


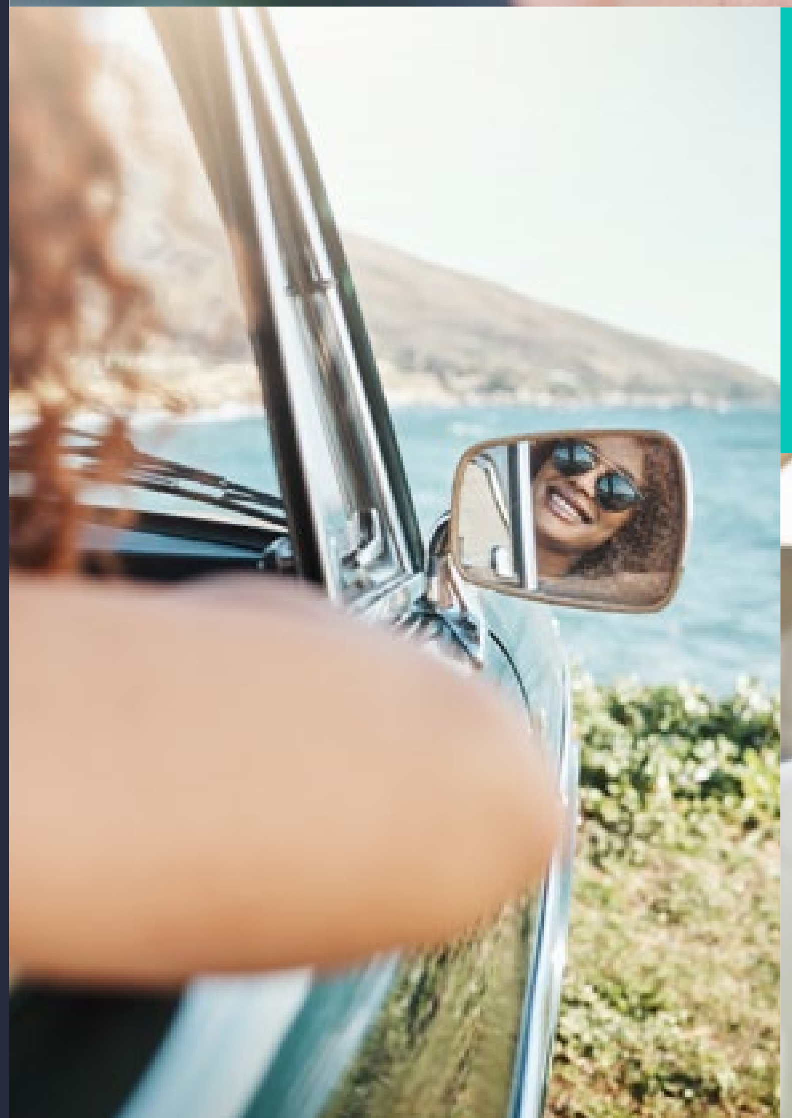
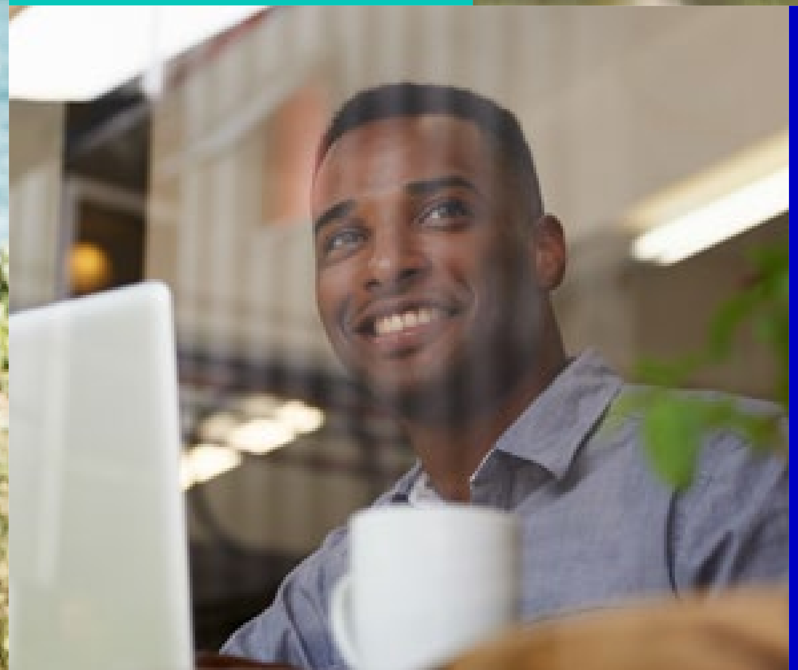

State of the *participant* 2022

Reflections on retirement readiness, the impacts of plan design and the pandemic, and ideas for improvement

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About the state of the participant report

For decades, employers, financial professionals, and the government have been refining the defined contribution (DC) model with the goal of helping participants achieve their retirement goals.

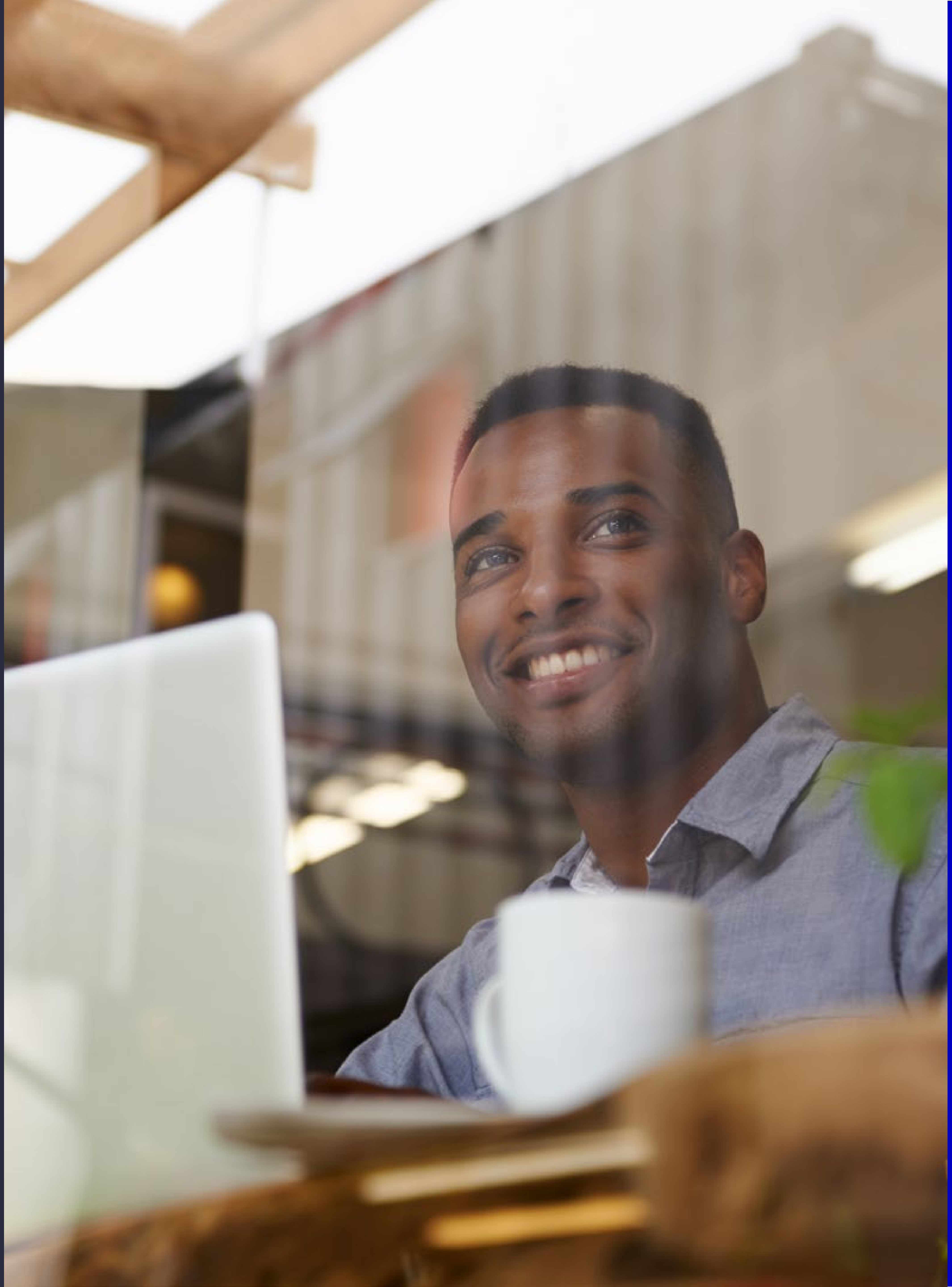
With our annual state of the participant report, we look at the status of the people in our DC plans[1] to offer you our unique view of what's happening in the retirement space, an additional tool for benchmarking your own plan's performance, and a few tips for enhancing your participants' success.

This year, we're happy to announce more than half of DC plan participants included in our research have achieved retirement readiness.

1 All data is from our open-architecture platform. 2021 data reflects John Hancock's 1.5 million participants, 1,645 plans, and $112.9 billion in assets under management and administration (AUMA) as of 12/31/21. 2022 data is based on John Hancock's 1.6 million participants, 1,716 plans, and $108.5 billion in AUMA as of 3/31/22. Earlier data is from our 2020 and **2021** state of the participant reports.

You'll find illustrations and commentary covering:

- Participant turnover amid the Great Resignation—a potential concern for achieving retirement readiness
- Trends in participant saving
- A view into investing behaviors



Most participants *are* retirement ready

Two years ago, we stated that retirement readiness was within reach for America's DC plan participants. In March 2022, we surpassed the halfway mark, with 52.7% of participants positioned to replace at least 70% of their income in retirement years. That was up nearly five percentage points from our previous measurement in September 2020.[2]

2 The inputs to this calculation include current age, salary, account balance, participant contribution, enrollment in auto-escalation, employer matching and discretionary contributions, pension eligibility, and projected Social Security benefits.

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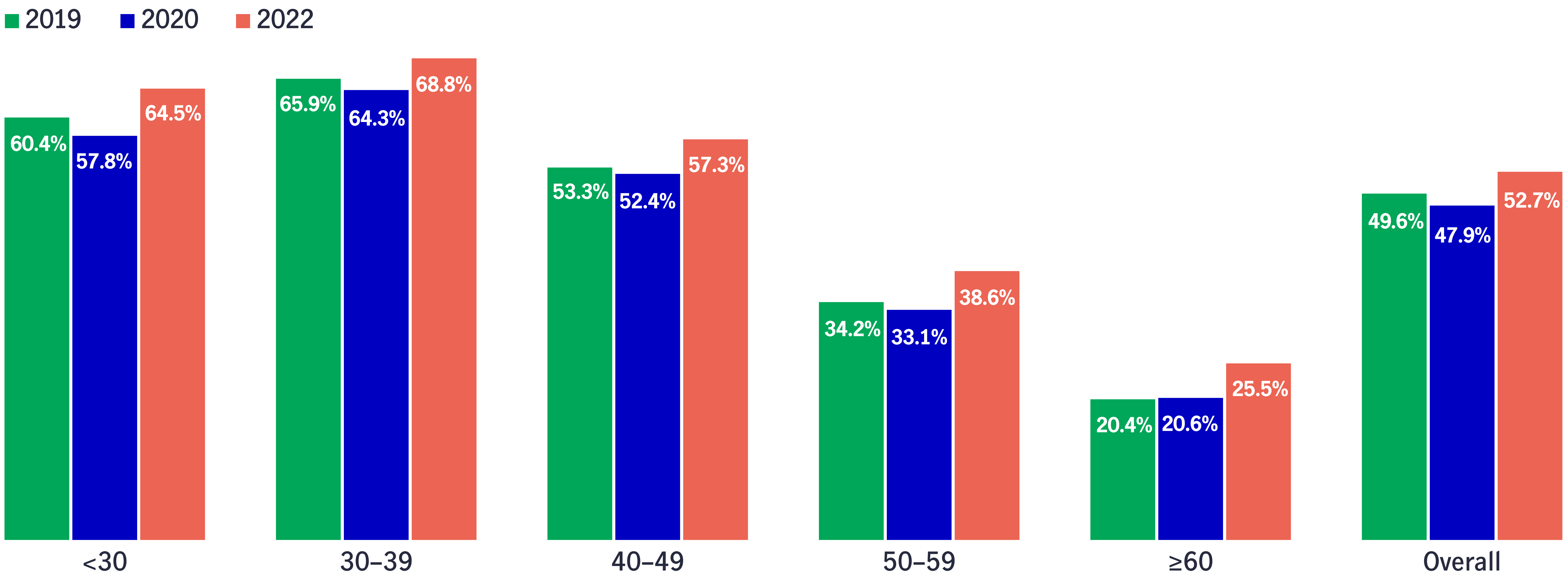
Retirement-ready participants by age group

There were improvements within every age group in 2022, with readiness approaching 70% for those under age 40. This could be linked, in part, to historically high savings rates and a substantial stock market rise from 2020 through 2021. Continued market volatility since our March 31, 2022, snapshot date may have affected these percentages, while high inflation rates may pose a risk to participants' ability to save.



About the state of the participant report

Retirement readiness

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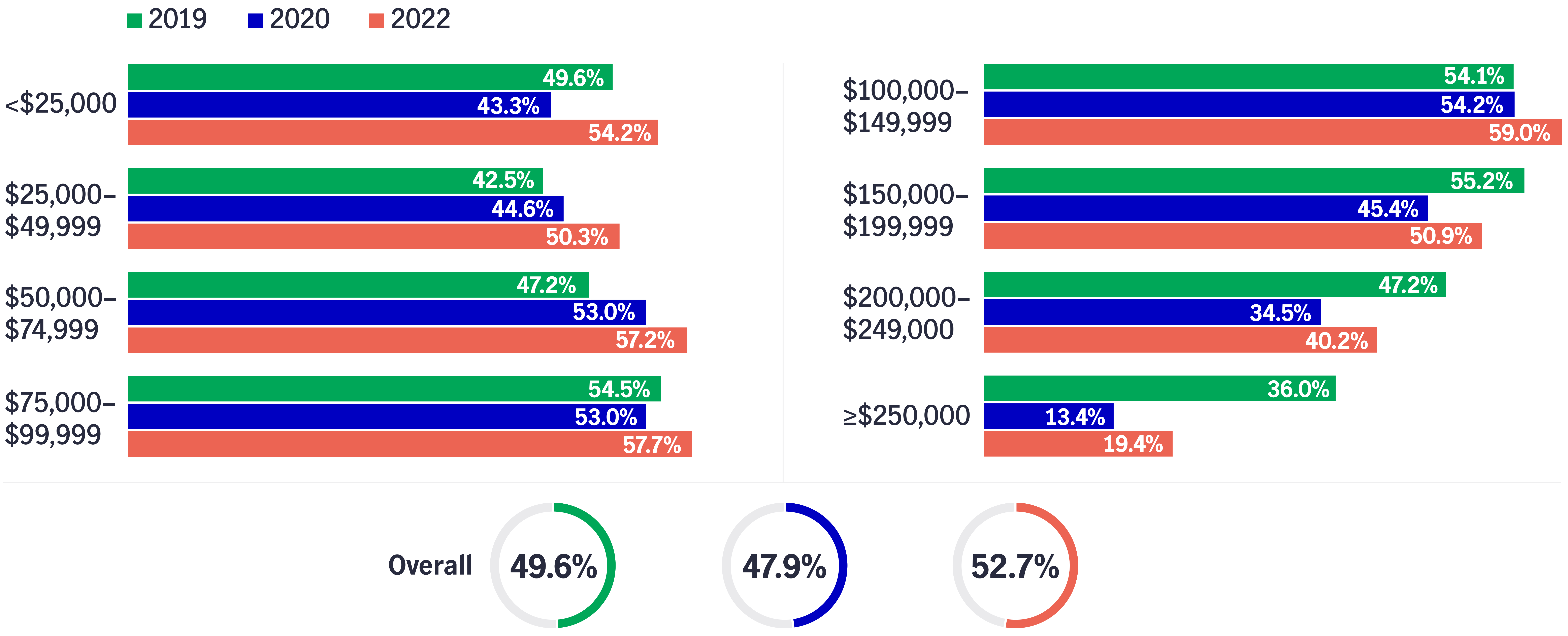
Retirement readiness by earnings

Over 50% of participants earning up to $199,999 annually were on track to retirement readiness. These numbers include even the lowest earners—although it's important to note that our projections do include expected Social Security benefits, which by themselves can replace a substantial portion of a low to moderate earner's income. The sweet spot is those earning from $50,000 to $149,000, where rates were approaching 60%. In the highest brackets, lower scores were likely because IRS contribution limits become a headwind.



Tips ...

for improving overall retirement readiness

- Use targeted communications and guidance to help nudge behavior for the right people at the right time. Personalized how-tos on saving more and age-appropriate investing can be highly effective.
- Consider the **potential gaps** that IRS contribution limits could create for bigger earners. **Nonqualified deferred compensation plans** and support for specialized planning are two ways to help address potential shortfalls.

See later sections for tips on helping improve specific participant behaviors.

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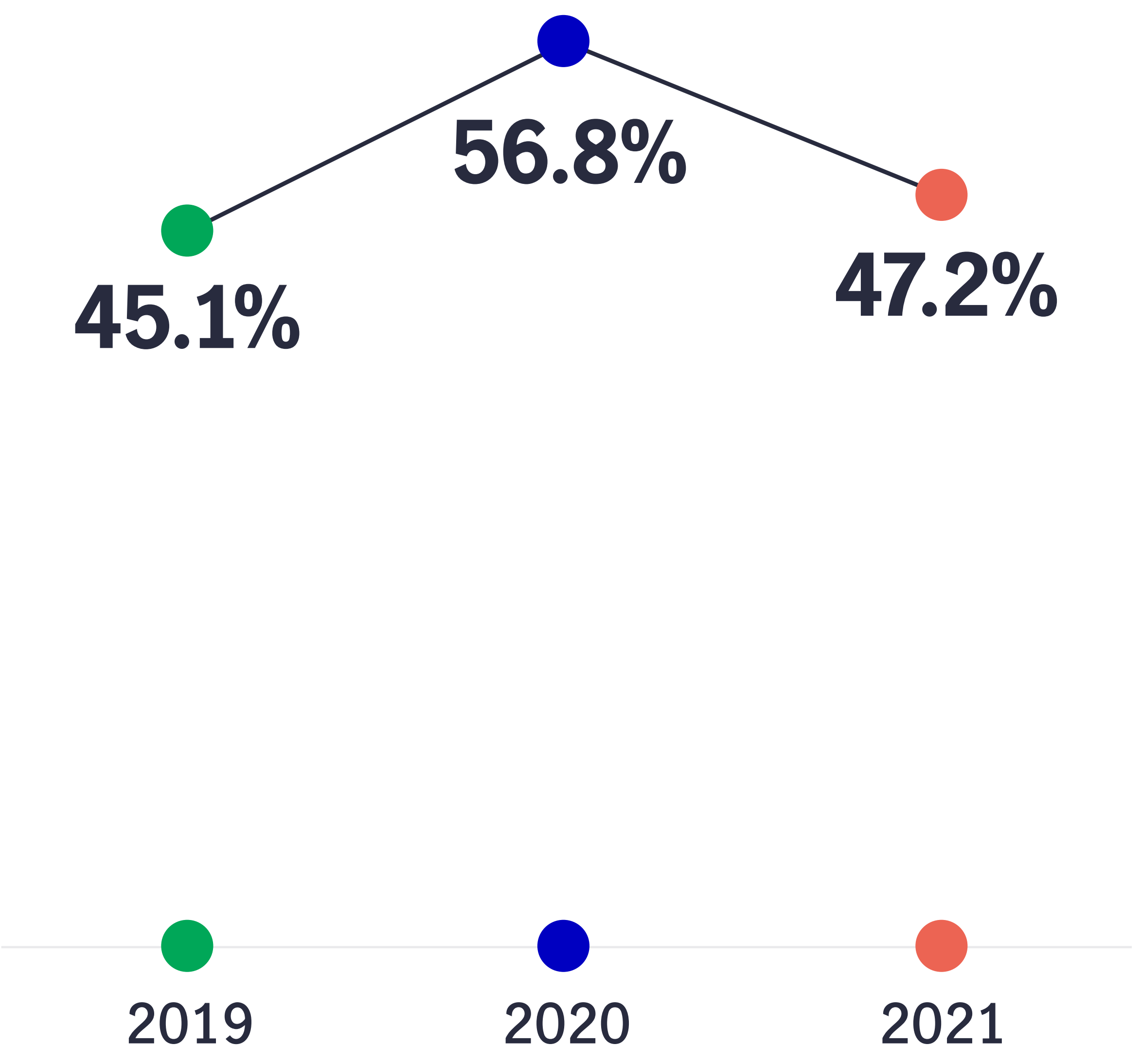
Plan participant turnover was highest among younger workers *and* lowest for fiftysomethings

As we moved through the onslaught of the COVID-19 pandemic and into the Great Resignation, U.S. total annual separations levels—the percentage of employees leaving their jobs over the course of the year—started at 45.1% in 2019, rose to 56.8% in 2020 amid employer job actions at the height of pandemic, then dipped to 47.2% in 2021 as business recovered its footing and ample new job openings prompted churn across the workforce.

But what went on inside DC plans, and how did it affect plan sponsors? To find out, we looked at participant turnover rates across industries and age groups from the prepandemic year of 2019 through 2021. Here's what we discovered.

U.S. labor separation levels before, during, and coming out of the pandemic



Source: U.S. Bureau of Labor Statistics, 2022.

The biggest concentration of DC plan turnover was among participants <30 in these five industries

In four out of five industries, the turnover pattern among participants under 30 followed a different pattern from the U.S. separations rate—high in 2019, lower in 2020, then up again in 2021. Technology was the exception, with turnover in this age group slowing from 2020 to 2021.

	Retail	Service	Technology	Distribution	Manufacturing
2019	86%	83%	82%	68%	65%
2020	57%	65%	75%	61%	55%
2021	76%	71%	72%	66%	73%

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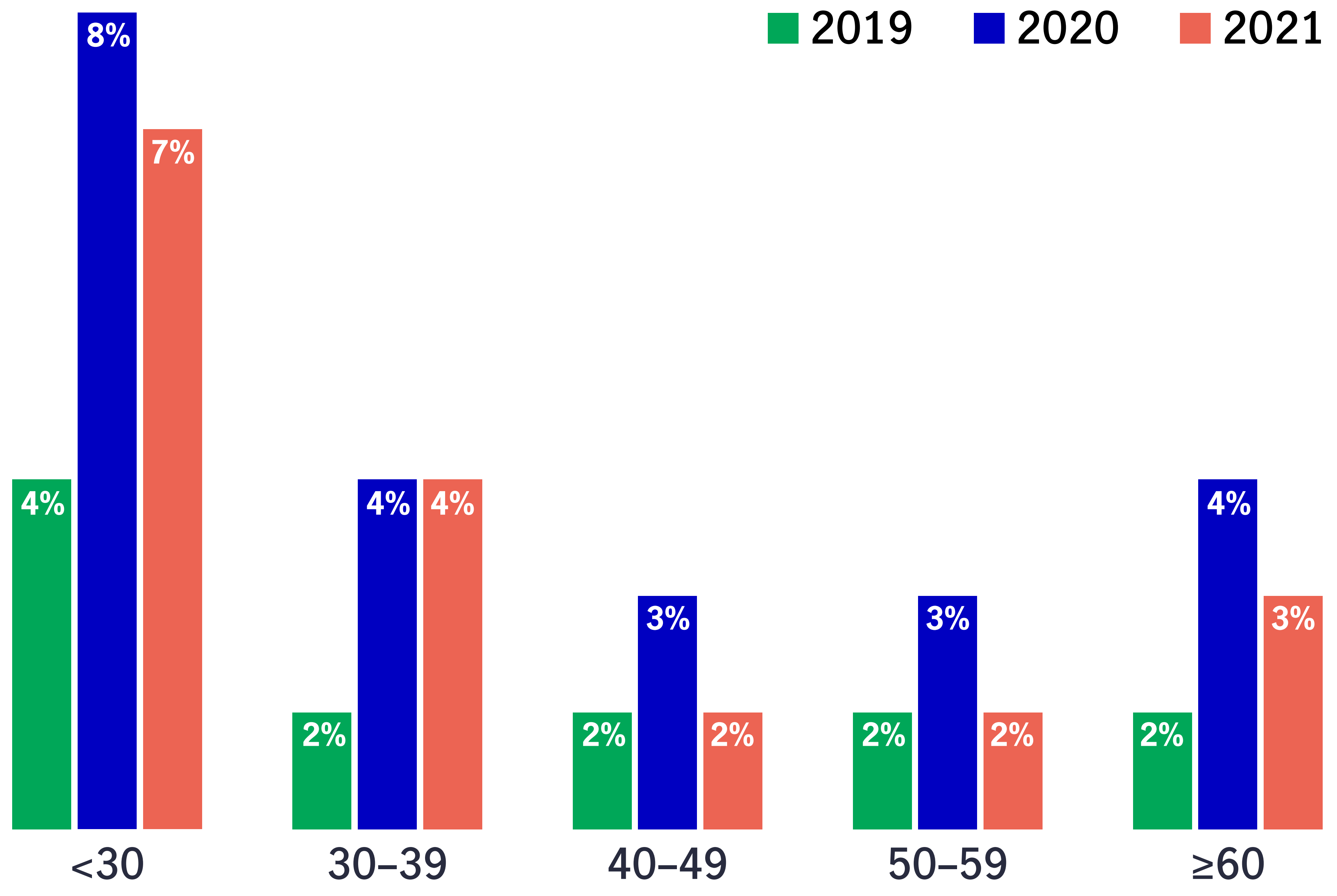
DC plan turnover was lowest among participants aged 50 to 59 in these five industries

Plan turnover among middle-aged participants in these five industries also diverged from the national separations-rate pattern. Three industries experienced two-year rises in participant turnover, including a 20-percentage point increase among communications firms from 2020 to 2021. Note that participant turnover dipped in both the banking, finance, and insurance and law firm sectors in 2020 before bouncing slightly higher the following year.

	Materials	Banking, finance, and insurance	Law firms	Communications	Technology
2019	10%	12%	13%	15%	18%
2020	11%	11%	9%	17%	25%
2021	15%	12%	11%	37%	27%

One sector, union-sponsored Taft-Hartley DC plans, showed remarkably low plan turnover

Taft-Hartley plans are provided by trade unions and funded by the various employers who hire union labor. These comparatively low turnover rates may be partially due to this structure, as well as the exceptionally low job loss rates[3] among union members during the pandemic.



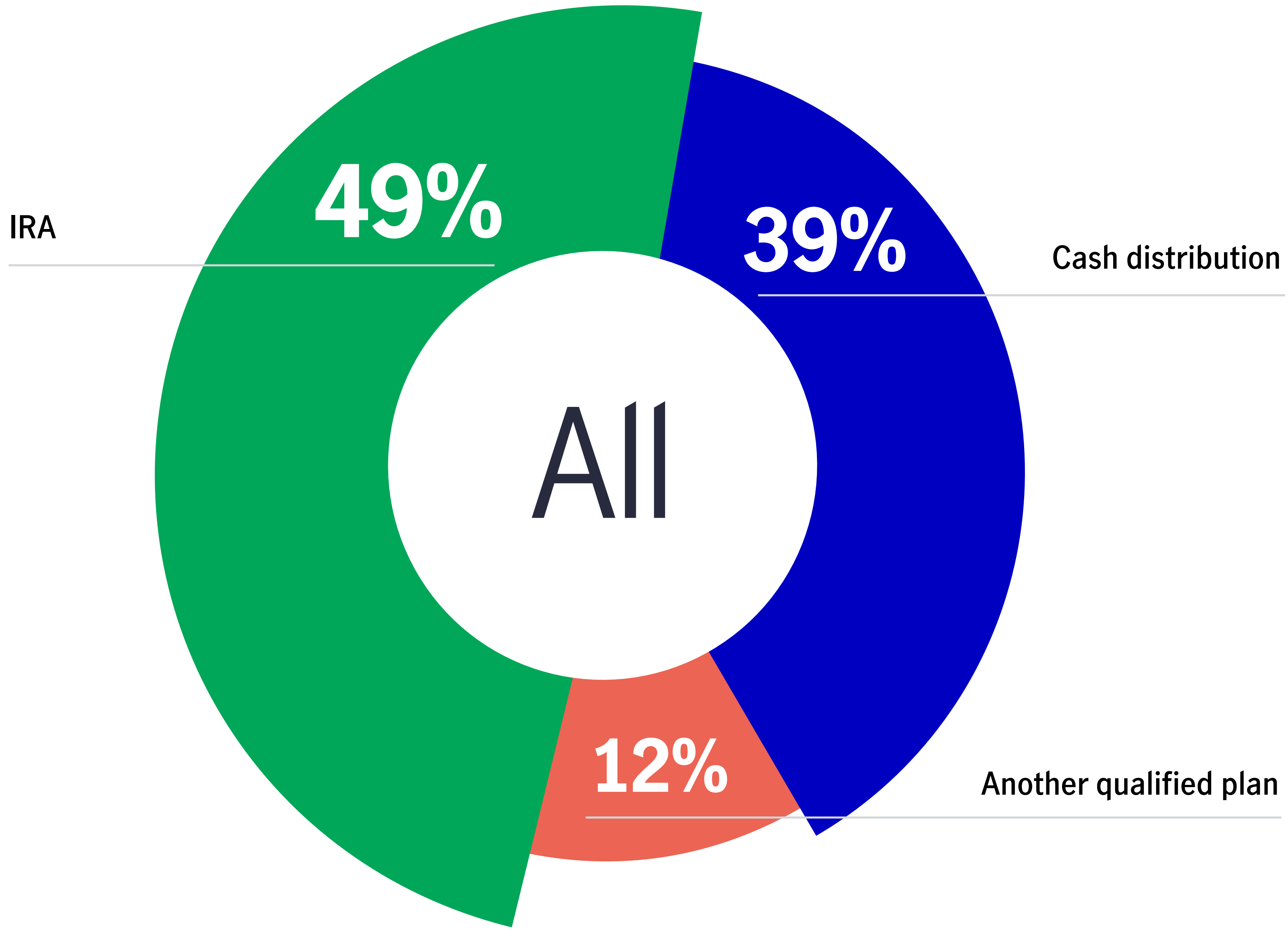
3 "Union workers had more job security during the pandemic, but unionization remains historically low," epi.org, 1/22/21.

Among participants leaving their plans, distribution decisions were *mixed*

When participants leave their DC plans, they face one of the most crucial and underappreciated decisions in their retirement saving career: what to do with the money. A look at the percentages of distributions taken in cash versus being rolled over to an IRA or to a new employer's plan shows that many participants understand how to protect their hard-earned assets—but that there's also ample room for investment education and guidance.

How departing DC plan participants took their retirement savings in 2021

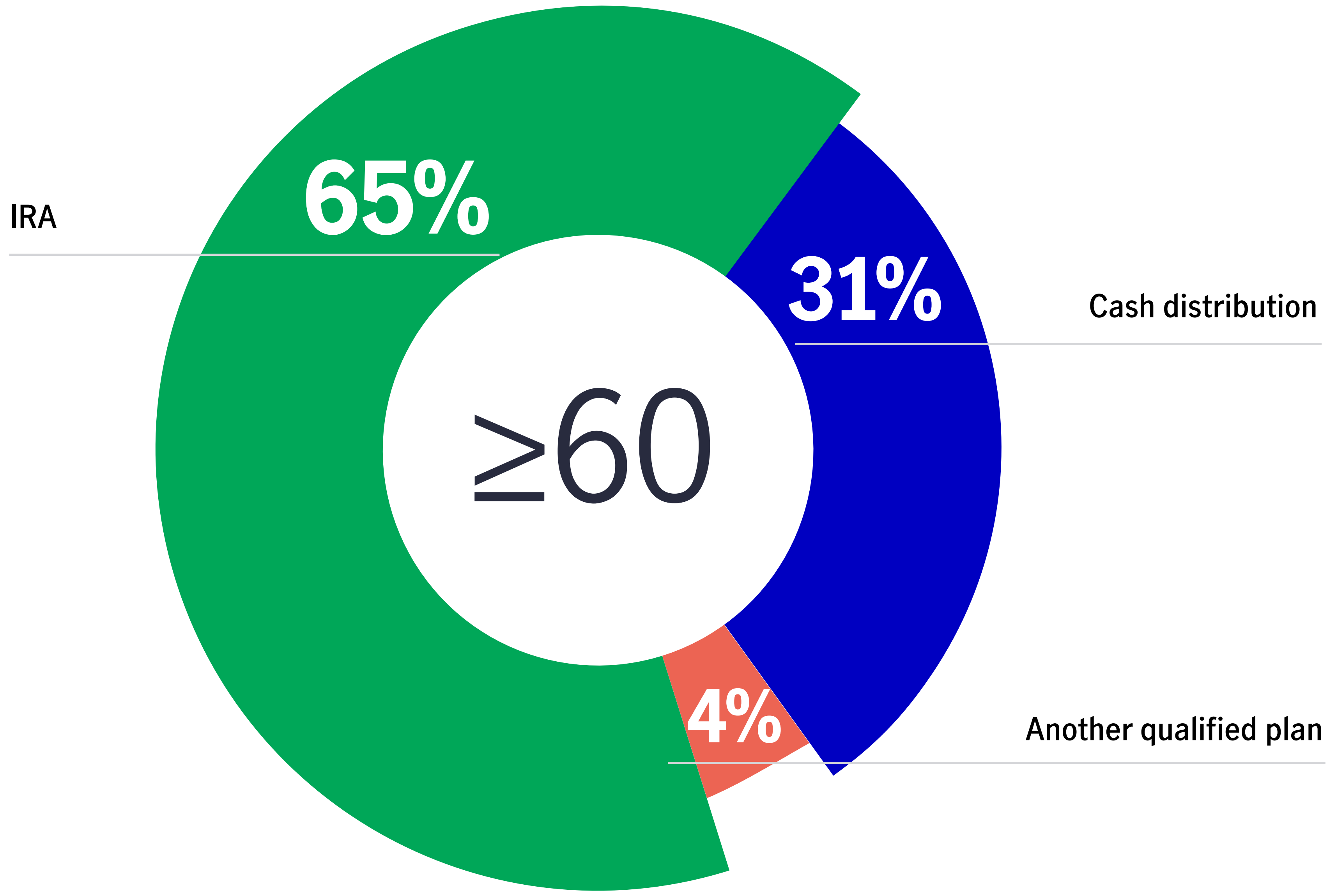
Over half of participants leaving their DC plans chose to move their money directly to an IRA or a new employer's DC plan. But even after discounting any participants automatically cashed out of their plan due to a low balance, 39% still took a cash distribution. This, in turn, exposed them to immediate tax liability, possible tax penalties, and a step backward from their retirement goals.



Illustrations exclude accounts under $5,000.

Among those 60 and older, the distribution decisions were better, but not stellar

As participants approach retirement age, many have learned the value of an IRA rollover, and fewer are leaving for new jobs (therefore, the low plan-to-plan rollover rate). However, taking their balance in cash is still a taxable event, even if penalties are eliminated, so it remains a cause for concern.



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Tips ...

for retirement plan transitions

- Recognize that DC plans, like workforces, can experience periods of substantial turnover. Use all available insight and technology—such as plan design dashboards—to help shape better enrollment, onboarding, and termination decisions and outcomes.
- Consider targeting all departing employees with estimates of potential current taxes avoided and potential growth saved through a timely rollover[4] or a decision to stay in their current plan. Come up with a user-friendly way to help them decide what option might be best for them.
- If your DC plan doesn't allow partial distributions in retirement, consider making them available. Partial distributions permit terminated participants to take distributions if an urgent need arises without depleting their entire plan account. The remainder of their savings can generally remain in the plan.[5]

4 There are advantages and disadvantages to all rollover options. Participants are encouraged to review their options to determine if staying in a retirement plan, rolling over to an IRA, or another option is best for them. **5** Subject to any automatic cash-out and required minimum distribution rules under the plan.

Auto features continue to *fuel* participant progress

When used in tandem, auto-enrollment and auto-increase features greatly enhance a DC plan participant's chances of achieving retirement readiness. Recognizing this fact, the U.S. Congress has included mandatory use of both features in new 401(k) plans in its proposed SECURE Act 2.0 provisions. A comparison of our 2020 and 2022 plan-level figures shows that the benefit of implementing auto features is more profound than ever.

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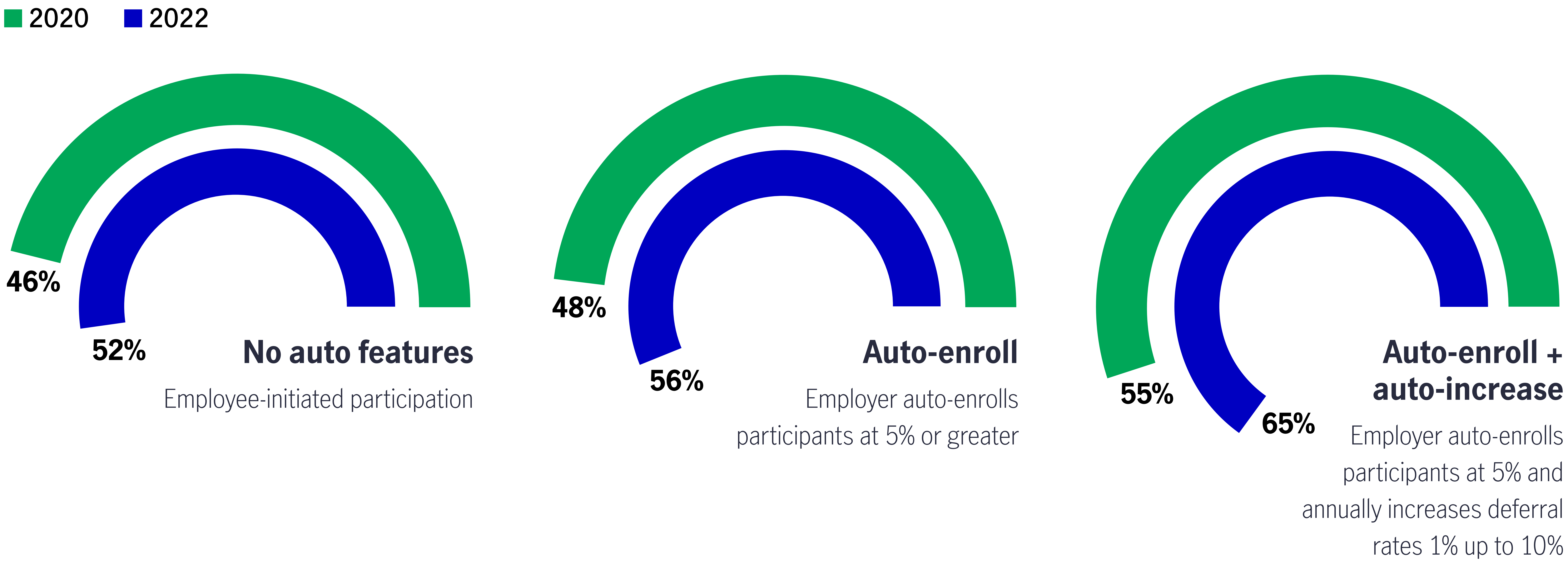
Comparative plan-level retirement readiness and the impact of auto features

The percentage of retirement-ready participants in plans using both auto-enrollment and auto-escalation reached 65% in 2022. This is up 10 percentage points from 2020—and widens the retirement readiness gap between plans with no auto features and those that use both auto-enroll and auto-increase to a significant 13% (65% to 52%).

Retirement readiness among plans using the indicated auto features



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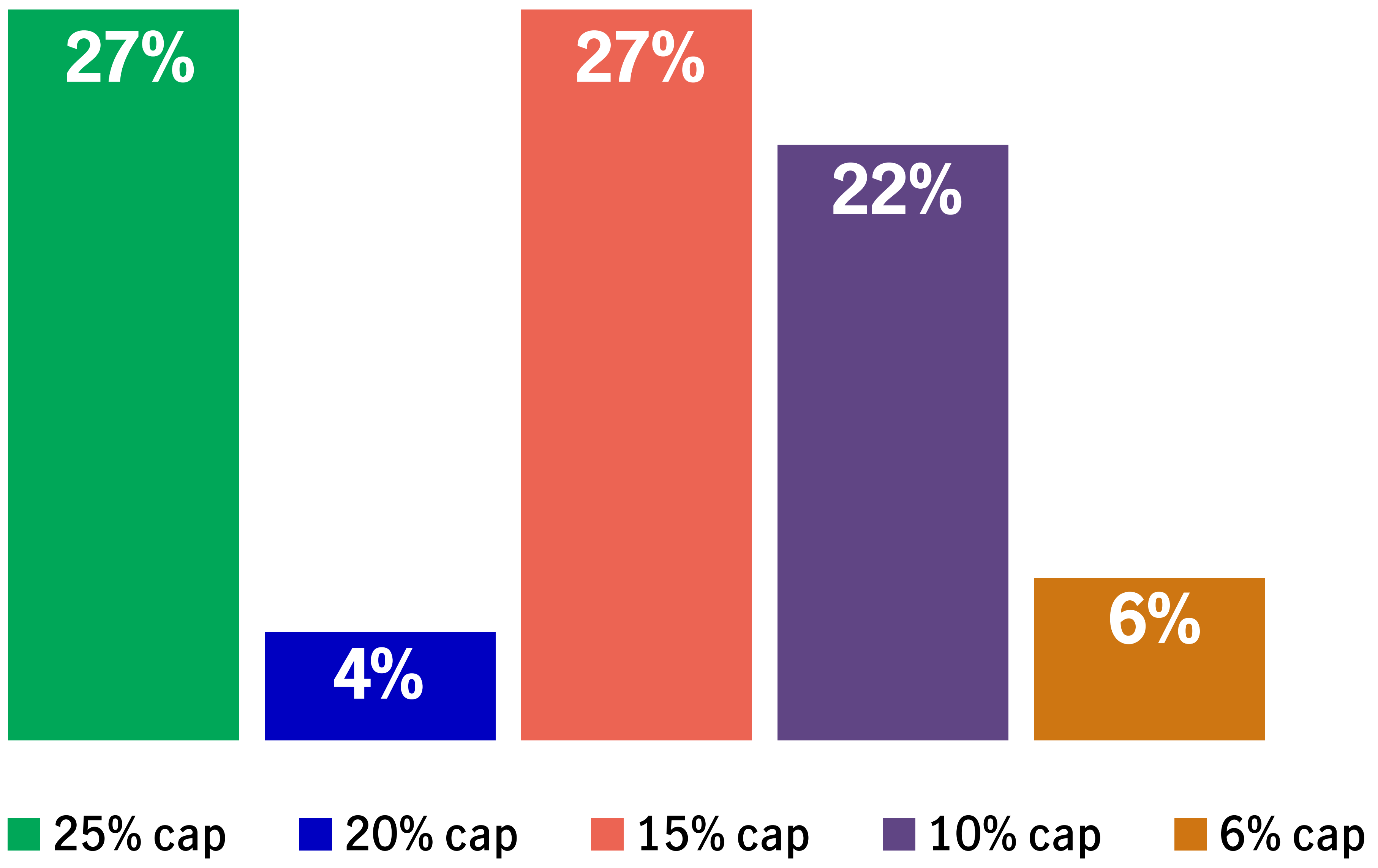
Two data points make the case for a *higher* auto-increase cap

What's one of the best ways to coax participants into raising their contributions? The auto-increase feature. An important aspect of this feature is the increase cap—the contribution rate at which auto-increases halt for any given participant. The good news? The most popular caps give participants plenty of room to grow.

Top five auto-increase caps based on the percentage of plans using them

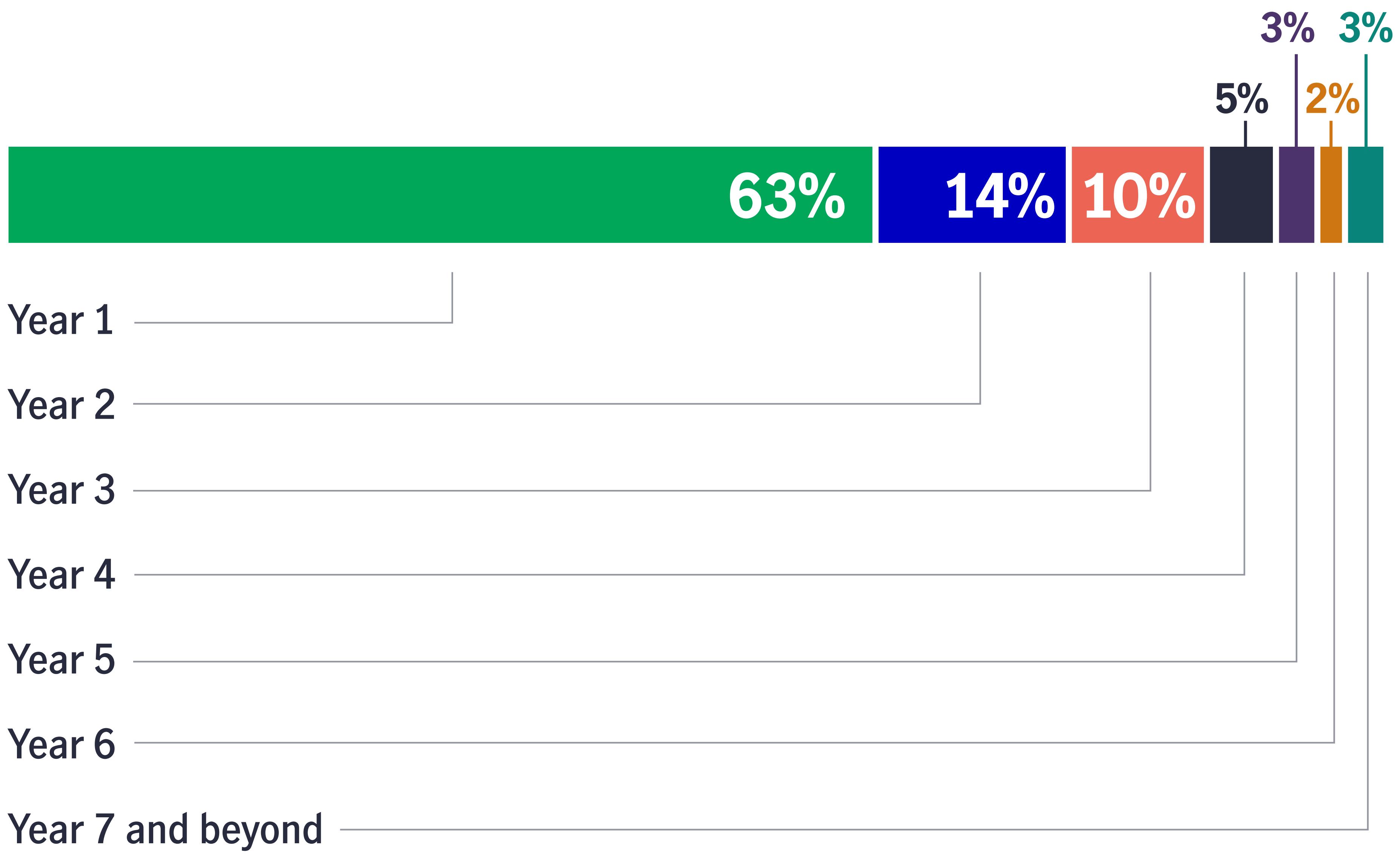
While 22% of plan sponsors stop their participants' auto-increases when their total contribution reaches 10% of income, 60% of plan sponsors use limits of 15% or higher. The most popular choices are 25% and 15%.

Plans using auto-increase



When auto-increase participants opt out of the feature, this is when they do it

Because auto-increase tends to be an opt-out benefit (i.e., it's activated automatically for participants at enrollment time, but they get the right to cancel), a relatively large percentage of those who dropped it did so in the first year. However, the percentage decreases radically after this, to 5% and lower in years four and beyond. In other words, participants most likely welcome the habit of saving more each year.



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Tips ...

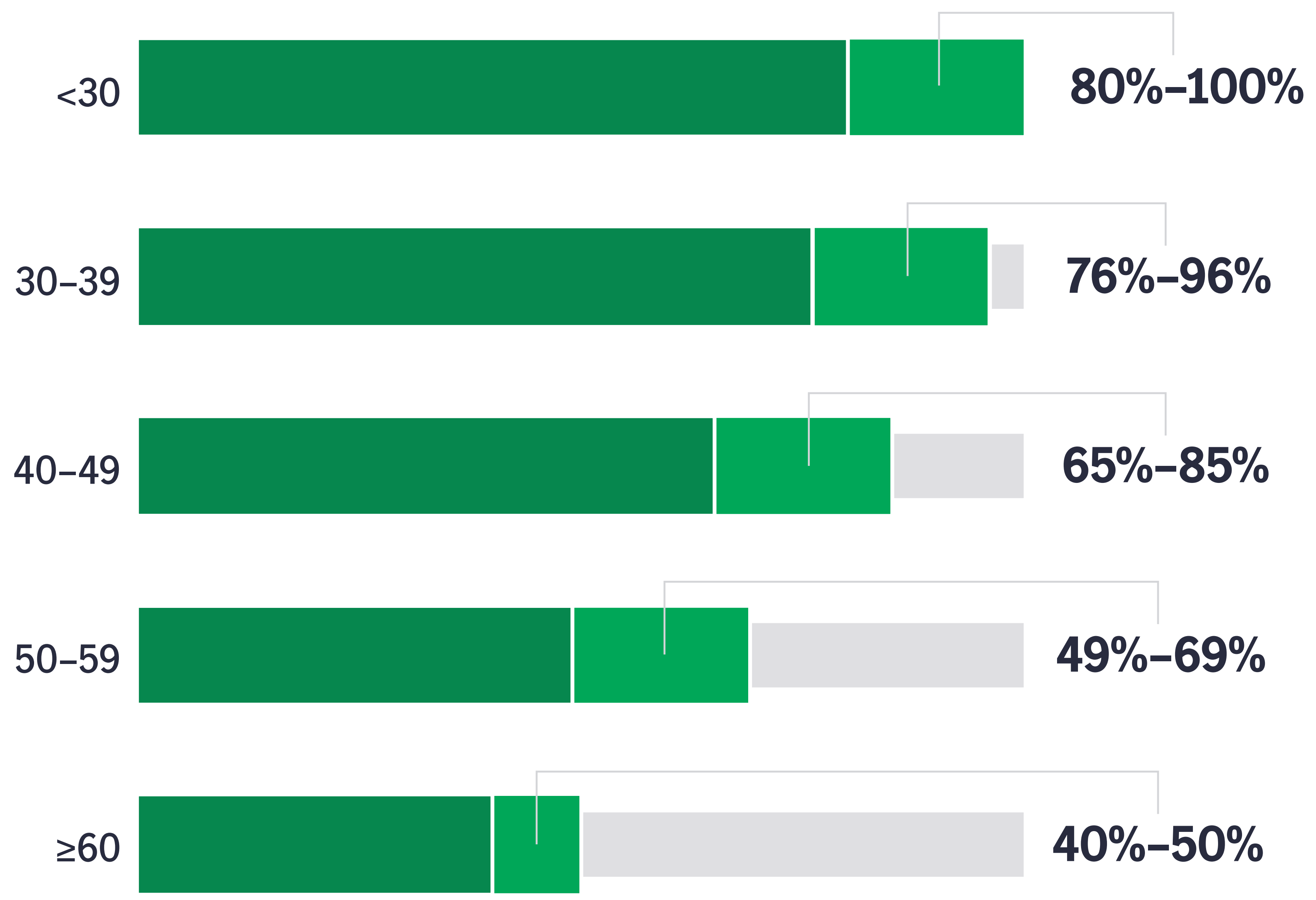
for helping participants lock in steady progress

- Auto-enrollment, the default initial contribution rate, and the auto-increase benefit are the big three levers for getting participants off to a strong start. If you don't use auto-enroll or auto-increase today, consider looking into them.
- Consider running periodic auto-sweep campaigns to give employees who have previously opted out of your plan a nudge to get back in.
- If your auto-increase cap is below 10%, consider increasing it. Once participants see the effects of the first three or four annual contribution increases, they're unlikely to opt out of the feature. This, of course, is smart investor behavior.

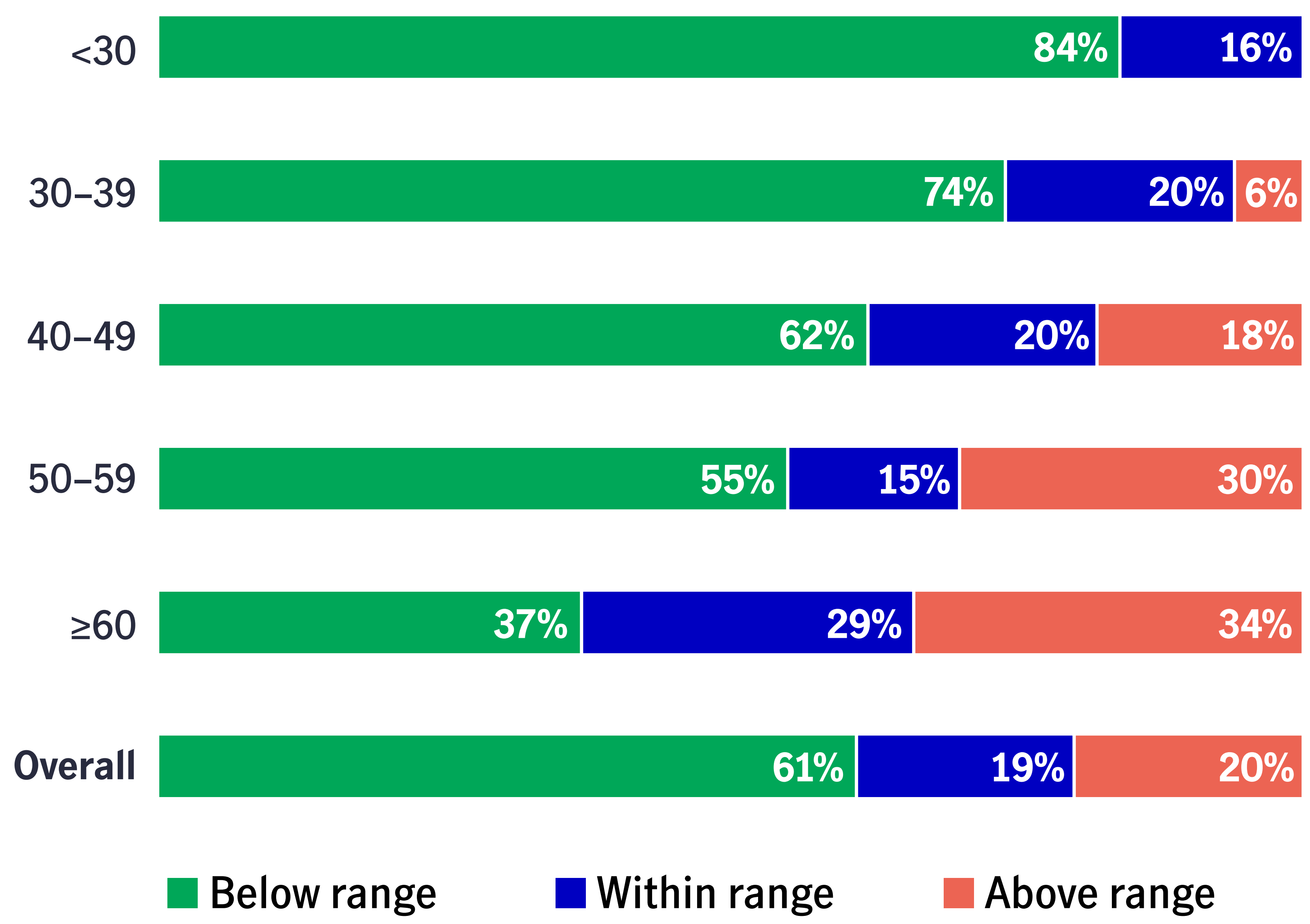
Self-directed participants *choose* to invest on the conservative side

DC plan participants who select their own individual investments—outside of target-date and target-risk funds, custom portfolios, and managed accounts—tend to hold a smaller share of equities than recommended by our models. Only 20% of participants are investing the recommended amount in equities.

Recommended amount of portfolio invested in equities by age



Self-directed investors falling within and outside their target equity ranges



Investors aged 60 and older are more likely than younger participants to invest within range, which may be due to their relatively low recommended equity percentage: 40% to 50% equity for 60+, compared with 80% to 100% for the youngest participants.

Tips ...

for improving investment behaviors

- Provide general investment education to help your participants understand the importance of equity in a long-term portfolio and the need to consider reshaping their strategy as they move toward retirement.
- Make personalized investment advice readily available to provide participants a better chance at proper investment strategies and asset allocation. This can include digital planning tools, managed accounts, or one-on-one advice provided by your plan's financial professional or another trusted resource.
- If you're **considering cryptocurrency** for your plan's investment lineup, proceed with caution. The U.S. Department of Labor (DOL) position is based on continued price volatility and the risk of fraud and theft.[6]

6 "DOL Pushes Back on Crypto, SDBA Concerns," National Association of Plan Advisors, napa-net.org, April 2022.

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ESG funds establish a *beachhead*

In October 2021, the DOL proposed a change to ERISA that would officially allow fiduciaries to consider environmental, social, and governance (ESG) factors in selecting funds for their DC plan lineups. Although these rules weren't yet official as of the date of this writing, some of the plans we administer in our open-architecture platform do include ESG funds.

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Destined to multiply? The growing percentage of John Hancock DC plans making ESG funds directly available to participants

The totals below are for stand-alone ESG offerings and don't include funds available through brokerage windows. Interest among plan professionals, sponsors, and participants will most likely expand the inclusion of ESG funds in plan investment lineups.

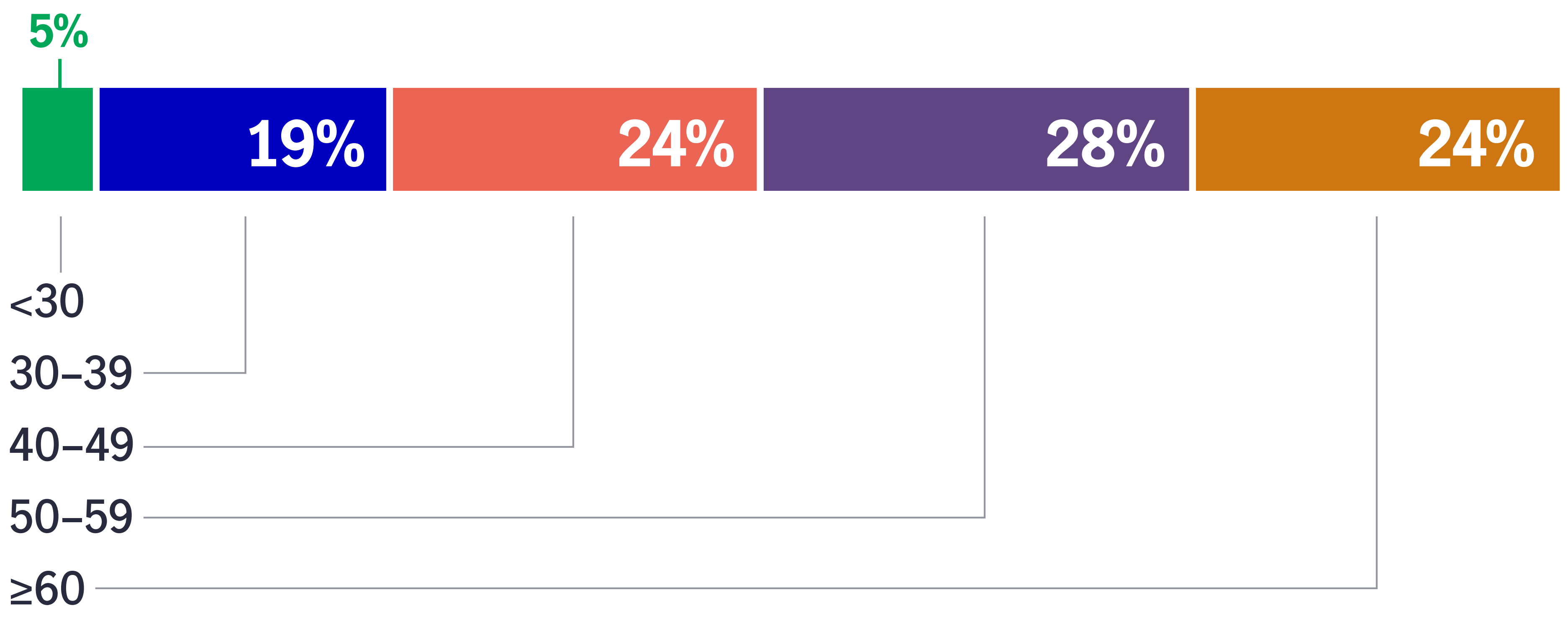
John Hancock year-end internal data for open-architecture plans for 2019 through 2021.

Incorporating ESG criteria and investing primarily in instruments that have certain ESG characteristics, as determined by the manager, carry the risk that the fund may perform differently, including underperforming, than funds that do not use an ESG investment strategy.

Breakdown of all participants directly invested in ESG funds by age

Although industry research has suggested that the preference for responsible investing starts young and tapers down by age group,[7] our participant data tells a different story.

The average age of direct ESG investors in our DC plans is 49. The largest group is those aged 50 to 59 and, in all, over one-half are 50 or older.



7 For an example, see "U.S. Asset and Wealth Management," Cerulli Associates, June 2021.

Stable value fund ownership *remains* a popular high interest-rate option

Stable value funds seek to offer a higher yield than money market funds and short-to-intermediate bond-like performance—all with an insurance-backed guarantee. A fund manager's ability to adjust the duration of a stable value fund's bond holdings can help make them a good **hedge against inflation**.

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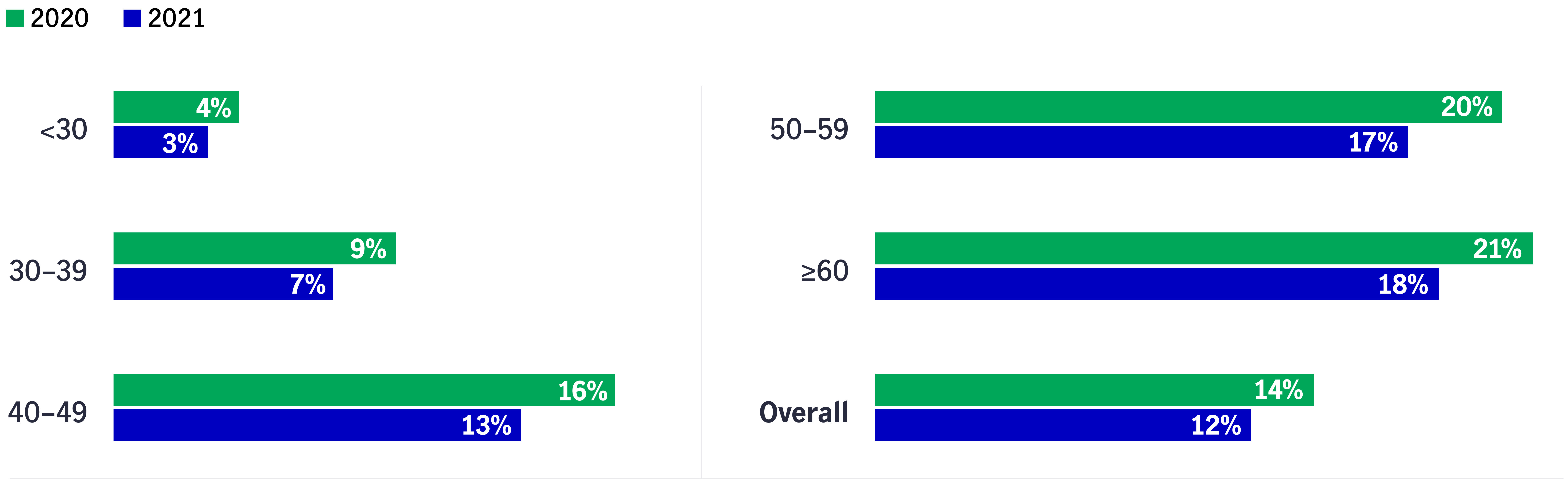
Participants in each age group holding stable value investments

Our latest figures show a slight dip in the share of participants holding stable value funds from 2020 to 2021. Appropriately, ownership grows among older participants, as their recommended equity holdings decline.



Stable value portfolios typically invest in a diversified portfolio of bonds and enter into wrapper agreements with financial companies to prevent fluctuations in their share prices. Although a portfolio will seek to maintain a stable value, there is a risk that it will not be able to do so, and participants may lose their investment if both the fund's investment portfolio and the wrapper provider fail.

Tips ...

for evaluating your investment lineup

- Evaluate your investment lineup to see if ESG funds are a current or potential fit for your plan and, if so, the parameters you might set for their inclusion.
- Look more closely at the unique advantages of stable value investments—including their guarantees and their ability to help counter inflation and withstand rising interest rates. Determine if they might have a place in the capital preservation sector of your plan lineup.

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Retirement program strategy, plan design, and participant engagement can help *optimize* retirement readiness

If there's one thing the last year has proven, it's that DC plans have become a viable pathway to retirement for American workers. Thanks to the support of plan sponsors and financial professionals, participants of all ages and occupations are keeping their eyes on the target, staying committed, and positioning themselves to create the retirement income they'll need.

For over 50 years, John Hancock has helped people plan and invest for retirement in plans of all sizes. Our goal is to ensure that all the pieces work together and offer all the support necessary to make retirement plans work for everyone involved.

For more information, including a consultation or help with a request for proposal, contact your John Hancock representative or visit **retirement.johnhancock.com**.

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Source: "PLANSPONSOR 2021 Defined Contribution Recordkeeper Survey," © 2021 Asset International, Inc., June 2021.

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