

# State of the participant 2020: readiness within reach

Reflections on retirement readiness and ideas for improvement




September 30, 2020

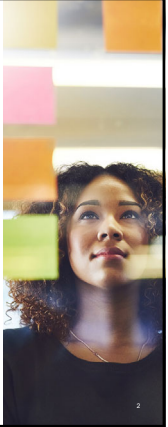


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## Agenda

-  **Brief background**
-  **State of the participant**
  - The current situation
  - Overall retirement readiness
  - 401(k) investing
  - Plan design
-  **A pitch for plan optimization**




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## Our initial attempt to gauge retirement readiness


**Our data**

The **participants and plans** on John Hancock's defined contribution platform (Sept. 2019)<sup>1</sup>



**Our intent**

To provide you and us direction on the next round of participant experience improvements



<sup>1</sup> Includes 1.2 million participants, 1,123 plans, and \$77.4B in assets under management, across otherwise stated, as of September 30, 2019.

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# A few words about the current crisis ...




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## What we asked:

### How might recent circumstances affect retirement readiness?



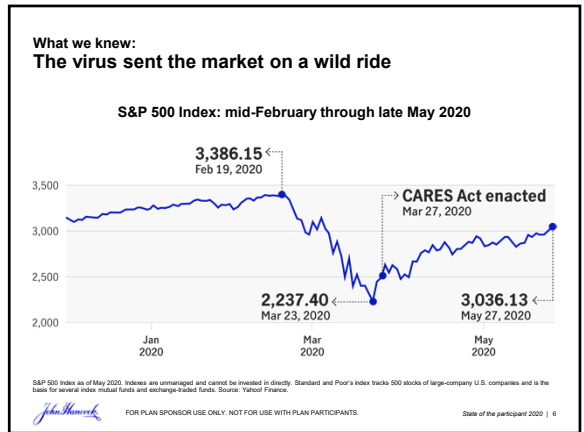
**Our data:**

The participants and plans on John Hancock's defined contribution platform from **March into May 2020** and on other dates indicated



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**What we discovered:**  
**The headlines on participant behavior**


From March through mid-May 2020:




Coronavirus-related distributions (CRDs) climbed to 95% of all in-service withdrawals by May.



Monthly in-service withdrawals jumped 200% from March to April.



The average loan amount increased 7% between March and April (to \$12,433).




The number of investment exchanges was 63% higher in April 2020 than in April 2019.

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**What we discovered:**  
**Overall, participants have rolled with the changes**


Over 9 out of 10 participants:




Stayed with or increased their deferral percentage




Refrained from taking a CRD or other type of in-plan withdrawal



Resisted borrowing from their 401(k)



Stuck with their investment mix



Could be taking a closer look at their financial situation and the value of their 401(k)

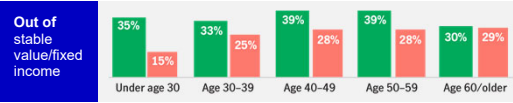
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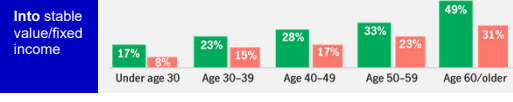
**What we discovered:**  
**Volatility didn't scare participants away from opportunity**

Movement in and out of stable value among participants making a strategic investment move by age group: March and April 2020

**Out of stable value/ fixed income**



**Into stable value/ fixed income**



**While some sought shelter, others seemed to sense potential.**

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**What we discovered:**  
**Changes to investment types: April 2020 vs. April 2019**

Top strategic investment changes in April 2020

- 1 From stable value/ fixed income to diversified funds<sup>1</sup>
- 2 From diversified funds to stable value/ fixed income
- 3 From diversified funds to equity funds
- 4 From diversified funds to target-date funds (TDFs)
- 5 Changed the investments in their diversified portfolio

Top strategic investment changes in April 2019

- 1 From diversified funds<sup>1</sup> to stable value/ fixed income
- 2 From equity funds to diversified funds
- 3 Changed the investments in their diversified portfolio
- 4 From diversified funds to TDFs
- 5 From diversified funds to equity funds

**The #1 move in April 2020 was a flight toward diversification.**

<sup>1</sup> "Diversified funds" means a mix of funds from different categories, an asset allocation fund, or a portfolio offering. All data mentioned above is John Hancock's internal data as of April 30, 2020. Fund categories were defined as target-date fund, stable value/ income, growth and income, equity, asset allocation, and other. A participant in 22 fund categories was labeled as diversified. A participant who changed from 22 fund categories to 22 other categories or asset allocation alone was labeled as having made changes to their diversified portfolio.

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**Overall retirement readiness**

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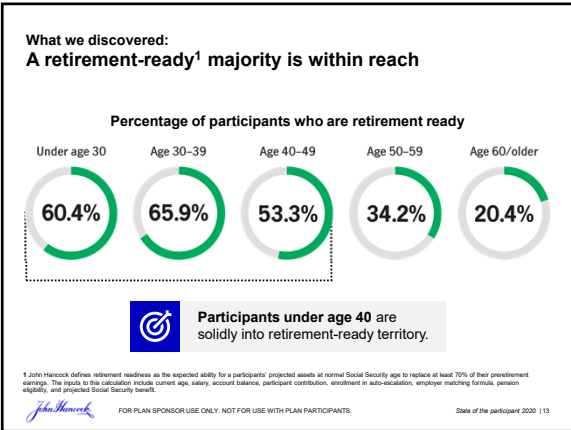
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**What we asked:**  
**Who's retirement ready?**



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**Tips for overall retirement readiness**

**Retirement readiness**

- View every aspect of strategy and design as a chance to boost readiness**
- Improve the basics with auto features—and free up resources to focus on advanced skills**
- Capitalize on improvements inherent in new regulations/legislation**
- Focus on administrative efficiencies and their effects on participant outcomes**

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**401(k) investing**

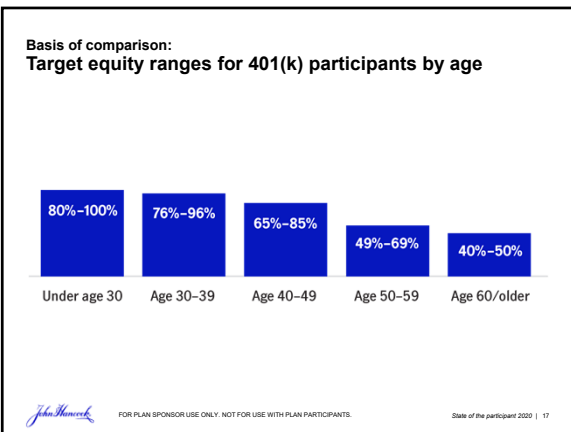
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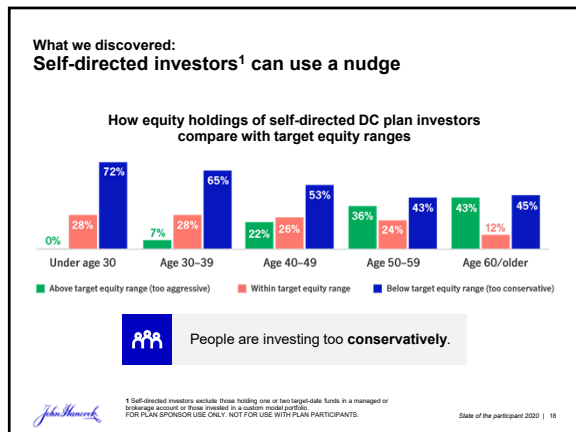
**What we asked:**  
**How appropriately are participants investing for their age?**

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**What we asked:**

**Target-date funds (TDFs) are supposedly part of the solution**

**But are they really?**

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**What we discovered:**

**Most TDF investors use them as prescribed**

**Target-date investors holding TDFs only vs. those with TDFs and other types of funds**

Age Group	Holding TDFs only	Holding TDFs and other investments
Under age 30	89%	11%
Age 30-39	75%	25%
Age 40-49	66%	34%
Age 50-59	62%	38%
Age 60/older	71%	29%

■ Holdings TDFs only    ■ Holding TDFs and other investments

**↑ TDF-only ownership is high at all ages.**

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**Tips for improving investment behaviors**

**Plan investments**

- Measure the age appropriateness of your participants' portfolios
- Teach age-appropriate investing and offer personal guidance with links to alternative solutions
- Provide personalized advice on each participant's terms—digital, managed accounts, or direct from a financial representative

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**What we asked:**

**Where do stable value funds fit into the mix?**

**(Interesting to us for a couple of reasons?)**

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**What we discovered:**

**Stable value ownership is prevalent—especially among older investors**

**Percentage of participants invested in stable value options**

Age Group	Percentage
Under age 30	5%
Age 30-39	11%
Age 40-49	18%
Age 50-59	23%
Age 60/older	23%

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**Plan design**

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**What we asked:**

**We're hearing plenty about the wonders of auto features**

**How are they performing?**



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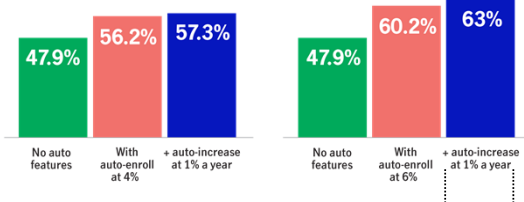
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**What we discovered:**

**Auto features are doing their job**

**↑↑ The higher default rate drives higher retirement readiness.**

**Impact of auto solutions on participants' retirement readiness**



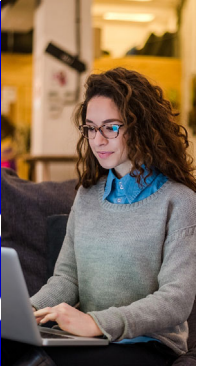
Scenario	Retirement Readiness
No auto features	47.9%
With auto-enroll at 4%	56.2%
+ auto-increase at 1% a year	57.3%
No auto features	47.9%
With auto-enroll at 6%	60.2%
+ auto-increase at 1% a year	63%

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**What we asked:**

**What would happen if we just expected people to save more?**




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**What we discovered:**

**Participants are green-lighting higher default contribution rates**

**Auto-enrollment opt-out rates at various default contribution rates**



Default Contribution Rate	Enrollment Opt-out Rate
1%	12.9%
2%	15.0%
3%	12.0%
4%	9.4%
5%	10.1%
6%	10.4%
7%	4.6%
8%	7.9%

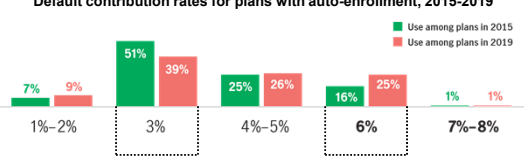
**↻ Opt-out rates for auto-enroll plans are relatively unaffected by default contribution rates.**

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**Decision-makers are heading that green light**

**Default contribution rates for plans with auto-enrollment, 2015-2019**



Default Contribution Rate	Use among plans in 2015	Use among plans in 2019
1%-2%	7%	9%
3%	51%	39%
4%-5%	25%	26%
6%	16%	25%
7%-8%	1%	1%

**👤 Plan sponsors are moving toward higher default contribution rates.**

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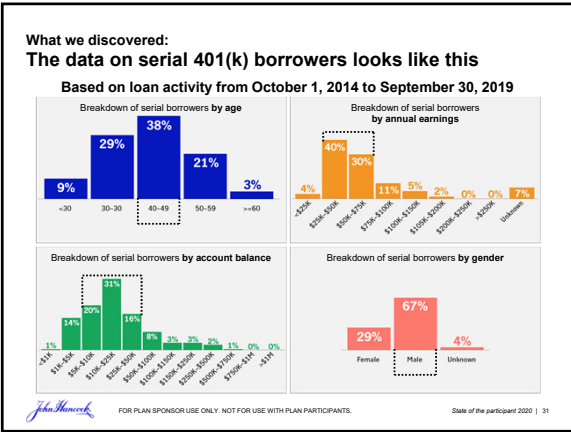
**What we asked:**

**Who's most likely to borrow from their 401(k)?**



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**Portrait of a serial retirement plan borrower**

Top characteristics of serial DC plan borrowers

- Gender**  
Male (67% of serial borrowers)
- Age**  
40-49 (38%)
- Annual earnings**  
\$25,001-\$50,000 (40%)
- 401(k) account balance**  
\$10,000-\$25,000 (31%)

Men are twice as likely as women to be serial borrowers.

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**Tips for optimizing plan design**

**Plan design**

- Consider adding or upgrading one auto feature this year—including adding auto-increase to any auto-enroll plan that doesn't have it
- Heed the green light and consider an auto-enroll default contribution of 7% or higher
- Calibrate your waiting period with both your recruiting goals and participation rates in mind
- Design your plan for responsible borrowing through eligibility rules, restrictions on multiple loans, timely counseling, and automated postemployment repayment

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**A pitch for plan optimization**

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**What we asked:**  
**What's the most productive way to address retirement readiness?**

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**What we discovered:**  
**What's good for the plan is good for the participants**

Plan design, Employee engagement, Fiduciary governance, Retirement readiness, Plan investment, Plan cost, Operational efficiency.

Optimizing every aspect of plan strategy and management maximizes retirement readiness

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# And a few ideas for right now





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## Tips for keeping participants on track until the crisis passes

### Recovery strategy

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Take advantage of benefits enabled by the CARES Act and subsequent legislation—to the extent it makes sense for your people and your plan.
- 

Make sure participants understand market volatility—and provide education, guidance, and options to help them make well-informed investment decisions.
- 

Clarify the pros and cons of plan loans and withdrawals—given the expanded availability and the need to maintain retirement readiness.
- 

Ensure that anyone taking action does so with a full understanding of the implications.

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# Q&A




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## Thank you for your time

We're happy to discuss ways to make your plan personal to the participant, easy to manage, and better able to deliver the results you seek.

 For more on "State of the participant 2020," visit [retirement.johnancock.com](https://retirement.johnancock.com).

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