2020 UNIVERSE BENCHMARKS

How workers are saving and investing in defined contribution plans

A decade in review

alight

About this report

This Universe Benchmarks report is the latest in a long line of annual reports that Alight Solutions has provided to illustrate how workers are saving and investing in defined contribution plans. The 2020 version is based on 116 plans covering more than 3 million eligible participants and is split into sections covering participation rates, savings rates, plan balances, investment and trading activity, and distributions from accounts (e.g. loans, withdrawals, cash-outs and rollovers). Available upon request are deeper cuts by age, gender, tenure and industry. It's our hope that you find this information valuable as you benchmark your plan against others.

About Alight Solutions

Alight Solutions is a leading provider of integrated benefits, payroll and cloud solutions. With more than 15,000 professionals across 29 countries, Alight provides leading-edge benefits administration and ERP technology and services to more than 3,250 clients including 50% of the Fortune 500. Alight's combination of data-driven insights and technology expertise creates unique value for clients. Alight is a six-time member of IAOP's Global Outsourcing 100. Learn how Alight drives better business outcomes and employee wellbeing for organizations of all sizes at **alight.com.**

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Change has been swift at the beginning of 2020. Over the course of a few weeks as the world battled the COVID-19 pandemic, it seemed like everything changed—schools closed, sports ceased and millions of people either stopped working or started working from home. With so much uncertainty, the stock market tumbled and 401(k)s were worth only a fraction of what they once were.

The timing of these events coincided with the few weeks that we spent collecting and analyzing data and creating and publishing this Universe Benchmarks report. We recognize that the statistics and comments in this report may seem outdated and paint a picture of a time when Wall Street was rolling. However, we believe that it is important to share this data as of year-end 2019 for a few reasons:

- First, it keeps a steady cadence of the timeframes because our Universe Benchmarks report has always looked at data as of year-end.
- Second, it helps set a bright line for us to know when we have overcome the market correction of 2020. We at Alight Solutions hope that the important measures of defined contribution plans such as plan participation rates and account balances quickly return to their levels from before the COVID-19 pandemic. Without sharing these numbers, it will be difficult to know when they have returned.

By many measures, the 2010s was the decade of the defined contribution (DC) investor, and it was capped by 2019 being the strongest year out of the ten. Robust market returns caused the average defined contribution balance to surge to an all-time high. Compared to the beginning of the decade, there are now more workers participating in plans, the average savings rate is up and loan use is lower.

Employer actions have no doubt fueled some of these positive trends. The automatic features in DC plans—automatic enrollment, escalation, rebalancing—have all led to higher participation and savings rates, as well as adoption of more diversified portfolios.

While plan sponsors should be proud of these results, they know that they cannot sit back on their laurels. They continue to improve the participant experience in DC plans, and Alight Solutions is proud to be a partner with them in building this reality.

Key findings

- The average plan balance is at an all-time high of $122,150. At the beginning of the decade, the average balance was $70,970.
- The median return for investors during 2019 was 22.4%, the highest of any year in the decade. 2019 capped off a bull market decade as the median annualized ten-year return from 2010-2019 was 8.9%.
- The average plan participation rate is 81%, the highest seen over the course of the decade. Automatic enrollment continues to drive higher plan participation over the past several years as plans with automatic enrollment have an average participation rate of 87%.
- The average contribution rate increased to 8.1%, also a decade high. The popularity of automatic escalation fueled this increase.
- Four out of every five participants are saving enough for the full employer match. Not leaving money on the table is especially important as the majority of employers have the DC plan as their primary retirement savings vehicle for workers.[1]
- Target date funds remain popular, with 76% of investors using them. This has led to increased overall diversification and higher average equity allocation among investors.
- Nearly half of target date fund investors are not using them as designed. 45% of target date investors supplement them with other core funds, and 10% of target date investors use more than one vintage.

1 Alight Solutions, *Trends & Experience in Defined Contribution Plans,* 2019

Recommendations

- Continue to simplify the plan to decrease friction points. Automatic enrollment, escalation and rebalancing are all beneficial features to plan success, but sponsors can further innovate with additional ideas, like integrating DC into annual enrollment for medical plans.

- Monitor target date fund usage. The high rate of partial target date fund usage suggests that many investors either do not understand the product or that they are seeking additional personalization in their investment portfolio.

- Tailor the plan experience. As we enter a new decade, plan sponsors can provide targeted communications and individual recommendations to uniquely personalize the experience for workers.

- Consider the decumulation phase. People retiring today are more likely to have a DC plan providing retirement income than they were in the past. Consider ways for former employees to keep their balances in the plan and use the amounts for income in their golden years.

Automatic enrollment continues to boost participation.

The average plan participation rate during 2019 was 81%, a 1% increase from 2018, and a 5% increase from 2010. Half of DC plans now have a participation rate of at least 90%, compared to only 21% of plans in 2010.

More and more plans have implemented automatic enrollment. In 2019, 74% of plans had AE, up from 58% in 2009.[2] Today, 37% of eligible contributors have been subject to AE (whether as a new hire or by a backsweep), up from 33% a year ago. More than half (55%) of companies reported having an AE opt-out rate of 3% or below in 2019.[3]

Average participation rate
2010–2019

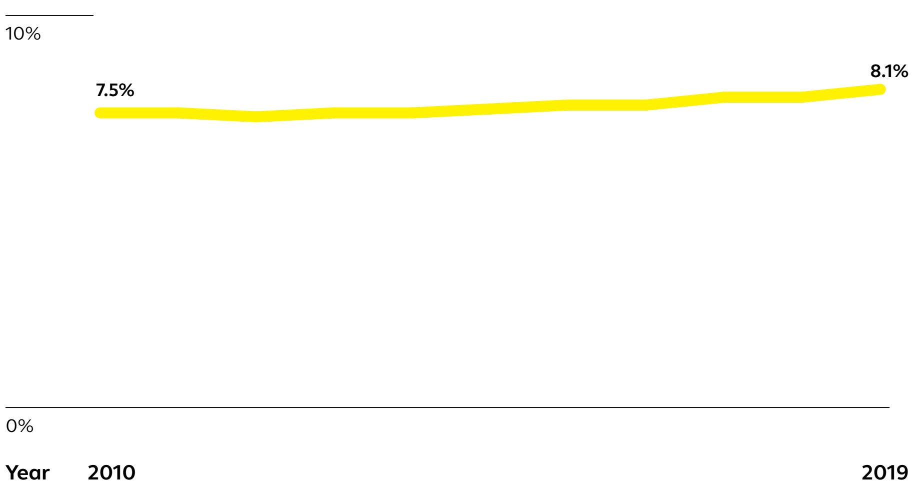
2 Alight Solutions, *Trends & Experience in Defined Contribution Plans,* 2019
3 Alight Solutions, *Trends & Experience in Defined Contribution Plans,* 2019

AVERAGE CONTRIBUTION RATE

Participants had an average contribution rate of 8.1% at the end of the 2019, an increase from 7.9% at the end of 2018, and from 7.5% at the beginning of the decade.

The average total dollars contributed by employees in 2019 was $6,505, an increase of 4% from 2018. Employers also contributed an average of $3,587, making the total average contribution more than $10,000 in 2019.

Average employee savings rate
2010–2019



Automatic escalation has led to higher contribution rates.

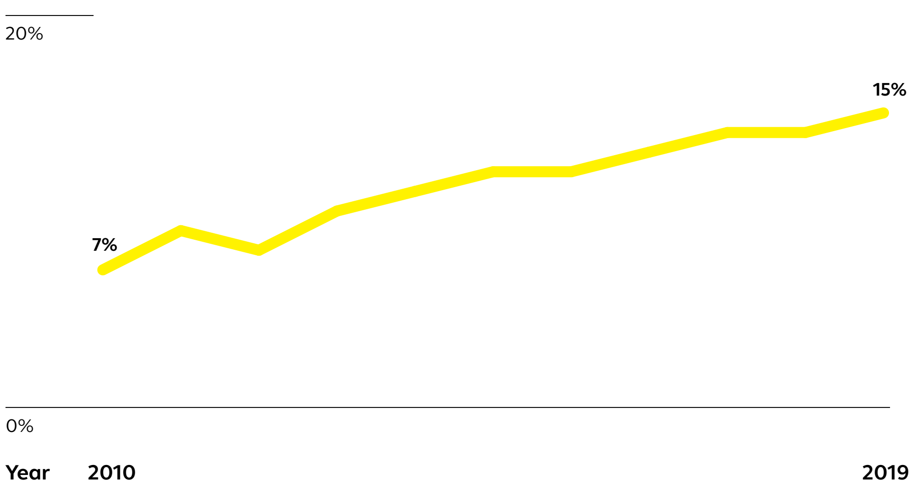
- Most plans now allow people to have their contribution rate automatically increase over time. 76% of plans offered automatic contribution escalation in 2019, up from 44% of plans in 2009.[4]
- Automatic escalation is popular when available. At the end of 2019, 25% of savers were using automatic escalation, when available. This is up from 16% of savers during 2012, when Alight first began recording this metric.
- As a result, nearly one-third of savers increased their contribution rates during 2019. Among people who started contributing before 2019, 32% increased their contribution rate in 2019. In 2010—a time when automatic escalation was less prevalent—only 20% increased their contribution rate.

4 Alight Solutions, *Trends & Experience in Defined Contribution Plans,* 2019

Roth utilization continues to grow.

The percentage of people saving to a Roth account has more than doubled over the decade—now, 15% of people contribute on a Roth basis when available, up from 7% at the beginning of the decade. This comes at a time when the availability of Roth has also increased—from 33% in 2009 to 78% in 2019.[5]

Percentage of savers utilizing Roth account, where available
2010–2019

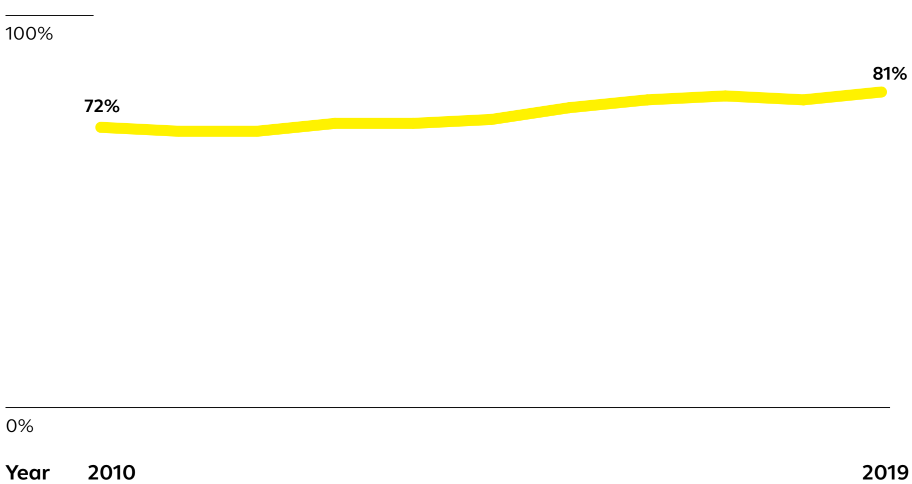


5 Alight Solutions, *Trends & Experience in Defined Contribution Plans,* 2019

More people are taking full advantage of the match.

In 2019, 81% of people contributed enough to receive the full matching contribution from employers, up 10% over the decade. Additionally, of the 19% saving less than the required amount to receive the full employer match, one-third are using automatic escalation, indicating they will eventually be saving enough to receive the full match.

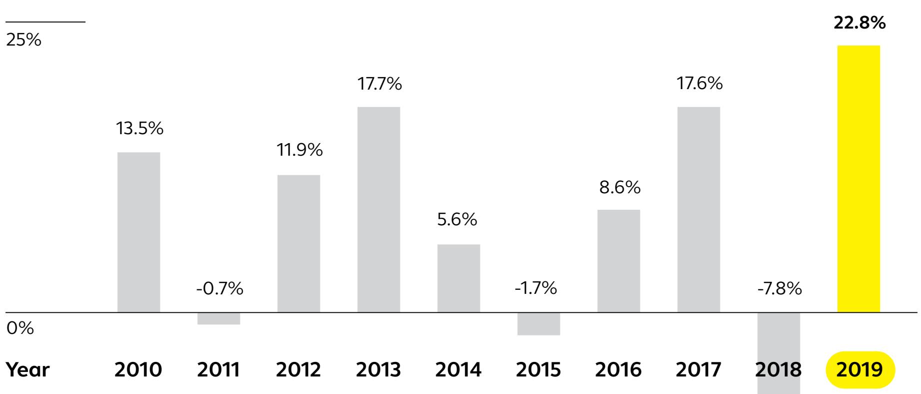
Percentage of saving at or above the match threshold
2010–2019



2019 was a historic year for DC investors. The median return among active investors during 2019 was 22.8%, the highest calendar year return in the decade.

Median annual rate of return

Among actively employed investors



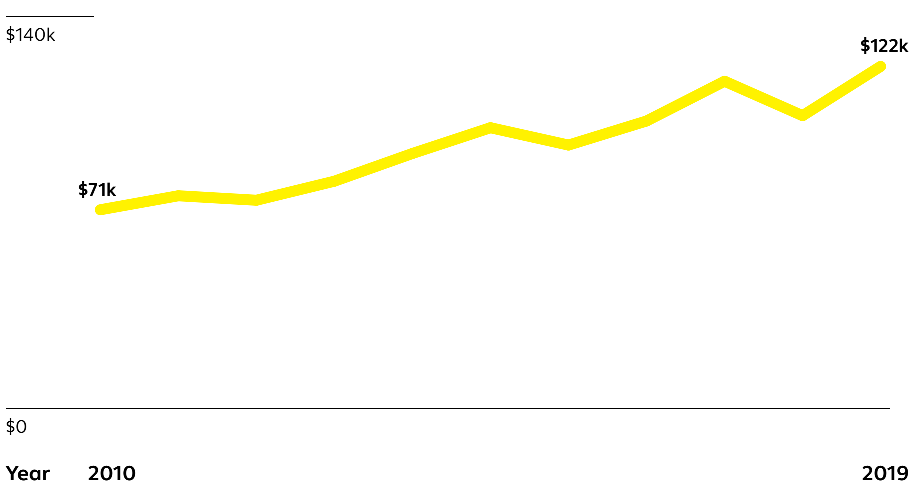
Looking at returns over longer time horizons, the last decade has been exceptional. The median 10-year rate of return among those invested over the past ten years was 8.9%.

Median annual rate of return
Among actively employed investors

Through a combination of high investment returns and increased contributions, the average plan balance for actively-employed participants increased by 17% in 2019 to $122,150, an all-time high.

Average plan balance

Among actively employed investors

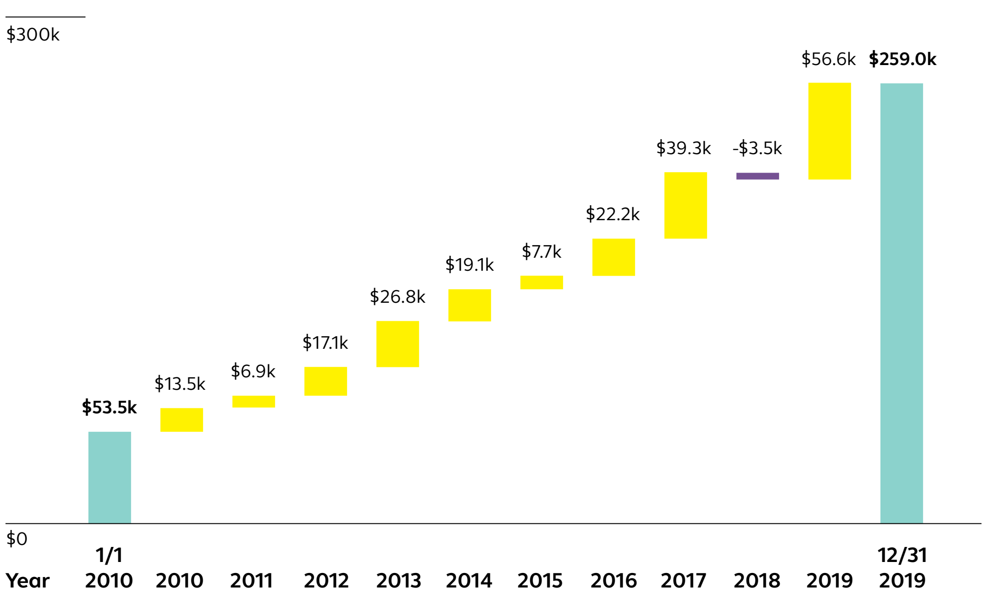


The increase in plan balance was even higher when excluding the people who were hired during the year as balances surged by 32% among those who had a balance at the beginning of 2019. Among people who have been in the plan for the entire decade, balances increased 383% due to contributions and strong market returns.

1.6%

of DC investors have a balance of at least $1 million, compared to 0.2% a decade earlier

Change in average plan balances, 1/1/2020–12/31/2019
Among those in the plan for the entire period



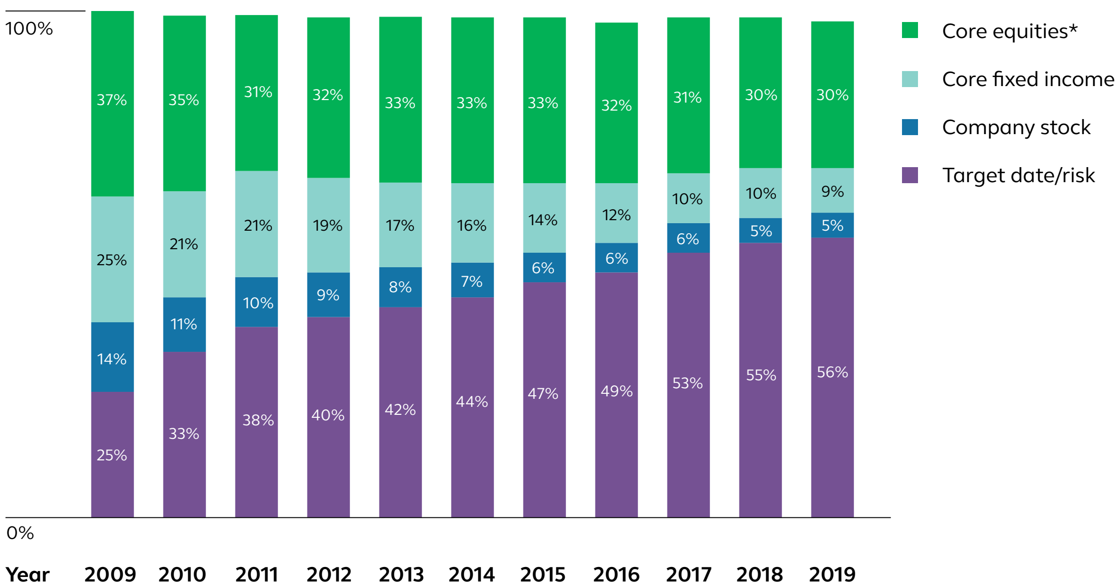
Several investment themes of 2019 mirrored the overarching topics of the 2010s.

- Target date funds (TDFs) are popular. Three-quarters (76%) of participants invest in TDFs when they are available, up from 51% at the start of 2010. The average participant allocation to TDFs is now 56%, up from 25% ten years ago. This movement to TDFs is aided greatly by the popularity of TDFs as the default investment among plans with automatic enrollment. In 2019, 86% of plans with automatic enrollment used TDFs as the default investment, up from 69% in 2009.[6]
- Concentrations of investments in company stock declined. Employer-driven decisions are a major reason for the decline in company stock usage. In 2019, one-third (33%) of companies offered employer stock as an investment option, compared to 47% in 2009. Among companies that still provide company stock as an investment option, 35% restrict the amount that people can contribute and/or invest in company stock, up from 20% in 2009. Finally, 6% of companies required matching contributions be invested in stock, down from 17% in 2009.[7] As a result of these plan changes limiting company stock in DC plans, investment has declined. Approximately one-third (34%) of actively employed investors use company stock when available, compared to nearly two-thirds (63%) at the beginning of 2010.
- Investment in core fixed income funds went down. Stable value funds have seen a steady decline in utilization over the past decade, following their diminished popularity as the default investment in DC plans during the 2000s. The average investor's allocation to stable value is now 4%, down from 17% at the beginning of 2010.

6 Alight Solutions, *Trends & Experience in Defined Contribution Plans,* 2019
7 Alight Solutions, *Trends & Experience in Defined Contribution Plans,* 2019

Average allocation

Weighted equally among actively employed investors



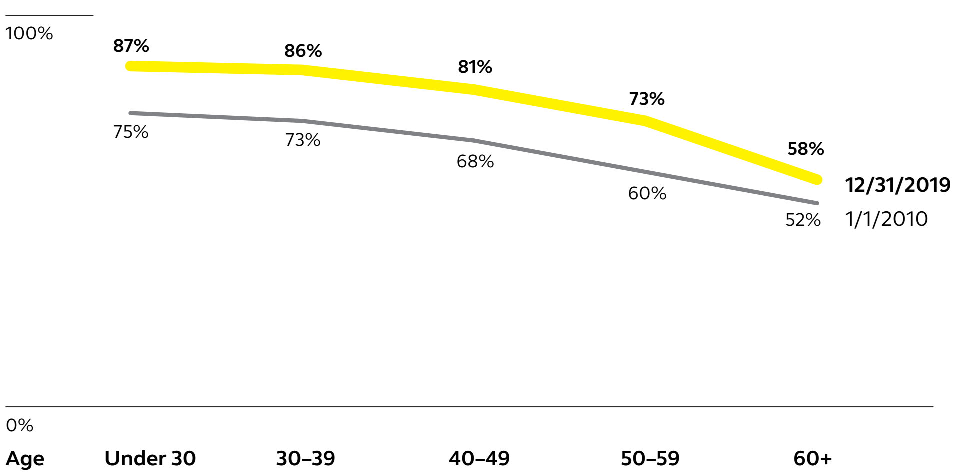
* Core equities also includes balanced funds and self-directed brokerage.

Overall investor allocation to equities has increased.

As TDFs have become more popular, the average investor's allocation to equities has increased. At the end of 2019, the average overall allocation to equities was 78%, up from 67% at the beginning of the decade.

Average equity allocation

By age, among actively employed investors



Many investors are not using plan funds as they are intended to be used.

Despite the positive changes in diversification over the past decade, challenges remain for many DC investors.

- Investors frequently use TDFs with other core funds. At the end of 2019, 45% of actively-employed investors used TDFs with other funds. This hints that almost half of all TDF investors are trying to tailor their investment portfolio to their individual objectives. The partial TDF usage is most prevalent among those who are older and those with higher pay. For example, 73% of TDF investors used them with other core funds, among those age 50-59 making at least $100,000 in salary.
- Some TDF investors are using more than one vintage. At the end of 2019, 10% of people invested in TDFs used more than one vintage. Some of this behavior may be associated with a lack of understanding. Three out of five workers (59%) indicated that they "didn't know anything about TDFs.[8]
- Among those not using TDFs, many are invested entirely in equities or fixed income. Within the group of investors who do not use TDFs, one-third (34%) were invested either entirely in equities or fixed income. Additionally, nearly one in five (18%) of non-TDF investors used only one fund.

8 Alight Solutions, *Health and Financial Wellbeing Mindset Study,* 2019

More than one in five (22%) participants made a trade during 2019, a similar level to 2018. Total trades made during 2019 represented 1.8% of all plan balances, the highest level seen since 2013, largely due to participants favoring fixed income for most of the year. According to Alight's 401(k) Index™, 86% of trading days during 2019 had net inflows into fixed income.[9]

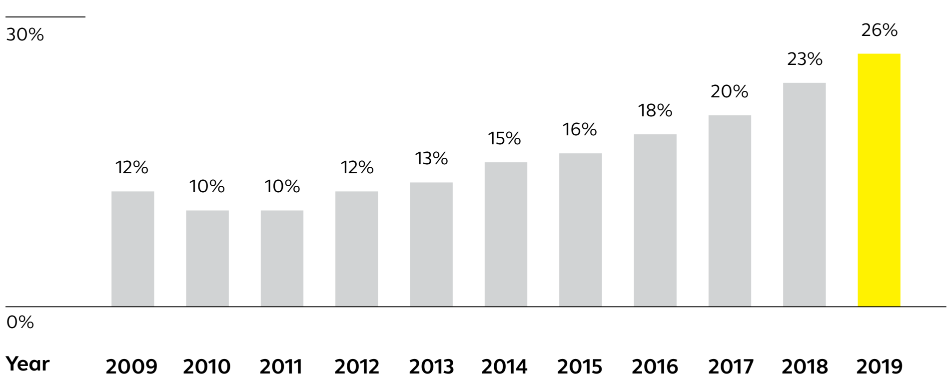
Net transfers as a percentage of total assets
2010–2019

9 Alight Solutions, *401(k) Index™; Full Year 2019 Observations*

Investors continued to embrace automatic rebalancing.

One in eight (12%) investors used automatic rebalancing when available, a level that has remained relatively consistent over the last decade. However, usage has effectively increased when ignoring those who are fully invested in TDFs. In 2019, 26% of such investors used automatic rebalancing where available. This is up from 23% of these investor types in 2018, and 10% of such investors in 2010.

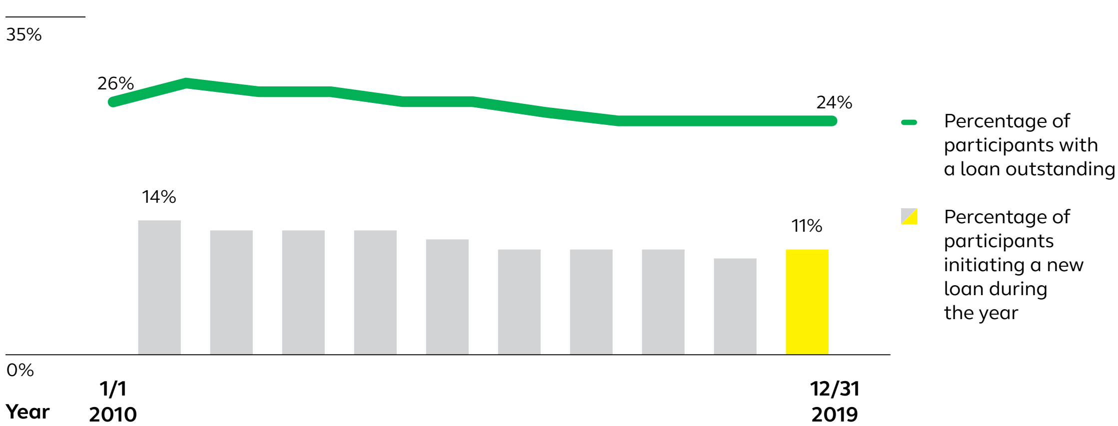
Percentage of actively employed investors using automatic rebalancing
Where available, excluding those fully invested in a TDF



Just under one-quarter (24%) of plan participants has a loan outstanding against their account, a level that has remained consistent since 2016. In 2019, 11% of workers initiated a new loan.

Loan usage

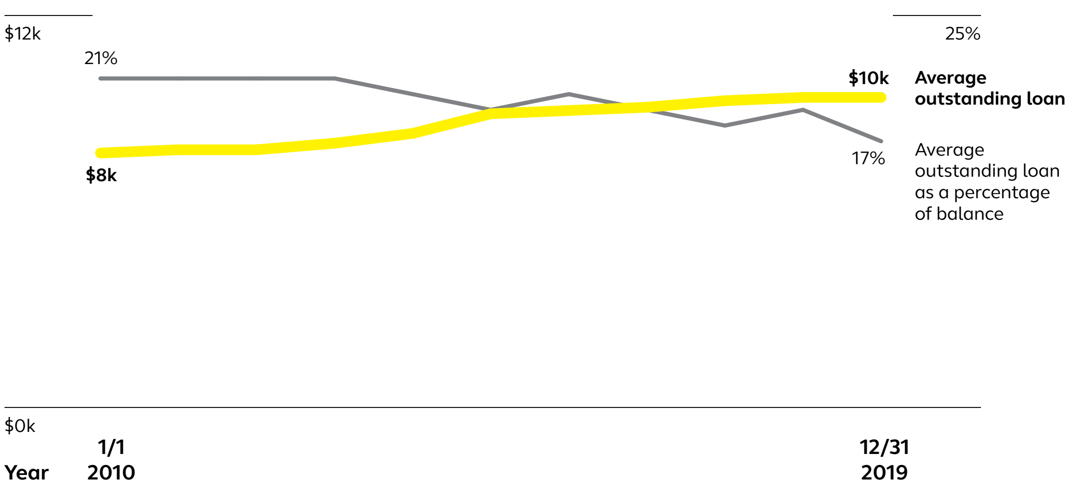
Among actively employed investors



The average loan principal outstanding very slightly increased in 2019 from $9,503 at the beginning of the year to $9,532 at the end of the year. However, because the balances grew at a high rate, the average outstanding loan as a percentage of total plan balance dropped to 17%, the lowest seen during the decade.

Loan balance

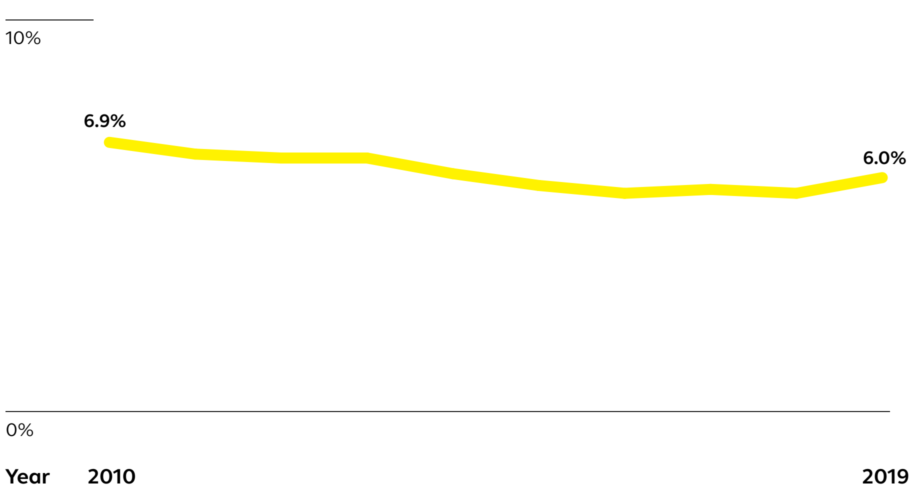
Among actively employed investors



Withdrawals are lower now than at the beginning of the decade.

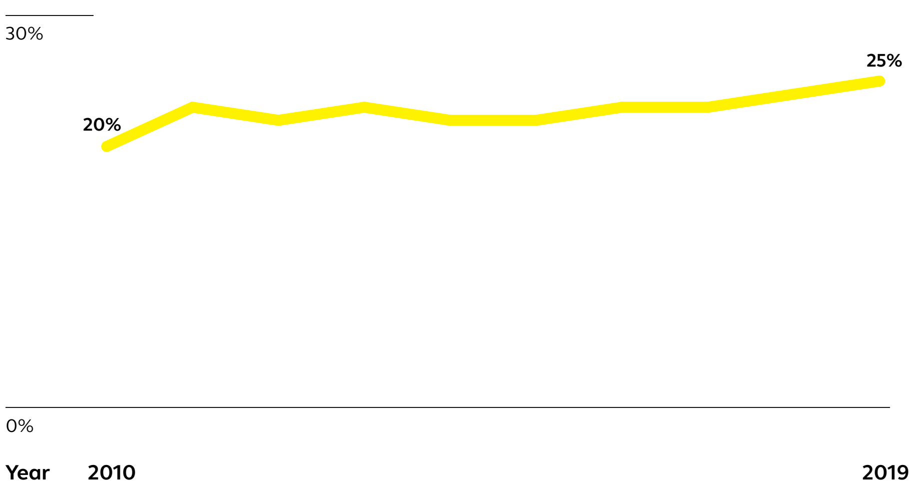
In 2019, 6.0% of actively-employed participants took either a hardship or non-hardship withdrawal, up from 5.6% in 2018, but still below the level seen at the onset of the decade.

Percentage of actively employed participants taking a withdrawal
2010–2019



The increase in overall withdrawals seen during 2019 is due in part to an increase in hardship withdrawals. The percentage of withdrawals that were hardships increased to the highest level seen in the past decade, as 25% of withdrawals taken during 2019 were attributable to a hardship, up from 24% in 2018 and 20% in 2009. More than half (55%) of hardship withdrawals that occurred during 2019 were due to home eviction.

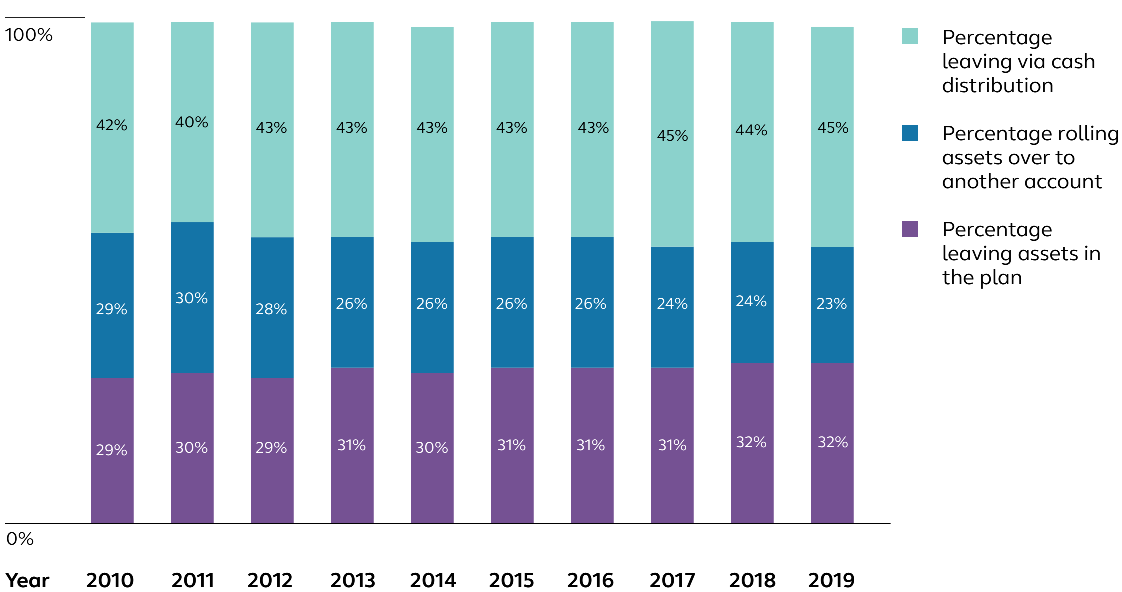
Percentage of withdrawals attributable to hardship
2010–2019



Post-termination behavior during 2019 was like previous years, as approximately one-third (32%) of participants who terminated during the first nine months of 2019 kept their balances in the plan as of year-end. The percentage of recently terminated investors rolling over their account to a new plan (23%) was the lowest recorded by Alight in the decade.

Percentage of recently terminated employees*

2010–2019

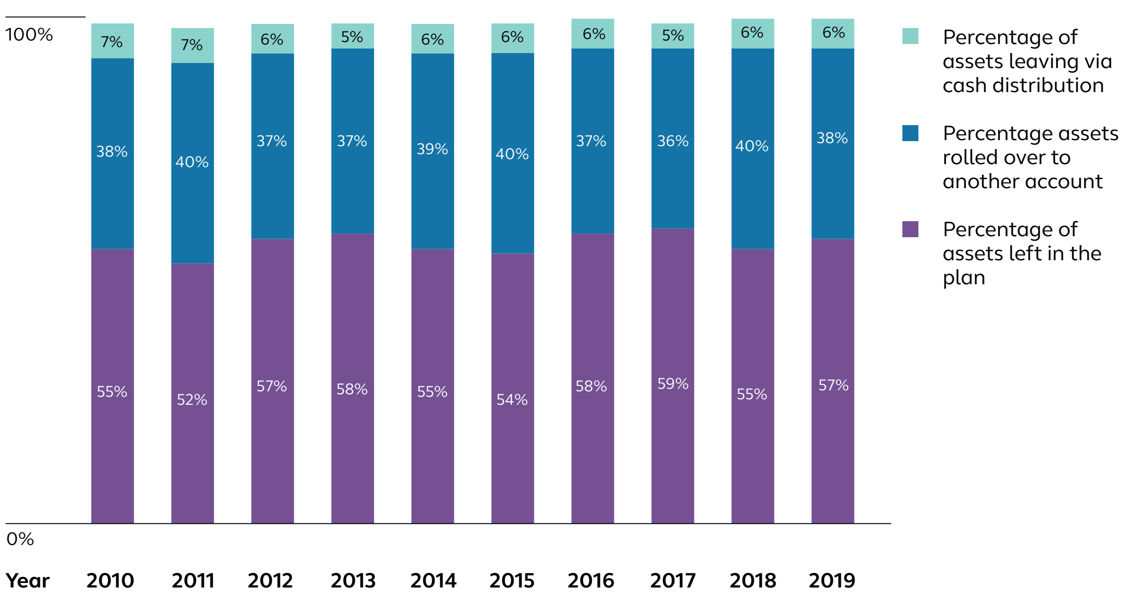


* Activity during each calendar year among those who terminated employment during the first nine months of the year. This is done to not skew results for people who terminate late in the year and do not have time to remove balances from the plan.

While one-third of recently-terminated plan participants chose to remain in the plan in the year they terminated, the people who stayed in the plan generally had larger balances. People with small balances were more likely to cash out or be forced out of the plan. As a result, more than half (57%) of assets remained in the plan for recent terminations, while only 6% of assets were cashed out. These levels have remained consistent over the past decade.

Percentage of assets among recently terminated employees*

2010–2019



* Activity during each calendar year among those who terminated employment during the first nine months of the year.

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