The State of Savings

August 2020

Our proprietary data reveals how individuals in the U.S. have changed their savings behaviors over the course of the COVID-19 pandemic as business and travel restrictions disrupted our economy. Not surprisingly, we saw notable shifts in savings plan contributions and withdrawals in the first few months of the outbreak, as individuals experienced changes in employment and braced for the potential financial fallout.

Throughout the summer months, we've started to see some very early signs of recovery. Employers that dialed back matching or discretionary contributions to their retirement plan are reconsidering this decision. Individuals continue to make relatively lower one-time 529 account contributions compared to last year, but they're also refraining from withdrawing existing savings as they determine what the outlook will be for their beneficiaries' education plans. The number of debit card transactions from consumer-directed healthcare accounts spiked above projections for the month of July, as individuals tapped into their health savings to access services from their healthcare providers who might have previously experienced business closures or delays in service.

Retirement[1]

Ascensus is uniquely positioned to offer perspective on retirement plans of the business segment undoubtedly most impacted by the pandemic: small business. With our institutional and advisor partners, we help thousands of U.S. small business owners and their employees save for a more secure retirement. This analysis, which is based on plans with 500 employees or less, explores how temporary business closures and subsequent reopenings have impacted these employers and employees.

The Employer Perspective[2]

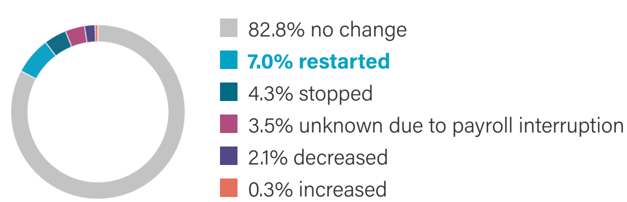
5.5% decrease in total amount of employer contributions March through July based on projections, a 2 percentage point improvement over June[3]

- Improvements in total employer contributions were driven by employers reinstating matching contributions that they had previously stopped or decreased and other discretionary contributions.

7.8% of employers did not contribute match in July, either choosing to stop match (**4.3%**) or having no match obligation (**3.5%**) due to payroll interruption.[4]

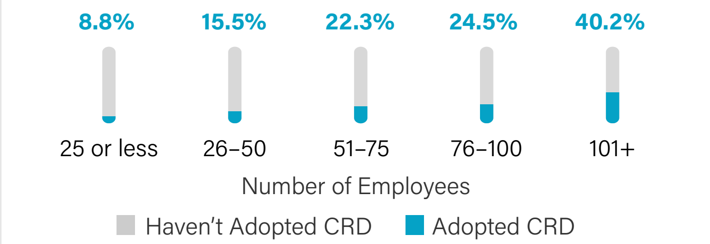
Positively, **7.0%** of employers have returned matching to pre-COVID levels.

Plan Match Changes March Through July



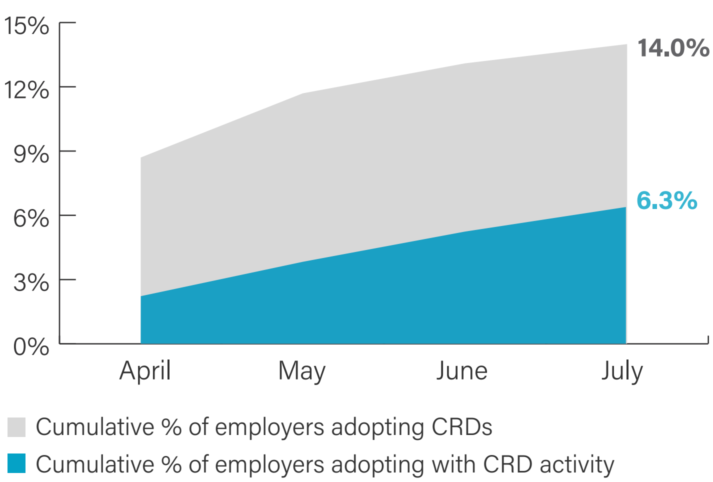
CARES Act Adoption

Coronavirus-Related Distribution (CRD) Adoption by Plan Size

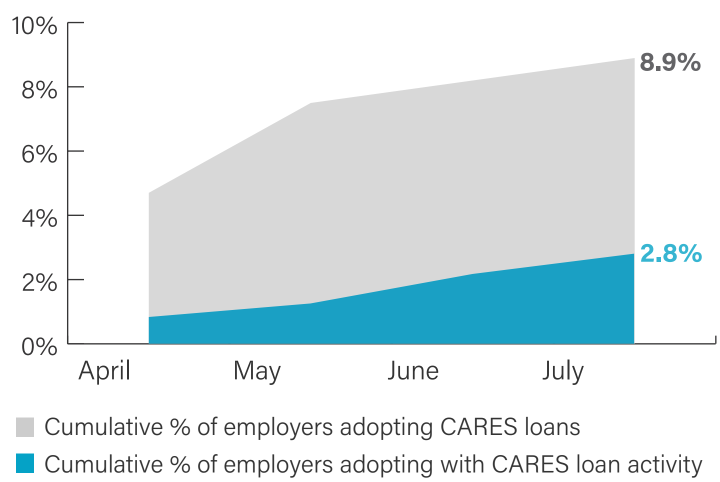


▹ We've seen moderate to low employer adoption of CARES Act distribution and loan options relative to early industry projections. Larger plans, however, are adopting at a significantly higher rate than the smallest plans (25 or fewer savers).

CRD Employer Adoption

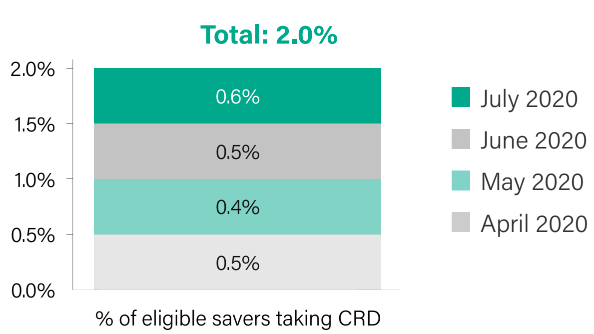


CARES Loan Employer Adoption

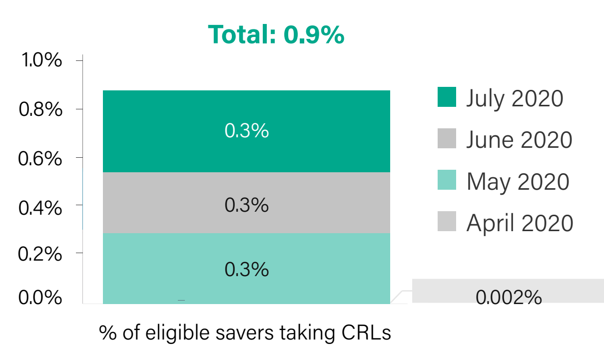


▹ Employer adoption of CRDs continued to slow throughout the month of July, and less than half of all adopting plans had any CRD activity as of the end of the month. Adoption of CARES loans also slowed, and less than one-third of all adopting plans had CARES loan activity in July.

CRD Employee Utilization



CARES Loan Employee Utilization



▹ Eligible savers continue to take CRDs and CARES loans at a consistent, yet very low rate month-over-month since April.

The Saver Perspective

In January through July 2020:

1.4% stopped their deferrals (0% savings rate)
2.1% reduced their savings rate
4.5% increased their savings rate

- The **vast majority** of savers made no change to their savings rates, illustrating the positive value of automatic payroll deduction. Though many are "staying the course," 1.4% have stopped deferring and another 1.4% of savers are no longer receiving contributions to their retirement account, most likely due to furlough or termination. This small population of savers that is no longer receiving contributions is concentrated in the smallest retirement plans.

22.7% decrease in the number of standard retirement account withdrawals based on projections in March through July[3]

- In addition to this decrease in standard withdrawals, we've also seen lower-than-projected loan activity, low utilization of CRDs and CARES loans, and very few savings rate changes on our retirement platform. Together, these factors suggest that savers could be using other means to manage financial needs through this period or that they're delaying otherwise planned retirement or job changes.

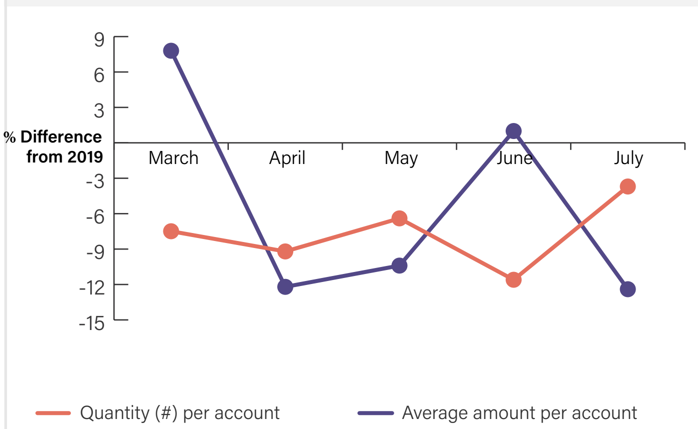
Education Savings[5]

The Saver Perspective

From the last week of March through July 2020:

16.2% decrease in total amount of one-time 529 account contributions

One-Time 529 Contributions



- This represents a partial improvement over May, which was primarily driven by higher average amounts per one-time contributions made in June and more activity in July, as can be seen in the chart to the left.
- Notably, average one-time contribution amounts were actually 17.9% higher than 2019 levels in January through February of 2020, with the number of one-time contributions in line with the prior year. Since the COVID-19 pandemic hit the U.S. in March, the cumulative number of one-time contributions is 7.6% lower and the average contribution amount is 5.6% lower than 2019 levels. Historically, a significant amount of these contributions are made near the end of the year, so the annual outlook for one-time 529 contributions won't be clear for several months.
- Alternatively, automated recurring 529 contributions have seen little change over this same period, affirming their benefits and the value of making savings automatic.

27.5% decrease in total amount of qualified 529 withdrawals

26.5% decrease in number of qualified 529 withdrawals

- 529 withdrawal activity remained low in July, but it began to approach 2019 levels in the last week of the month. The early weeks of August showed continued increases in withdrawal activity at or slightly above 2019 levels. The end result may still be a cumulatively lower amount of savings withdrawn from 529 accounts in 2020 due to the pandemic and related education decisions. The annual outlook for 529 withdrawals will become more clear in August and September.

Health and Benefits[6]

The Saver Perspective

2.1% increase in the number of COBRA qualifying events in March through July, with the most significant increase March through May

- Qualifying events as a percentage of eligible savers was in line with year-over-year projections at the start of 2020, but ramped up 10.1% in March through May. This was driven by an increased level of employer hardships and changes in employment status. We've since seen some recovery, with qualifying events dropping below 2019 levels in July. This may signal business and employment status improvement or a reduction in employee-initiated job changes or retirement in the face of continued economic uncertainty.

9.4% decrease in debit card transactions from consumer-directed healthcare accounts in March through July, in spite of increasing activity in June and July

Average amount per debit card transaction is **near projections** for March through July, in spite of being 8.3% below projections for March through April

- Debit card activity linked to healthcare accounts (including HSAs, HRAs, and FSAs) was more than 6% above projected levels in July, with the number of transactions 6.2% higher and the average amount per transaction at 6.8% higher than expected. This increased activity trend began in June, as savers transacted on pent-up demand to access healthcare services and leverage these savings. The significant reduction in account transaction activity in March through May has contributed to overall lower than expected volumes for the year thus far, and it is still too early to tell if there will be a sustained increase in activity for the remainder of the year.

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[1]Retirement analysis is based on traditional retirement plans on the Ascensus platform. (Excludes Balance Forward, Individual(k), and SEP and SIMPLE IRA.) Historical benchmarking data is from January 1, 2019 through July 31, 2020. Each month's calculations include plans active with a balance at the beginning of the month. Savers are defined as account holders with a balance.

[2]Contributions are defined for employers as all deposits funded by the employer (e.g., match, profit sharing) and for savers as deferrals only. "Stopped" is defined as no contribution activity in a given month. This stopped activity may be permanent or temporary.

[3]Contribution projections are based on trending, taking seasonality into account, from the start of 2019 through the first two months in 2020 on a per-saver or contributor basis. For amount projections, per-business day was added to the methodology to cover variability in months' business days. Withdrawal activity change is benchmarked to per-saver activity from the start of 2018 through the first two months of 2020. Standard withdrawals are those allowed by the plan excluding hardship and CRD.

[4]Match analysis is performed on a subset of retirement plans, including those with consistent saver and employer match deposits between November 2019 through February 2020 and new plans with three months of consistent match contributions. The match per payroll was calculated to identify employers changing or stopping their match. Stopped match may be temporary or permanent.

[5]Education savings analysis is based on activity from all funded 529 accounts on the Ascensus platform. Calculations are made on a per account basis including activity for both new accounts and plans converted to the Ascensus platform after January 2019. Changes in saver behavior are determined by comparison to the same time period in 2019.

[6]Health and benefits analysis is based on data from the Chard Snyder, an Ascensus company, platform from January 2019 and through July 2020. COBRA qualifying events are defined as any life events that impact benefits status (e.g., the birth of a child, marriage, divorce, and change in employment status).