
Vanguard issues "How America Saves 2014"

By Editorial Staff *Wed, Jun 11, 2014*

In the 13th edition of its annual statistical report, the defined contribution full-service plan provider shares information on \$600 billion in over 3.5 million accounts at more than 3,000 companies.

Vanguard, the full-service provider of defined contribution plan services to more than 3.5 million participants with over \$600 billion in assets at some 3,000 companies, has published "How America Saves 2014," the 13th edition of its annual report on participant behavior and experience.

A copy of the 99-page report can be downloaded [here](#).

Among other findings, the report documented the rise in the use of employer-provided investment solutions by participants. "In 2013, 40% of all Vanguard participants had their entire account balance invested in either a single target-date fund, a single target-risk or traditional balanced fund, or a managed account advisory service," the report's introduction said. This trends signals "a shift in responsibility for investment decision-making away from the participant and back to employer-selected investment and advice programs."

The report pointed to another emerging plan design strategy called "reenrollment," in which plan sponsors address portfolio construction issues by moving participants into investments such as target-date funds, balanced funds and managed accounts. How America Saves also includes supplemental reports on participant patterns in the DC retirement plans of 12 industries.

The report showed that, although higher participation rates are correlated with auto-enrollment, so are lower deferral rates.

"Plan design, specifically the predominant use of a 3% default deferral rate, means participants in plans with automatic enrollment are saving less," the report said. "Participants joining a plan under an automatic enrollment feature have an average deferral rate of 4.9%, compared with 7.5% for participants under plans with voluntary enrollment."

This occurred even though "participants earning less than \$30,000 save about 75% more on average under voluntary enrollment designs," the report added. "This suggests that higher default deferral rates would be amenable to plan participants in automatic enrollment designs. Our research on automatic enrollment indicates that "quit rates" do not deteriorate when higher default percentages are used to enroll employees."

Other "How America Saves 2014" findings included:

- In 2013, the median participant account balance was \$31,396 and the average was \$101,650. Vanguard participants' median and average account balances rose by 13% and 18%, respectively, during 2013. During the five-year 2008-2013 period, both median and average balances rose by

about 80%.

- Reflecting strong stock market performance in 2013, the median one-year participant total return was 21.9%. Five-year participant total returns averaged 12.7% per year.
- At year-end 2013, the Roth feature was adopted by 52% of Vanguard plans and 13% of participants within these plans had elected the option.
- 34% of Vanguard plans had adopted automatic enrollment (AE) as of year-end 2013, up from 24% five years earlier. More than half of all contributing participants in 2013 were in plans with AE and 62% of employees participating for the first time in 2013 were in plans with AE.
- While initially applied only to new hires in many plans, AE is increasingly used for eligible nonparticipants in half of those plans.
- AE substantially increases plan participation among low-income workers, young workers, and minorities.
- Employees who joined their plan through AE had an overall participation rate of 82%, compared with a participation rate of 65% for employees who joined through voluntary enrollment.
- Of AE plans, 69% automatically increase their participants' contribution rate annually. Another 29% do not. Separately, 65% of AE plans automatically increase participants' contribution rate but default them at an initial 3% or less. Vanguard recommends that a typical participant target a total contribution rate of 12% to 15%, including both employee and employer contributions.
- 98% of AE plans use a target-date fund (TDF), other type of balanced fund, or managed account as the default investment. Nine in 10 choose a target-date fund.
- In 2013, 40% of participants were solely invested in an automatic investment program, compared with 22% at the end of 2008. Of those, 31% were invested in a single TDF, another 6% held a balanced fund, and 3% used a managed account program.
- With the growing use of target-date funds, Vanguard anticipates that 58% of all participants and 80% of new plan entrants will be entirely invested in a professionally managed option by 2018.
- The average participant account balance was \$101,650 in 2013. Among continuous participants—those with a balance between both year-end 2008 and 2013—the median account balance rose by 182%, reflecting both the effect of ongoing contributions and market returns during this period.
- Low-cost index, or passive, funds are becoming prevalent. In 2013, nearly half of Vanguard plans offered an "index core," or set of index options spanning the global capital markets. Large plans have adopted this approach more quickly, and about 60% of all Vanguard participants are offered an index core.
- Factoring in indexed target-date funds with their equity and fixed income mix, 84% of participants hold equity index investments.