ICI RESEARCH REPORT

Defined Contribution Plan Participants' Activities, First Quarter 2011

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Contents

Figures

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Key Findings

DC plan withdrawal activity in the first quarter of 2011 remained low and was similar to the activity observed in the first quarter a year earlier. In 2011:Q1, 1.2 percent of DC plan participants took withdrawals, as was the case in 2010:Q1. Levels of hardship withdrawal activity also remained low. Only 0.4 percent of DC plan participants took hardship withdrawals during 2011:Q1, the same pace as in 2010:Q1.

The commitment to contribution activity in 2011:Q1 continued at the high rate observed in 2010:Q1. Only 1.0 percent of DC plan participants stopped contributing in 2011:Q1, compared with 1.1 percent during 2010:Q1 and 2.7 percent during 2009:Q1.

Most DC plan participants stayed the course with their asset allocations as stock values wandered up and then down and then up again during the first three months of the year. In the first quarter of 2011, 4.4 percent of DC plan participants changed the asset allocation of their account balances and 4.2 percent changed the asset allocation of their contributions. These levels of reallocation activity were similar to the reallocation activity observed in the same time frame a year earlier.

DC plan participants' loan activity edged back slightly by March 2011, although it continues to remain elevated compared to two years ago. This pattern of activity also was observed in the wake of the bear market and recession earlier in the decade. At the end of March 2011, 18.0 percent of DC plan participants had loans outstanding, compared with 18.2 percent at year-end 2010.

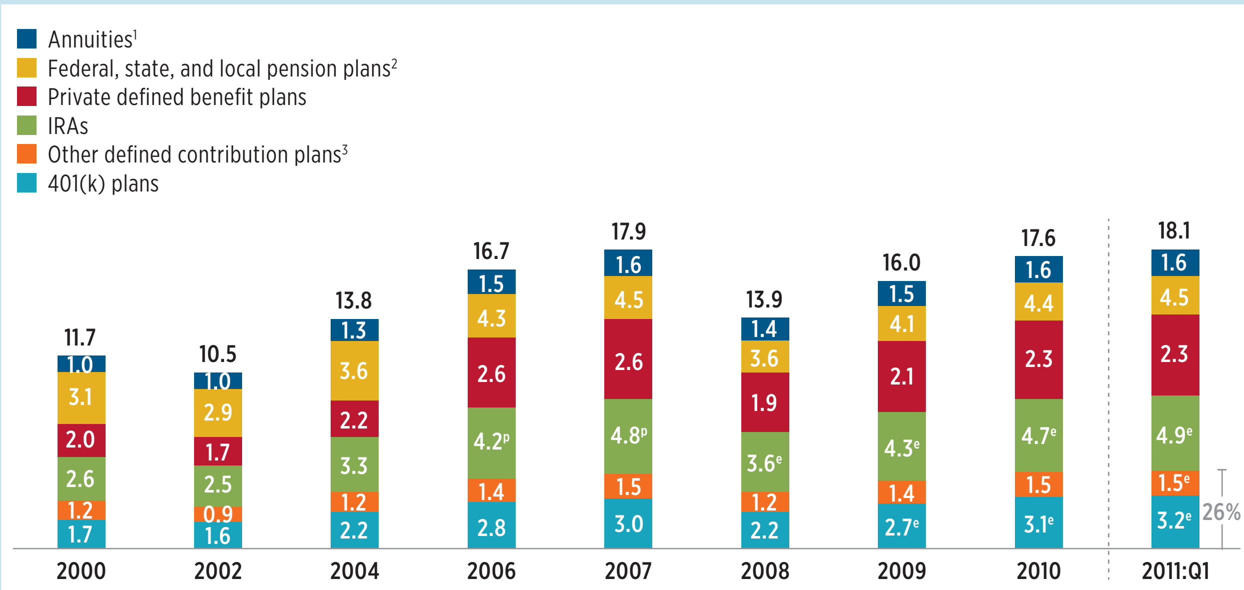
Introduction

Defined contribution (DC) plan assets are a significant component of Americans' retirement assets, representing more than one-quarter of the total retirement market (Figure 1) and almost one-tenth of U.S. households' aggregate financial assets at the end of the first quarter of 2011.[1] To measure participant-directed changes in DC plans, ICI has been tracking participant activity through recordkeeper surveys since 2008.[2] This report updates results from ICI's survey of a cross

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 the 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.

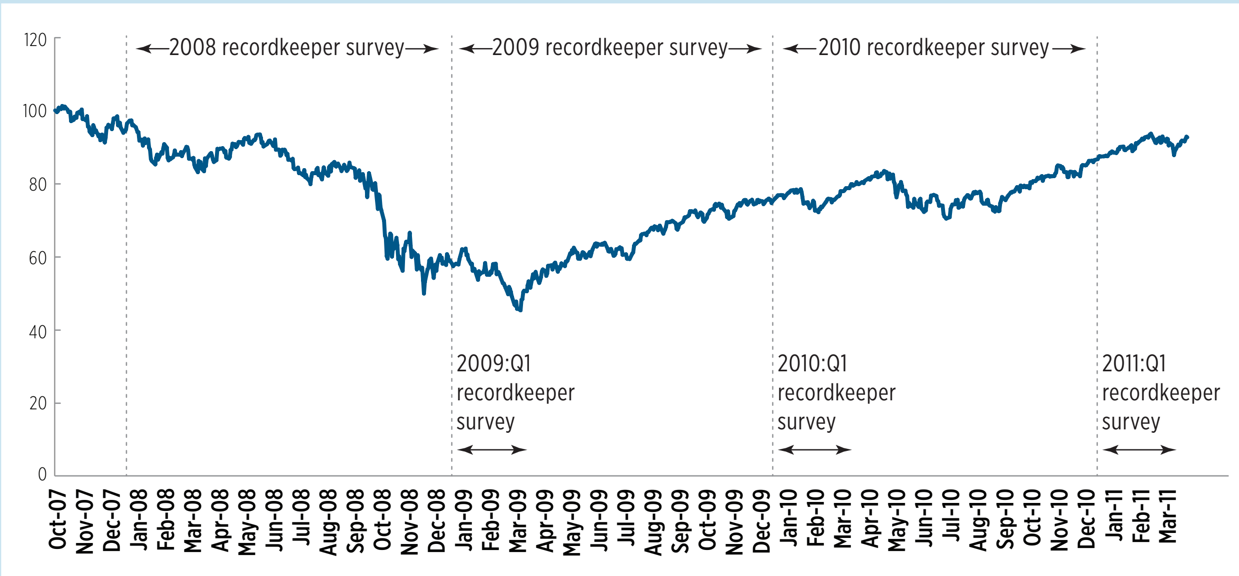
Note: Components may not add to the total because of rounding.

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 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 2011. 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 2011, with stock prices rising through mid-February, then falling through mid-March, before rising again by the end of March (Figure 2). On net, the S&P 500 total return index was up 5.9 percent in 2011:Q1.

FIGURE 2

Domestic Stock Market Index

S&P 500 total return index; day-end level, October 2007–March 2011*



* 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 2011:Q1

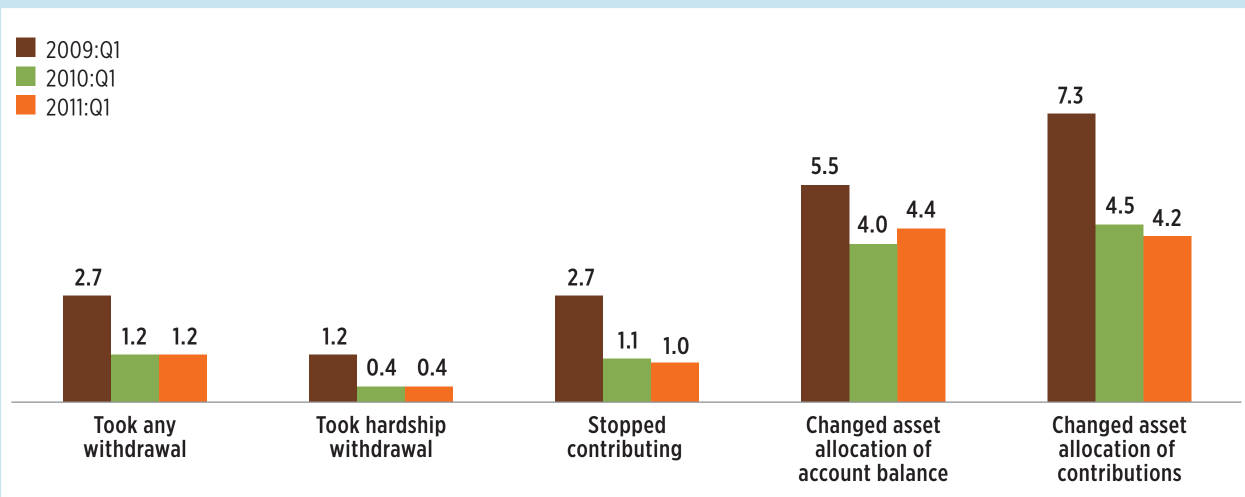
The withdrawal and contribution data indicate that essentially all DC plan participants continued to save in their retirement plans at work. DC plan participants' withdrawal activity during the first quarter of 2011 was in line with activity observed during the first quarter in the prior year, and a negligible share of participants stopped contributing during 2011:Q1. In 2011:Q1, 1.2 percent of DC plan participants took withdrawals from their DC plan accounts, with 0.4 percent taking hardship withdrawals (Figure 3).[3] These levels of activity are the same as observed in the first quarter of 2010. A negligible share of DC plan participants stopped contributing in the first quarter of 2011. In 2011:Q1, only 1.0 percent of DC plan participants stopped contributing, compared with 1.1 percent in 2010:Q1 and 2.7 percent in 2009:Q1. It is possible that some of these participants stopped contributing because they reached the annual contribution limit.[4]

The survey of recordkeeping firms also gathered information about asset allocation changes in DC account balances or contributions. During the first three months of the year, 4.4 percent of DC plan participants had changed the asset allocation of their account balances, compared with 4.0 percent in 2010:Q1 and 5.5 percent in 2009:Q1 (Figure 3).[5] Reallocation activity regarding contributions followed a similar pattern of activity, and 4.2 percent of DC plan participants changed the asset allocation of their contributions in 2011:Q1.

FIGURE 3

Defined Contribution Plan Participants' Activities in 2011:Q1

Summary of recordkeeper data, percentage of participants



Note: The samples include nearly 21 million DC plan participants for data covering 2009:Q1; nearly 24 million DC plan participants for data covering 2010:Q1; and nearly 24 million DC plan participants for data covering 2011:Q1.

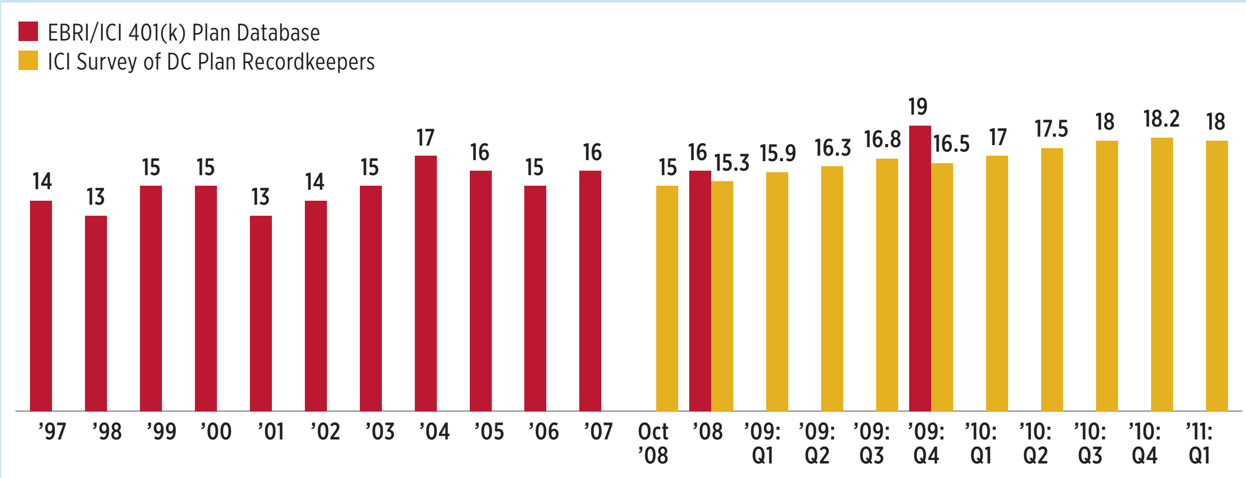
Source: ICI Survey of DC Plan Recordkeepers (January–March 2009; January–March 2010; January–March 2011)

Loan activity edged back a bit in 2011:Q1, after rising since the end of 2008 and throughout 2010.[6] This pattern of activity is similar to that observed in the wake of the bear market and recession earlier in the decade (Figure 4).[7] The sample of recordkeepers reported that as of March 2011, 18.0 percent of DC plan participants had loans outstanding compared with 18.2 percent at year-end 2010.

FIGURE 4

401(k) Loan Activity

Percentage of 401(k) participants who had loans outstanding; end-of-period, 1997–2009, October 2008, 2009:Q1–2011:Q1



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

Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (1997–2009); ICI Survey of DC Plan Recordkeepers (October 2008–March 2011)

Additional Reading

- "The U.S. Retirement Market, First Quarter 2011."
  Available at www.ici.org/pressroom/news/ret_11_q1.
- *Commitment to Retirement Security.*
  Available at www.ici.org/pdf/ppr_11_com_ret.pdf.
- *Enduring Confidence in the 401(k) System.*
  Available at www.ici.org/pdf/ppr_10_ret_saving.pdf.
- *ICI Resources on 401(k) Plans.*
  Available at www.ici.org/401k.
- "Helping Working Americans Achieve a Financially Secure Retirement: How the 401(k) Is Succeeding."
  Available at www.ici.org/pressroom/speeches/11_pss_ayco_401k.

Notes

[1] Total financial assets of U.S. households were $48.8 trillion at the end of 2011:Q1. See Federal Reserve Board 2011.

[2] This report updates recordkeeper survey data 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), then for full-year 2009 (see Investment Company Institute 2010), then for the first quarter 2010 (see Holden 2010a), then for first half 2010 (see Holden 2010b); then for the first three-quarters of 2010 (see Holden, Bass, and Reid 2011); and then for full-year 2010 (see Holden 2011).

Caution should be exercised when comparing the results from the surveys for different time periods. Data should only be compared for similar time periods because it is important to compare time periods of equal length and the same timing during the year. For example, if there are any effects that are typical for the beginning of the year (e.g., people getting bonuses to invest, profit-sharing contributions occurring in the first quarter, 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). 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.

[3] 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 are generally required to first take a loan before they are permitted to take a hardship withdrawal.

[4] 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.

[5] Annual rates of account balance reallocation activity observed in the ICI Survey of DC Plan Recordkeepers for 2008, 2009, and 2010 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 42 in Holden, VanDerhei, and Alonso 2010).

[6] Although the ICI Survey of DC Plan Recordkeepers consistently finds a slightly lower percentage of DC plan participants with loans outstanding as compared with the EBRI/ICI 401(k) database, the EBRI/ICI data exhibit a similar upward trend in 2009.

The EBRI/ICI 401(k) database update reports loan activity among 401(k) participants in plans that allow loans. At year-end 2009, 89 percent of participants in the database were in plans that offer loans; among those participants, 21 percent had loans outstanding at year-end 2009. This translates to 19 percent of all active 401(k) participants having loans outstanding. The year-end 2009 EBRI/ICI database includes statistical information about 20.7 million 401(k) participants in 51,852 plans, with $1.210 trillion in assets. See Holden, VanDerhei, and Alonso 2010.

[7] The National Bureau of Economic Research dates the recession earlier in the decade to have occurred between March 2001 and November 2001. The latest recession was dated to have occurred between December 2007 and June 2009. See National Bureau of Economic Research 2010.

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