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Keep Current Tax Incentives for Retirement Plan Savings, Americans Say

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Most U.S. Households, Whether Invested in a Retirement Account or Not, Agree That Retirement Savings Incentives Should Remain a National Priority

Washington, DC, February 7, 2013 - As Congress is expected to consider tax and budget reforms in the coming weeks, new 2012/2013 data show U.S. households strongly believe that lawmakers should maintain current tax incentives for retirement savings. The study, America's Commitment to Retirement Security: Investor Attitudes and Actions, 2013, by the Investment Company Institute (ICI) also finds about 80 percent of surveyed households agreed that retirement savings incentives should continue to be a national priority—whether they were invested in a retirement account or not.

Overwhelming Support for Tax Treatment of Retirement Plans

Though stresses on the U.S. government budget have resulted in a reexamination of national priorities with respect to taxes and government spending, a majority (85 percent) of the 4,000 households surveyed from November 2012 through January 2013 disagreed with a suggestion to remove the tax incentives for defined contribution (DC) plan retirement savings. Opposition to elimination of the tax advantages was the strongest among households with such accounts, with 89 percent opposing the removal of the tax advantages. But even 81 percent of the households without these accounts opposed eliminating the tax incentives. There also was widespread disapproval of reducing contribution limits.

“The survey research demonstrates Americans’ tremendous commitment to retirement savings,” said ICI President and CEO Paul Schott Stevens. “Policymakers should take heed that U.S. households value the features of 401(k) plans, and that 401(k) savers appreciate the tax deferral these plans offer.

As we anticipate budget reforms that will ask Americans to do more for themselves, lawmakers should make it a priority to preserve retirement plan tools that are working to help Americans prepare for retirement."

Survey Finds Continued Confidence in Retirement Accounts

The ICI survey shows that one factor behind the strong attitudes of U.S. households favoring the preservation of retirement savings incentives is the fact that households—whether or not they had a DC plan account—were generally confident in these plans' ability to help individuals meet their retirement goals. The survey also reveals the role DC plans play in long-term financial planning: An overwhelming majority of households invested in DC plans (about nine in 10) say that these plans help them to think about the long term and make it easier to save for retirement.

Most U.S. Households Have Favorable View of DC Plans

The survey also found that more than three-fifths (63 percent) of U.S. households have favorable impressions of the 401(k) and similar plan accounts. Most households' impressions were shaped by the ability of these accounts to accumulate significant savings, the performance of retirement plan account investments, and personal experience with such plans.

Responses to the ICI survey further indicated that respondents appreciate the key investment features of DC plans. Eighty-four percent indicated that their DC plan offered a good lineup of investment options. In addition, 96 percent indicated it is important to have choice in and control of the investments in their retirement plan accounts.

DC Plan Participants Continued to Save in Their Plans

In addition to the annual household survey of attitudes towards retirement savings, the ICI study includes data from plan recordkeepers on contributions, asset allocation, and withdrawal and loan activity in more than 24 million employer-sponsored DC plan participant accounts in the first nine months of 2012.

The recordkeeper data show continued commitment from plan participants to retirement saving: only 2.1 percent of DC plan participants stopped making contributions during the first three quarters of 2012. This is comparable to the 2.2 percent of plan participants who stopped making contributions during the first three quarters of 2011.

Other research findings about DC plan participants' actions in their accounts:

- Fewer than one in five DC plan participants had loans outstanding at the end of September 2012, similar to year-end 2011. At the end of September 2012, 18.3 percent of participants had loans outstanding, compared with 18.5 percent of participants at year-end 2011. This figure was 15.3 percent at year-end 2008, as loan activity has edged up in the wake of economic stresses.
- DC plan participants tended to stay the course with their asset allocations. Nine percent of the participants changed the asset allocation of their account balances during the first three quarters of

2012, compared with 9.4 percent of participants during the first three quarters of 2011. In addition, 6.5 percent of the participants changed the asset allocation of their contributions between January 2012 and September 2012, down from 8.4 percent during the first three quarters of 2011.
- The vast majority of DC plan participants continued to preserve the assets in their retirement plans at work. Only 2.8 percent of plan participants took withdrawals from their participant-directed retirement plans, with 1.4 percent taking hardship withdrawals. These withdrawal rates are very much in line with the recordkeeper results for the first three quarters of 2009, 2010, and 2011.

For more information about retirement issues, including 401(k) plans, please visit ICI's 401(k) resource center.
