White paper

State of the participant 2021

Reflections on retirement readiness and ideas for improvement

Helping people build financial resilience is a key component of a retirement plan. Despite changes in the market, the economy, or even the nation's health, a plan can help people stay engaged in their job, their organization, and the possibility of a secure future.

So, what happens when a year such as 2020 comes around?

Our "State of the participant 2021" will help plan sponsors and financial professionals respond to the needs of participants today through plan design and engagement strategies. Focusing on the status of the people in our defined contribution (DC) plans,[1] we offer you a view of what's happening in the retirement space and the success of various strategies.

We've included our analysis of participant behavior, the outcomes they're achieving, and how it all affects their journey toward a secure retirement. You'll find illustrations and commentary covering:

- The state of retirement readiness in one of history's most unusual and challenging years
- Trends in participant saving and investing
- Tools and approaches that are helping participants reach their goals
- Specific tips for optimizing your approach and helping more of your participants create an appropriate retirement income

1 All data is from our open-architecture platform, which included 1.1 million participants, 1,076 plans, and $76.6 billion in assets under management as of September 30, 2020, unless otherwise stated.

Resilience personified—participants largely hold the line on retirement readiness

Let's look at retirement readiness—which sums up the current health of DC retirement plans and their participants. For benchmarking purposes, John Hancock defines retirement readiness as the expected ability of a participant's current strategy to replace at least 70% of their preretirement earnings.[2]

DC plans continued to perform their critical role in preparing workers for retirement in 2020, one of the most challenging periods in memory. Given the widespread impact of the pandemic on personal finances, the dip in retirement readiness, from 49.6% to 47.9%, doesn't seem too alarming, although it's certainly worth monitoring closely.

Digging a little deeper, most participants below age 50, along with those earning between $50,000 and $150,000 per year, remain on track for a secure retirement.

Older workers and those at higher salary levels appear to be facing a steeper climb. But keep in mind that many people in these categories may have outside retirement assets that aren't included in our calculations, and that higher earners are limited by IRS contribution limits.

Retirement-ready participants by age group

	Under age 30	Age 30–39	Age 40–49	Age 50–59	Age 60 and older	Overall
2019	60.4%	65.9%	53.3%	34.2%	20.4%	49.6%
2020	57.8%	64.3%	52.3%	33.1%	20.6%	47.9%

Year over year, the percentage of retirement-ready participants pretty much held steady—a mark of resilient plans and saving strategies.

2 The inputs to this calculation include current age, salary, account balance, participant contribution, enrollment in auto-escalation, employer matching and discretionary contributions, pension eligibility, and projected Social Security benefits.

Retirement-ready participants by annual earnings

All salary levels

2019	2020
49.6%	47.9%

Under $25,000		$25,000–$49,999		$50,000–$74,999		$75,000–$99,999	
2019	2020	2019	2020	2019	2020	2019	2020
42.5%	43.3%	47.2%	44.6%	54.5%	53.0%	54.1%	53.0%

$100,000–$149,999		$150,000–$199,999		$200,000–$249,999		$250,000 and over	
2019	2020	2019	2020	2019	2020	2019	2020
55.2%	54.2%	47.2%	45.4%	36.0%	34.5%	16.5%	13.4%

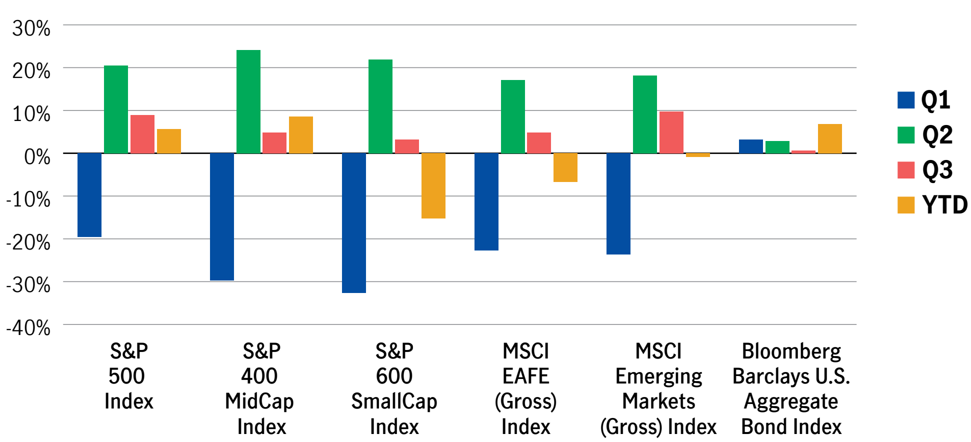
IRS limits on DC plan contributions can limit higher earners' ability to achieve retirement readiness. Employer-sponsored nonqualified plans are one option for addressing this gap.

Retirement readiness is an important benchmark for plan sponsors and consultants. Alongside broader HR and financial targets, readiness can provide a "true north" for the planning and execution of participant engagement, financial wellness, and plan design efforts.

How participants rode out a wild market

In the first quarter of 2020, every sector of the stock market dropped double digits, led by plunges in small- and mid-cap U.S. stocks. While the broader economy continued to bear the weight of the COVID-19 pandemic, things turned quickly for the market. Returns were positive by the second quarter and through the end of our study period on September 30.

Major market index returns as of September 30, 2020



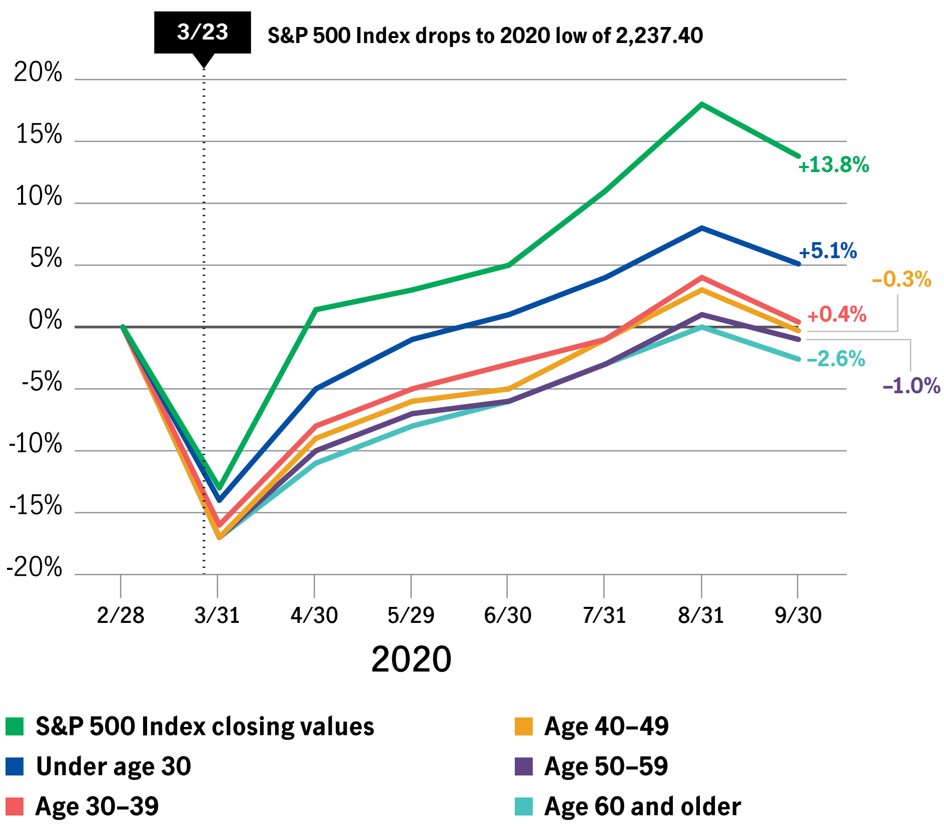
Source as of September 30, 2020. The S&P 500 Index tracks the performance of 500 large publicly traded companies in the United States. The MSCI, Europe, Australia, and Far East (EAFE) Index tracks the performance of publicly traded large- and mid-cap stocks of companies in those regions. The MSCI Emerging Markets Index tracks the performance of publicly traded large- and small-cap emerging stocks. The Bloomberg Barclays U.S. Aggregate Bond Index tracks the performance of U.S. investment-grade bonds in government, asset-backed, and corporate debt markets. It is not possible to invest directly in an index. Past performance does not guarantee future results.

To find out whether our participants were reacting to the volatility, we looked at the average account values from pre-volatility through September 30.

The approach we saw most of our participants take is one we consider a textbook argument for investor patience. As the market went on its wild ride, a very small percentage of participants moved money to non-equity investments. This allowed the larger population to avoid locking in losses when the market dipped in early spring. It also allowed account balances to return to near—or in the case of those up to age 39, above—their February 28th level.

The big takeaway here is that the bear market of last winter was short-lived. Buoyed by a commitment to stay on strategy and some cooperation from the markets, participants reached the end of September in good shape and trending in the right direction.

Monthly and total percentages in participant account balances and the S&P 500 Index from March through September 2020



As you might guess, the returns for the youngest investors—those with the highest recommended percentage of stocks—tracked most closely to the S&P 500 Index.

Data is as of September 30, 2020. The S&P 500 Index tracks the performance of 500 large publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results. Note that this chart includes data points only for the dates specified. Therefore, values for 3/23 aren't reflected.

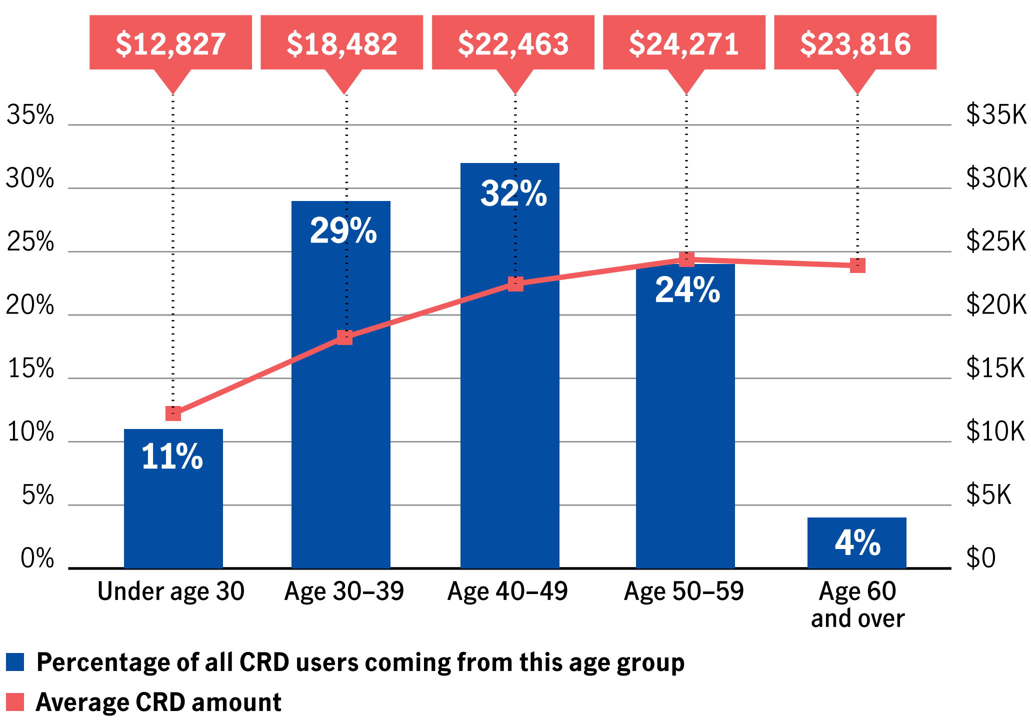
The pandemic creates a population in need of support

To help ease the personal financial challenges brought about by the COVID-19 pandemic, Congress included several provisions related to DC plans in its Coronavirus Aid, Relief, and Economic Security (CARES) Act. Two critical lifelines were the coronavirus-related distribution (CRD) and the expansion of the size and availability of plan loans, with adoption voluntary at the plan level.

Because our data set is made up of active retirement plan participants, it's not representative of the use of the CARES Act's provisions overall, with only 0.15% of our participants taking COVID-related loans. But we can still draw some conclusions from what we see, as the average loan amount was $16,699.

A larger percentage, 3.4%, tapped their DC plan savings through a CRD, and the average taken was $20,768. As transactions of this size can significantly hurt retirement readiness, it's important to understand the scope of the issue, even if it's only having an impact on a relatively small share of the population.

Breakdown of all participants taking CRDs, by age, with average withdrawal amounts



The key difference between a CRD and a COVID-related loan is that, with a CRD, there's no expectation of repayment. That said, the CARES Act provides a full three years for participants to replenish their accounts, without regard to yearly IRS deferral limits.

Those who've taken a CRD should consider replenishing their accounts as soon as possible. We've calculated that failure to pay back a CRD can cost the average participant 10% or more of their potential account balance at retirement.

Although the number and percentage of participants compelled to tap their plan savings for immediate relief may be quite low, it's important to identify these individuals in your own plans—and help them with strategies for getting back on track as soon as possible.

The potential long-term impact of unreplenished CRDs

	Under age 30	Age 30–39	Age 40–49	Age 50–59	Age 60 and older
Projected average balance at age 65 without COVID-related distributions	$1,142,278	$895,403	$665,293	$465,361	$177,166
Projected average balance with COVID-related distributions	$1,003,593	$779,242	$586,016	$417,069	$154,906
Net effect on potential retirement savings	**–12%**	**–13%**	**–12%**	**–10%**	**–13%**

Tips for overall retirement readiness

- Look at behavior, not just account balance, as a guide to helping improve retirement readiness.
- Use targeted communication and guidance to help nudge appropriate behavior. Financial troubles caused by the pandemic haven't hit every household evenly. But it's important for you to know which participants' retirement savings have taken the biggest hit—and offer them direction in getting back on track.
- Be sure to consider the potential gaps that IRS contribution limits could create for higher earners. Nonqualified plans and specialized planning support are two options for helping to address any potential shortfall.

Two plan design factors that could help lift plan savings rates

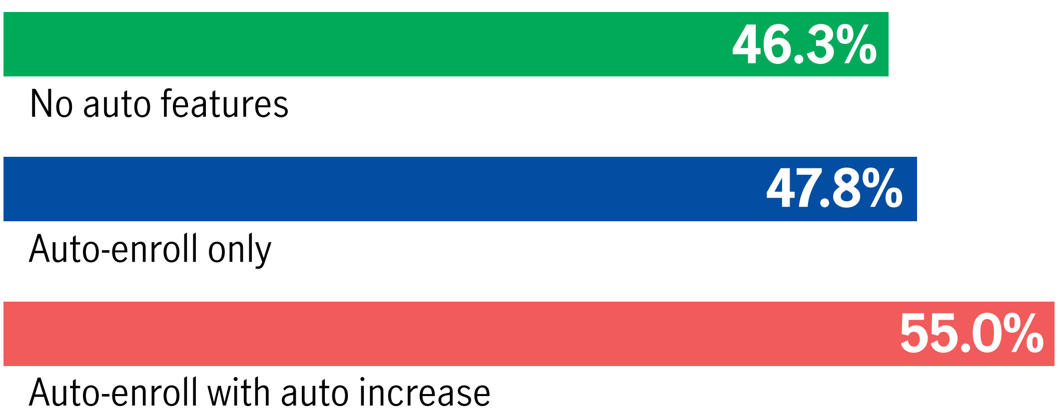
It comes down to simple math: The more money participants contribute to their plan today, the greater the assets they could have at retirement.

Conveniently enough, our data reveals a couple of factors that, if capitalized on, could help spur higher savings rates among participants.

First plan design factor—auto features

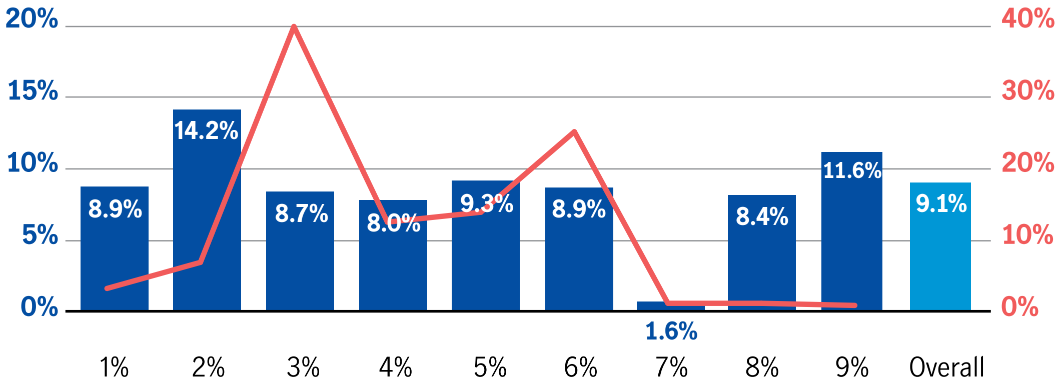
Auto features—such as auto-enrollment and auto increase—are among the most successful strategies for boosting contribution rates and retirement readiness. In fact, plans that combined these auto features enjoyed an eight percentage-point advantage (19% in actual terms) in retirement readiness over plans with no auto features at all.

Impact of auto solutions on plan-level retirement readiness



Furthermore, we found once again in 2020 that plans with lower default contribution rates generally have higher opt-out rates. So, if you really want to help boost retirement readiness, consider setting the right tone by setting a higher default rate. Year after year, our data shows that higher default rates don't scare people away.

Opt-out rates for auto-enrollment plans at various default contribution levels, with percentage of plans using each rate



Although every plan design decision should be carefully considered, participants could be greenlighting a design change that, over time, could have a real impact. If you already auto-enroll your participants, consider increasing the default rate to encourage higher savings.

Second plan design factor—convenient personalized planning

According to John Hancock's 2020 financial stress survey, 95% of DC plan participants say that personal projections of the income they'll need in retirement would motivate them to save more.[3]

In March 2020, we introduced such an opportunity on our participant website. Our retirement planner[4] provides each participant with:

- A personalized and detailed breakdown of their projected cash flow for each year of retirement
- The ability to address a potential shortfall by contributing more to their plan, changing their investment approach, or adjusting their retirement lifestyle expectation

This sample is for illustrative purposes only.

3 John Hancock and Greenwald & Associates are not affiliated, and neither is responsible for the liabilities of the other. In July 2020, John Hancock sponsored our seventh annual financial stress survey. Working with the respected research firm Greenwald & Associates, we surveyed 589 workers to learn more about individual stress levels, their causes and impacts, and strategies for relief. **4** The projected retirement income estimates for your current John Hancock accounts, future contributions, employer contributions (if applicable), and other accounts set aside for retirement used in this calculator are hypothetical, and for illustrative purposes only, and do not constitute investment advice. Results are not guaranteed and do not represent the current or future performance of any specific account or investment. All investments carry a degree of risk, and past performance is not a guarantee of future results. Due to market fluctuations and other factors, it is possible that investment objectives may not be met.

Despite being introduced to (or perhaps because of) the pandemic, we found people were indeed motivated by the personalized projections: Seventy percent of those who used the tool completed the planning sequence. And with clarity around their potential retirement expenses, *one out of every five* who completed the tool's sequence increased their deferral rate on the spot.

Participants in mid-career—the building and multi-goal years—showed the strongest interest in this personalized, on-demand approach to retirement planning.

Percentage of participants completing the planning tool who also increased their contributions—with average size of increases

	Under age 30	Age 30–39	Age 40–49	Age 50–59	Age 60 and older
Percentage increasing contributions	23.4%	22.7%	22.6%	21.9%	19.9%
Average increase (percentage points)	4.8	4.2	4.0	5.1	5.2

The willingness of younger participants to increase their contribution is impressive and highly encouraging.

With the realism of spending projections introduced to the planning process, participants were willing to stretch to improve their retirement prospects. For a 30-something participant, increasing their deferral four percentage points today could mean a six-figure rise in total savings at retirement age.

A case study from John Hancock's 2020 retirement planner data

A 34-year-old participant earning $52,146 annually and with a $10,000 DC plan balance **increased their pretax contributions** four percentage points, to 10% of their salary.

→

As a result, their **projected income-replacement ratio** jumped immediately, from 75% to 97%.

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And their **projected balance** at retirement increased 56%, from $449,000 to $703,000.

This projection was generated using the John Hancock retirement planner, and assumes a 6.0% rate of return, a 3.2% salary growth rate to retirement age, and that contributions remain at 10.0% until retirement age with no employer match contributions or automatic contribution increase. There is no guarantee these results will be achieved, and individual results and experiences will vary.

Tips for creating more successful retirement planners

- Consider adding or upgrading an auto feature: Digital capabilities have made automatic enrollment easier and more efficient than ever, the auto-increase feature is indispensable in helping shape a “save more” attitude, and raising the default contribution rate can help give more new participants a needed nudge.
- Don’t underestimate your participants’ interest in goal-oriented saving, investing, and financial management. Combining available digital planning methods with personal guidance from your financial professional can help to boost the actual and perceived value of your plan.

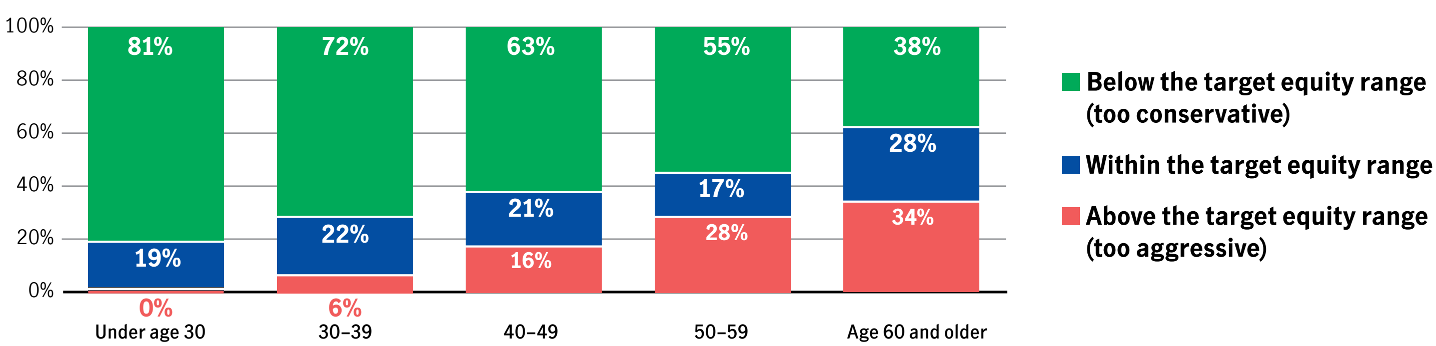
Self-directed portfolios become more conservative

Tracking how participants are investing their funds is another critical metric for analyzing retirement readiness. We gauged the age appropriateness of a participant’s investment approach with the following target equity ranges:

	Under age 30	Age 30–39	Age 40–49	Age 50–59	Age 60 and older
Portfolio invested in equities	80%–100%	76%–96%	65%–85%	49%–69%	40%–50%

The progression of John Hancock’s target equity ranges reflects the concept of balancing growth potential with risk management as participants approach their anticipated retirement date. A look at the current asset mix of participants who choose their own investments[5] shows that many are outside their age-appropriate ranges, holding either too much or too little in equity investments.

How self-directed investors invested their DC plan balances



5 Self-directed investors exclude those holding one or two target-date funds, in a managed or brokerage account, or invested in a custom model portfolio.

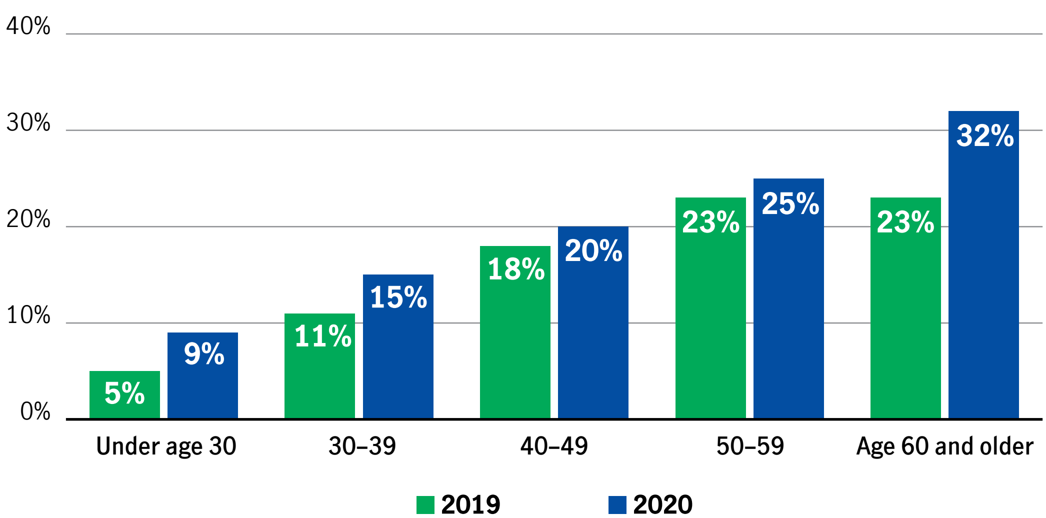
Compared to 2019, we saw self-directed investors shift toward more conservative stances in 2020. The only exception was those age 60 and older—where the percentage with an age-appropriate mix rose 16%.

This apparent move toward safety could be a natural reaction to the market turbulence of 2020. In September, for example, 30% of the savings transferred was into stable value/fixed-income investments, up from just 12% a year earlier.

Stable value funds become a bigger share of the participant portfolio

As insured instruments offering guaranteed returns, stable value funds can be a good fit for participants approaching retirement or otherwise seeking a cash-like investment to help balance out equity holdings. These bundles of selected income investments, backed by insurance company guarantees, allow people to lock in relatively attractive rates for finite amounts of time. Last year, the percentage of participants holding them increased in every age group. The most sizable jump was among those age 60 and older, where stable value ownership increased 9%, to 32%.

Percentage of participants in each age group holding stable value investments



Now held by more than one out of every four participants age 50 or older, stable value funds are an important part of the preretirement DC plan investment mix.

The evidence supports TDF-plus strategies

Target-date funds (TDFs) weren't originally intended to be mixed with other assets in a participant's portfolio. In last year's "State of the participant" report, however, we discovered that over one-quarter of TDF investors over age 30 mix investment types in what you might call a TDF-plus strategy.

Based on a subsequent analysis of the status of all TDF investors, participants who've been blending these and other types of funds are on track to replace more of their preretirement income (89.6%) than those holding TDFs only (84.8%). In addition, a larger portion of TDF-plus investors is retirement ready.

The correlation between TDF-only and TDF-plus holdings and retirement readiness

	Projected income-replacement ratio in retirement (average)	Percentage of participants who are retirement ready
Participants holding one or two TDFs and no other funds	84.8%	51.7
Participants holding one TDF and at least one other type of fund	89.6%	58.8

This isn't a recommendation to randomly combine other types of funds with TDFs, nor is it a guarantee that a TDF-plus approach will outperform any given TDF. As Morningstar points out, TDFs are intended to be held on their own—and mixing them with other types of investments will inevitably alter the target-date manager's intended allocation.[6]

However, the evidence seems to show that with appropriate education and guidance, participants can potentially have success with a "TDF-plus" approach to asset allocation.

Although TDFs are managed for investors on a projected retirement date timeframe, a fund's allocation strategy doesn't guarantee that investors' retirement goals will be met. The target date is the year in which an investor is assumed to retire and begin taking withdrawals.

Tips for creating more successful retirement planners

- When markets turn volatile, it could be too late to tell participants how to weather the storm. Make sure your ongoing communications—every year, even in good times—include education on managing long-term investments during market volatility.
- Make personalized investment advice readily available, on each participant's terms, to help with overall investment approaches and asset allocation. These can include digital planning tools built to yield personalized recommendations, the advice inherent in a managed account, or one-on-one planning with a financial professional.

6 "Are You Using Your Target-Date Fund Incorrectly?" Morningstar.com, October 1, 2019.

Retirement program strategy, plan design, and participant engagement can help optimize retirement readiness

2020 showed us the impact that environmental factors can have on our lives, our businesses, and Americans' ability to save for a more secure future. But thanks to the efforts of plan sponsors and financial professionals, many participants either kept their retirement strategies intact or are positioned to recover in the months ahead.

For over 50 years, John Hancock has helped people plan and invest for retirement, in plans of all sizes. Our goal is to make sure all the pieces work together and offer all the support necessary to make retirement plans work for everybody involved.

For more information, including a consultation or help with a request for proposal, contact your John Hancock representative or visit us at **retirement.johnhancock.com**.

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