Defined Contribution Plan Participants' Activities

First Quarter 2010

Investment Company Institute®

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The Investment Company Institute (ICI) is the national association of U.S. investment companies. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers.

Key Findings

» **Results from the 2010:Q1 ICI Survey of DC Plan Recordkeepers generally indicated lower levels of participant-initiated changes among DC plan participants.**

» **DC plan withdrawal activity, which has always tended to be limited, fell to even lower levels in the first quarter of 2010.** Only 1.2 percent of DC plan participants took withdrawals in the first quarter of 2010, compared with 2.7 percent in the first quarter of 2009. Already low levels of hardship withdrawal activity also moved even lower. Only 0.4 percent of DC plan participants took hardship withdrawals during the first quarter of 2010, compared with 1.2 percent in the first quarter of 2009.

» **The share of participants that stopped making contributions in the first quarter of 2010 was significantly lower than the share that stopped contributing in the first quarter of 2009.** Only 1.1 percent of DC plan participants stopped contributing in the first quarter of 2010, compared with 2.7 percent in the first quarter of 2009.

» **During a time of generally rising stock market values in the first quarter of 2010, most DC plan participants stayed the course with their asset allocations.** Four percent of DC plan participants changed the asset allocation of their account balances and 4.5 percent changed the asset allocation of their contributions in the first quarter of 2010.

» **The level of loan activity at the end of the first quarter of 2010 was in line with experience of the past several years.** At the end of March 2010, 17.0 percent of DC plan participants had loans outstanding, compared with 16.5 percent at year-end 2009 and 17.0 percent at year-end 2004.

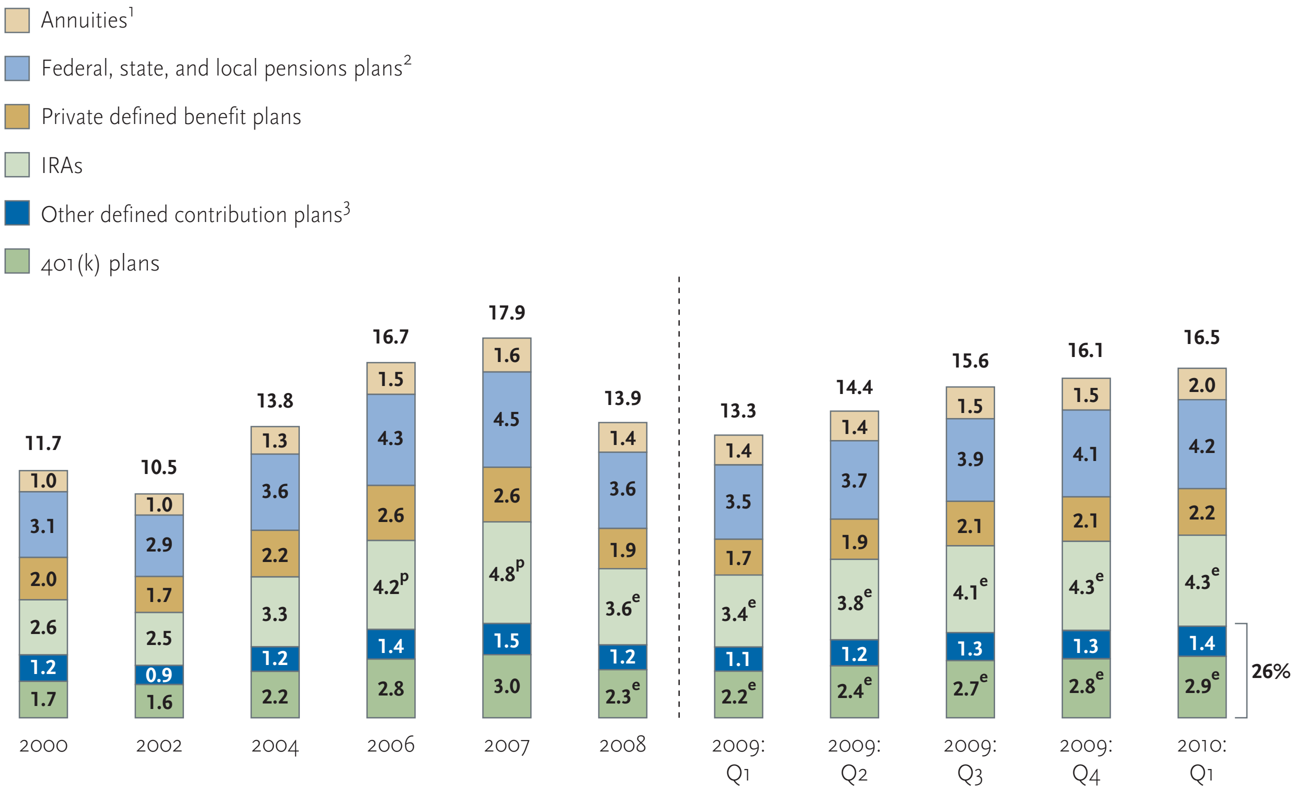
Introduction

Defined contribution (DC) plan assets are a significant component of Americans' retirement assets, representing about one-quarter of the total retirement market (Figure 1) and about one-tenth of U.S. households' aggregate financial assets in the first quarter of 2010.[1] In an effort to measure participant-directed changes in DC plans, ICI has been tracking participant activity through recordkeeper surveys since 2008.[2] This update reports results from ICI's survey of a cross-section of recordkeeping firms representing a broad range of DC plans and covering nearly 24 million employer-based DC retirement plan participant accounts as of March 2010. The broad scope of the recordkeeper survey provides valuable inferences about recent withdrawal, contribution, asset allocation, and loan decisions of participants in these plans. The most recent survey covered DC plan participants' activities in the first three months of 2010, a time of generally rising stock market returns (Figure 2).

FIGURE 1

26 Percent of U.S. Retirement Assets Were Defined Contribution Plan Assets

Trillions of dollars, end-of-period, selected time periods



[1]Annuities include all fixed and variable annuity reserves at life insurance companies less annuities held by IRAs, 403(b) plans, 457 plans, and private pension funds (including 401(k) plans).

[2]Federal pension plans include U.S. Treasury security holdings of the civil service retirement and disability fund, the military retirement fund, the judicial retirement funds, the Railroad Retirement Board, and the foreign service retirement and disability fund. These plans also include securities held in the National Railroad Retirement Investment Trust and Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP).

[3]Other DC plans include 403(b) plans, 457 plans, and private employer-sponsored DC plans without 401(k) features.

[e]Data are estimated.

[p]Data are preliminary.

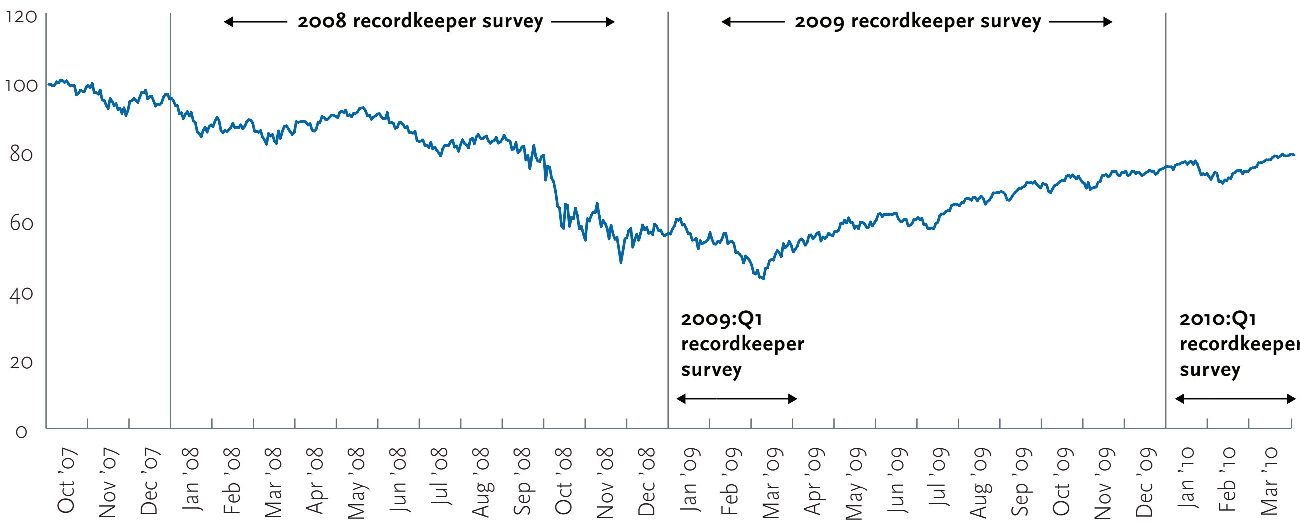
Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

FIGURE 2

Domestic Stock Market Index

S&P 500 total return index; day-end level, October 2007–March 2010*



*The S&P 500 is an index of 500 stocks chosen for market size, liquidity, and industry group representation. In the figure, the index is set to 100 in October 2007.

Sources: Investment Company Institute, Bloomberg, and Standard & Poor's

DC Plan Participants' Activities in 2010:Q1

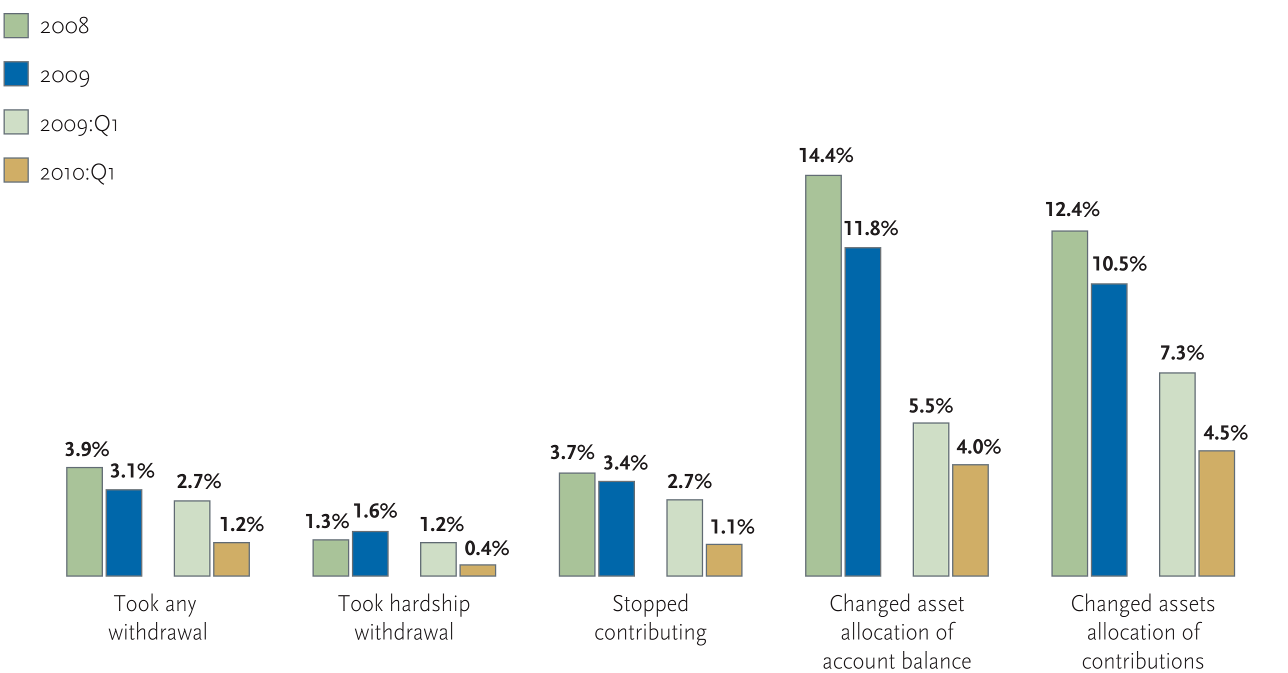
The *withdrawal and contribution data* indicate that essentially all DC plan participants continued to save in their retirement plans at work. Low levels of withdrawal activity moved lower, and a negligible share of participants stopped contributing. In the first three months of 2010, only 1.2 percent of plan participants took withdrawals from their DC plan accounts, with 0.4 percent taking hardship withdrawals (Figure 3).[4] These levels of activity are lower than in the first three months of 2009.[5] A lower percentage of DC plan participants stopped contributing in the first quarter of 2010 compared to a year earlier as well. In the first quarter of 2010, only 1.1 percent of DC plan participants stopped contributing, compared with 2.7 percent in the first quarter of 2009. It is possible that some of these participants stopped contributing because they had reached the annual contribution limit.[6]

The current survey of recordkeeping firms also gathered information about *asset allocation changes* in DC account balances or contributions. During the first quarter of 2010, 4.0 percent of participants had changed the asset allocation of their account balances, compared with 5.5 percent in the first quarter of 2009 (Figure 3).[7] Reallocation activity regarding contributions was also lower compared with the same time period a year earlier: 4.5 percent had changed the asset allocation of their contributions in 2010:Q1, compared with 7.3 percent in 2009:Q1.

FIGURE 3

Defined Contribution Plan Participant Activities in the First Quarter of 2010

Summary of recordkeeper data; percentage of participants



Note: The samples include more than 22 million DC plan participants for data covering full-year 2008; nearly 21 million DC plan participants for data covering 2009:Q1; and nearly 24 million DC plan participants for data covering full-year 2009 and 2010:Q1.

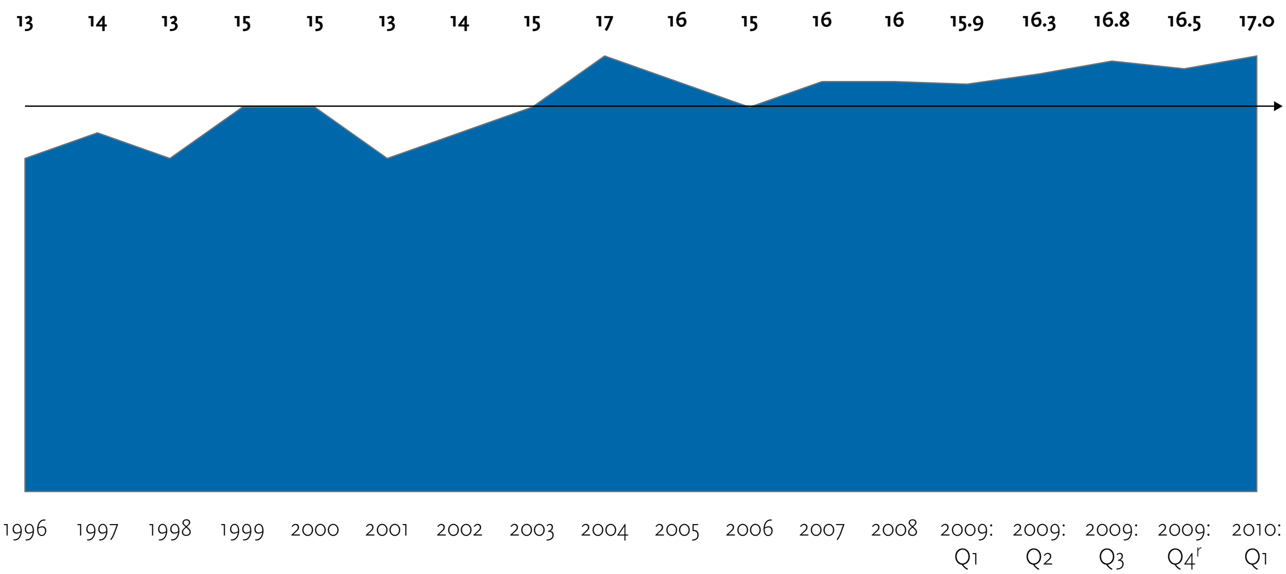
Source: ICI Survey of DC Plan Recordkeepers (January–December 2008; January–December 2009; January–March 2009; January–March 2010)

Loan activity remained in line with the experience of the past several years. As of March 2010, 17.0 percent of DC plan participants had loans outstanding, as reported by the sample of recordkeepers (Figure 4). At year-end 2009, the recordkeeper survey found that 16.5 percent of DC plan participants had loans outstanding.[8] This recent loan activity also is in line with historical experience. The EBRI/ICI 401(k) database for year-end 2008 found that 16.0 percent of 401(k) participants had loans outstanding at year-end 2008, in line with the past several years.[9]

FIGURE 4

401(k) Loan Activity

Percentage of 401(k) participants who had loans outstanding, end-of-period, 1996–2008, 2009:Q1–2010:Q1



[r]Data are revised.

Note: The EBRI/ICI data cover 401(k) plans; the ICI Survey of DC Plan Recordkeepers covers DC plans more generally (although the bulk are 401(k) plans).

Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (1996–2008); ICI Survey of DC Plan Recordkeepers (March 2009–March 2010)

Additional Reading

- "The U.S. Retirement Market, First Quarter 2010." *Investment Company Institute Fundamentals*. Available at www.ici.org/pdf/fm-v19n3-q1.pdf.
- *Enduring Confidence in the 401(k) System*. Investment Company Institute. Available at www.ici.org/pdf/ppr_10_ret_saving.pdf.
- *ICI Resources on 401(k) Plans*. Investment Company Institute. Available at www.ici.org/401k.

Notes

[1] Total financial assets of U.S. households were $45.5 trillion at the end of the first quarter of 2010. See Federal Reserve Board 2010.

[2] The recordkeeper survey data were first published for year-to-date October 2008 (see Reid and Holden 2008), then for full-year 2008 (see Investment Company Institute 2009a), then for the first half of 2009 (see Investment Company Institute 2009b), then for the first three-quarters of 2009 (see Holden, Sabelhaus, and Reid 2010), and then for full-year 2009 (see Investment Company Institute 2010).

[3] The withdrawal rates observed for 2009 (3.1 percent of DC plan participants with withdrawals; 1.6 percent with hardship withdrawals) were similar to those for 2008 (3.9 percent of DC plan participants with withdrawals; 1.3 percent with hardship withdrawals), which were in line with past years' experiences among the recordkeepers and the rate of withdrawal activity observed in the EBRI/ICI 401(k) database in 2000 (at the beginning of the 2000–2002 bear market in equities). The Employee Benefit Research Institute (EBRI) and ICI collaborate on an annual 401(k) data collection project. Analysis of the 2000 EBRI/ICI 401(k) database found that 4.5 percent of active 401(k) plan participants had taken in-service withdrawals, including hardship withdrawals. Withdrawal activity varied with participant age; participants younger than 60 were much less likely to take withdrawals compared with participants in their sixties. See Holden and VanDerhei 2002.

[4] There are two types of withdrawals possible from DC plans: nonhardship and hardship. An in-service withdrawal occurs if the participant is still employed by the plan sponsor. Generally, participants withdrawing after age 59½ are categorized as nonhardship withdrawals. A participant seeking a hardship withdrawal must demonstrate financial hardship and generally faces a 10 percent penalty on the taxable portion of the withdrawal. If a plan allows loans, participants generally are required to first take a loan before they are permitted to take a hardship withdrawal.

[5] The comparison is made to the similar time period a year earlier for two reasons. First, the length of time analyzed is the same (three months). Second, if there are any effects that are typical for the beginning of the year (e.g., people getting bonuses to invest, first quarter profit-sharing contributions may occur, people reacting to upcoming taxes, people reacting to past holiday spending), then it is important to compare time periods that may experience these similar "seasonal" effects. In addition to these seasonal effects, DC plan participant activity may be influenced by cyclical factors (e.g., recent stock market returns).

[6] The recordkeepers typically remove participants who are no longer working for the employer sponsoring the plan. It would not be correct to include such separated, retired, or terminated participants, because they cannot contribute. The goal of the survey is to measure the activity of active DC plan participants.

[7] See note 5. Whereas some participants may visit their asset allocations at the beginning of the year and not again, it is not possible to translate the year-to-date figures into an estimate of activity for the whole year.

Annual rates of account balance reallocation activity observed in the ICI Survey of DC Plan Recordkeepers for 2008 and 2009 are consistent with the behavior observed in earlier years in other data sources. Historically, recordkeepers find that in any given year, DC plan participants generally do not rebalance in their accounts (for references to this research, see note 80 in Holden, Brady, and Hadley 2006; and discussion of changes in asset allocation and note 39 in Holden, VanDerhei, and Alonso 2009).

[8] This figure is revised downward slightly from the 16.8 percent reported in Investment Company Institute 2010.

[9] The EBRI/ICI 401(k) database update reports loan activity among 401(k) participants in plans that allow loans. At year-end 2008, 88 percent of participants in the database were in plans that offer loans; among those participants, 18 percent had a loan outstanding at year-end 2008. This translates to 16 percent of all active 401(k) participants having a loan outstanding. The year-end 2008 EBRI/ICI database includes statistical information about 24.0 million 401(k) participants in 54,765 plans, with $1.092 trillion in assets. See Holden, VanDerhei, and Alonso 2009.

References

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