The State of Savings

December 2020

The economic impact of the COVID-19 pandemic has been felt far and wide, both in the U.S. and globally. But what has it meant for tax-advantaged savings levels in vehicles such as retirement , 529, and health savings & flexible spending accounts (HSAs & FSAs)? Our proprietary data, tracked over the course of 2020, reveal shifts in contribution and withdrawal behaviors by business owners and individuals in response to the financial challenges posed by the pandemic.

While business interruptions, changes in employment status, and legislation that enabled emergency access to savings certainly caused some to re-evaluate their strategy, many employers and savers "stayed the course," making little to no changes to their retirement plan contributions. 529 account owners who had opted to make savings automatic via scheduled, recurring contributions also stayed the course, while one-time 529 contributions experienced a slight decrease year-over-year. As access to healthcare services became increasingly available, individuals tapped into their health savings to finance the care and resources they needed. In fact, people ramped up withdrawals from HSAs and FSAs so much in the fourth quarter of 2020 that we saw a notable year-over-year increase in these transactions. Overall, our insights and analytics suggest a continued appreciation for the importance of savings and the ability to access these savings when needed.

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 is based on retirement plans with 500 employees or less.

The Employer Perspective[2]

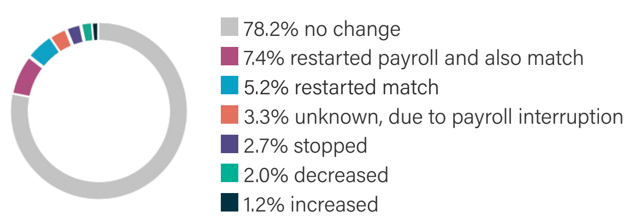
6.8% decrease in total amount of employer contributions March through December based on projections[3]

- After the pandemic took hold in the U.S. in March 2020, employer retirement plan contribution activity was fairly volatile. Overall, employer contribution amounts remained steadily below projections, with the most dramatic drops in March and April and a notable recovery in May through July. As of year-end, contributions appeared to have settled at a more consistent monthly amount, yet they remained lower than projections.

6.0% of employers didn't contribute match in December, either choosing to stop match (**2.7%**) or having no match obligation (**3.3%**) due to payroll interruption.[4]

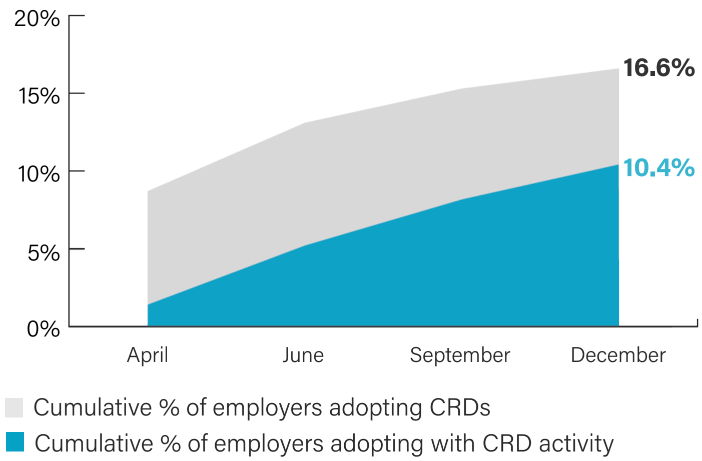
12.6% of employers restarted match after some match interruption during March through November, either due to business interruption or temporarily suspending their match.

Plan Match Changes March Through December[4]

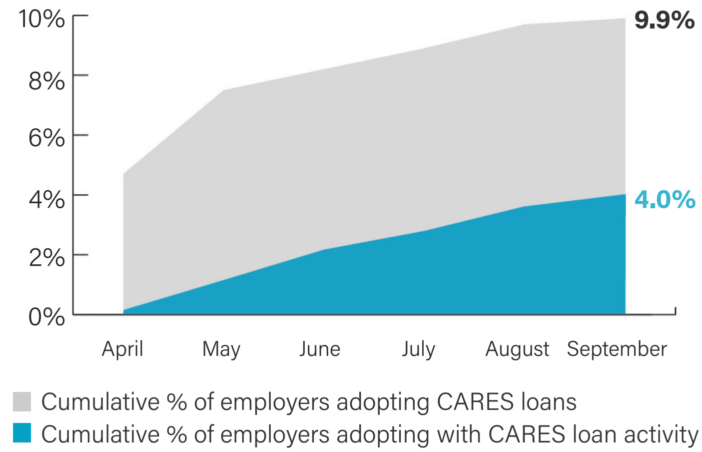


CARES Act Adoption & Utilization

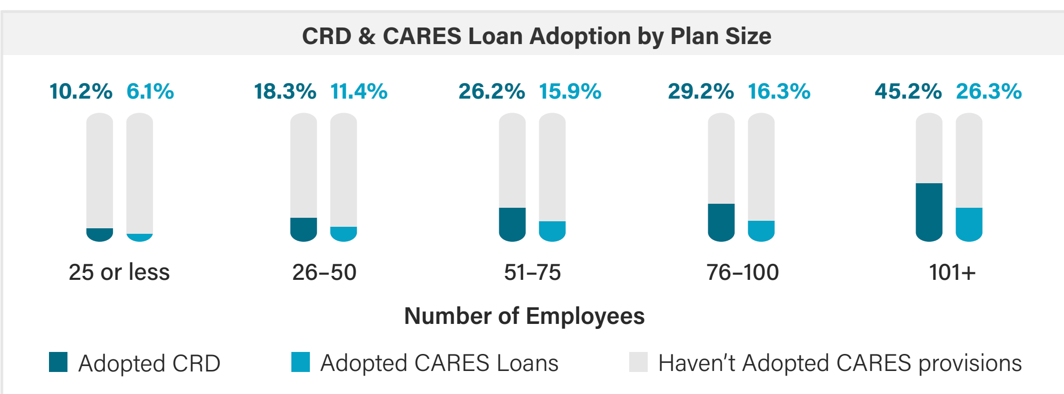
Coronavirus-Related Distribution (CRD) Employer Adoption in 2020



CARES Loan Employer Adoption in 2020
(Available Through September)



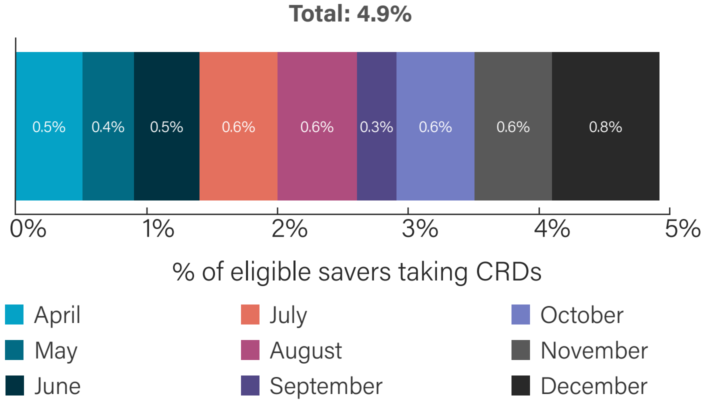
- Over the course of 2020, we saw moderate to low employer adoption of CARES Act distribution and loan options relative to early industry projections.



- Larger plans, however, adopted at more than 4.4 times the rate of the smallest plans (25 or fewer savers).

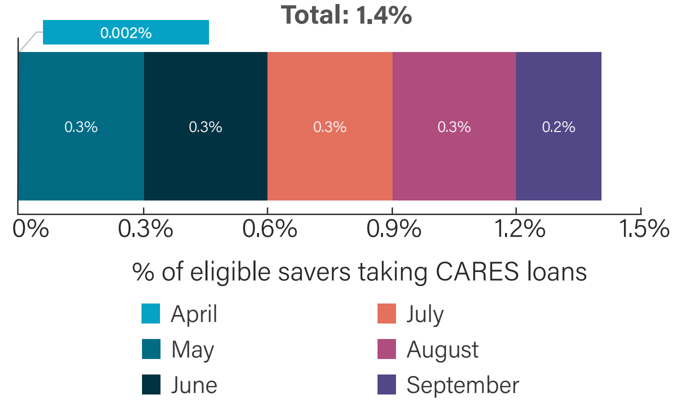
CRD Employee Utilization

Total: 4.9%



CARES Loan Employee Utilization (Available Through September)

Total: 1.4%



- Eligible savers took CRDs at a higher rate in the final quarter of the year, with 2.0% taking a CRD in Q4. However, the overall total percentage of those taking CRDs remained very low for the full year, at just 4.9%. Only 3.2% of savers who took a CRD withdrew the maximum allowable amount of $100,000; most were well below this maximum with an average of $14,300 as of year-end.
- The availability of CARES loans expired at the end of September 2020. By that time, only 1.4% of those who could take these loans had chosen to do so.

The Saver Perspective

In January through December 2020:

1.8% stopped their deferrals (0% savings rate)
2.6% reduced their savings rate
5.6% increased their savings rate

- The **vast majority** of savers made no change to their savings rates in 2020, illustrating the positive value of automatic payroll deduction. Though many stayed the course, 1.8% of savers stopped their deferrals, and another 1.2% of savers were no longer receiving contributions to their retirement account, most likely due to furlough or termination. This small population of savers that was no longer receiving contributions was concentrated in the smallest retirement plans.

14.5% fewer savers took standard distributions
28.8% fewer savers took loans (including CARES loans)
30.0% fewer savers took hardships

- Standard retirement plan distributions, hardship withdrawals, and loans actually remained below 2019 levels and lower than 2020 projections through December, with 14.5% less savers taking a standard retirement plan distribution and 30.0% less taking a hardship distribution than expected. This reduction in hardship distributions may have been due to savers alternatively deciding to take CRDs.

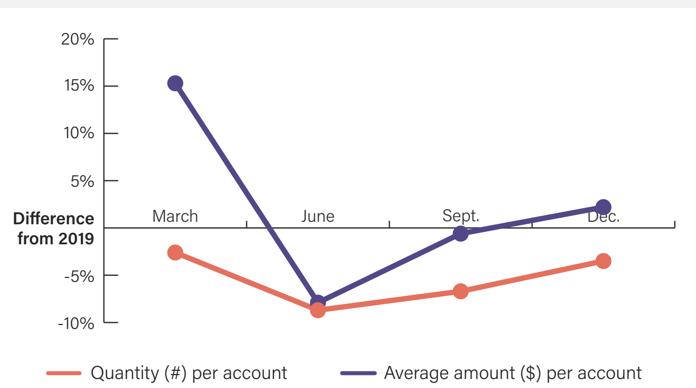
Education Savings[5]

The Saver Perspective

From the last week of March through December 2020:

7.1% decrease in total amount of one-time 529 account contributions

One-Time 529 Contributions



- One-time contribution amounts to 529 accounts showed a slow yet steady improvement starting in August. In Q4, the average one-time 529 contribution amount rebounded to 2019 levels, but the number of savers making one-time contributions remained below prior-year levels.
- For the period of March through December 2020, the cumulative number of one-time contributions was 6.4% lower and the average contribution amount was 2.4% lower than 2019 levels.
- Automated recurring 529 contributions remained steady in 2020, affirming the value of making saving automatic.

14.6% decrease in total amount of qualified 529 withdrawals

16.7% decrease in number of qualified 529 withdrawals

- Qualified withdrawals were significantly reduced from 2019 levels, as measured both in the amounts withdrawn from accounts and in the number of withdrawal transactions. This trend aligns with national statistics around declines in enrollment during the pandemic and a greater percentage of students attending school from home, reducing the need for room and board payments.

Health and Benefits[6]

The Saver Perspective

2.2% increase in the number of COBRA qualifying events in March through December, 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% in March through May. This was driven by an increased level of employer hardships and changes in employment status. We saw a temporary recovery, with qualifying events dropping below 2019 levels in July; yet that was followed by a sharp increase to above-2019 levels in August and September. In the final months of the year, the number of qualifying events leveled out, showing a 2.2% increase over 2020 projections as of the end of December.

0.6% increase in debit card transactions from consumer-directed healthcare accounts in March through December, with the spike in transactions in Q4 making up for earlier decreases March to September

Average amount per debit card transaction was **9.4% above projections** for March through December, in spite of being 8.3% below projections for March through April

- Debit card activity linked to healthcare accounts (including HSAs and FSAs) was above projected levels as of year-end, with the number of transactions 28.3% higher and the average amount per transaction 33.3% higher than expected. This significant increase in transactions from healthcare accounts in the final quarter of the year more than compensated for the dropoff in activity in earlier months, resulting in transaction volumes that were 0.6% higher than expected for 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 December 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. Plans with a payroll interruption are defined as those with no plan contribution obligation without active payroll.

[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 December 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).