

Demographic Dynamics and Spending Behaviors Impacting Retirement Readiness



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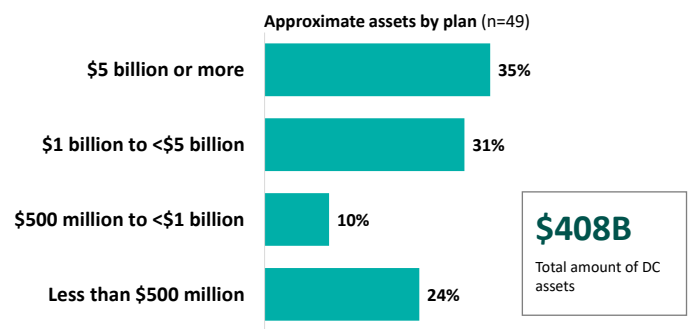
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Survey overview

- The following slides provide select findings from Capital Group’s 2023 Institutional Retirement Survey of Plan Sponsors, an online survey conducted with 52 plan sponsors from October to December 2023.

The plan sponsors surveyed represent a variety of industries, asset levels and geographies, with more than two-thirds having assets of \$1 billion or more.



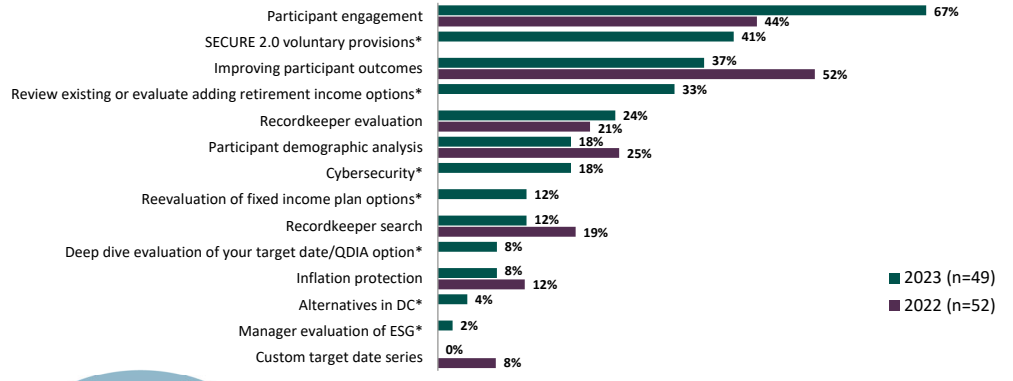
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Plan sponsor priorities: Looking forward

2024 priorities

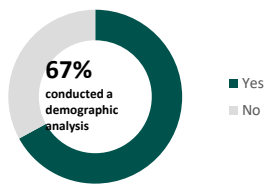
The top priorities for defined contribution (DC) plans in the next 12 months



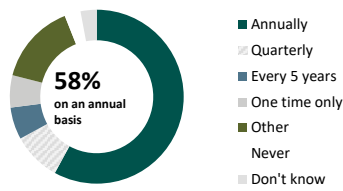
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Demographic analysis

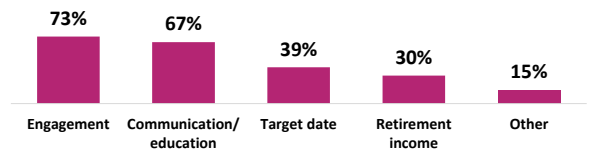
Percentage of DC plan sponsors that have conducted a demographic analysis (n=49)



Frequency of reviewing participant demographics (n=33)



Improvements as a result of demographic analysis (n=33)*



Characteristics most commonly evaluated include:

- Contribution rate (97%)
 - Account balance (94%)
 - Pay level (76%)
 - Gender (64%)
 - Access to a DB plan (55%)
- Others include job type, company stock holdings/match, loans, military status, education, tenure, location and race/ethnicity.

Slide illustrates data from public and corporate DC plan sponsors. *Above are plan sponsors' answers to how they used demographic analysis to improve different areas. Details on the extent of those improvements were not provided.

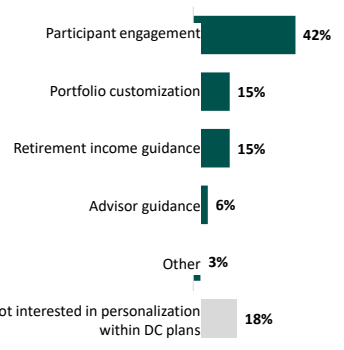


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Personalization

- Sponsors look to personalization to help increase participant engagement. Improving outcomes/meeting participant goals by better understanding their needs is generally considered a "success" by sponsors.

Primary driver of personalization (n=33)



Definition of "success in personalization" (n=29)*

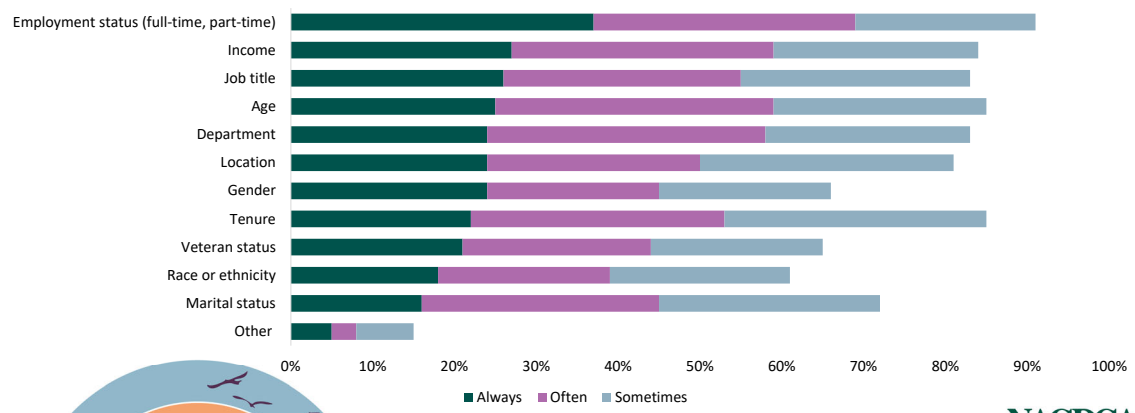


*Caution: small sample size. Slide illustrates data from public and corporate DC plan sponsors. For financial professionals or institutional investors only. Not to be used with the public.



Program success can be evaluated across a range of characteristics

Frequency assessing financial wellness programs by demographics

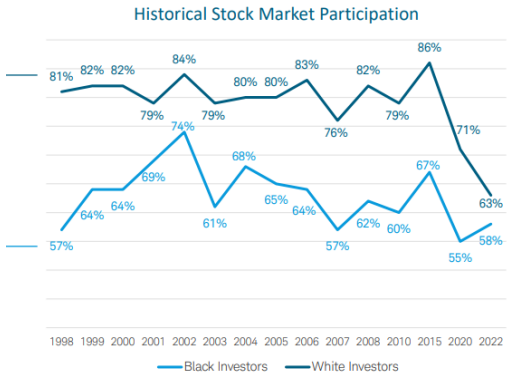


Source: EBRI 2024 Financial Wellbeing Employer Survey.



Against the backdrop of unprecedented stock market volatility since the beginning of the pandemic, the 2022 Ariel-Schwab Black Investor Survey revealed investor participation at historic lows for both Black and white Americans.

- In 2022, just 58% of Black Americans and 63% of white Americans owned stocks, compared to survey peaks: 74% of Black investors in 2002 and 86% of white investors in 2015.
- While the investment gap between Black and white Americans narrowed in 2022, there was a significant drop-off among white investors (down 8 percentage points from 71% in 2020) and only a nominal increase among Black investors (up 3 percentage points from 55% in 2020).
- However, stock market participation was higher among younger Black Americans, with 68% of Black respondents under 40 reporting that they were investing, compared to 57% of younger white investors.



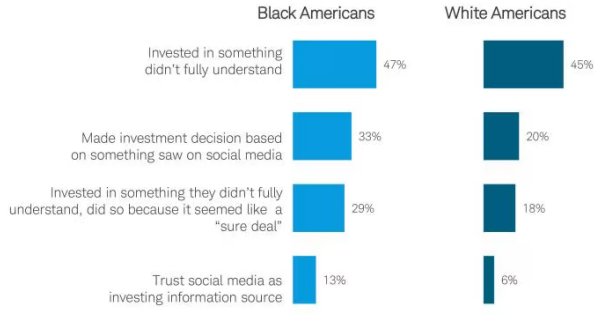
For many Black Americans, higher risk assets are the first foray into investing, demonstrating evidence of an education gap.

- One-quarter of Black Americans (25%) currently own cryptocurrency, and among Black investors under 40, that figure jumps to 38%. This is compared to only 15% of white investors who own cryptocurrency, and 29% of white investors under 40.
- Black investors are less likely than white investors to think that cryptocurrency is a risky investment (68% vs. 73%).
- Black investors are also more likely than white investors to believe investments in cryptocurrency are both safe (33% vs. 18%) and regulated by the government (30% vs. 14%).
 - This mindset is even more common among Black investors under 40, with 51% believing it is safe and 41% believing it is government-regulated.



More education is needed—especially among younger investors.

- **Nearly half of all Black and white investors (47% and 45%, respectively) report investing in something they did not fully understand.**
 - This is even more pronounced among investors under 40 (58% and 46%, respectively).
- **While both groups are entering the market without the information they need, Black investors are more likely to trust and make investment decisions based on less credible information sources, such as social media.** One-third of Black investors (33%) say they have invested based on something they saw on social media, compared to less than a quarter of white investors (20%).
 - This gap is even more pronounced among Black and white investors under 40 (51% and 36%, respectively).



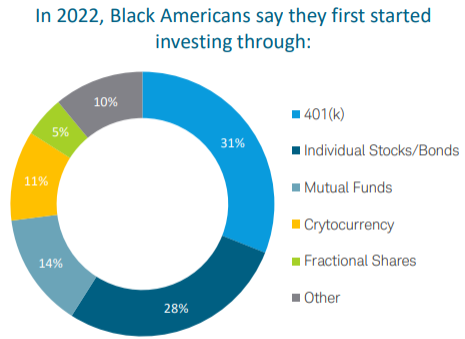
Trust and fear are barriers to investing, respect is on the move

- **Black Americans are less trusting of the stock market (30% vs. 23%) and financial institutions (28% vs. 18%)** compared to white Americans. This has led to many Black investors pulling out of the market.
- **Black investors are also more fearful of losing money than white investors**—56% cite it as a concern prior to investing compared to 46% of white investors. In parallel, Black investor perception of the stock market as offering a fair opportunity for all to profit improved in 2022 (48% vs. 40% in 2020), signaling optimism for the future.
- **While trust remains low, feelings of respect have also improved.** As in 2020, Black Americans were less likely than white Americans to feel respected by financial institutions, however, that gap has decreased substantially. Black Americans feel more respected in 2022 (44% vs. 35%), while white Americans feel less respected (51% vs. 62%).
- **When it comes to growing and protecting their assets, Black Americans are less trusting of people (32% vs. 45%) and more trusting of technology (31% vs. 21%),** than white Americans.



Workplace Retirement Plans Not the Only Gateway to Investing

- **Over the last several decades, the Black Investor Survey has shown that 401(k) plans have been the entry point to investing for many Black Americans.** While the defined contribution plan participation gap between Black and white investors has nearly closed, participation rates have stagnated and are well below 2015 numbers.
- Additionally, investors are entering the stock market through a variety of investment vehicles. **In 2020, 63% of Black investors reported first investing through a retirement plan.** In 2022, respondents were given an expanded list of entry point options. Only 31% of Black Americans report first investing through a workplace plan.



More than twice as many Black investors as white investors said cryptocurrency was their first investment (11% vs 4%).



Signs of Improvement

- **Black Americans are saving and investing more in 2022, with an impressive 40% increase in contributions**—up to \$657 per month on average from \$393 in 2020. The increase is driven by new investors, high earners, and respondents under 40. Despite these strides, white Americans are saving and investing significantly more (\$857 per month).
- Historically, the survey has shown that Black Americans are less likely than white Americans to have discussed the stock market growing up. In 2022, however, **the gap has closed as Black and white investors are almost equally as likely to discuss the stock market with their families** (41% vs. 43%, respectively). Over the past two years during the pandemic, these “dinner table conversations” about investing have increased for both racial groups (up from 37% of Black investors and 36% of white investors in 2020).



Methodology

Recruiting criteria:

Random sample:

- Mix of genders
- Age 18+
- \$50K+ household income in 2021
- Primary or shared decision maker for household financial decisions

Oversampling to achieve 300 Black respondents with \$100K+ income

(this number fell naturally among white respondents)

Weighting was conducted in order to ensure that among the total sample, the proportion of Black respondents with \$100K+ income is aligned with the proportion of this group among the random sample (before oversampling was started)

A total of 2,057 surveys were completed as follows:

- 1,035 among those identifying as Black (1,000 random sample + 35 oversample on income)
- 1,002 among those identifying as white

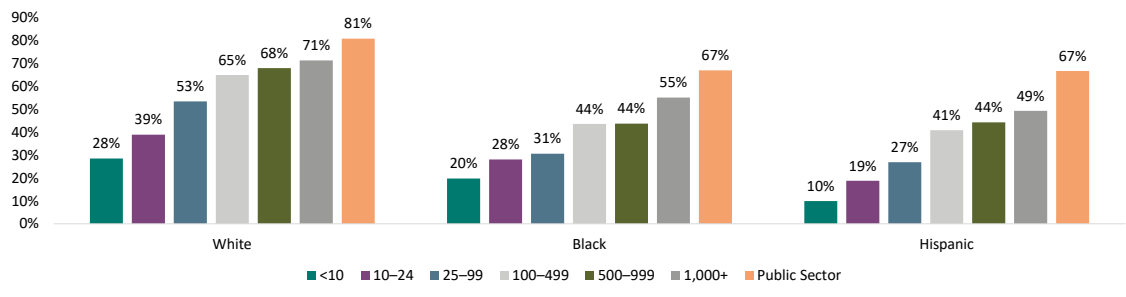


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Retirement plan participation for Black and Hispanic workers is highest in public sector plans

Percentage of Workers Who Participated in an Employment-Based Retirement Plan, by Firm Size and Race/Ethnicity, 2022



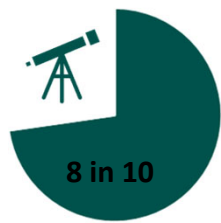
Source: Employee Benefit Research Institute estimates of the 2023 March Current Population Survey.

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Measures of wellbeing in retirement... how are current retirees faring?



say their **standard of living** is the same or higher than when they were working



report **moderate or high alignment** between their current life in retirement and their pre-retirement



report **high satisfaction** with life in retirement



Source: EBRI 2024 Spending in Retirement Survey.

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How are public sector retirees' wellbeing compared to private sector retirees?



No significant difference on the alignment of retirement life with expectations between private and public sector retirees



Public sector retirees are slightly more likely to report a **higher standard of living in retirement** than private sector retirees (14% vs 11 %)



Public sector retirees more likely to report **higher satisfaction** than private sector retirees (50% vs 46%)

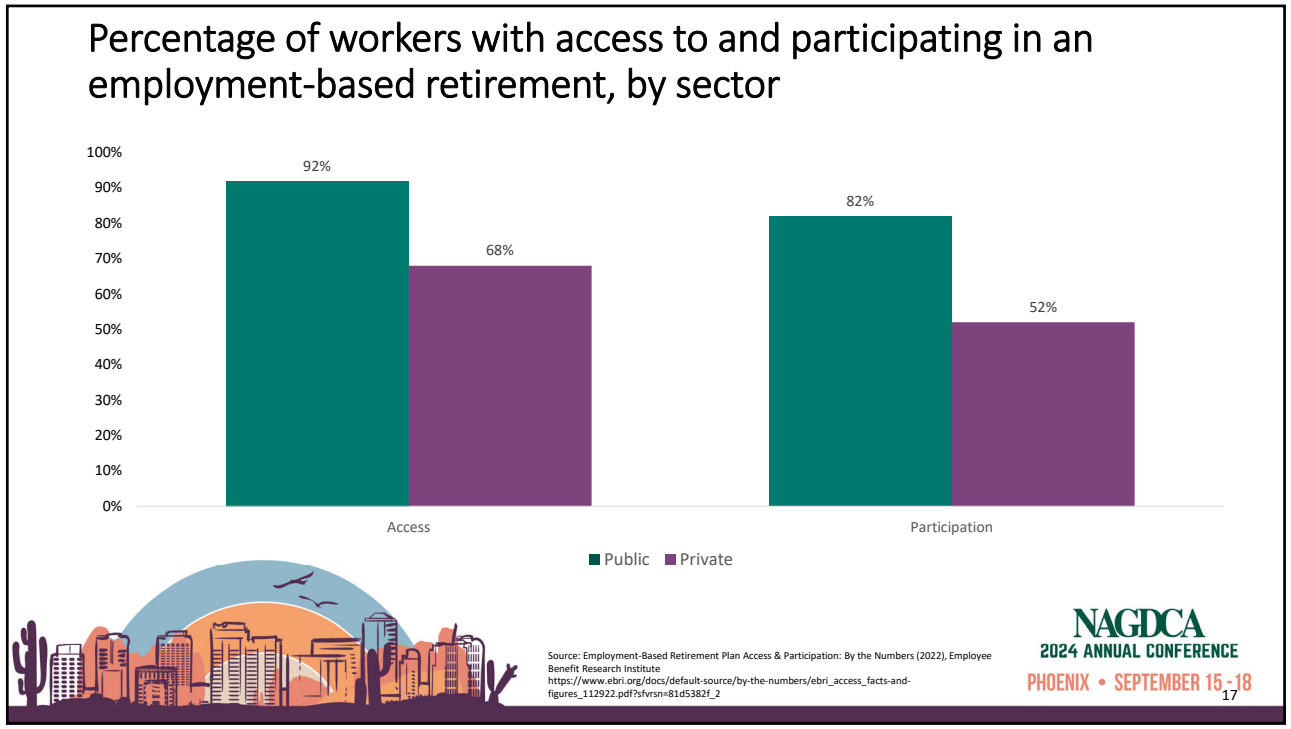
Contributing factors

- > Access
- > Participation
- > Tenure

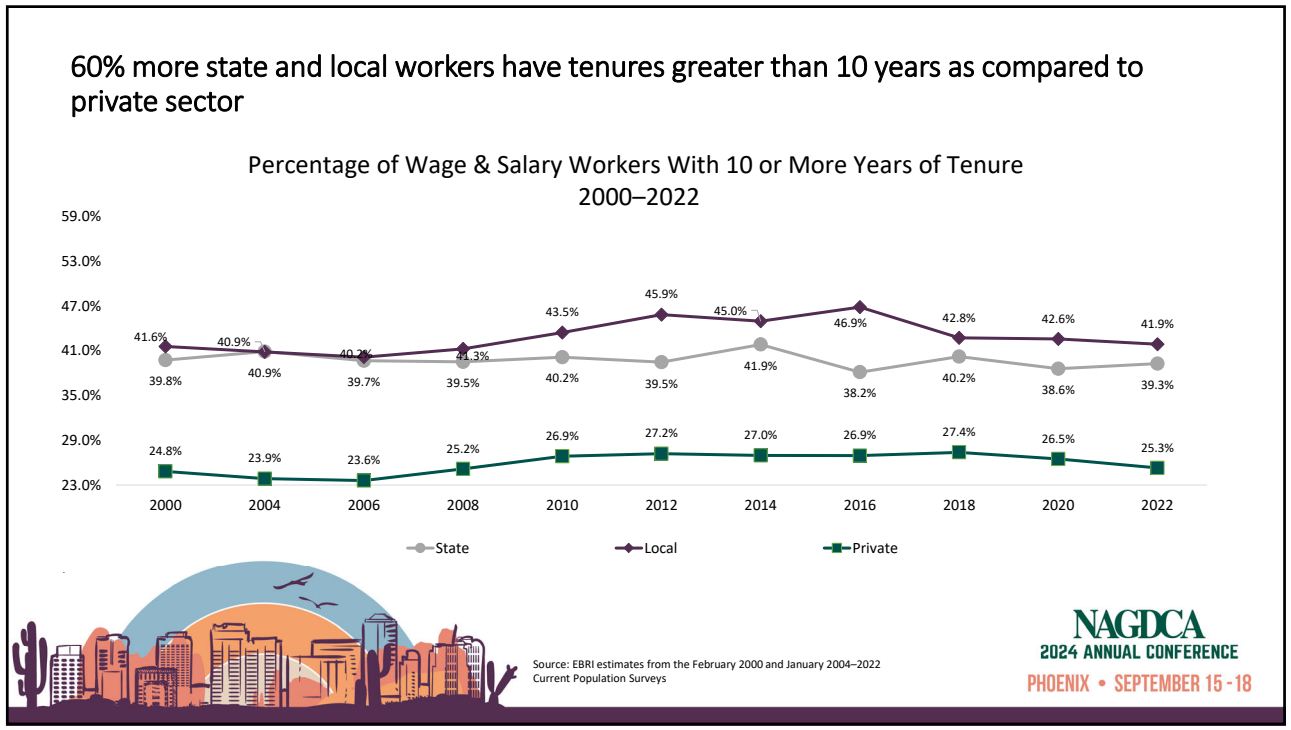


Source: EBRI 2024 Spending in Retirement Survey.

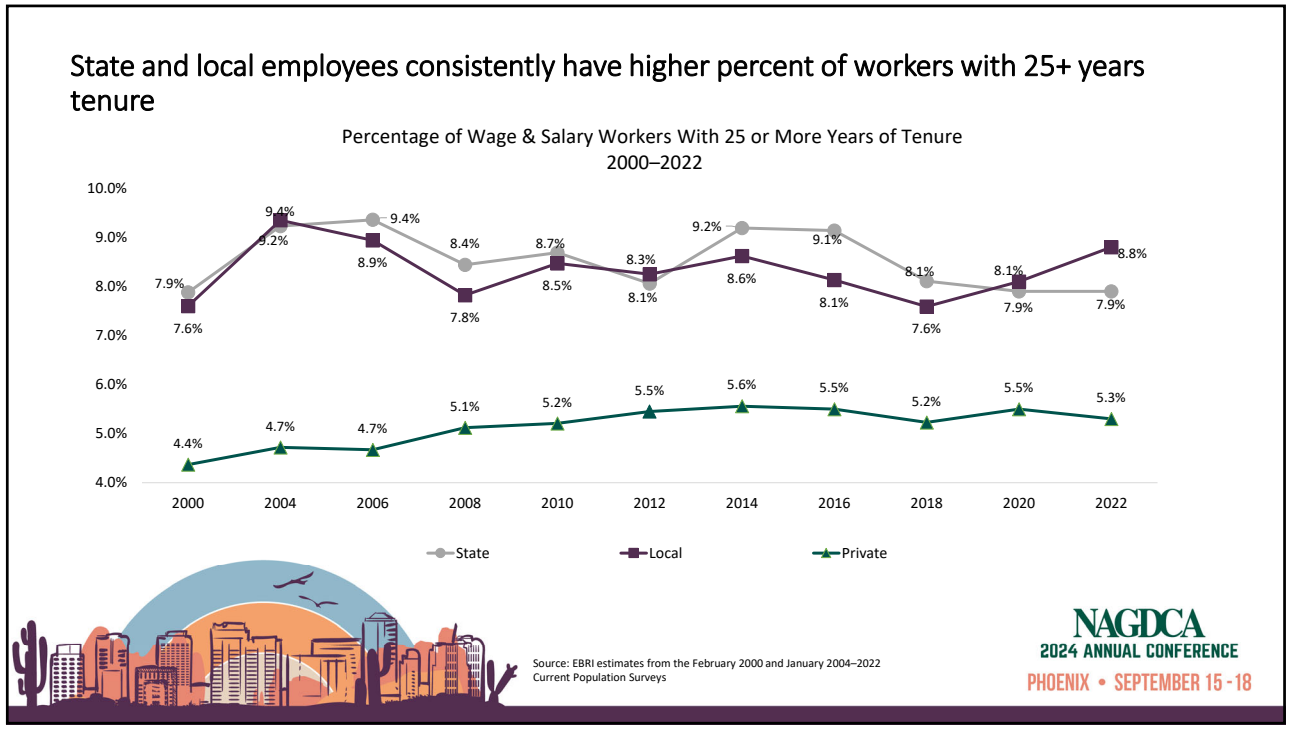
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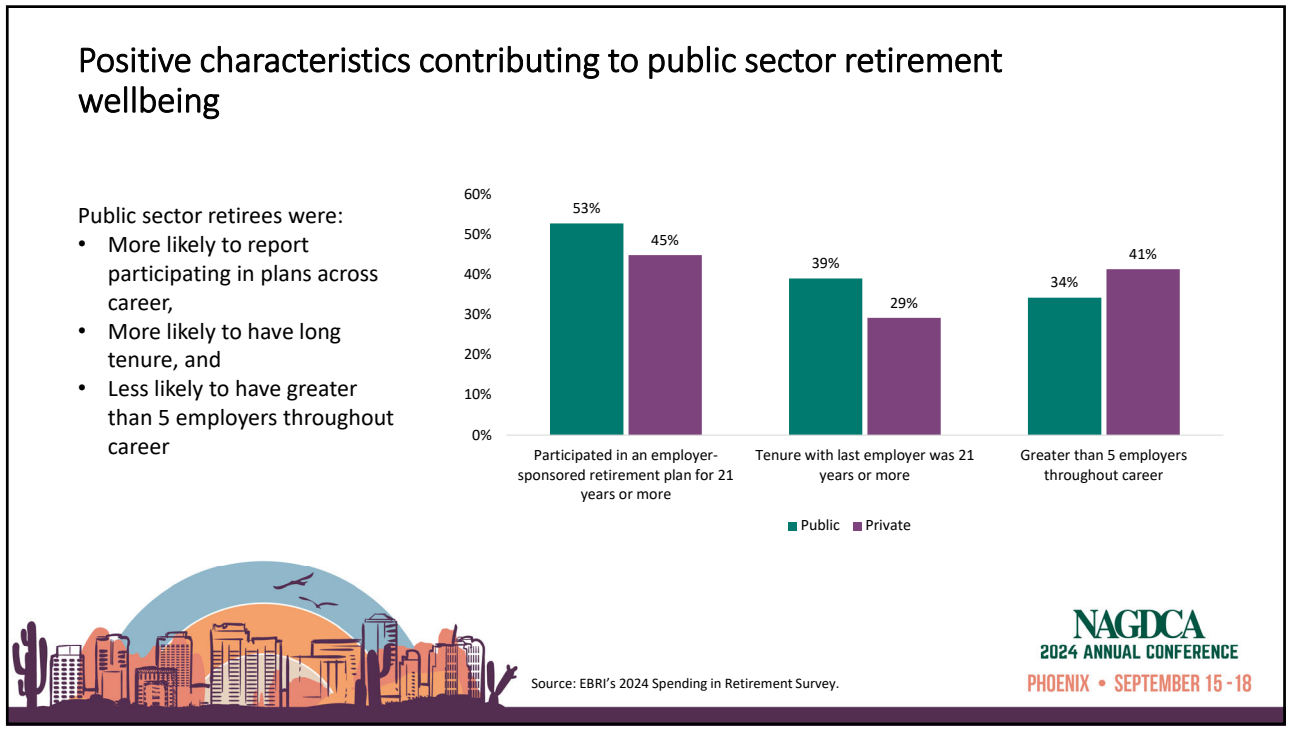
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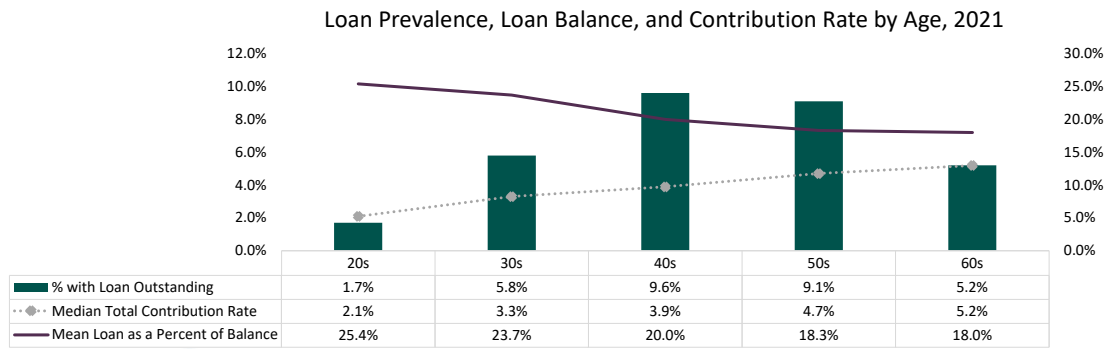


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Age is an important lens as well given changes in spending patterns, e.g. participants in their 40s are most likely to have a loan outstanding



Source: PRRL. The State of Public Sector DC Plans: 2021.

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How do spending spikes impact financial outcomes for public employees?



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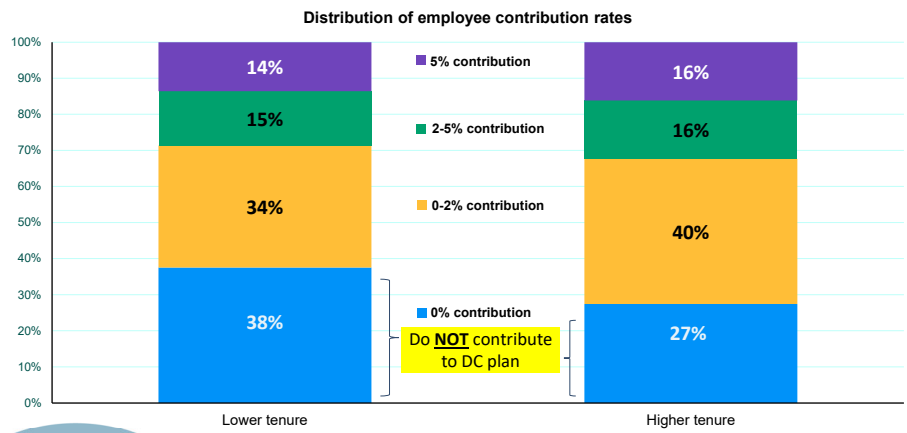
Building on prior work to examine how spending spikes impact the finances of public employees

- ✓ **Sept. 2023: J.P. Morgan Asset Management + Employee Benefit Research Institute (EBRI) research**
 - Found a significant impact from spending spikes on retirement readiness for 401(k) participants
- ✓ **June 2020: J.P. Morgan Asset Management + PRRL**
 - Key finding: supplemental DC plans are critically important for public sector employees since DB benefits are often reduced for younger workers
- **New research: J.P. Morgan Asset Management + PRRL**
 - *How do spending spikes impact financial outcomes for public employees?*



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Lower-tenured employees, who are more likely to experience reduced DB benefits, save less in DC plan



Source: "Spending and saving behavior of public-sector defined contribution plan participants," Public Retirement Research Lab and J.P. Morgan Asset Management.



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Measuring spending spikes



Monthly spending 25% above the previous 12 months' median spending

Spending spike → *Can't be funded by that month's income*

"Unfunded" spending spike → *Can't be funded by that month's income AND cash reserves*



Source: "How Financial Factors Outside of a Defined Contribution Plan Can Impact Retirement Readiness: An Examination of Public Sector Participants," Public Retirement Research Lab and J.P. Morgan Asset Management.

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Measuring spending spikes



Monthly spending 25% above the previous 12 months' median spending

3x per year → **Spending spike** → *Can't be funded by that month's income*

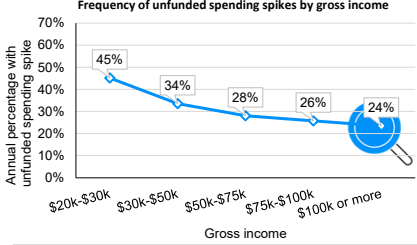
2x per year → **"Unfunded" spending spike** → *Can't be funded by that month's income AND cash reserves*



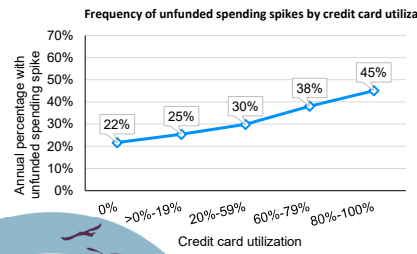
Source: "How Financial Factors Outside of a Defined Contribution Plan Can Impact Retirement Readiness: An Examination of Public Sector Participants," Public Retirement Research Lab and J.P. Morgan Asset Management.

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Who is experiencing unfunded spending spikes?



- Households with lower incomes have more unfunded spending spikes
- Nearly 1 in 4 participants with income >\$100k had an unfunded spending spike – it isn't just an income problem



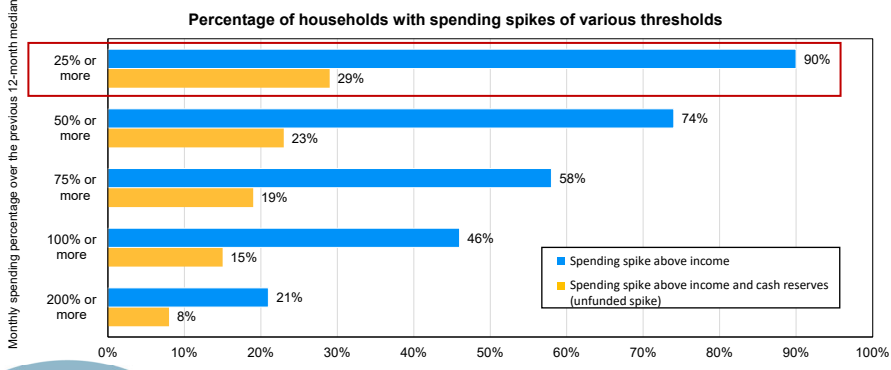
- Higher credit card utilization is correlated with unfunded spending spikes

Source: "How Financial Factors Outside of a Defined Contribution Plan Can Impact Retirement Readiness: An Examination of Public Sector Participants," Public Retirement Research Lab and J.P. Morgan Asset Management.

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How many public plan households experience spending spikes?

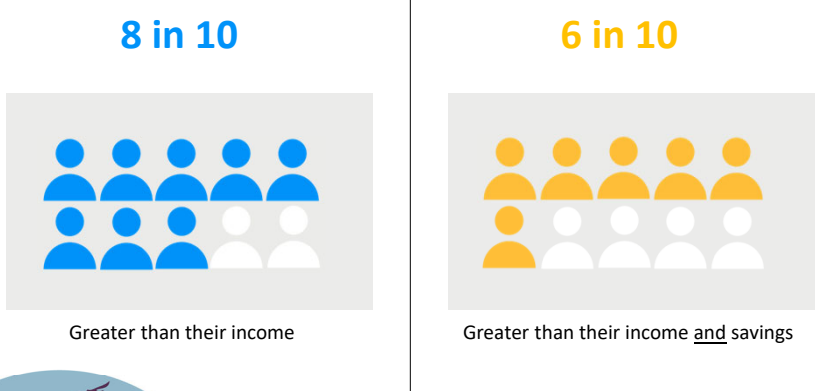
**9 in 10 households experience spending spikes above their income;
Nearly 1 in 3 households cannot fund these spikes with income and cash reserves**



Source: "How Financial Factors Outside of a Defined Contribution Plan Can Impact Retirement Readiness: An Examination of Public Sector Participants," Public Retirement Research Lab and J.P. Morgan Asset Management. Note: Annual percentages.

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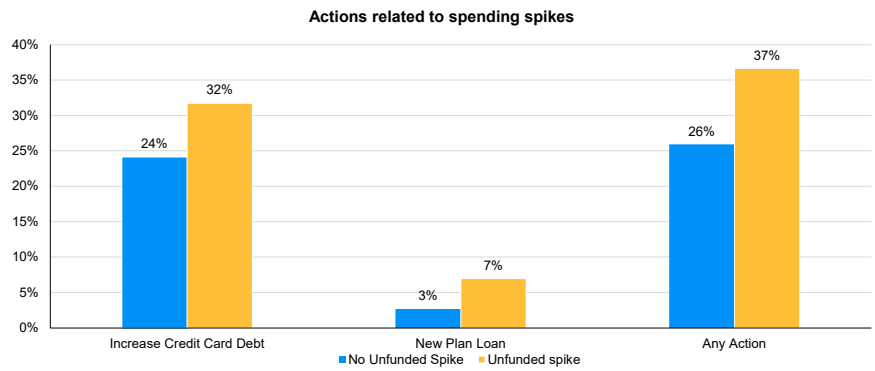
How many non-highly compensated employees have unfunded spending spikes over \$2,500?



Source: "How Financial Factors Outside of a Defined Contribution Plan Can Impact Retirement Readiness: An Examination of Public Sector Participants," Public Retirement Research Lab and J.P. Morgan Asset Management.

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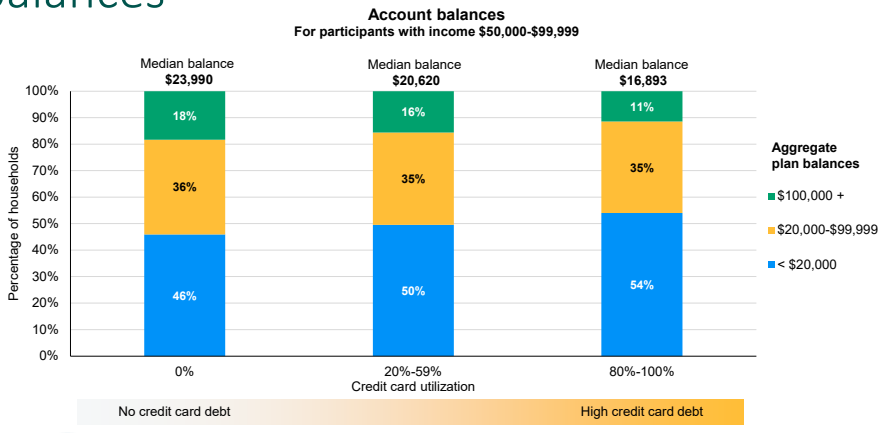
Increasing credit card debt and new plan loans were more common for those with unfunded spending spikes



Source: "How Financial Factors Outside of a Defined Contribution Plan Can Impact Retirement Readiness: An Examination of Public Sector Participants," Public Retirement Research Lab and J.P. Morgan Asset Management.
Note: Not all plans offer loans, so the new plan loan comparison was made for those who have that option only.

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Those with higher credit card utilization have lower plan balances



Source: "How Financial Factors Outside of a Defined Contribution Plan Can Impact Retirement Readiness: An Examination of Public Sector Participants," Public Retirement Research Lab and J.P. Morgan Asset Management. Note: Median balance amounts have been rounded to the nearest \$10.

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Public employers and public policy can help improve outcomes

Public employer implications

- 1 Take participant behavior into account when selecting investments for DC plans
- 2 Consider in-plan retirement income options if DB plans do not offer adequate income replacement for stable expenses
- 3 Provide education on debt management and emergency savings, and target employees who have taken plan loans
- 4 Help employees determine what they should contribute to supplemental DC plans
- 5 Automate, incentivize and/or encourage emergency savings

Public policy implications

- 1 Correct the SECURE act 2.0 oversight and allow in-plan emergency savings in public DC plans
- 2 A larger limit for in-plan emergency savings may be warranted (over \$2,500)



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Opportunities for demographic analysis

- Making the most of your data



Understand what plan design or investments could have the most impact for participants



Benchmark versus plans of similar size and complexity



Prioritize key initiatives and maximize committee and staff time







Personalize education and communication programs to meet the needs of your members



Relying on your partners

You are NOT alone!

 <p>Recordkeeper/third party administrator</p>	 <p>Consultants & advisors</p>	 <p>Investment managers</p>	 <p>Industry partners</p>
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Sample data request

PUBLIC RETIREMENT RESEARCH LAB
Briefing for Plan Sponsors

WHAT ARE WE BEING ASKED TO DO?
NAGDCA is replacing its Annual Benchmarking Survey with a national public sector defined contribution database. To do this, they are partnering with the Employee Benefits Research Institute (EBRI), an organization that previously built and maintains a similar database for 401(k) plans. The NAGDCA database will only contain public sector information. We are being asked to participate by **providing data to the database.**

WHAT DOES "PARTICIPATION" MEAN?
We will be asked to **authorize our recordkeeper** to transfer participant- and plan-level data. The data will be heavily encrypted by our recordkeeper before it is sent to the database, and no personally identifiable information (PII) will be transferred to the database. EBRI has used a similar method with their 401(k) database for many years.

DATA THE RECORDKEEPER WOULD TRANSFER (IF AVAILABLE)

Participant Level Data

- Most Recent Demographic Info
 - age
 - gender
 - tenure
 - salary (if available)
- Fund Info
 - fund specific information on asset allocation for current year contributions
 - fund specific information on asset allocation for aggregate account balances for beginning and end of plan year
 - loan balance and withdrawal activity

DC Plan Level Data

- Qualitative plan information (i.e., auto features, roth provisions, loan provisions)

Security Features

- Absolutely no personally identifiable information will be transferred, including social security numbers, employee ID numbers, birth dates, or any other identifiable data.
- The database receives only encrypted data.
- No vendor or other plan can access our data.
- All data is stored completely offline.

Benefits to our Plan

We get three free benefits for participating:

- A comprehensive report detailing our plan's comparative statistics versus the universe of public sector plans and a subset of our peers
- Free access to the NAGDCA data portal where we can perform custom searches to compare our plan to our peer plans.
- Free access to any research conducted by EBRI & NAGDCA.

QUESTIONS? Contact Matt Petersen, NAGDCA Executive Director, at mpetersen@nagdca.org.



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