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Most 401(k) Savers are Staying the Course: ICI Study, December 2008

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Stevens Outlines Realistic Reform Agenda for Retirement System

Washington, DC, December 19, 2008 - Most of the millions of American workers who invest for retirement through a 401(k) plan are staying the course through tumultuous markets and want to preserve the fundamental strengths of this retirement plan, according to new research released today by the Investment Company Institute.

“Workers want to keep the basic strengths of 401(k)s--tax-favored savings, individual choice in investing, and personal control of these retirement assets,” Paul Schott Stevens, ICI president and CEO, told a Newsmakers forum at the National Press Club in Washington. “Can 401(k) do even better? Yes.”

In his speech, Stevens laid out a comprehensive retirement agenda for the new Administration and Congress, including putting Social Security on a sound financial footing and bringing needed reforms to coverage, disclosure, and investor education in 401(k)s and similar employer-based retirement plans. In particular, Stevens endorsed proposals recently enacted by Congress and supported by President-elect Barack Obama to allow retirees to postpone required minimum distributions from 401(k)s and Individual Retirement Accounts (IRAs).

In an exclusive survey of records on 22.5 million participant accounts, ICI found that, despite the decline in account balances caused by the 40 percent drop in U.S. stock markets, the vast majority of savers are staying put. The records, which cover the first 10 months of 2008, show that:

- Only 3.0 percent of plan participants stopped contributing to their retirement plan;

- Just 3.7 percent of participants took any withdrawals from their accounts, including 1.2 percent taking hardship withdrawals; and
- Fifteen percent of participants had loans outstanding, in line with the 13 to 17 percent figures reported since 1996 in annual studies conducted by ICI and the Employee Benefit Research Institute.

In a separate household opinion survey, the Institute found that Americans want to preserve the current features and flexibility of retirement plans and want Washington to emphasize strengthening Social Security.

The survey of 3,000 households, conducted from late October to early December, found that:

- Seventy-two percent of all households reject the notion of reducing tax advantages for defined contribution retirement plans and Individual Retirement Accounts. Even among households that currently do not own such accounts, 62 percent oppose reducing these tax incentives.
- Americans don't want the government directing investments for retirement savers--87 percent reject a proposal that the government not allow individuals to make their own investment decisions in retirement accounts.
- Participants in 401(k) and similar plans say the plan features help them save and invest. Nine in 10 of the 1,575 households owning such plans agree that their plan "helps me think about the long term, not just my current needs." Some 88 percent say that "payroll deduction makes it easier for me to save." And 81 percent say that "the immediate tax savings from my retirement plan are a big incentive to contribute."
- Strengthening Social Security is a much higher priority for Americans than replacing 401(k) plans with a government-run retirement system.

Despite this support strong support, "the [401(k)] system can—and must—be improved," Stevens said. In the short term, "Congress should give workers--particularly older workers--the opportunity to contribute more, to help them make up for ground lost in the last year." In the longer term, reforms should encourage more employers to offer plans, and make it easier for workers to participate. Workers should have access to sound investment advice, strong investment options, and "information that they can understand and use on key topics, such as investment risks, returns, and fees," for all options in their plans, Stevens said.

"These are troubled times in our markets and our economy," Stevens said. "Americans are suffering, and they are rightly anxious."

However, he noted, 401(k) participants who stayed with their plans through the 2000-2002 bear market suffered smaller losses and recovered faster than the broad stock market. Their average account balance fell by 8 percent from 1999 to 2002—versus a 37 percent drop in the Standard & Poor's 500-stock index—thanks to diversification and their ongoing contributions. And by 2006, their average balance had risen 79 percent. The message, Stevens said, is "Stick with it. History tells us that markets will recover—and your accounts will rebound along with them."

ICI released the two surveys in a white paper, Retirement Saving in Wake of Financial Market Volatility.