Please note: This is a transcription so there may be slight grammatical errors.

Hello and welcome to Revamping Retirement, a podcast brought to you by Captrust, where we explore the opportunities and challenges facing today's retirement plan, sponsors and fiduciaries. Our hosts, Jennifer Doss and Scott Matheson, lead the employer-sponsored retirement plan practice at Captrust, one of the largest registered investment advisors in the U.S. and a thought leader in the retirement plan advisory and consulting space. We hope you enjoy Revamping Retirement.

Jennifer Doss:

Welcome to another episode of Revamping Retirement. I'm joined today again by my co-host, Scott Matheson, and today we're talking to Dave Stinnett, head of Strategic Retirement Consulting in Vanguard's Institutional Investor Group. [It's a] little bit of a mouthful there, but with over 20 years at Vanguard, Dave has worked in a variety of roles there, including corporate strategy [and] department head of Vanguard Institutional Asset Management as well. Part of his current role is to oversee some of the institutional research at Vanguard, including what we're going to be talking to him about today, which is the highly anticipated, annual How America Saves Study. And there's some other recent research that they've done on generational savings trends that's really interesting that we're going to touch on as well. So welcome, Dave, and thanks for being here with us today.

Dave Stinnett:

Thank you. Thank you.

Jennifer Doss:

Perfect. All right. So for plan sponsors, our listeners that are not familiar with the report, can you just start out maybe by giving us a little background on how this report got started at Vanguard and maybe how it's evolved over time? What is it?

Dave Stinnett:

Sure. Well, it's an annual report, so we've been doing this every year now for 22 years. And what it is, is it's our approach to looking at the 5 million participants on the Vanguard record-keeping platform and subjecting that information once a year to a lot of analysis. And it's called objective research, in the sense that, unlike other research that you see cited, which is survey-based research, you're calling up people or you're sending them a survey and asking them how they feel about research, or what they did. We don't do that. There's nothing wrong with that, but that's not what this report is. This is objective. We're looking at what people did and drawing conclusions from what they did. And then since we've done it now for 22 years, we're able to do some nice trending over that period of time.

And it's helpful because we always like to have a research basis for a data-driven approach to everything that we're doing when we're talking with clients, when we're formulating recommendations. It's particularly helpful to have that coming from a basis of data and analysis. And so it's evolved over time as different aspects of the retirement industry have evolved, but the basic approach has been very constant.

Scott Matheson:

Yeah, I tell you, I can't even count the number of times where I've referenced it in my 17 years in this part of the financial services industry, in general. And today, it's worth mentioning, is the 16th of June, and today is also the release date, correct?

Dave Stinnett:

Yes. So it is available for people to check out and read and geek out on if they want to go through the entire, very lengthy report.

Scott Matheson:

Yeah.

Jennifer Doss:

That's what I'll be doing the rest of the day, Scott.

Scott Matheson:

And you just called out, Jen.

Dave Stinnett:

That's what I thought. That's what I thought. Yeah.

Scott Matheson:

So I looked at it very briefly, Dave, this morning when Jennifer sent me the link. And so, yeah, I'll just caveat that with this, but I did notice that there were some pretty cool trends emerging and some bright spots in there. I'm curious. You've been living with this data and interpreting the data for a while. What do you see as the bright spots of this year's survey?

Dave Stinnett:

Yeah, well, I'm delighted to say there were a lot. We have a lot of all-time highs in this report, and of course, we're talking about this in June, but this is a report based off of last year. So this is 2022 data that we're talking about. And so there [are] some all-time highs, and I'll very quickly rattle them off, but we're really delighted to see them. All-time high of plans offering automatic enrollment, so 58% of the plans. And when you look at large plans, and we define that by plans with a thousand participants or more, 76% of those plans have automatic enrollment. 59% of plans have a default rate of 4% or higher. That's really important. As many of your listeners [and] your clients know, early on when automatic enrollment was implemented, one flaw from that was that you were defaulting people at too low of a rate, 1%, 2%, and they would stay there. And so there then became this push to try to get that initial default rate higher, and so we're delighted to see that. All-time high in plan participation rate is 85%.

So when you're just looking at how much participants are saving, you're not looking at the employer match component. 7.4% is the average. That's great. Let's rattle off two more here. 66% of participants are now in a managed arrangement, whether that's target retirement funds or advice. So that's great. And the last, it's not a high, but it's a low, is that an all-time low is 6% of participants traded. So the lowest number of participants decided to make an exchange between funds, which is good. People are really sticking to their approach. So all of that is just really, really great to see. And I step back and I look at that, and I look at the report, and I think the report can be seen as a lengthy love letter to forward-thinking plan sponsors, very adept and committed retirement consultants, such as [those] you find at

Captrust. The differences here over the years are huge. But it wouldn't happen, it's not like this naturally would've happened, just as a matter of course.

It can be seen as an aggregation of many one-off engagements with plan sponsors. You think about those committee meetings, where suggestions for some of these evolutions around modern plan design had to be discussed. They had to be debated. Time had to be set aside to announce them and communicate them. And some of these things are expensive because they suggest a higher company match. And so that commitment to employees' well-being and superior retirement outcomes is just very gratifying to see.

Scott Matheson:

That's awesome. I love the reference to the love letter that you said there, too, and appreciate the compliment. Spinning off of that, I guess, you've been in this business for a while and obviously, in looking at this, passionate about it like we are on our side, and I know so many of our listeners are passionate about it. And so I love all the stats you talked about, love the wins, the positive trends. There [are] always things that I look at that and go, "Gosh, how is this still the case?" I'm wondering what those were for you.

Dave Stinnett:

Yeah, well, I would say there were two trends that weren't as positive. So clearly, while there's a lot to cheer and to celebrate, and people should really pat themselves on the back for the progress that the report shows, there's always work to be done, to be sure. And I would say there were two things here, [and] that one is more important to a researcher than the other, but I'll mention it. The first is in 2022, the markets were down significantly, and that's not unusual. No one expects the markets to be up every year. I think what was unusual last year was the markets were down early in February and March and persisted, so it really was down early and stayed that way for the balance of the year. And so you see the balances were down year over year. And that is real. People see that; they feel that. So that's one thing. The second thing, which is more important to me as a researcher, is we did see a modest increase in hardship withdrawal percentages.

So it went from 2.1% of participants taking a hardship withdrawal to 2.8%. So this is not a glaring alarm. We're off of very low levels and the increase isn't too much, but plan sponsors and consultants are rightly very focused on anything that leads to more plan leakage, and this is showing an increase. And so it's actually spawned an additional piece of research by us to go a little bit deeper on the attribution of hardship withdrawals. What are some hypotheses that might be leading to this, and then what can plan sponsors and consultants do about trying to make sure it doesn't get out of control?

Jennifer Doss:

Yeah. I think the fact that the markets were down, and I think you may point this out in the report, too, that coupled with the fact that you had the lowest trading volume from participants in that year, to me that speaks volumes, like you said, to the decisions that plan sponsors have made around qualified defaults and professional asset allocation, and those types of tools, and getting people more advice and understanding. All of that has to play into those two things coming together.

Dave Stinnett:

Totally agree. .

Jennifer Doss:

Yep. So been doing this again for over 20 years, this report, and I know a lot has changed in retirement over the years. You noted a lot of positive trends, so clearly those are things that have changed. But I guess, maybe looking back just over the entirety of beginning to now, what's maybe the most striking change that you guys have seen since the start of the report, 20-some years ago?

Dave Stinnett:

Yeah. No, it's a great question. And when you look at the broad categories of data that we look at in the report, you look at joining the plan or savings levels and investing. And I would say, if I had to choose, I would hone in on the investing component. You mentioned I've been doing this for a while, since the mid-1990s, and back then there [was] a range of real problems that all of us professionals used to focus on. And one of them was because the American retirement system is a voluntary-based one, and we look to novice investors to make difficult choices about how they invest. How do you equip them to do this successfully over the long term? And that's not easy. It's not easy for professionals either, but certainly not easy for novices. And so what you saw for a while were very well-intentioned efforts around participant education, learning about the markets, a lot of classroom-oriented approaches to teach people how to do this well. But what we found worked best were some of these broader solutions like target date funds.

And you can see the benefit of this in my favorite figure, or my favorite graph in the paper, figure 84. When people download the report, they can go there and they can print it out and put it in their office like I have to draw inspiration from it. But basically it's showing the trend in asset allocation by participant age over time. And you see, for instance, in 2005, before people were really investing in target retirement funds, you saw a lot of portfolio construction errors, the technical term that we use. Younger investors [were] investing way too conservatively, and taking a long time, basically until middle age, to gradually ramp up to a good equity allocation before then drawing down. And so they were losing 10, 15, 20 years of appropriate equity exposure. I'm happy to say that has been totally corrected. And now when you look in 2021 or 2022 where workers [are] in their twenties, what their average equity allocation is, it’s where it should be. It’s like 88, 89, 90%, and then it draws down.

And that delta of where they invested in 2005 to where they are now is just unbelievable. Just the amount of wealth creation for American workers that represents is huge. And in a graph, you look at it all aggregated together, but there are millions of stories there of American workers who are going to be much, much better prepared for retirement. It helps [them], it helps their families, and so that.... Thank you for letting me go on at length here, but that's just so inspiring to me. I think we, as an industry, have put a collective line through that problem that was on our to-do list, how to solve portfolio construction errors. It's been solved.

Scott Matheson:

Yeah, that's really good. And closely related to that, you hinted at, you talk about the better tools, getting out of the just talk at model to folks that this is not what they do and the loss of catalyst associated with realizing there's a problem and not acting right away. All these other things circle around plan design too: changes to a company, better investment tools, and simpler and better cost-effective ones. And so I'm curious. I have an answer for this because I've used it numerous times, but how do you use this report when you're discussing plan design with plan sponsors or your team more broadly, and then tie it back to this year? What are the thematic, big action steps you think that plan sponsors all look at once they dig into your report?

Dave Stinnett:

Yeah. Well, we heavily leverage this report. Again, it comes out every year. And so I guess we leverage it in several contexts. One is with industry press. It's important to engage with the broader industry and give them an annual reminder of the focus we have at Vanguard on research for the broader community at large. It's a very important service. And because it's objective, we try not to inject it with a commercial interest or anything like that. It's just very objective and it's there as a resource for the broader industry, and we're very proud to do that. I also get on the train, as I'm doing in two weeks, and go down to Washington and meet with policymakers. And I'll be meeting [on] the day of briefings with Senate staffers and House staffers on these findings and what some of the policy implications are. So it's very important there. It's very well received in Washington.

And then we use it with plan sponsors. I think all plan sponsors are interested in how they stack up, so the benchmarking aspects of this are really important. And we can take a plan's data and compare it to the overall average. And then also every plan sponsor and every committee is interested in what's new and what's working in 401K land. And this report allows us to bring up those trends and things for their consideration, in some cases, or it just validates things that they've already done.

Scott Matheson:

Yeah, I think that the benchmarking in particular has always been [of] interest.... People are people, so we all want to know how we're doing relative to whomever we consider to be our peers. But [in] this market environment in particular, specifically if you're on the service side of the American economy, it's been a struggle from a labor market perspective for a whole host of reasons we won't get into today. But anything you can do on the margin to optimize the dollars that you're spending for the workforce management aspect to this, and the added benefit, back to where you started, of impacting American workers' outcomes, either psychologically or truly financially, unless they're so interrelated, I think is really powerful. Got any good stories to share where you've had some a-ha [moments] with people when they've been in the room for that, because it's always a good one?

Dave Stinnett:

Well, yes, what you show is from showing this data is effective modern plan design, behavioral finance, negative election defaults, [or] whatever term you want to use. And not only is it effective, but it's very efficient. So you talk about the efficiency aspect of this. HR benefits teams also have choices to make about where they need to spend their time. And [regarding] some of the other employee benefits like healthcare that don't lend themselves as easily to defaults, after a discussion like this, you can say, well, [for] some of these things, you're getting great results. Maybe you can shift some of your time and your focus to other employee benefits that you have. And that's a very important discussion for them to have as well.

Scott Matheson:

Well, I love the other centered angle there. Good salesmanship, Dave. All right. I hate to pause for a second. We got to do what we do here, which is take a quick break and throw it over for our Minute with Mike series with Mike Webb. He's going to continue his Secure 2.0 Act series, we'll call it for 2023, and talk about some of the changes to catch-up contributions in Roth. We'll be right back with Dave Stinnett to talk about some of the generational differences that they're focused on at Vanguard. With that, take it away, Mike.

Mike Webb:

Mike Webb here with another Minute with Mike. In this month's minute, we'll continue our special Secure 2.0 Act series with the two optional emergency savings provisions in the Act. One emergency savings provision relates to distribution. On the Secure 2.0 [Act] beginning in 2024, employers can allow penalty distributions for personal expenses up to $1,000 in a single calendar year. Although the provision sounds good in theory, and the definition of emergency is so broad as to allow almost any type of monetary need, there are some complicated rules that address when a participant can next take a distribution after the $1,000 is already taken. This makes the provision very difficult to administer and communicate. And speaking of difficult provisions, the same issues plague the second emergency savings provision of the Secure Act 2.0. Effective in 2024, this provision would allow retirement plan sponsors to establish emergency savings accounts or ESAs within the retirement plan. Now, on the positive side, the deferrals receive favorable tax treatment as if they were ROTH deferrals.

In addition, the provision provides for some fee-free withdrawals, as well as matching contributions on the deferrals if there is a matching contribution in the plan. On the flip side, however, there are multiple problems with the ESAs, chief among which is the small account balance maximum, generally $2,500 in contributions plus earnings, which will be difficult for record keepers to administer. Furthermore, the $2,500 in contributions can be replenished once distributions are made. We don't know how yet the IRS will issue regulations at 2023, but we do know that this ability to replenish will be another administrator burden which retirement plan record keepers will have to tackle. It's worth noting that there are existing stand-alone alternative ESAs today that may provide a far simpler plan sponsor and participant experience than wrapping this benefit up within a retirement plan structure. Thus, although these are generally positive optional provisions, in reality it may be difficult for plan sponsors to implement and utilize the emergency savings provisions of [the] Secure Act 2.0. For Revamping Retirement, I'm Mike Webb, and this has been your Minute with Mike.

Jennifer Doss:

All right, thanks, Mike, and welcome back everyone to Revamping Retirement, where we're talking to Dave Stinnett from Vanguard's Retirement Consulting Group. We talked about the How America Saves report earlier. But you mentioned this at the beginning: you guys do a lot of research, you take this How America Saves [report], you spin off of it, you focus on different attributes. You mentioned that you guys were going to be digging into hardship withdrawals, which is great. One of the more interesting research pieces that I've seen from you all more recently is called Generational Changes in 401K Behavior. And this report is a little different than the How America Saves report, but something you guys are trying to do more of, I think, [is to look] at preferences, behaviors across generations, [and] how those differ over time. So can you start out [to] just give us a quick synopsis of what that research is you guys are doing and what you really hope to accomplish with it?

Dave Stinnett:

Yes, and you're right. We do a lot of different thought leadership and research throughout the year, around 15 or 20 different reports. And this was one that is certainly structured differently than How America Saves. What we wanted to do was take two snapshots. We looked at 2006 and wanted to see how the different generations or the different age cohorts were investing, saving, engaging with retirement. And then we wanted to compare that snapshot with the same age cohorts in 2021. And we picked purposefully those two snapshots for two reasons. One is 2006 was before the Great Financial Crisis, [and] we were interested to see the impact of that on particularly younger workers, but all workers. Secondly, some of your very experienced listeners here will know this. 2006 was kind of a magical year in our industry, and that's when the Pension Protection Act came out.

And of course, that did a lot of things, but mainly it gave real fiduciary protection and comfort to plan sponsors to adopt a lot of these plan design things that we've been talking about that were certainly out there before, but they had some difficulties associated with them for a lot of reasons. And so we wanted to track that as well. And the report yielded a lot of interesting things that validated some of the hypotheses we had, which we can talk about. And in two cases, [there were] some real interesting counter-narratives, some real surprising things to me that were also interesting.

Scott Matheson:

Okay, but you can't just leave us with that. You got to tell us what the hypothesis...

Jennifer Doss:

Such a setup.

Scott Matheson:

...is that hypotheses, hypothesis.

Jennifer Doss:

Hypotheses.

Scott Matheson:

Hypotheses.

Dave Stinnett:

Hypotheses? Well, we certainly felt, and we were gratified to see, that [the] plan design and defaults were really working. And you can see that across all of the age cohorts or the generations. It was particularly effective for younger workers. And the report there, or the stat that we can draw attention to, was for workers in their twenties. Not only are they investing much, much better, as we discussed earlier in our discussion around their equity allocation, but participation rates for Gen Z workers went from 30% to 62% – just huge. And I think some of these points, these conclusions are basic, but it's important just to say them out loud. Retirement saving is a long game. It's something you get to do over decades. So if you get people in the plan earlier and earlier, then retirement outcomes get better, and retirement goals get easier to achieve. You can certainly make up ground later in life, but it's harder, and so if you get it done earlier, it makes the whole problem statement a lot easier. And so that's what this snapshot shows.

[Of the] two counter-narratives that I mentioned, one was there was a lot of work done on the Great Financial Crisis and the impact on investor psychology, particularly for younger workers. Younger workers would've just come off of the dot-com burst, the bubble bursting in 2001, [a] big sell-off [and a] big impact throughout the whole economy. And then six, seven years later, the Great Financial Crisis, [which was] very traumatic, just these huge exogenous factors wafting through the markets. Would that be really meaningful to younger workers? Would it spook them from investing in equities? And we didn't want that to happen. This report showed [this was] not the case at all. Younger workers [were] investing much more heavily in equities than they did earlier. So that was a good counter-narrative to find. The second counter-narrative was around student debt and the feeling that, since trending in student debt has been getting worse and worse, and the burden more and more felt, that's certainly the case, and that's undeniable.

But the feeling there was this increased burden of student debt would be so felt by younger workers that they would stay on the sidelines and not participate in their plan because they'd be so focused on paying down their debt, [and] they would wait until their mid-thirties or whatever to join. Again, [it’s] not the case. We're finding younger workers today not only joining the plan in bigger numbers than they ever have, but also saving at greater levels than they ever have. So that really was surprising because certainly they also have greater student debt, but they're still joining the plan and saving more aggressively. And of course, this is because of defaults, but it's a great result.

Jennifer Doss:

Yeah, it's so interesting, and I think timely, the student debt conversation. So I don't know if you guys are going to dig more into that with the recent Secure Act 2.0, [in which] there's student debt matching that can happen in the plan.

Dave Stinnett:

Yeah.

Jennifer Doss:

I'm sure it varies from plan to plan, but on the whole, what you're saying is you just don't see that really interfering a lot with, again, in aggregate people trying to save for their retirement plan, which is great news.

Dave Stinnett:

Well, yes, and that's a great micro example of how you can use data like this. So a plan sponsor sees the Secure Act. They're engaging with their consultant at Captrust about it. What should we do about this optional provision? And it can help form that decision by looking at the plan's data. And you can see: let's look at your younger workers and let's see what their savings rates are. And if you see the data that shows that their younger workers aren't joining the plan or are saving at really low rates, then maybe that suggests they really should adopt this provision of student loan payments. On the other hand, if they see the opposite, that workers in their twenties, they're saving at high levels, well, they still might want to do the optional provision, but it might not be as urgent, and they might be able to wait a little bit of time.

Scott Matheson:

Yeah, I'm curious. That's a great example of an action item from that study. Any others come to the top of your head that plan sponsors might look at that and go, "Gosh, we should look at ..."

Dave Stinnett:

Well, it's a great way to not only look at your employee base in aggregate, but to look at [and] break it down by age cohort. I think a lot of people focus on the two extremes: how are the younger workers that we have getting started? And then on the other extreme: how are the older workers [] really going to be prepared? Is there something we should be worried about? And so I think it's very useful in that perspective.

Scott Matheson:

So you're saying the middle of the distribution – like the Gen Xers, some people I know – [are] just getting ignored. Is that what you're saying?

Dave Stinnett:

Yeah. Well, I'm a Gen Xer too.

Scott Matheson:

I agree.

Dave Stinnett:

And yeah, no, and I'm also a middle child, so yes, we're always the ones [inaudible] that are taken advantage [of].... Yeah. But no, it is important to look at all the age cohorts just to make sure that your benefits strategy is succeeding across the board.

Scott Matheson:

So good.

Jennifer Doss:

Yeah, that's really good. All right. So if plan sponsors [] want to access this great research you guys have, How America Saves [and] other types of reports, I guess, Dave, just give us quickly how they can do that, and we'll certainly link them with our podcast as well.

Dave Stinnett:

Yeah, it's very easy. Go to vanguard.com, click on Institutional Investors, and you'll see a banner right at the top around the How America Saves research. And then if you scroll down, you'll see all the other research that we've produced.

Jennifer Doss:

All right, Scott. Well, I expect you to go download the report, read it, and then tell me what your favorite figure is that you're going to put up in your office.

Scott Matheson:

Oh, it's 84.

Jennifer Doss:

No, no, no. Pick a different one.

Scott Matheson:

No, if the guy who runs the group [that] does the research tells me it's 84, it's 84.

Jennifer Doss:

Okay.

Scott Matheson:

Rely on the pros. That's what I do. That's my whole career.

Jennifer Doss:

All right.

Scott Matheson:

They're smarter people and then [I] rely on them. All right, Dave, you did it. You made it to the end of Revamping Retirement with us, but we can't let you out of here without one more question, and this one's personal. What does retirement look like to you, Dave Stinnett?

Dave Stinnett:

Well, [in] working at Vanguard, I've been here for 27 years and doing the work I do, and [I] do it with friends that I really admire and really like. It tends to put off the idea of retirement, to be honest. So assuming I'm blessed with good health, I think first retirement would come later rather than earlier, if I'm lucky. But if pressed, when I think about retirement, I think about teaching. I'd like to teach. I'd like to volunteer. I'm an avid reader, so joining a book club is something that I'd like to be focused on. So yeah, no, that would be a happy time when it comes.

Scott Matheson:

Nice.

Jennifer Doss:

Yeah.

Scott Matheson:

Good plan.

Jennifer Doss:

I think that's what it's all about, right, doing the things you enjoy and you love that you want to do, and being able to spend the time the way you want to spend it. I think that's great. All right, well, thanks for spending so much time with us today, Dave. I know, again, it was a big day for you. I'm sure you have a lot of demands on your time right now, so thanks for sharing so many great nuggets with our listeners and with us, and really things that they can do to take actionable items and benchmark their plans, [and] really try to enhance them and build a better future for all those individual data points really that roll up underneath your 5 million participant study.

So listeners, thank you for joining us as well today. Please check out the show notes for today's episode. We'll link the two reports that we talked about specifically here today. You can check those out on your own, as Dave mentioned. As always, don't forget to like and subscribe to wherever you get your podcast and leave us some feedback if you have any. Thanks for tuning in, and we'll talk to you again next month on Revamping Retirement.

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