Contributions

Insights

Making contributions to their retirement accounts is arguably the most important action participants can take to successfully retire. This is why so much importance is placed on items like participant deferral rates and employer matching contributions. Markets like those we experienced during the second half of 2015 are unpredictable, and making regular contributions over the long term can help counter short-term retirement balance loss. (The average plan account balance decreased slightly during 2015.)

Since 2007, employee and employer contributions have remained steady—potentially demonstrating a shared goal of retirement success. The majority of plan sponsors (40.5%) are matching employee contributions at a 6% threshold, encouraging participants to defer at least 6% of pay to get the maximum employer match. Our records indicate that 70% of plan sponsors have adopted a graded vesting schedule. Participants are only entitled to a portion of their employer contribution account each year until they complete a pre-determined number of years of service.

Though the overall average participant deferral rate remained essentially unchanged at 7% in 2015, which is consistent with the industry average,¹ we did see positive movement within our participant base as 34% of participants increased their deferral rates at some point during the year. Our Participant Pulse Survey conducted in late 2014 outlined several reasons why participants may retain or even decrease their deferral rate.² These reasons included:

- Comfortable with current rate
- Wage stagnation
- Maxed out deferral amount
- Can’t afford to increase right now

Some participant responses showed that a basic lack of knowledge may be suppressing deferral rates. These particular respondents said they didn’t know how to raise their rate or why they should. With newer employees—often under the age of 30—we are seeing deferral rates under 6%, on average. This indicates a need for education on not only why the deferral should be increased, but how that can be done.

An increasing number of companies are offering a Roth option. This option is becoming increasingly popular among participants in younger age groups as they recognize the potential for tax-free withdrawals if they take a qualified distribution.³ Roth contributions for participants in the <20 and 20–29 age groups increased 50% and 20%, respectively.

Nearly one-third of participants are not contributing

There is concern about the 31% of participants who are not making salary deferrals. This percentage has not wavered since 2012, suggesting that large populations believe that their employer’s contributions to their retirement account will be sufficient at retirement. Targeted messaging to this group is one approach sponsors can take to address this issue, underscoring the benefits of contributing toward one’s retirement.

²2015 Deloitte Annual Defined Contribution Benchmarking Survey.
³Refer to the report methodology on page 11 to see a definition for Roth qualified distribution.

POTENTIAL STRATEGIES

- Explore financial wellness programs to help participants make informed financial decisions
- Stress the benefits of meeting the company match; provide guides to illustrate the effect of not contributing enough to maximize the match
The majority of sponsors in the retail trade industry match employee contributions up to 6%, suggesting that they are encouraging participants to defer at least 6% of their pay to get the maximum employer match.

\[\text{Values are counts of plan locations that offer company match and have identifiable company match data for reporting purposes. Match percentages are the maximum percentage that a company will match participant contributions.}\]
No. 3 COMPANY MATCH FREQUENCY

Note: Values are counts of plan locations that offer company match and have identifiable company match data for reporting purposes.

No. 4 EMPLOYER VESTING SCHEDULES

Note: Values shown are an aggregated count of those plans and plan locations that have identifiable vesting schedules for reporting purposes.

Cliff vesting is when the employee becomes fully vested at a specified time. Graded vesting is when the employee becomes partially vested in increasing amounts over an extended period of time. An example of cliff vesting would be when an employee is fully vested in a retirement plan after two years of full-time service. An example of graded vesting would be when an employee has 20% of his or her balance vested each year up to five years of full-time service when he or she would become fully vested.
The average deferral rate has remained unchanged since 2007, hovering around 7%.

Though the majority of plans maintained their default deferral rate in 2015, we saw positive movement with participants, as over 34% increased their deferral rate at some point during the year.

Note: The charts represent the percentage of plans that offer auto-enrollment that adjusted participants’ default deferral rates and the percentage of participants who adjusted their default deferral rates during the given period.
There has been a steady increase in the pretax deferral rate for most age groups up until many reached retirement (65+).
Participants are slowly beginning to increase their deferral amounts to 6% and above, but it’s troubling to see that 31% of participants still defer 0% to their retirement account.
Over 11% of eligible participants are making catch-up contributions, a percentage that has steadily increased since 2011.

The 65–69 and 70+ age groups decreased their catch-up contributions in 2015.
We witnessed a significant increase in the percentage of plans allowing Roth contributions in 2015, a leap of seven percentage points.

Participants are recognizing the potential of making Roth contributions and increasing their participation for an eighth consecutive year.
An increase in participant contributions to Roth retirement accounts can be seen within all age groups, most notably with millennials, as participation increased over one percentage point in 2015.
**No. 14 AVERAGE ACCOUNT BALANCES—BY AGE**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2013 TRP Total</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;20 Years</td>
<td>$758,665</td>
<td>591</td>
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<tr>
<td>20–29 Years</td>
<td>8,999</td>
<td>8,806</td>
<td>8,152</td>
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<tr>
<td>30–39 Years</td>
<td>37,366</td>
<td>37,668</td>
<td>36,634</td>
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<tr>
<td>40–49 Years</td>
<td>79,471</td>
<td>81,943</td>
<td>81,481</td>
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<tr>
<td>50–59 Years</td>
<td>125,132</td>
<td>131,864</td>
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<tr>
<td>60–64 Years</td>
<td>137,119</td>
<td>144,704</td>
<td>144,697</td>
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<tr>
<td>65–69 Years</td>
<td>137,682</td>
<td>144,961</td>
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<tr>
<td>70+ Years</td>
<td>126,759</td>
<td>134,457</td>
<td>131,747</td>
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<tr>
<td>2015 TRP Total</td>
<td>76,844</td>
<td>80,928</td>
<td>80,317</td>
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</tr>
</tbody>
</table>

The volatile markets during the second half of 2015 are represented in lower average account balances across most age groups.
Methodology

Unless otherwise noted, all data included in this report are drawn from the following sources: Data are based on the large-market, full-service universe—TRP Total—of T. Rowe Price Retirement Plan Services, Inc., retirement plans (401(k) and 457 plans), consisting of 662 plans and over 1.6 million participants.

Employee and employer contributions are based on plans with contributions during the calendar years ended December 31, 2007, through December 31, 2015. Employer contributions include all types of employer money, such as matching contributions, discretionary contributions, and retirement contributions. Match percentages are the maximum percentage of participant contributions that a company will match. Company vesting percentages shown are an aggregated count of those plans and plan locations that have identifiable vesting schedules for reporting purposes.

Deferral results are based on employee pretax deferral percentages greater than zero for active participants over various time periods from calendar years ended December 31, 2007, through December 31, 2015. Average deferral by age is participant weighted (total of all participant deferral percentages divided by the total number of participants with a deferral percentage).

Catch-up contribution results for participant age breakdowns are based on the number of participants who made catch-up contributions during the various calendar year periods ended December 31, 2007, through December 31, 2015. These data capture the number of eligible participants over age 50 in plans that offer catch-up contributions.

Results for participant age breakdowns are based on the number of participants who made Roth contributions during the calendar year periods ended December 31, 2007, through December 31, 2015. These data capture the number of eligible participants in plans that offer Roth contributions at each calendar year-end from December 31, 2007, through December 31, 2015.

Roth qualified distribution—A qualified distribution is tax-free if taken at least 5 years after the year of your first Roth contribution and you’ve reached age 59 1/2, become totally disabled, or died. If your distribution is not qualified, any withdrawal from your account will be partially taxable. These rules apply to Roth distributions only from employer-sponsored retirement plans. Additional plan distribution rules apply. You are encouraged to consult with your tax advisor when determining if Roth contributions are right for you.