HOW AMERICA SAVES **2018**

Vanguard 2017 defined contribution plan data

Jean Young, Senior Research Associate,
Vanguard Center for Investor Research

Vanguard®

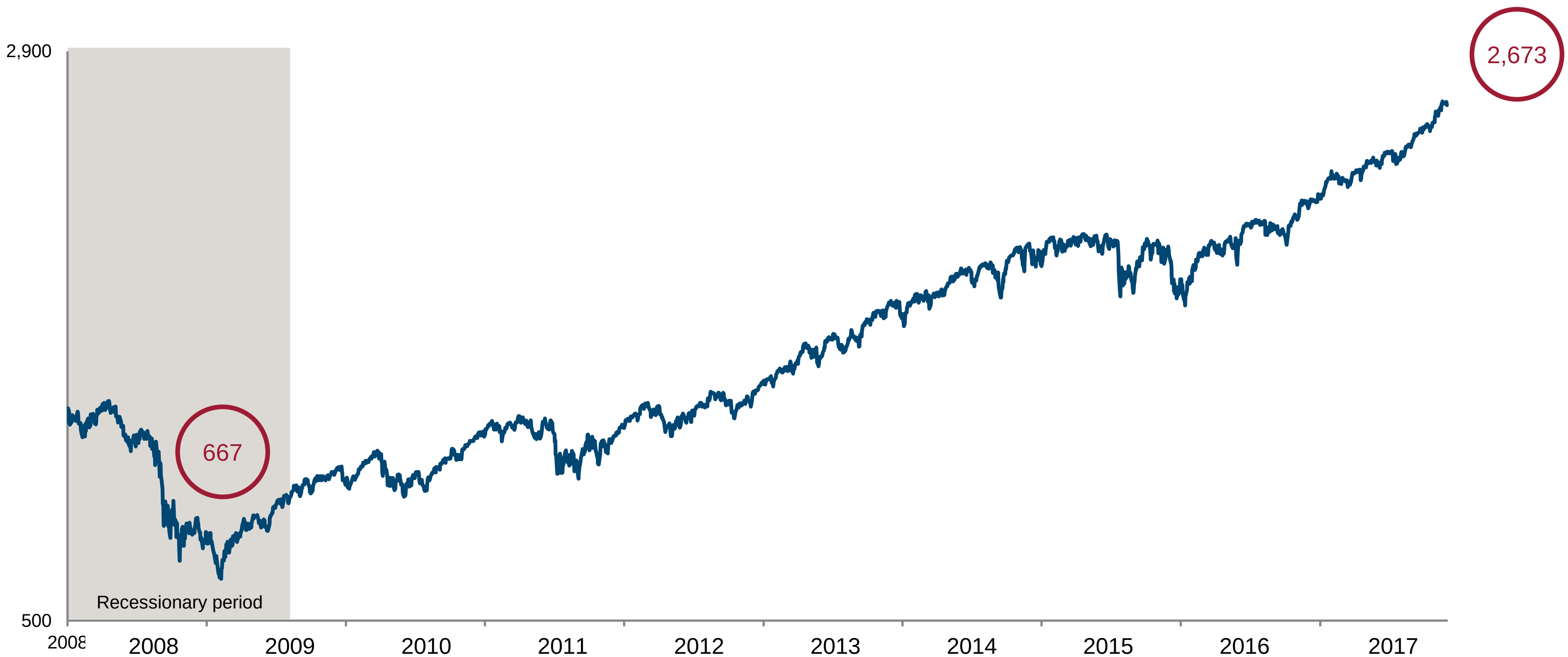
Agenda

- The market
- How America Saves 2017
  - Accumulating
  - Managing
  - Accessing
- Implications

The market environment

S&P 500 daily close

December 31, 2007–December 31, 2017



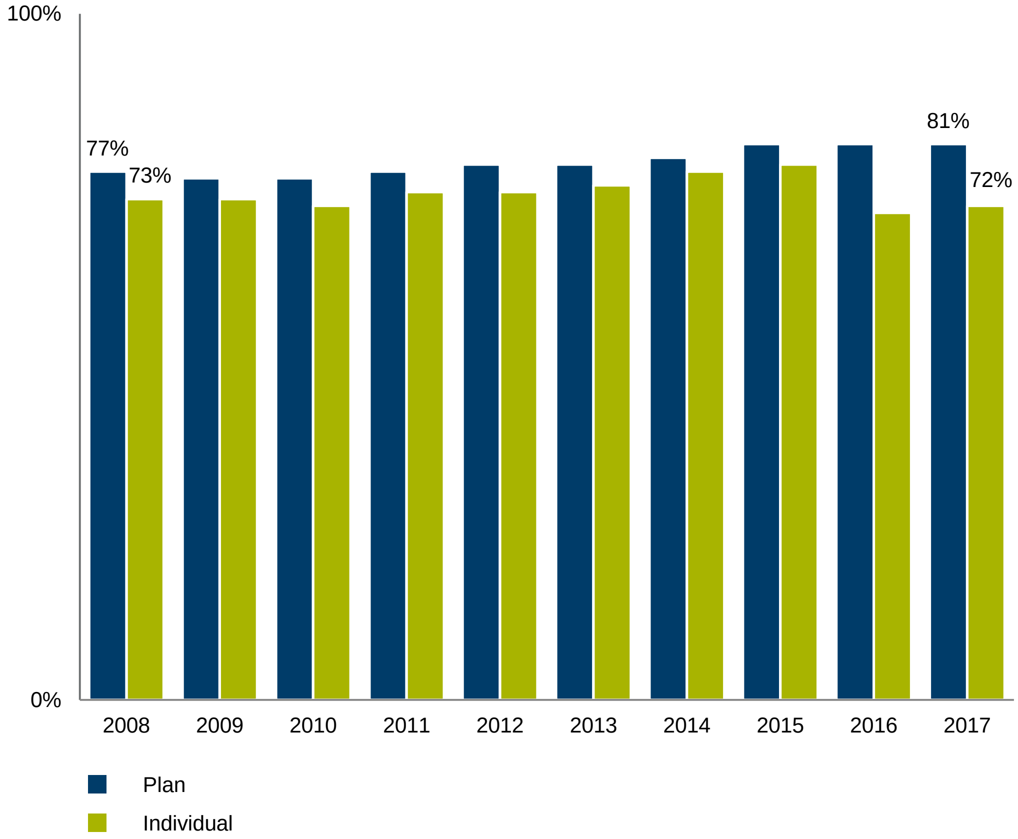
Past performance is no guarantee of future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Source: S&P 500 Index.

How America Saves 2018

Participation rates steady

Participation rates



Autopilot designs effect

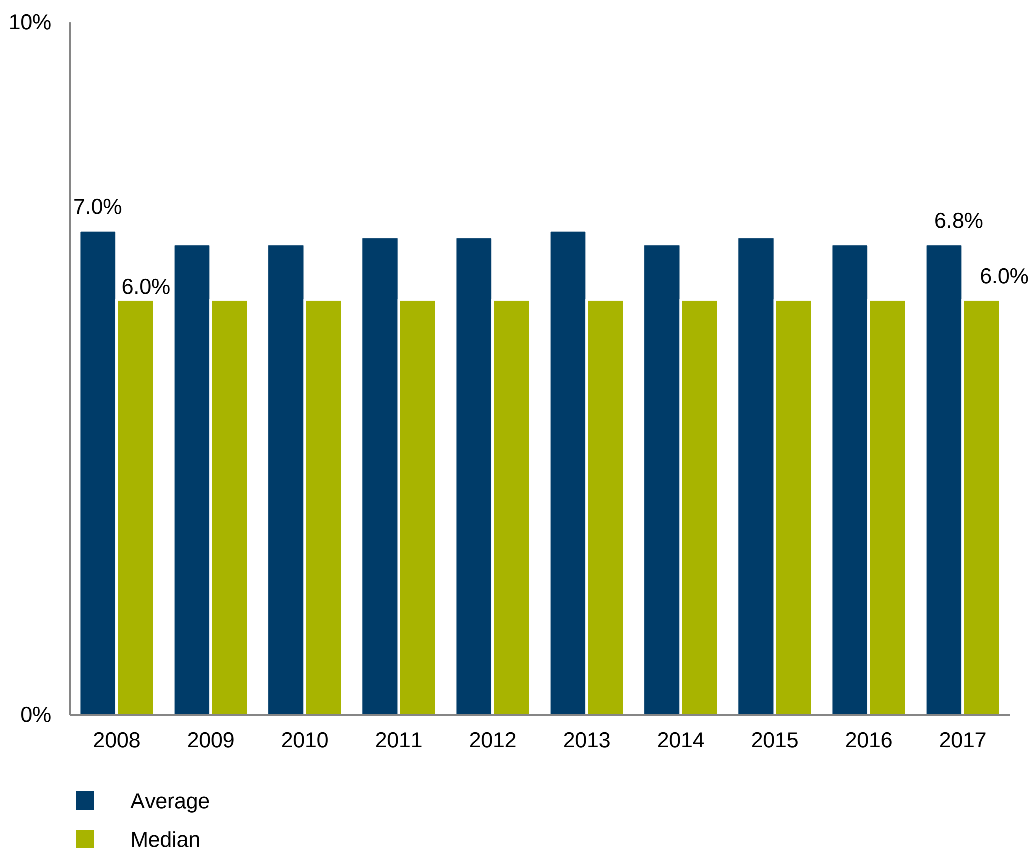
- Younger than age 25, about 4 in 10 participate
- Earning less than $30,000 a year, about half participate
- Less than two years on the job, about 6 in 10 participate

Across all plans, *one-quarter* of eligible workers fail to participate

Source: How America Saves 2018, Vanguard.

Deferral rates relatively unchanged

Deferral rates



There is a group of strong savers

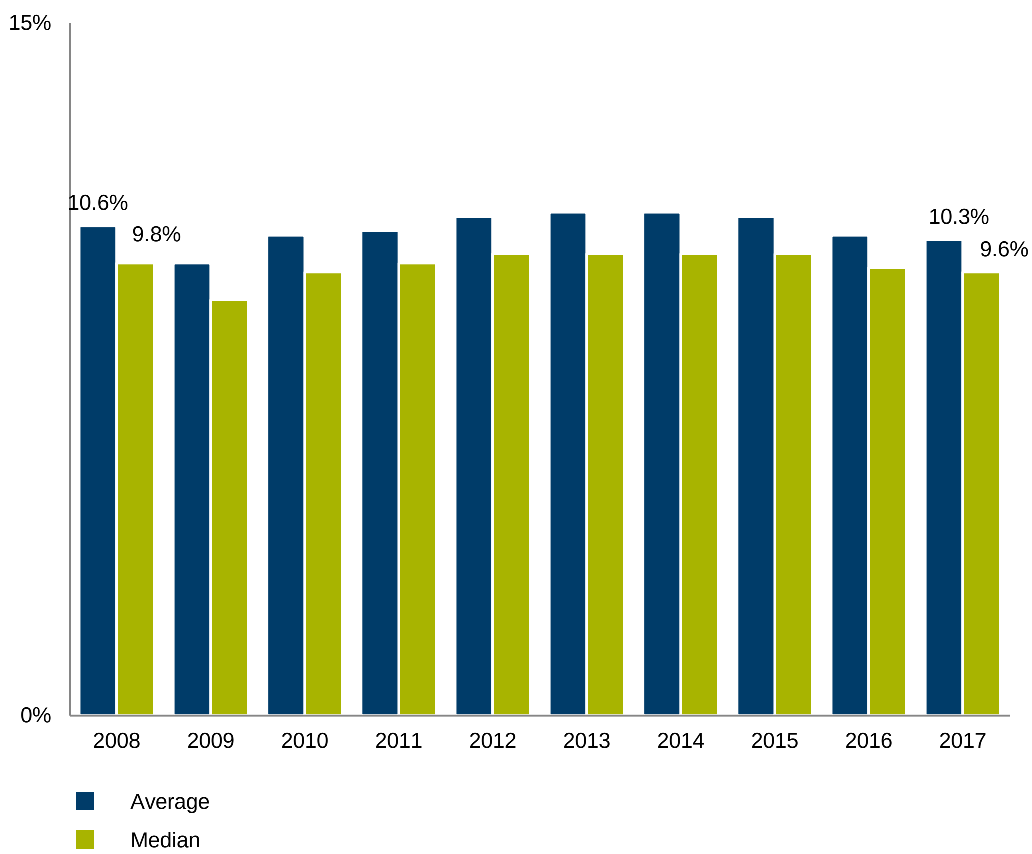
- 12% make Roth contributions
- About 1 in 5 participants defer 10+%
- Income >$100,000, 4 in 10 save the maximum allowed
- Income >$100,000, 4 in 10 make catch-up contributions

3 in 10 participants defer <4%

Source: How America Saves 2018, Vanguard.

Aggregate saving rates hold steady

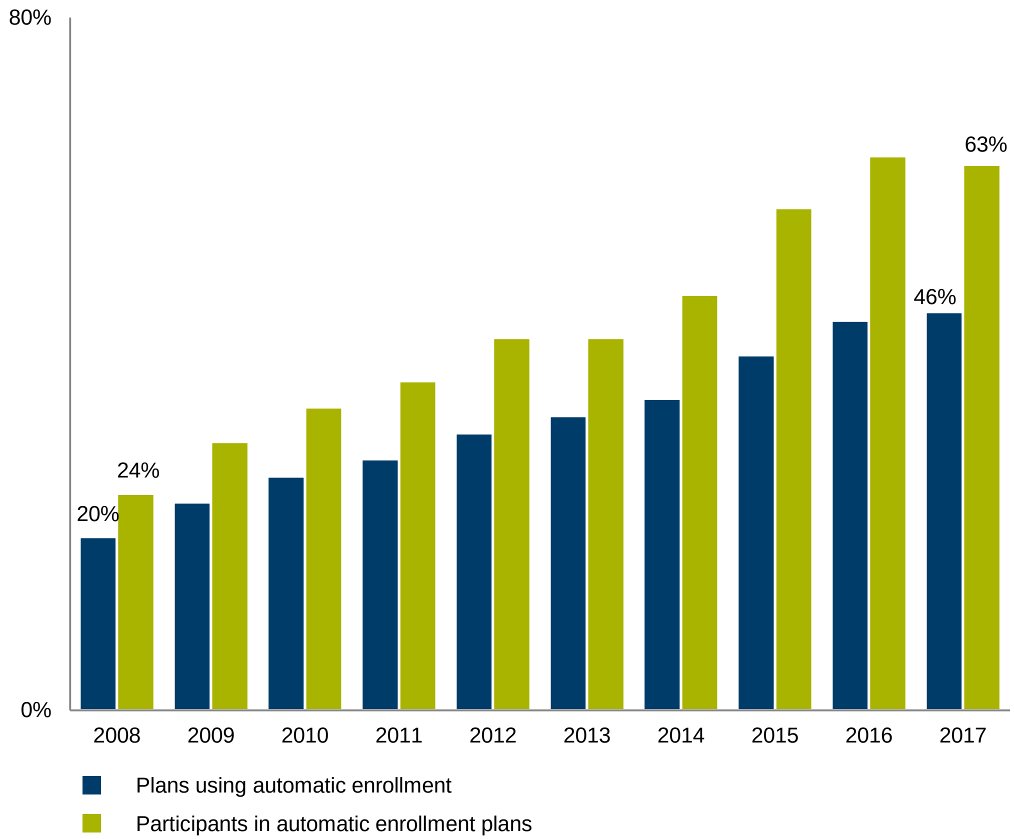
Aggregate saving rates



Source: How America Saves 2018, Vanguard.

46% of plans have adopted automatic enrollment

Automatic enrollment adoption grows



Automatic enrollment designs

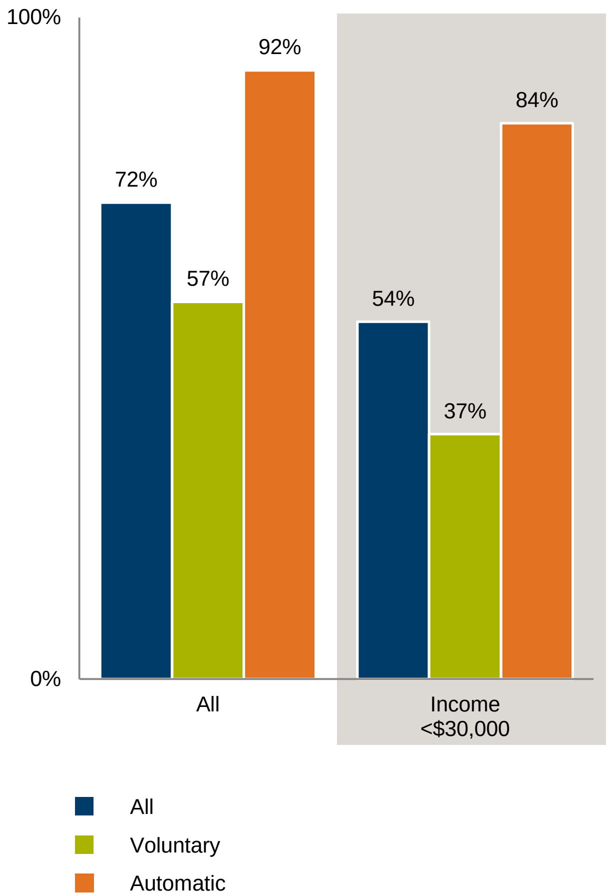
- 50% enroll at 3% or less
- 50% choose higher rates
- 66% have automatic deferral increases
- 99% have a balanced default strategy
  - 97% have target-date funds
  - 2% have traditional balanced fund

Two-thirds of new plan entrants in 2017 were in plans with automatic enrollment

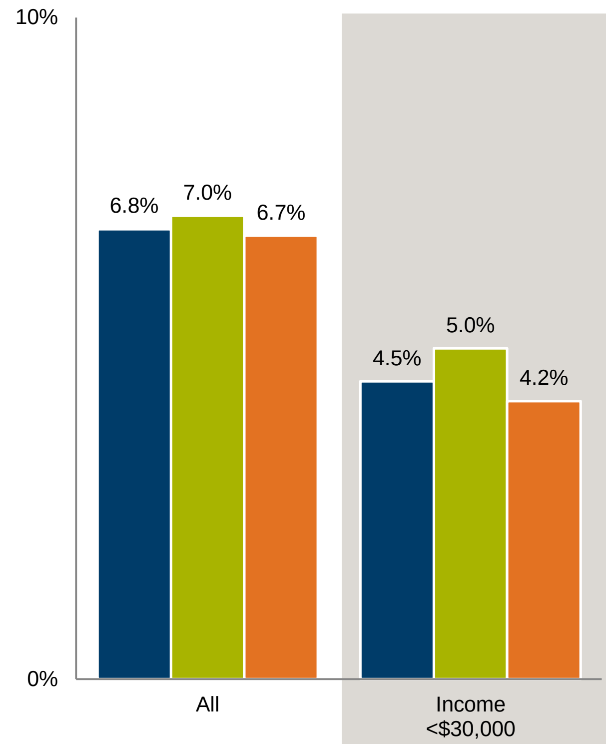
Source: How America Saves 2018, Vanguard.

Automatic versus voluntary enrollment 2017

Participation rates (estimated)



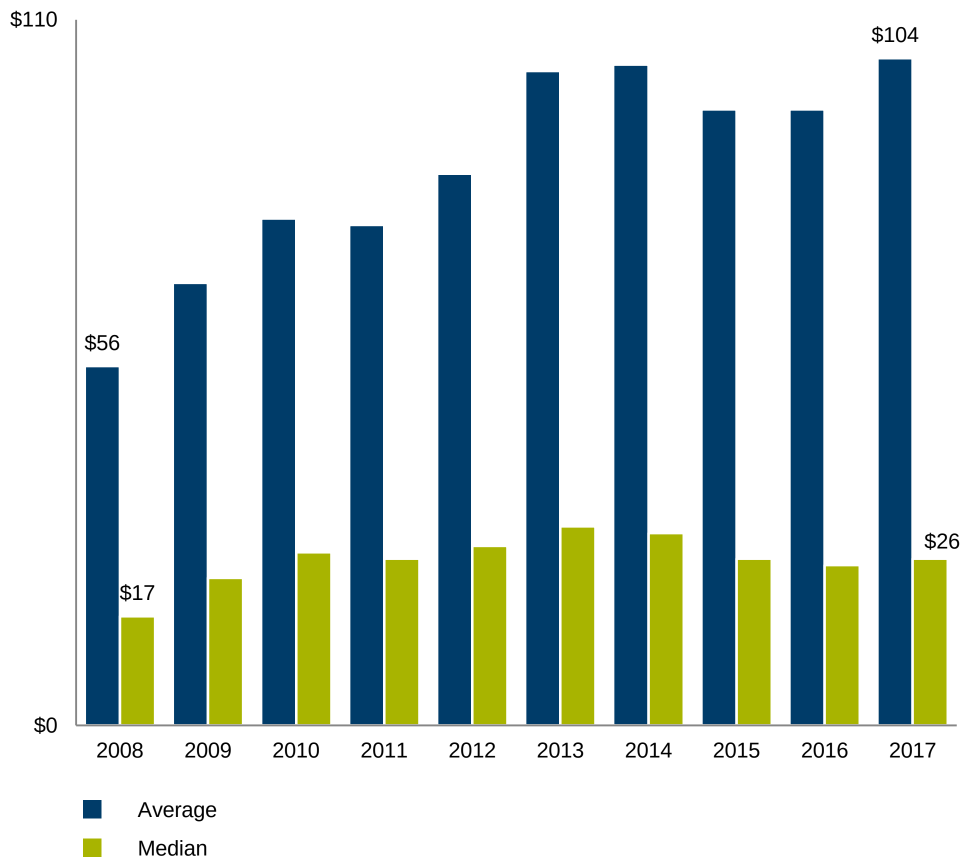
Deferral rates



Source: How America Saves 2018, Vanguard.

Account balances rise modestly in 2017

Account balances (in thousands)

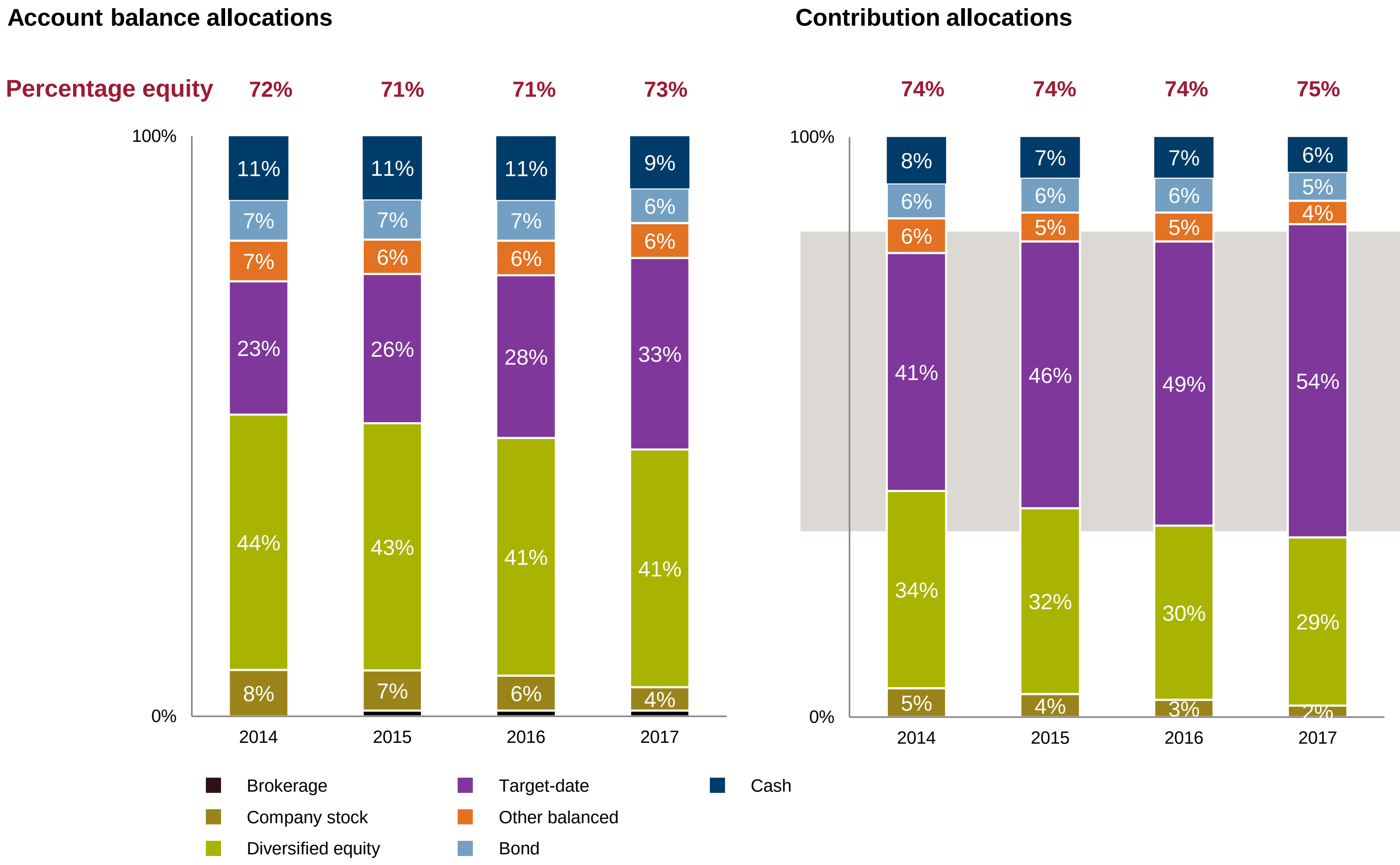


Wide variation in account balances

- One-quarter of participants have account balances of more than $100,000.
  Most were:
  - Older
  - Long-tenured
  - Higher income
- One-third of participants have account balances of less than $10,000.
  Most were:
  - Younger
  - Shorter-tenured
  - Lower income

Source: How America Saves 2018, Vanguard.

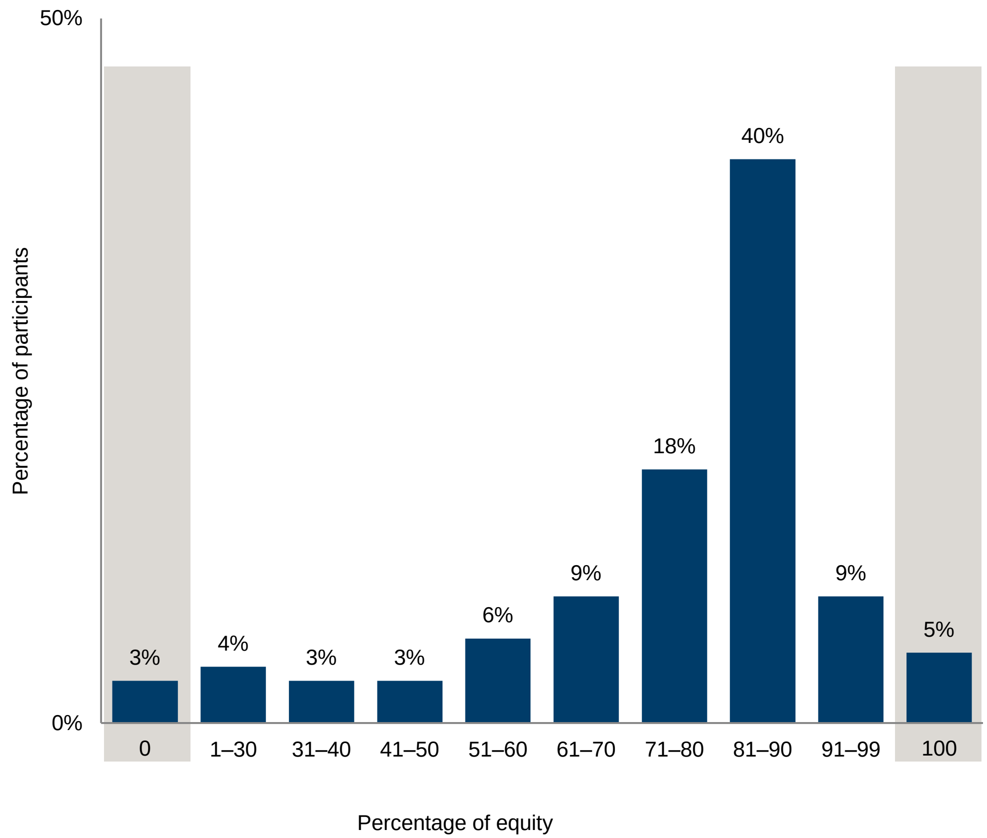
Overall equity allocation unchanged



Source: How America Saves 2018, Vanguard.

Variation in equity holdings

Distribution of equity exposure 2017



Education opportunity?

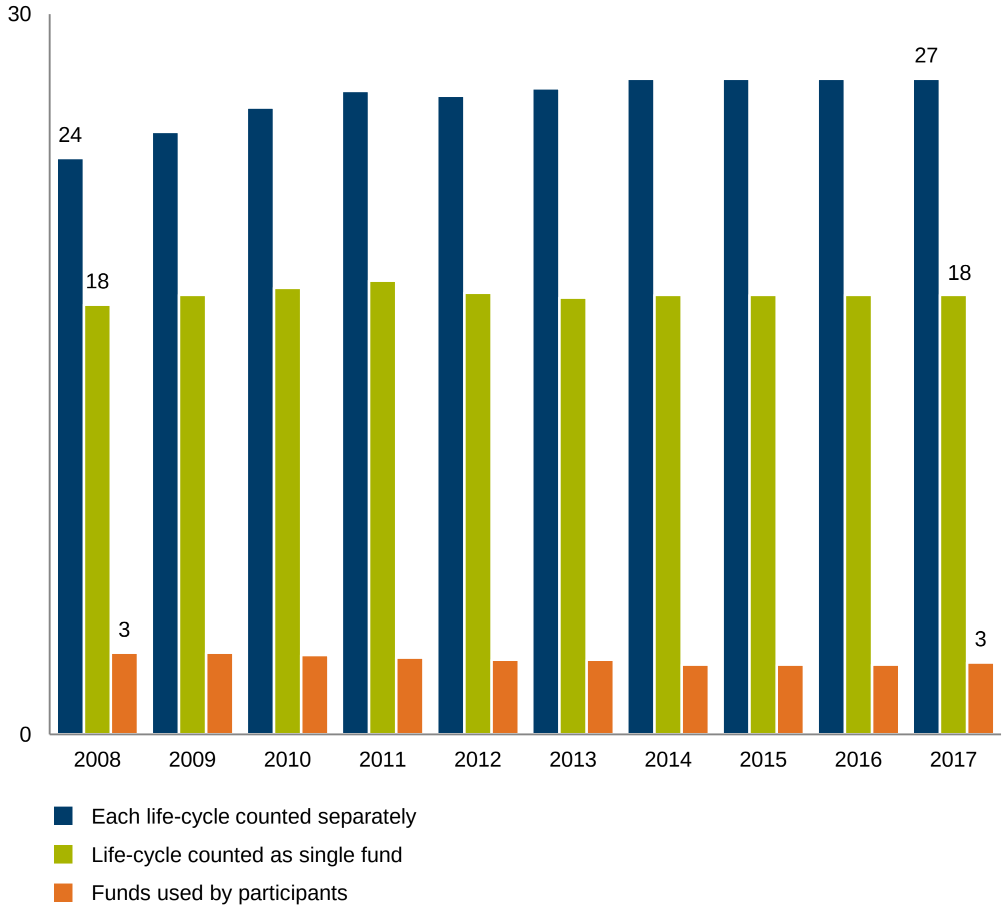
- 3% of participants allocate all of their plan assets to fixed income—another 7% less than 40%
- 5% of participants allocate all of their plan assets to equities—another 9% more than 90%
- 5% of all participants allocate more than 20% of their plan assets to company stock

1 in 4 participants appear to make portfolio construction errors—either investing too conservatively or too aggressively

Source: How America Saves 2018, Vanguard.

More funds offered; fewer funds used

Number of options offered and used



Sponsors have increased the number of investment options offered over the past decade

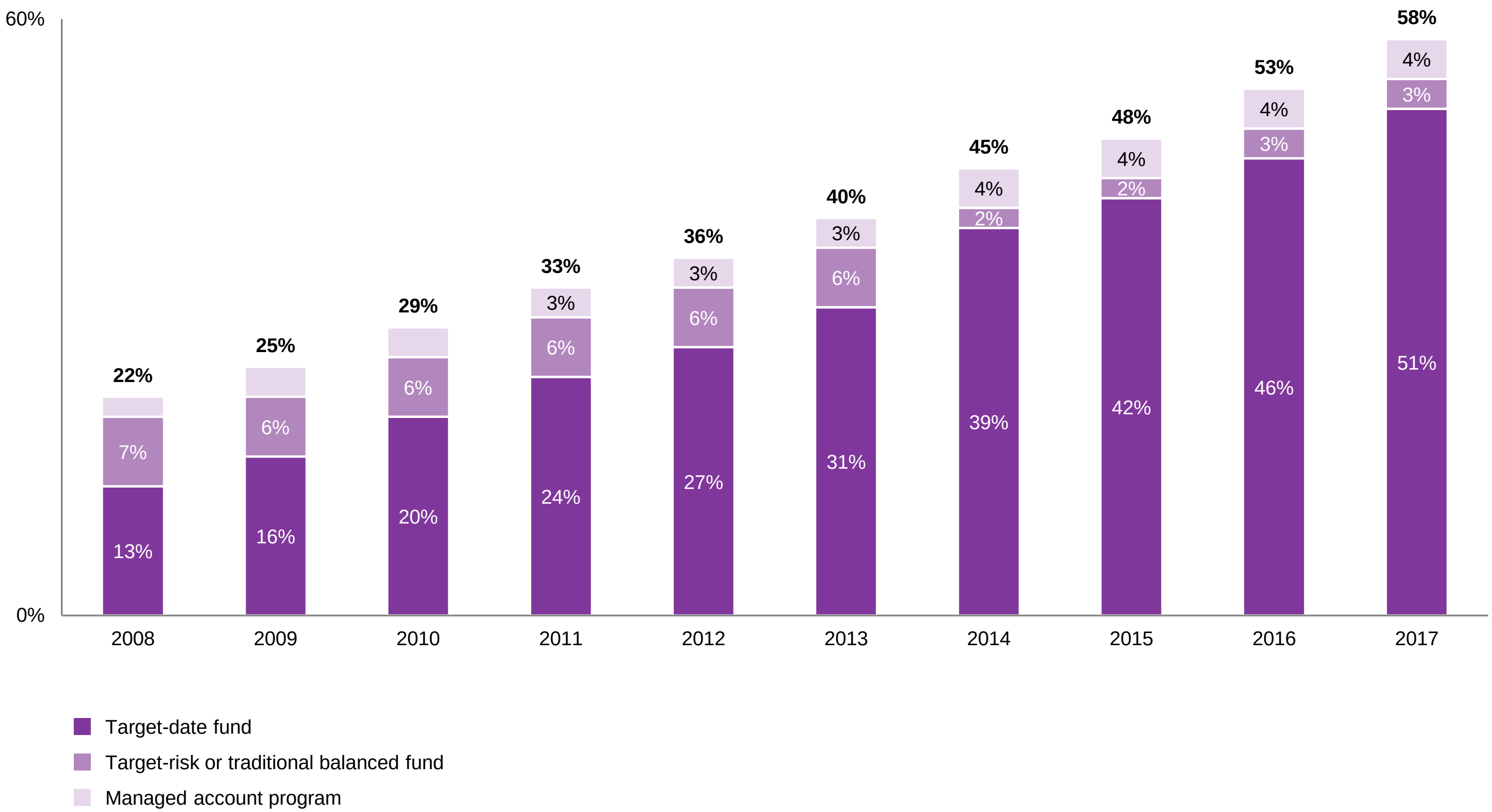
- But participants hold few funds

Index core: 61% of plans offer and 72% of participants have access

Source: How America Saves 2018, Vanguard.

Professionally managed allocations

Percentage of participants with professionally managed allocations

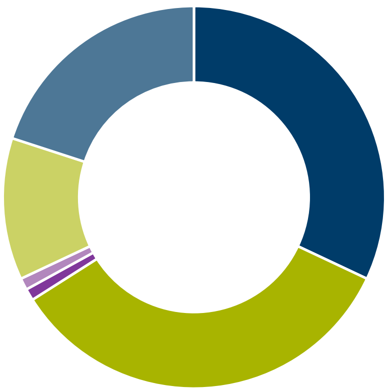


Source: How America Saves 2018, Vanguard.

Participants choose to hold target-date funds

Among participants holding target-date funds

2017

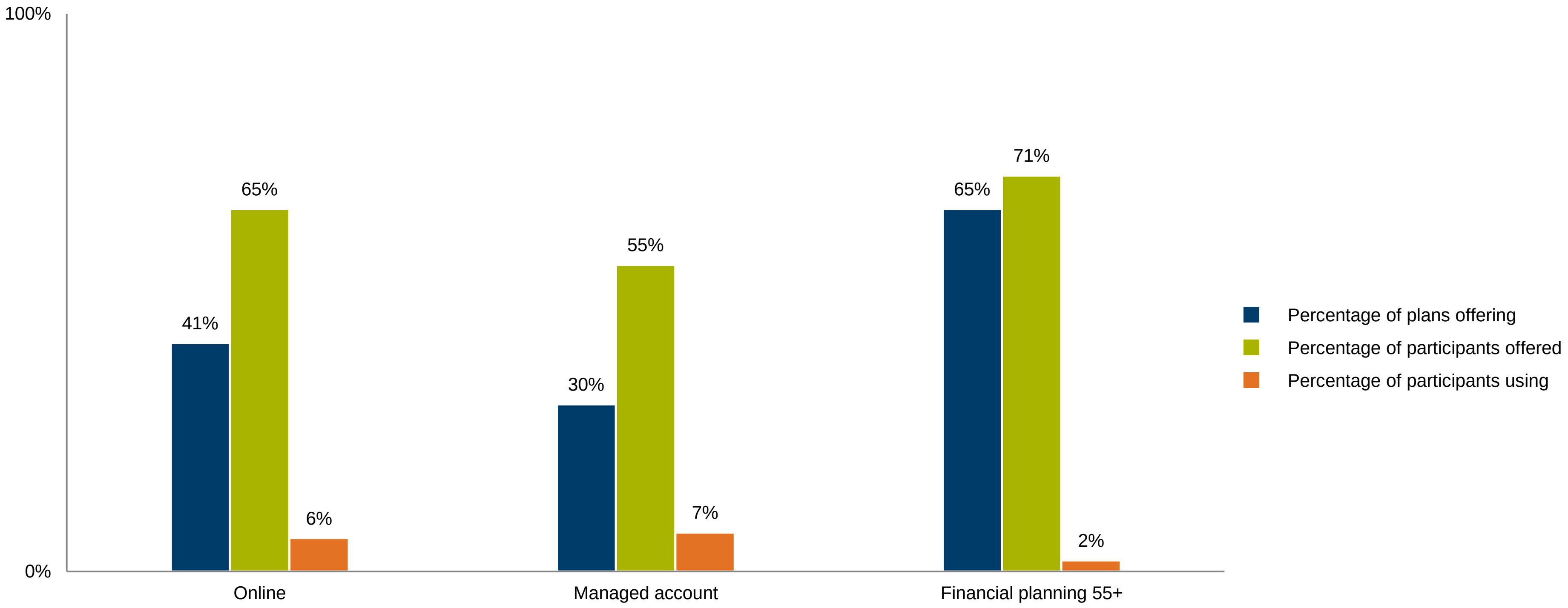


- 32% Voluntary enrollment pure TDF investors
- 34% Automatic enrollment pure TDF investors
- 1% Reenrollment pure TDF investors
- 1% Reenrollment mixed TDF investors
- 12% Automatic enrollment mixed TDF investors
- 20% Voluntary enrollment mixed TDF investors

Source: How America Saves 2018, Vanguard.

Advice in 2017

More frequently offered—less frequently used



Source: How America Saves 2018, Vanguard.

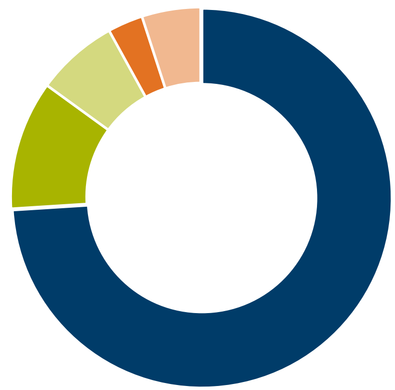
Portfolio construction has improved

Percentage of participants

2008

51%	Balanced strategies
17%	Aggressive equity
10%	Conservative equity
11%	Zero equity
11%	Concentrated company stock

2017

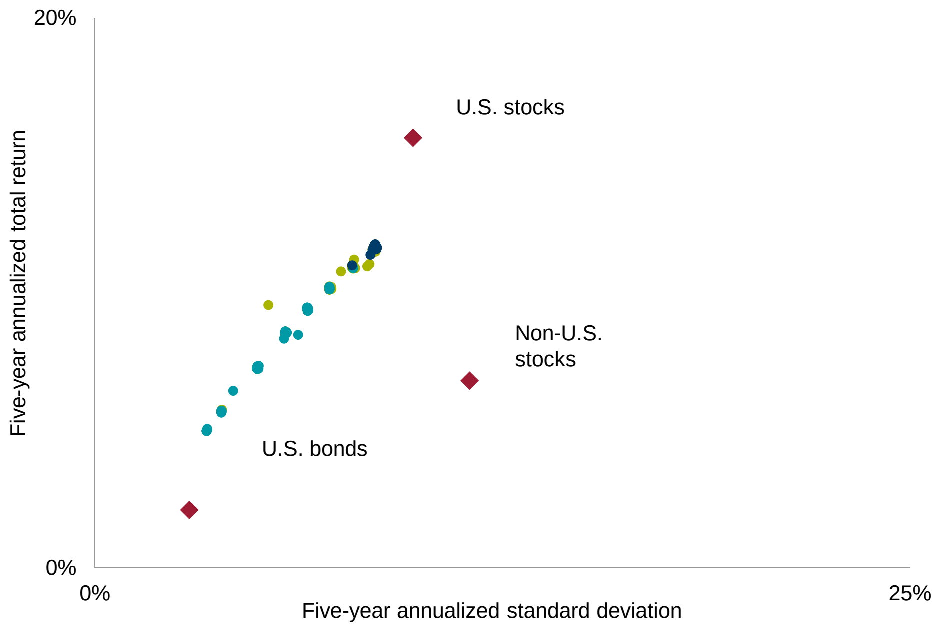


74%	Balanced strategies
11%	Aggressive equity
7%	Conservative equity
3%	Zero equity
5%	Concentrated company stock

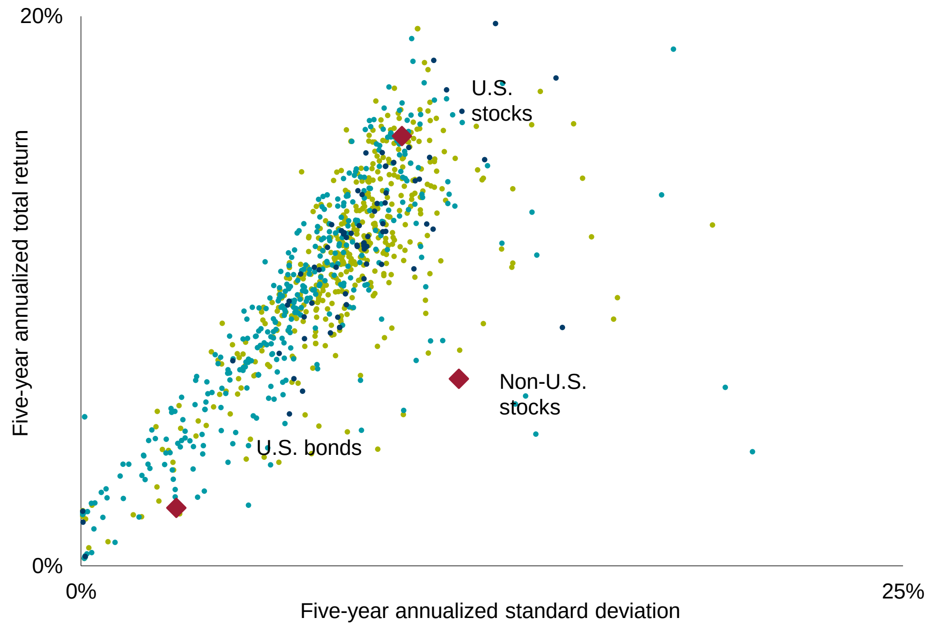
Source: How America Saves 2018, Vanguard.

Professionally managed allocations have reduced the dispersion of risk and return.
How America Saves

Single TDF participants (51%)



"Do-it-yourself" participants (42%)

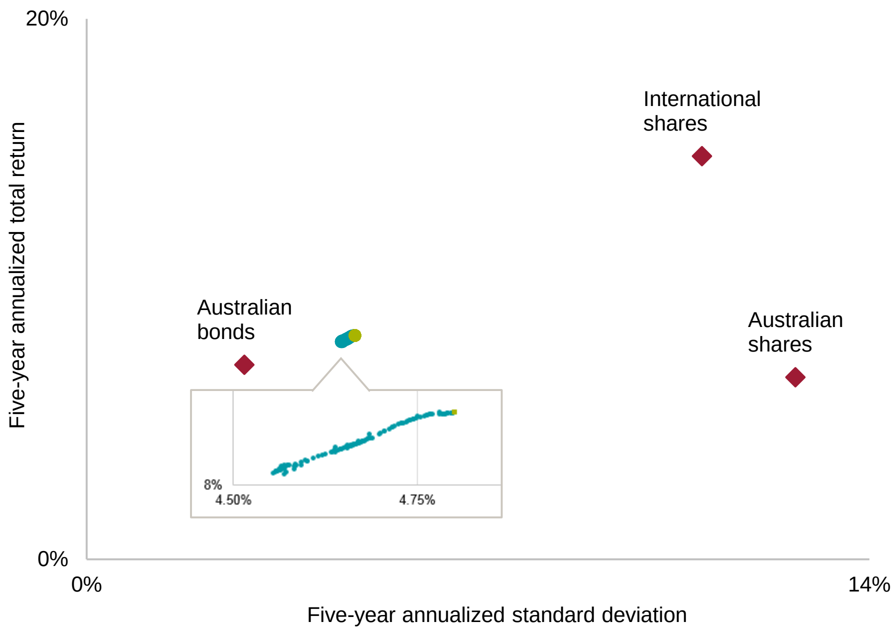


- Participants younger than 35 years of age
- Participants ages 35 to 55
- Participants older than 55 years of age

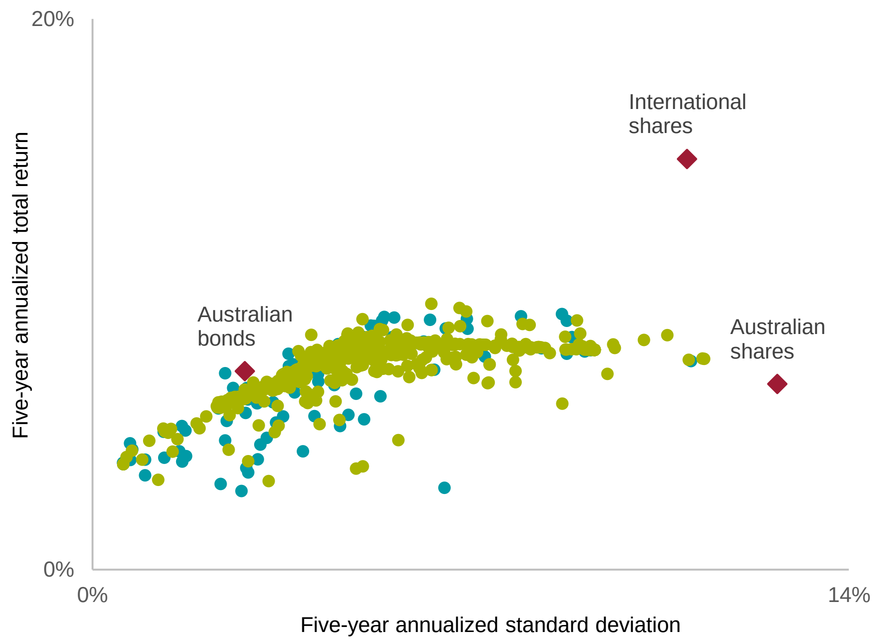
Past performance is not a guarantee of future results.
Source: Vanguard, How America Saves 2018.
Note: U.S. stocks represented by the MSCI US Broad Market Index; U.S. bonds represented by the Barclays U.S. Aggregate Bond Index; International stocks represented by the MSCI All Country World Index ex USA. Includes 1,000 random sample of participant accounts drawn from respective samples. Excludes 0.5% top and 0.5% bottom outliers for both risk and return, for a net sample of 980 observations. Vanguard defined contribution plan participants for the five-year period ended December 31, 2017.

Professionally managed allocations have reduced the dispersion of risk and return.
How Australia Saves

Lifecycle members (83%)



Self-directed members (12%)

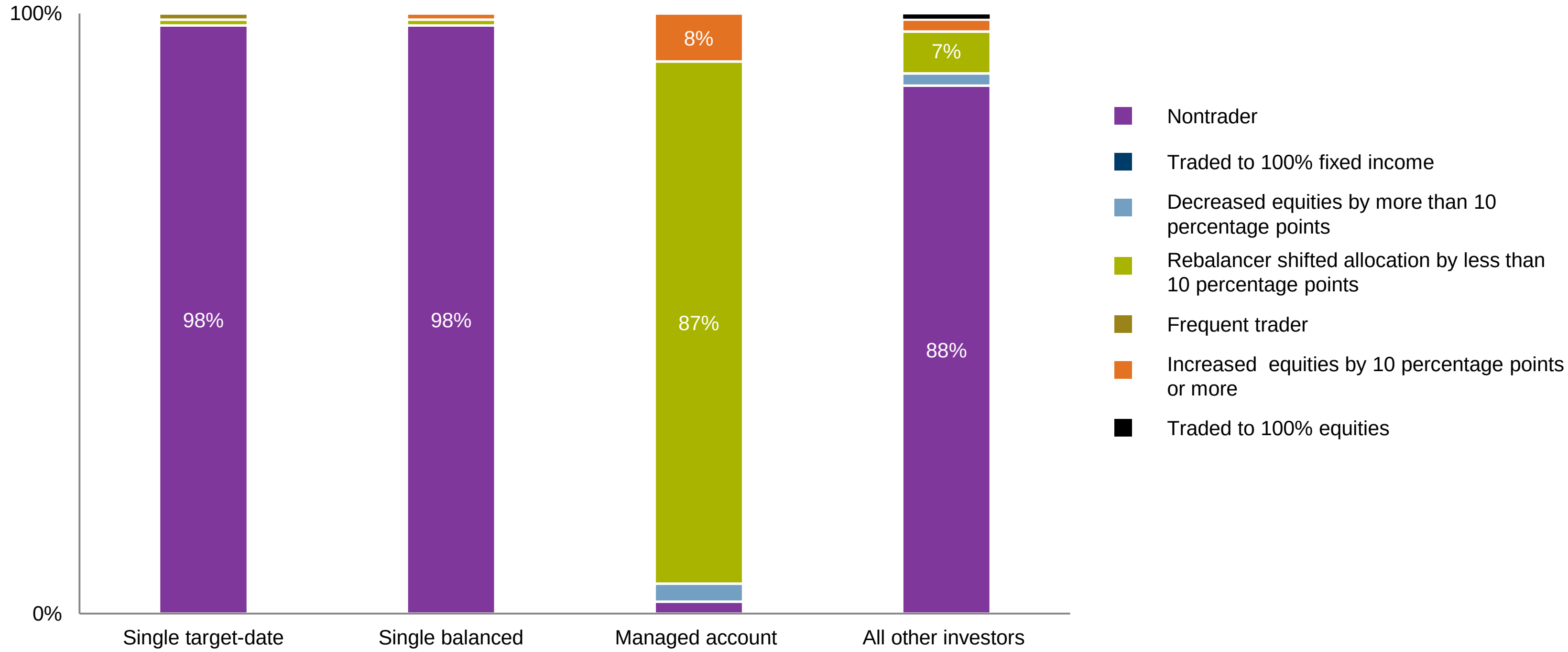


- Members younger than age 55
- Members older than 55 years of age

Past performance is not a guarantee of future results.
Source: Vanguard, How Australia Saves 2017.
Note: Australian shares represented by the S&P/ASX 300 Index; Australian bonds represented by the Bloomberg AusBond Composite 0+ Yr index; International shares represented by the MSCI World ex-Australia Index.

Do participants trade? No

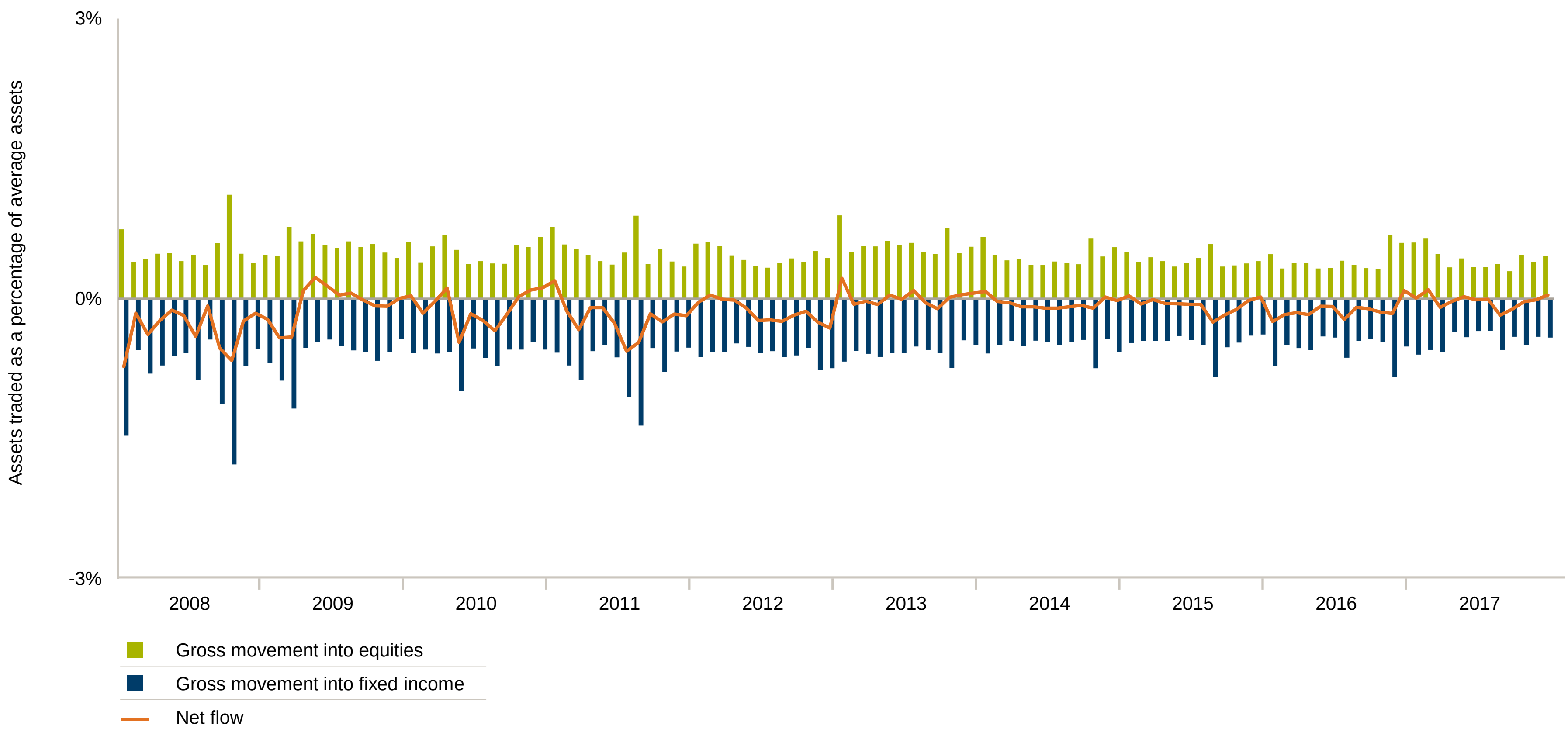
Participant trading decisions 2017



Source: How America Saves 2018, Vanguard.

Participants moved both into and out of equities

Money movement as percentage of average assets



Source: How America Saves 2018, Vanguard.

Why loans are not a bad thing

Among employees earning less than $30,000

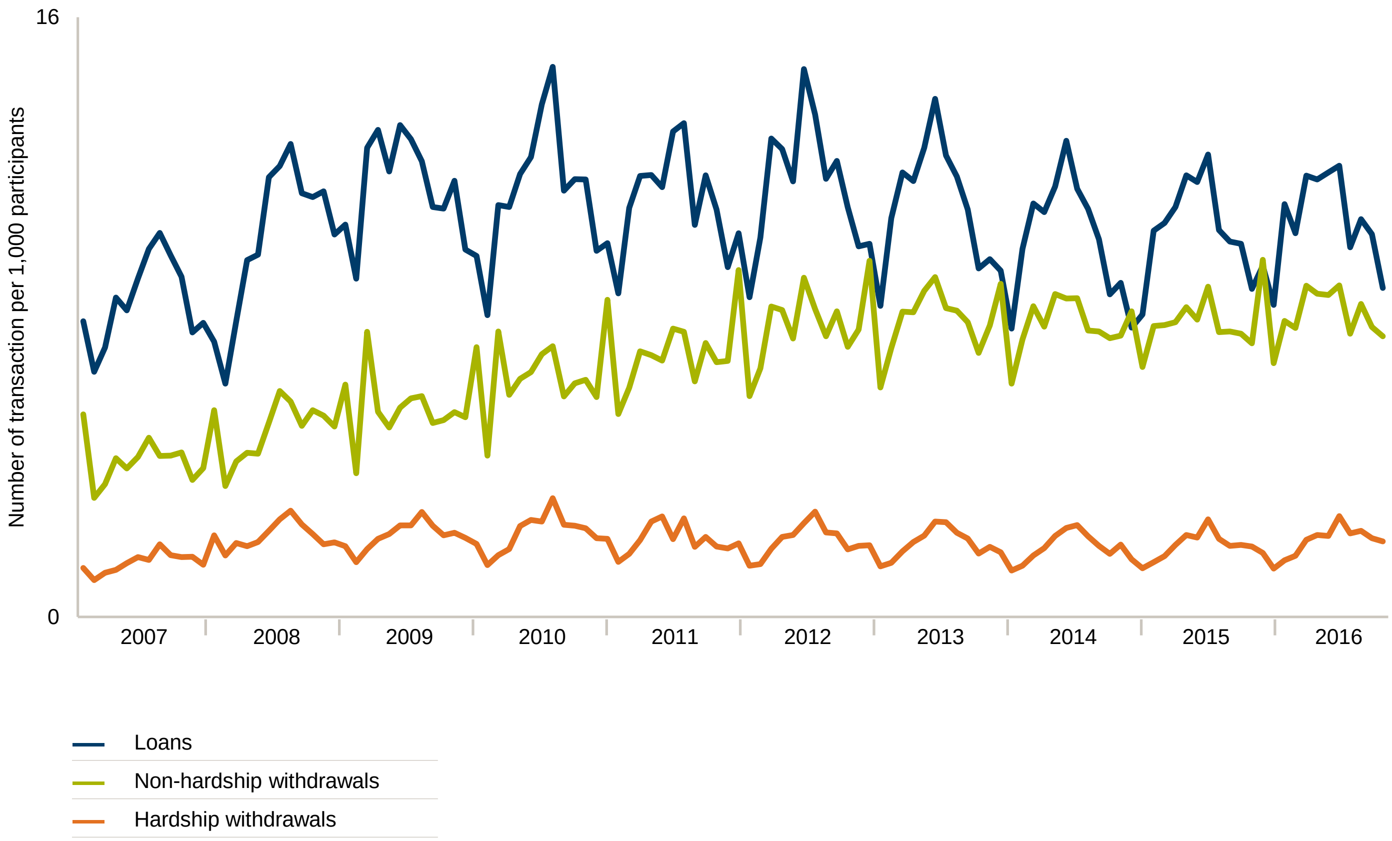
2017

●	46%	Nonparticipants
●	42%	Participants with no loans
●	12%	Participants with a loan outstanding

Source: How America Saves 2018, Vanguard.

Are active participants accessing accounts at a higher rate? No and yes

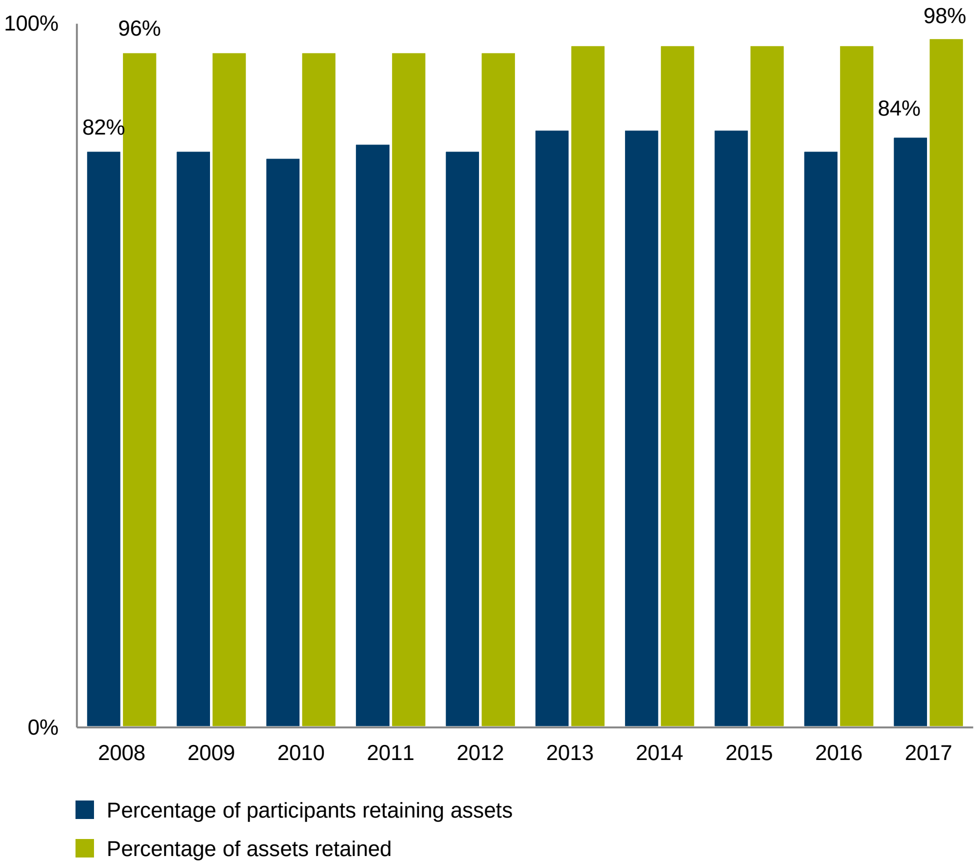
Active participants accessing retirement savings



Source: How America Saves 2018, Vanguard.

Most assets preserved for retirement

Plan distribution behavior



Assets largely preserved for retirement

- 84% of participants preserved 97% of available assets in 2017
  - 72% defer within the plan
  - 12% roll over
  - 16% cash out
- Smaller balances tend to be cashed out

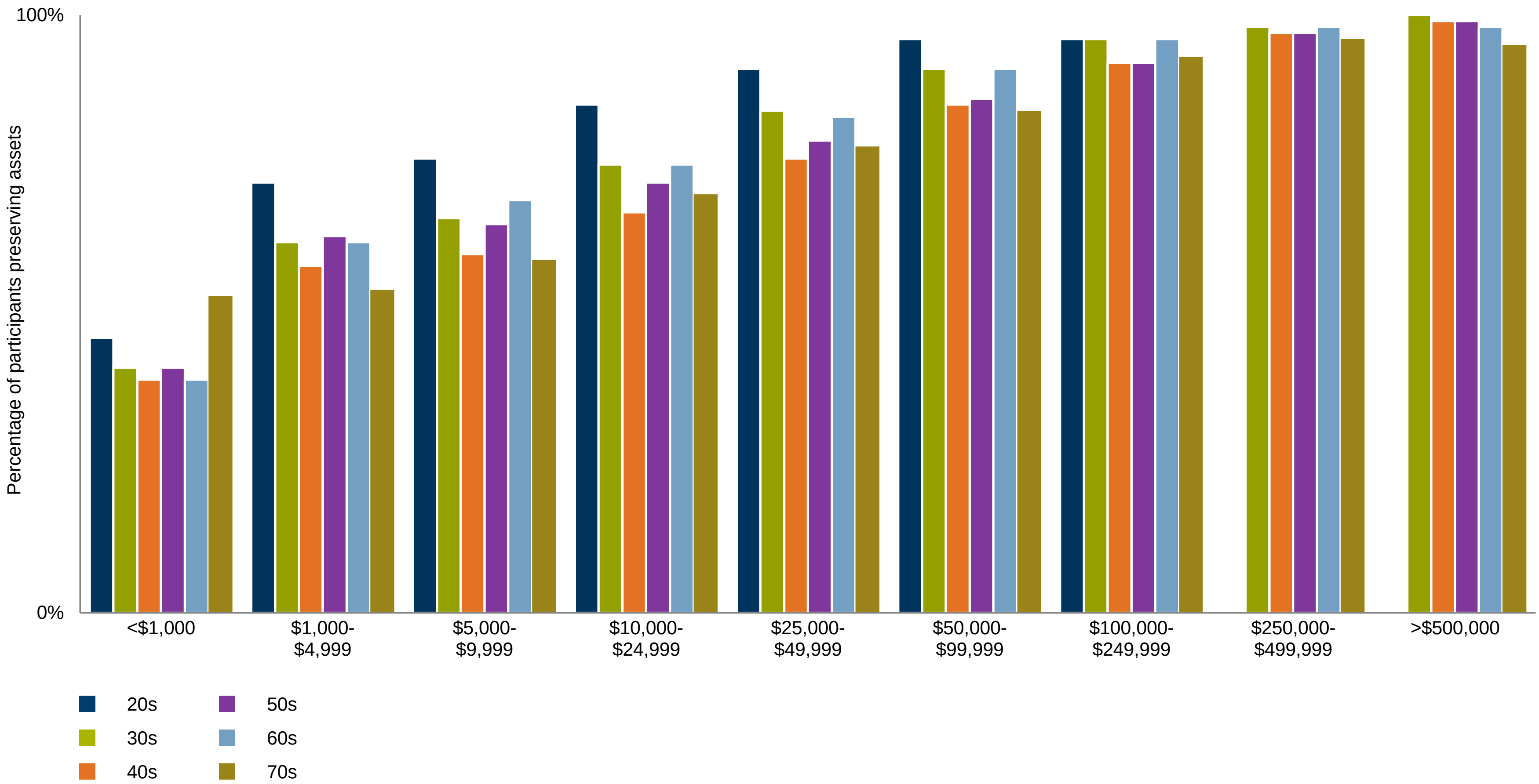
Making the numbers look bad

- 16% ÷ 28% = 57% cash out
- 12% ÷ 28% = 43% rollover

Source: How America Saves 2018, Vanguard.

Plan distribution behavior by age and account balance

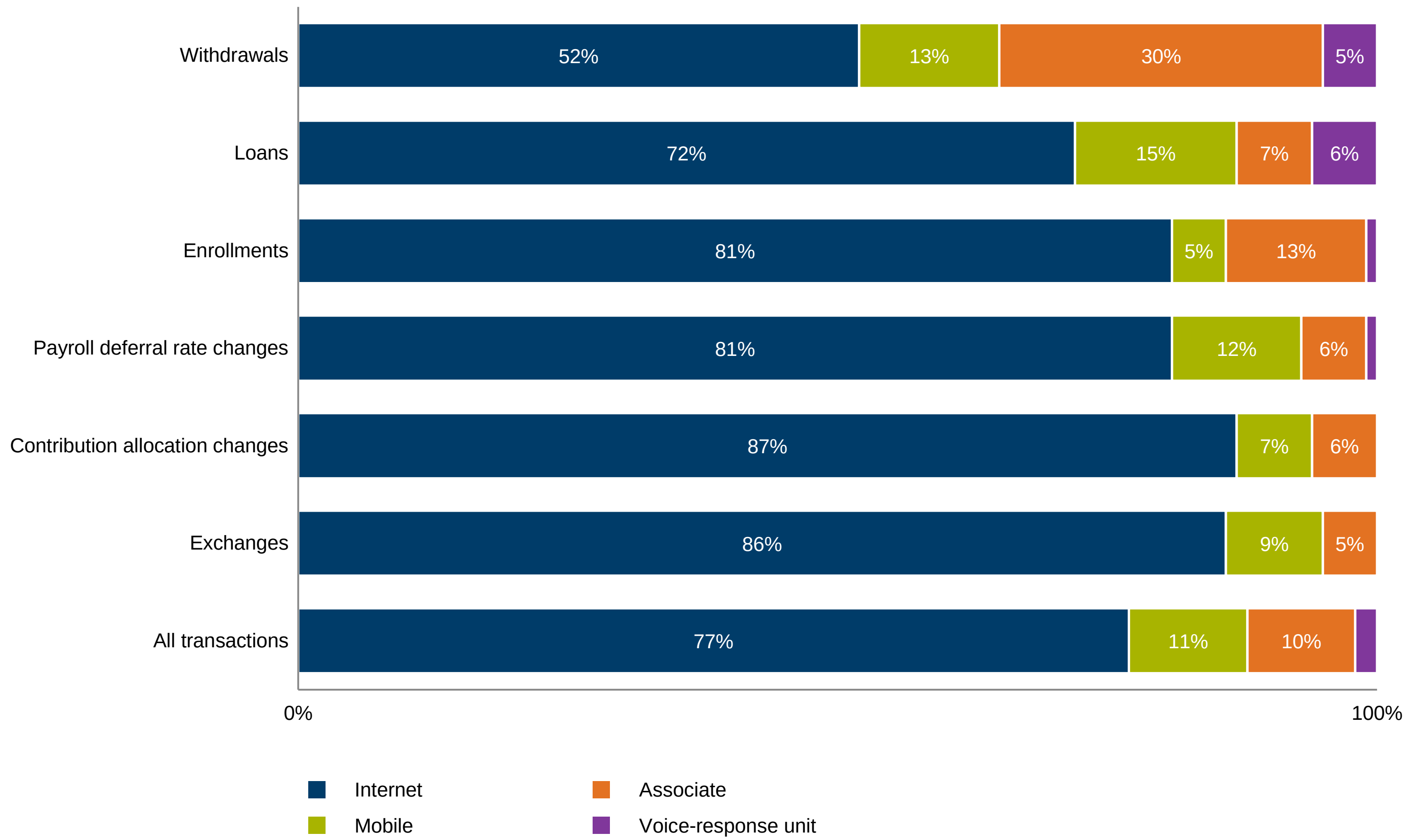
Participants with termination dates in 2017



Source: How America Saves 2018, Vanguard.

Participant channel utilization 2017

Vanguard defined contribution plans

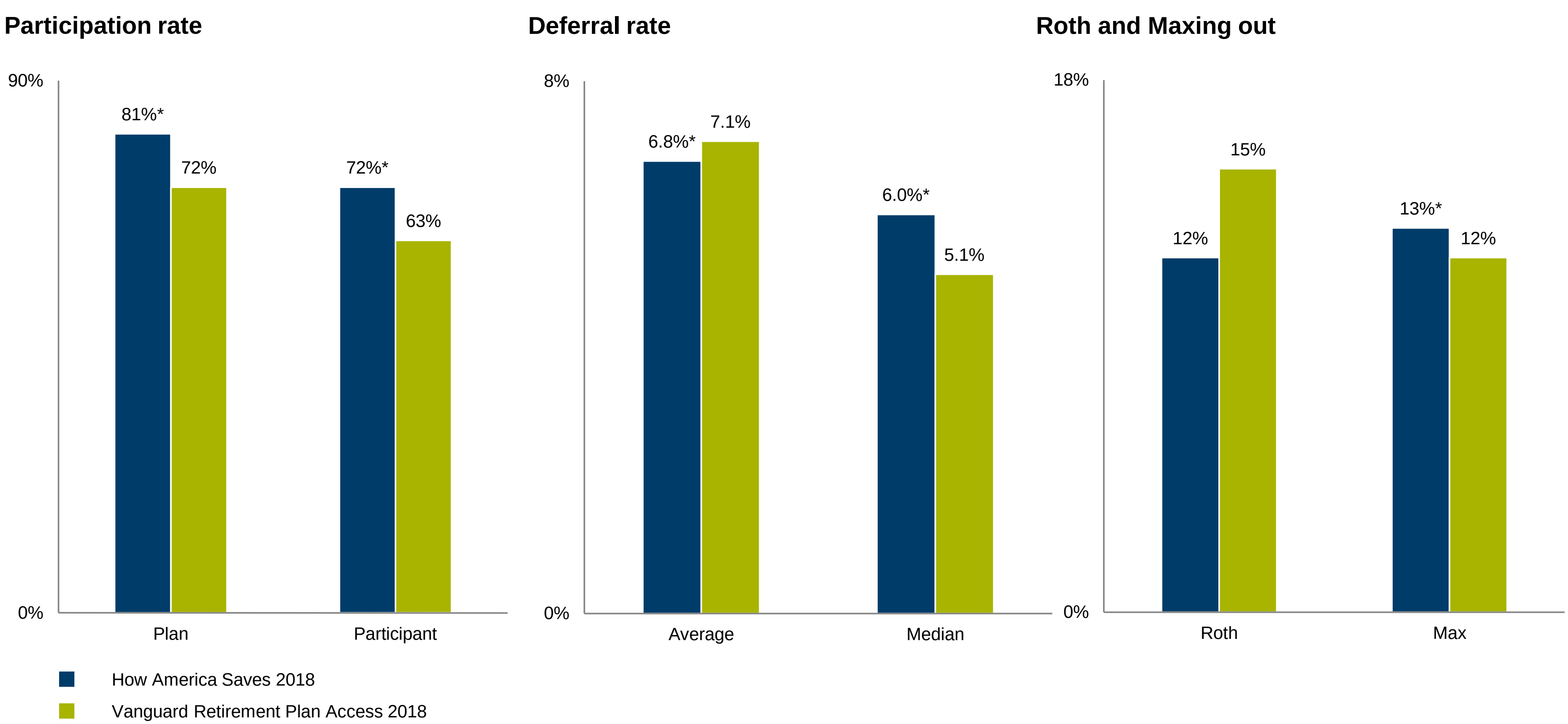


Source: How America Saves 2018, Vanguard.

Small business edition

2018 Vanguard Retirement Plan Access™ supplement to How America Saves

Participant behavior–It's pretty consistent on a number of metrics

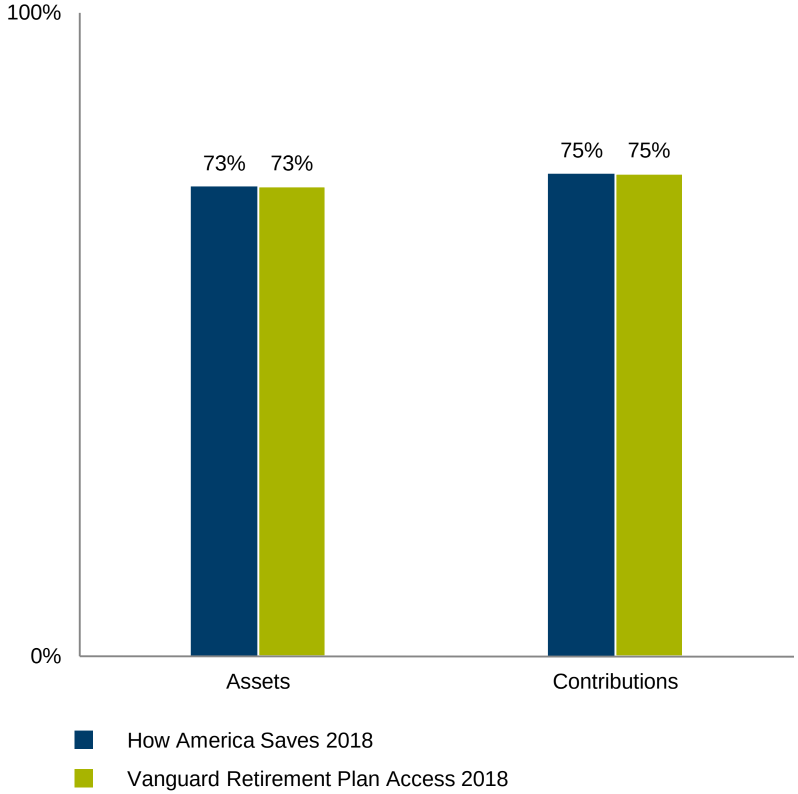


* Estimated, see Methodology section of *How America Saves 2018*.

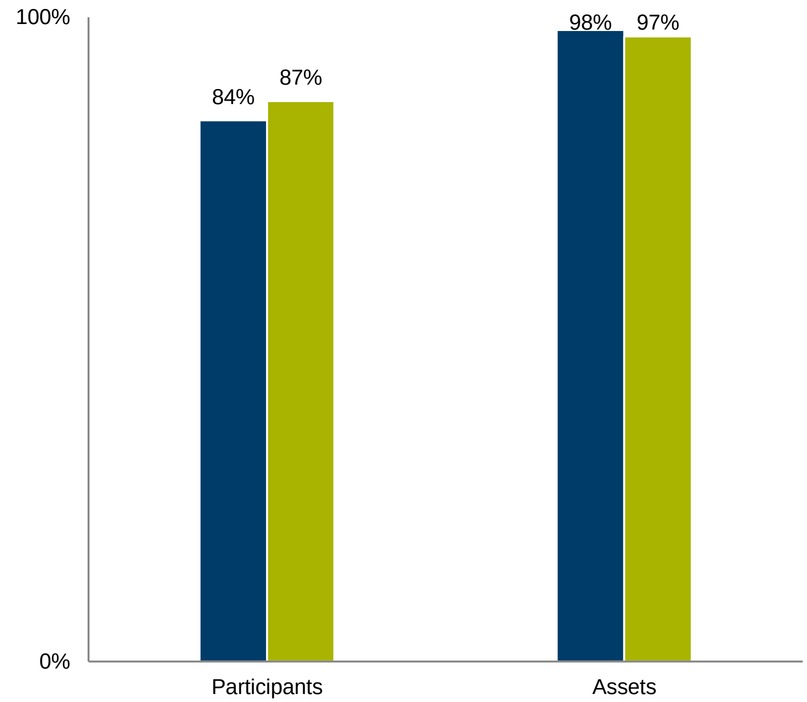
Source: *How America Saves 2018, How America Saves Small Business Edition,* Vanguard.

Participant behavior–Other metrics where it's consistent!

Equity allocation

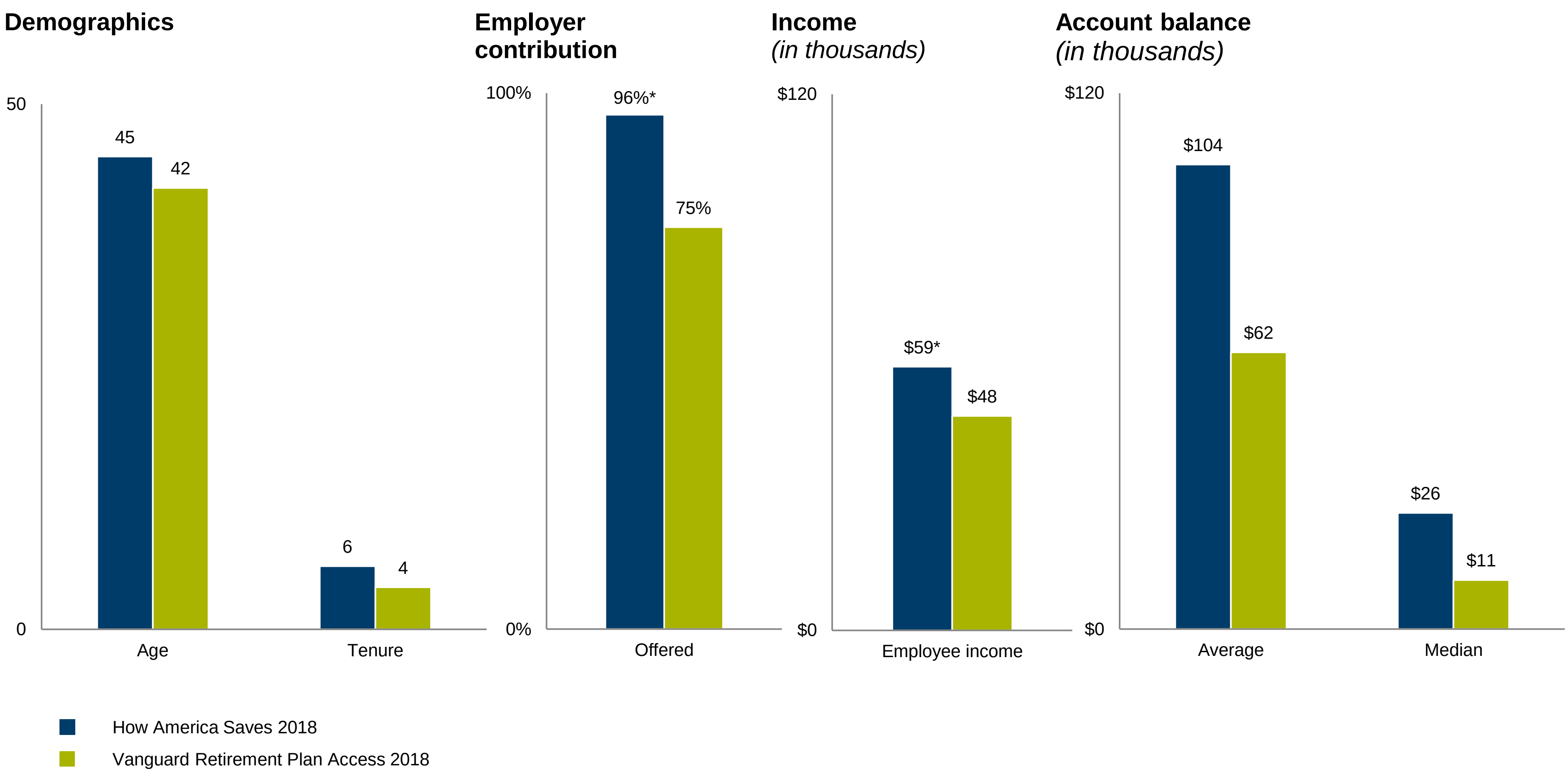


Distributions



Source: *How America Saves 2018, How America Saves Small Business Edition,* Vanguard.

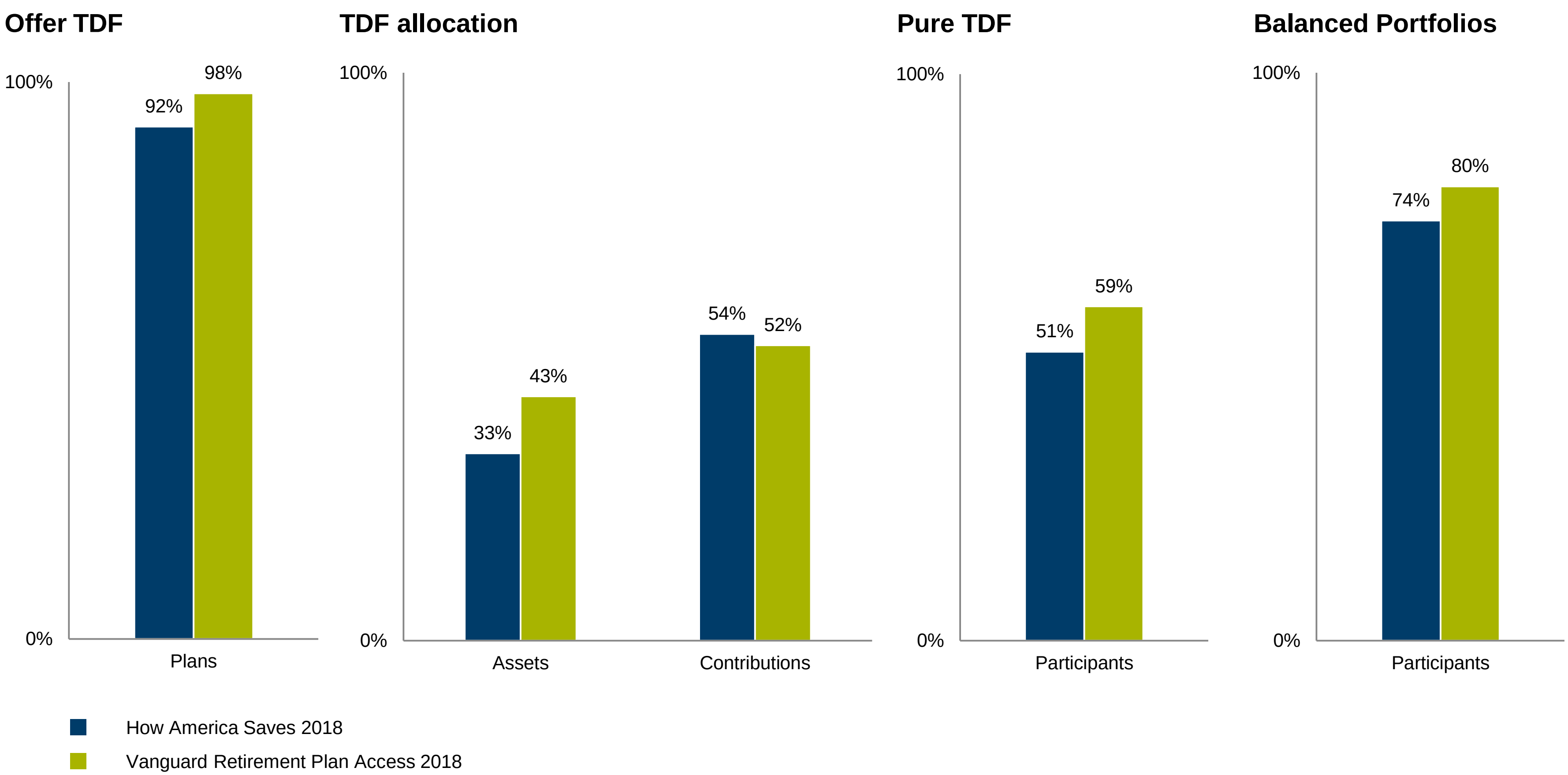
Where it's different



* Estimated, see Methodology section of *How America Saves 2018.*

Source: *How America Saves 2018, How America Saves Small Business Edition,* Vanguard.

The power of plan design



Source: *How America Saves 2018, How America Saves Small Business Edition,* Vanguard.

Implications for the future

The 401(k) question

Have the challenges changed?

- Half of participants in DC plans don't appear to save enough
  - But half of participants do have strong savings rates
- One-quarter of participants appear to make portfolio construction errors
  - But 6 in 10 are solely invested in professionally managed investment solutions
- Drawing down retirement assets is the emerging challenge for participants
  - Some participants may need to work longer