

Your copy of 'How America Saves,' small biz edition

By Editorial Staff Thu, Jul 25, 2019

The new report, which complements Vanguard's recent 'How America Saves 2019' report on retirement savings in large retirement plans, documents savings patterns among workers in smaller plans.



Vanguard today issued its sixth annual [How America Saves: Small business edition](#)—a comprehensive assessment of plan design trends and participant savings behavior in small business 401(k) plans served by Vanguard Retirement Plan Access (VRPA).

The new research, a companion piece to the firm's '[How America Saves 2019](#)' report on retirement savings in corporate retirement plans, finds that small business plan participants are benefiting from enhanced plan design features, including professionally managed allocations, which have led to increased plan participation and optimized portfolio construction. Similar to their large corporate counterparts, small business participant behavior has improved, with decreased trading activity and reduced plan withdrawals, Vanguard said in a release.

Participant use of professionally managed allocations has increased. In 2018, two-thirds of VRPA participants were invested in a professionally managed allocation, with a total of 61% of participants invested in a single target-date fund. Among new plan entrants, three-quarters of participants were invested in a single target-date fund.

The increased use of professionally managed allocations has also improved portfolio construction and reduced extreme equity allocations. The percentage of participants holding broadly diversified portfolios was 79% in 2018, while the percentage of participants with no allocation to equities was 3%. At the other extreme, the fraction of participants investing exclusively in equities was 7%.

In addition to the increased use of professionally managed allocations, Vanguard reports the following:

- Automatic enrollment is increasing plan participation and plan deferral

rates. Employees enrolled in plans with an automatic enrollment feature have an overall participation rate of 82%, compared with a participation rate of only 54% for employees hired under plans with voluntary enrollment. Additionally, for individuals earning less than \$30,000 in plans with automatic enrollment, the participation rate is more than double that of plans with voluntary enrollment.

- Plan participants have decreased their trading activity. Participant trading or exchange activity is a measure of a participant's willingness to change their portfolio in response to short-term market volatility. While daily trading is nearly universal for Vanguard defined contribution (DC) plans, with virtually all plans allowing it, only 7% of participants initiated one or more portfolio trades or exchanges in 2018.
- Reduced plan withdrawals sustain retirement savings. Plan withdrawals are an optional plan provision, and participants using the feature could jeopardize their retirement savings if they rely upon it throughout their working career. Among VRPA DC plans, 85% allowed plan withdrawals for those who have reached age 59 ½. However, in 2018, less than 1% of participants in plans offering any type of withdrawal used the feature.

According to the Small Business Administration, small businesses represent 99.7% of American employers. VRPA—which is a service for retirement plans with up to \$20 million in assets—was launched in 2011 to provide access to cost-effective, flexible 401(k) plans for small business owners and their employees.

Recordkeeping and other services are provided through Ascensus, one of the nation's top recordkeeping firms, and include a call center, compliance testing and documentation, participant education materials, dedicated plan sponsor and participant websites and trustee services. Through VRPA, Vanguard serves 11,300 plan sponsors with 480,000 participants as of year-end 2018.

As of May 31, 2019, Vanguard managed \$5.4 trillion in global assets. The firm, headquartered in Valley Forge, Pennsylvania, offers 414 funds to its more than 20 million investors worldwide.