loan amount was about $10,600.

Plan withdrawals

In-service withdrawal activity was down in 2021from 2020, which was expected as access to assets through coronavirus-related distributions ended as of year-end 2020. Both traditional hardship and non-hardship withdrawals trended similarly to pre-pandemic levels in 2021.

Most assets preserved for retirement

Participants separating from service largely preserved their assets for retirement. During 2021, about one-quarter of all participants could have taken a distribution because they had separated from service in the current year or prior years.

Most of these participants (83%) preserved their plan assets for retirement by either remaining in their employer's plan or rolling over their savings to an IRA or new employer plan. Only 2% of all plan assets available for distribution were taken in cash. In 2021, 64% of plans allowed retirees to take installments, and 37% of plans allowed for partial withdrawals.