The State of Savings

October 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.

Over the course of the summer, we continued to note volatility in employer contributions to retirement plans and in COBRA qualifying events, which can signal employment status changes. However, we've also seen encouraging signs of resilience and an appreciation for the importance of continued savings, both from employers and employees.

Employers have reinstated matching or discretionary contributions that at one time had been suspended during the pandemic. Individuals have made minimal or no changes to retirement savings rates and are now leveraging their health savings to finance the care and resources they need to weather this challenging year. 529 account owners tapped into savings this "tuition season," but started to do so later than in prior years and withdrew a smaller total amount of savings as they continued to assess their beneficiaries' education outlook.

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]

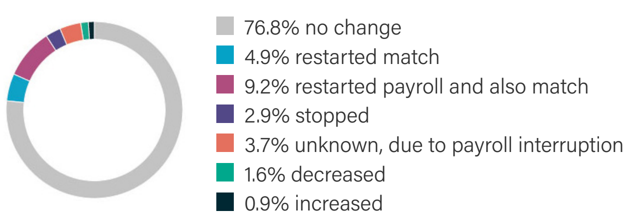
6.4% decrease in total amount of employer contributions March through September based on projections[3]

- Since March, employer retirement plan contribution activity has been fairly volatile. Overall, employer contribution amounts have remained steadily below projections, with the most dramatic drops in March and April and an uptick in May through July. As of September, contributions appeared to have settled at a more consistent monthly amount, yet they remain lower than projections.

6.6% of employers didn't contribute match in September, either choosing to stop match (**2.9%**) or having no match obligation (**3.7%**) due to payroll interruption.[4]

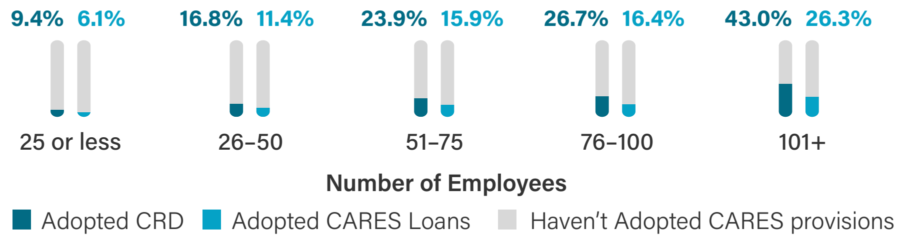
Positively, **14.1%** of employers have restarted matching after some match interruption during March through August, either due to business interruption or temporarily suspending their match.

Plan Match Changes March Through September[4]



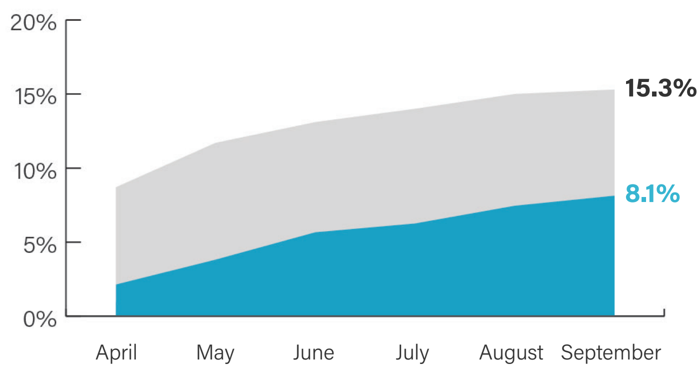
CARES Act Adoption

Coronavirus-Related Distribution (CRD) & CARES Loan Adoption by Plan Size



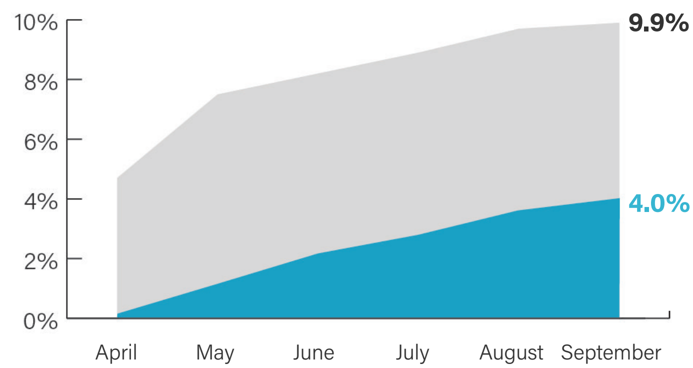
- We've seen moderate to low employer adoption of CARES Act distribution and loan options relative to early industry projections. Larger plans, however, are adopting at more than 4 times the rate of the smallest plans (25 or fewer savers).

CRD Employer Adoption



Cumulative % of employers adopting CRDs
Cumulative % of employers adopting with CRD activity

CARES Loan Employer Adoption



Cumulative % of employers adopting CARES loans
Cumulative % of employers adopting with CARES loan activity

- Employer adoption of CARES provisions has slowed continually through September, with approximately half of all adopting plans seeing savers tap into their savings in the form of CRDs or CARES loans.

The Saver Perspective

In January through September 2020:

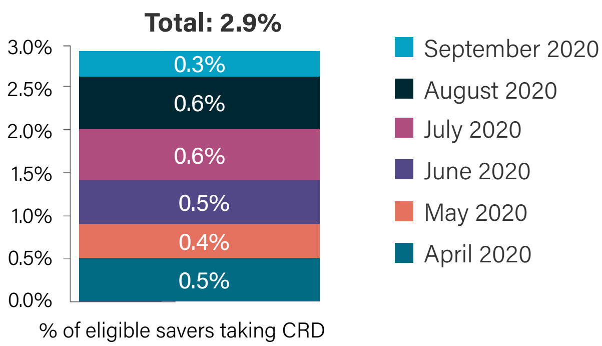
1.4% stopped their deferrals (0% savings rate)
2.3% reduced their savings rate
5.6% increased their savings rate

- 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," in addition to the 1.4% who stopped their deferrals, another 1.7% 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.

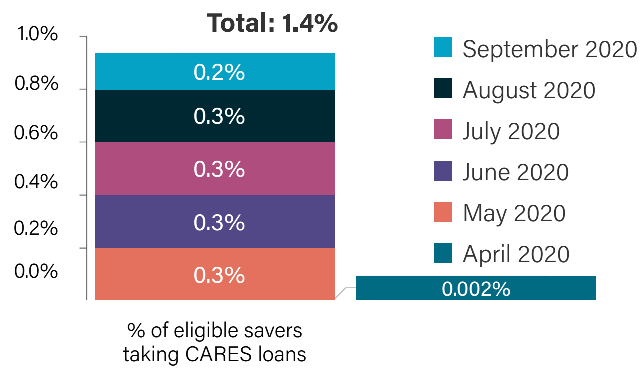
15.4% fewer savers took standard distributions
29.5% fewer savers took loans (including CARES loans)
27.5% fewer savers took hardships

- Standard retirement plan distributions, hardship withdrawals, and loans are below 2019 and projected 2020 levels.

CRD Employee Utilization



CARES Loan Employee Utilization



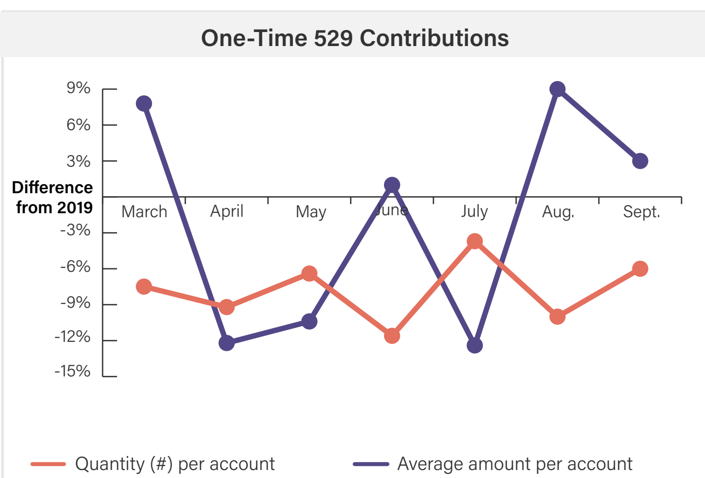
- Eligible savers continued to take CRDs and CARES loans at a consistently low rate through August, with even lower utilization in September. 5.2% of savers that took a CRD withdrew the maximum allowable amount of $100,000; most CRDs were well below this maximum, with an average of $15,700.
- Savers taking CRDs share some characteristics:
  - 42.5% were between the ages of 45 and 54.
  - 62.3% had annual salaries between $30,000 and $50,000.

Education Savings[5]

The Saver Perspective

From the last week of March through September 2020:

12.5% decrease in total amount of one-time 529 account contributions



- One-time contribution amounts to 529 accounts showed a small improvement in August and September, approaching 2019 levels. However, it still appears that the cumulative amount of one-time contributions will be below 2019 levels for the 2020 year.
- Since the COVID-19 pandemic hit the U.S. in March, the cumulative number of one-time contributions is 8.3% lower and the average contribution amount is 4.6% lower than 2019 levels.
- Alternatively, automated recurring 529 contributions have seen little change over this same period, affirming their benefits and the value of making savings automatic.

13.6% decrease in total amount of qualified 529 withdrawals

17.7% decrease in number of qualified 529 withdrawals

- This drop in the amount of dollars withdrawn from 529s may be tied to a 15% reduction in qualified withdrawals during 2020 "tuition season." Tuition season typically kicks off in late June and wraps in late September. However, this year, we saw tuition season withdrawal activity start two weeks later and end one week earlier than prior years.

Health and Benefits[6]

The Saver Perspective

4.6% increase in the number of COBRA qualifying events in March through September, 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. This latest increase may signal a second wave of business hardships, which could be linked to expiring government protections such as the Paycheck Protection Program (PPP).

5.2% decrease in debit card transactions from consumer-directed healthcare accounts in March through September, in spite of increasing activity in June through September

Average amount per debit card transaction is **2.3% above projections** for March through September, 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 above projected levels in September, with the number of transactions 5.9% higher and the average amount per transaction 6.9% higher than expected. This increased activity trend began in June and has continued through this past month, as savers transacted on pent-up demand to access healthcare services. The significant reduction in account transaction activity in March through May has contributed to overall lower-than-expected volumes for the year to date.

Visit ascensus.com for additional insights, resources, and the latest regulatory updates.

[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 September 30, 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 September 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).