Retirement Income
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Vanguard issues annual DC report

By Editor Test *Wed, Jun 22, 2011*

"How America Saves," now in its 10th edition, is a compilation of data from Vanguard's 2,000 defined contribution plans, which cover three million participants with about $400 billion in assets.

To access a copy of "How America Saves," click here. Vanguard issued the following release early today:

The portfolios of nearly 30% of participants in 401(k) retirement plans at Vanguard are in automatic professionally managed investment programs, which particularly benefit individuals who lack the skills to invest properly on their own, according to Vanguard's *How America Saves 2011*. The report also showed that participant account balances in 2010 rose to their highest levels since Vanguard began tracking them in 1999.

The annual report, now in its 10th edition, is widely used as a barometer of retirement planning trends. Along with a look at the overall patterns of Vanguard's 3 million-plus participants, *How America Saves* this year includes supplemental reports with analyses of participant behavior in the defined contribution (DC) retirement plans of eight specific industries.

"The growing number of participants taking advantage of professionally managed investment programs and services in their plan clearly shows that the 401(k) system can offer investors a successful way to invest for retirement," said Jean Young, coauthor of *How America Saves 2011*. "These services have the potential to dramatically reshape portfolio outcomes for participants because they address the need of many individuals who don't have the skills to manage their retirement assets."

More participants getting professional investment help
The increasing adoption of automatic professionally managed investment programs is significant because they eliminate portfolio construction mistakes by many participants. By year-end 2010, 29% of Vanguard participants were entirely invested in one of these programs, which include a single target-date or balanced fund or a managed account advisory service. Twenty percent held one target-date fund, a dominant trend because 79% of plans offered target-date funds as of year-end 2010. Another 6% held one traditional balanced fund and an additional 3% used a managed account program. In comparison, in 2004, just 7% of all Vanguard participants were solely invested in an automatic investment program.

In addition to automatic investment programs, many plans offer advice services utilized by a strong number of participants. Three in 10 plans offered online advice and one in eight offered managed accounts. Financial planning services are offered to all participants with plan sponsor authorization, but a fee may apply to those younger than 55. In all, about 15% of participants use advice services if offered, with managed accounts the most popular.

When the 15% of advice users (including those in managed accounts, considered both an advice service and an automatic professionally managed investment program) are added to participants invested in a single target-date fund (20%) and a single balanced fund (6%), more than 40% of participants are taking advantage of investment management programs or advice services when they are offered through their plans.

Account balances up but may not present the entire picture
In 2010, average ($79,077) and median ($26,926) account balances reached their highest level since Vanguard began tracking this data in 1999 in *How America Saves*. Rising account balances point to ongoing contributions and improving investment returns. The median account balance for participants in their plan at both year-end 2007 and year-end 2010 grew by 31%. Eight in 10 of these “continuous” participants saw their balances rise or stay flat. Results for pre-retirees 55-64 were almost identical to those for the overall continuous participant population.

“Account balances have been cited as too low to be helpful in retirement,” said Steve Utkus, coauthor of the report. “But keep in mind that the typical participant is a 46-year-old male who is saving 8.8%, with 20 to 25 more years to work and grow his account. His retirement plan assets will be complemented by Social Security benefits and other savings, perhaps assets in other employer plans or a spouse’s plan, or personal savings. Even though we always encourage people to save more—ideally at least 12% to 15% of their income—the reality is that many participants may be on target for retirement.”

Additional key trends
Here are other notable trends in participant and plan sponsor behavior:

- **Participation rates**. Twenty-four percent of Vanguard plans have adopted automatic enrollment, up 3 points from 2009. Yet the 2010 plan participation rate was 74%, down 2 points from 2009. Increases in participation from the growing use of automatic enrollment were offset by participation declines caused by difficult economic conditions.

- **Contribution rates**. The average deferral rate in 2010 was 6.8% and the median was 6.0%, unchanged from 2009. Yet average deferral rates were down from their peak in 2007 of 7.3%. About half of the decline was likely caused by economic conditions and half was attributable to increased adoption of auto enrollment. While auto enrollment increases participation rates, it can also lead to declining plan contribution rates because default deferral rates are typically set too low at 3% or less and participants do not tend to increase their deferrals on their own.Employee and employer contributions combined are also down modestly. This average contribution rate in 2010 was 9.7% and the median was 8.8%. The reasons are likely the same as above, in addition to the decline of some employer contributions during the low part of the recent economic cycle.

- **Low-cost investment options**. With the current focus on plan fees, more plan sponsors are interested in offering an “index core,” a comprehensive set of low-cost index options that span the global capital markets. In 2010, 40% of Vanguard plans offered a set of options with an index core, making the design available to about half of all Vanguard participants.

- **Loans**. New loan issuance rose in 2009 and 2010, returning to prerecession levels of 2005. In 2010, 18% of participants had a loan outstanding.

- **Hardship withdrawals**. The number of hardship withdrawals grew 47% during the 2005–2010 period. The 2.2% of participants taking hardship withdrawals in 2010 is still low on an absolute basis.

- **Distributions.** The majority (70%) of participants who left their employer in 2010 and were eligible for a distribution preserved their plan assets for retirement by remaining in the plan or rolling over their savings to an IRA or new employer plan. In terms of assets, 92% of all plan assets available for distribution were preserved.