Americans' Views on Defined Contribution Plan Saving

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Contents

Figures

Americans' Views on Defined Contribution Plan Saving

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Executive Summary

With millions of U.S. households personally directing their retirement savings, the Investment Company Institute (ICI) has sought to track retirement savers' actions[1] and sentiment. This report, the sixth annual update, summarizes results from a survey of American adults, weighted to be representative of U.S. households by age, income, region, and education level. The survey applies a dual frame sample, in which about one-quarter of respondents are contacted on a cell phone and three-quarters are contacted on a landline phone. This report presents survey results that reflect households' responses collected between November 2013 and December 2013.[2]

The survey polled respondents about their views on defined contribution (DC) retirement account saving and their confidence in 401(k) and other DC plan accounts. Survey responses indicated that households value the discipline and investment opportunity that 401(k) plans represent and that households were largely opposed to changing the tax preferences or investment control in those accounts.

Views on Defined Contribution Plan Accounts

Households generally expressed favorable impressions of DC plan accounts in fall 2013:

- Sixty-six percent of U.S. households had favorable impressions of 401(k) and similar retirement plan accounts in fall 2013, similar to 65 percent in 2012/2013.
- Among households expressing an opinion, 92 percent had favorable impressions of 401(k) plans, with 46 percent agreeing that they had a "very favorable" impression.
- Survey responses in fall 2013 indicated that households appreciate the key features of DC plans, a result that is similar to the previous survey results.

- About nine out of 10 households with DC accounts agreed that these plans helped them think about the long term and made it easier to save. More than four in 10 DC-owning households indicated they probably would not be saving for retirement if not for their DC plans. In addition, saving paycheck-by-paycheck made 68 percent of DC-owning households surveyed less worried about the stock market.
- Nearly nine in 10 DC-owning households said the tax treatment of their retirement plans was a big incentive to contribute.
- Nearly all households with DC accounts agreed that it was important to have choice in, and control of, the investments in their DC plans. Eighty-six percent indicated that their DC plan offered a good lineup of investment options.

Views on Proposed Changes to Defined Contribution Plan Accounts

In addition, households' views on policy changes revealed a strong preference to preserve retirement account features and flexibility.

- A strong majority of U.S. households disagreed with proposals to remove or reduce tax incentives for retirement savings.
- In fall 2013, 86 percent of households disagreed that the government should take away the tax advantages of DC accounts, and 83 percent disagreed with reducing the amount that individuals can contribute to DC accounts.
- Support for DC account tax treatment also was widespread even among households not owning DC accounts or individual retirement accounts (IRAs). In fall 2013, 81 percent of households without DC accounts or IRAs rejected the idea of taking away the tax treatment of DC accounts.
- Eighty-six percent of households disagreed with not allowing individuals to make investment decisions in their DC accounts, and more than eight in 10 disagreed with replacing all retirement accounts with a government bond.

Confidence in Defined Contribution Plan Accounts

- Households—whether they had retirement accounts or not—were generally confident in DC plans' ability to help individuals meet their retirement goals.
- Among households owning DC accounts or IRAs, more than eight in 10 indicated they were confident that such accounts could help people meet their retirement goals.
- Among households not owning DC accounts or IRAs, nearly two-thirds expressed confidence that such accounts can help people meet their retirement goals.

Introduction

IRAs and DC plan accounts[3] have become a common feature of the U.S. retirement landscape. More than half of total U.S. retirement assets are held in such accounts,[4] and more than six in 10 U.S. households have a portion of their assets invested in them.[5] Given the rising importance of retirement accounts, this survey sought to find out:

- what Americans' views were on their 401(k) plans; and
- what their opinions were on some proposed policy changes.

This report is the sixth update of the survey research.[6] The survey consists of answers to questions included in a series of national telephone surveys that GfK Custom Research North America fielded from mid-November 2013 through mid-December 2013, covering a total sample of 3,021 American adults. Survey results are weighted to be representative of U.S. households by age, income, region, and education level. The survey applies a dual frame sample, in which about one-quarter of respondents were contacted on a cell phone and three-quarters were contacted on a landline phone.

This report sheds light on households' views of 401(k) and similar DC plan accounts by analyzing survey responses to four different areas of questioning. First, all households were asked how favorably they viewed DC plan accounts. Second, households owning DC accounts were asked to agree or disagree with statements describing features of DC plans. Third, all households, whether they owned retirement accounts or not, were asked to agree or disagree with some proposed changes to DC accounts. Finally, all households were asked how much confidence they had in the ability of 401(k) and similar employer-sponsored retirement plan accounts to help individuals meet their retirement goals.

Views on Defined Contribution Plan Accounts

The survey assessed Americans' views on saving in 401(k) and similar accounts through four avenues of questioning:

- soliciting whether respondents had favorable, unfavorable, or no opinions of such accounts;
- asking respondents to agree or disagree with statements evaluating the features of DC account saving;
- asking respondents to agree or disagree with some proposed changes to several key features of DC accounts; and
- asking respondents about their degree of confidence in DC accounts to help individuals meet their retirement goals.

Views on Defined Contribution Plan Saving

A majority of U.S. households continued to have favorable impressions of 401(k) and similar retirement accounts. In fall 2013, 66 percent of U.S. households had "very" or "somewhat" favorable impressions of DC plan accounts, similar to the 65 percent who had favorable impressions of DC plan accounts in 2012/2013 (Figure 1).[7] Households owning DC accounts or IRAs were more likely to express an opinion of DC account investing and 82 percent of households owning DC accounts or IRAs indicated a favorable impression of such saving. Nevertheless, even among the non-owning respondents, 86 percent of those who expressed an opinion had a favorable view (compared with 95 percent with favorable opinions among account owners with opinions).

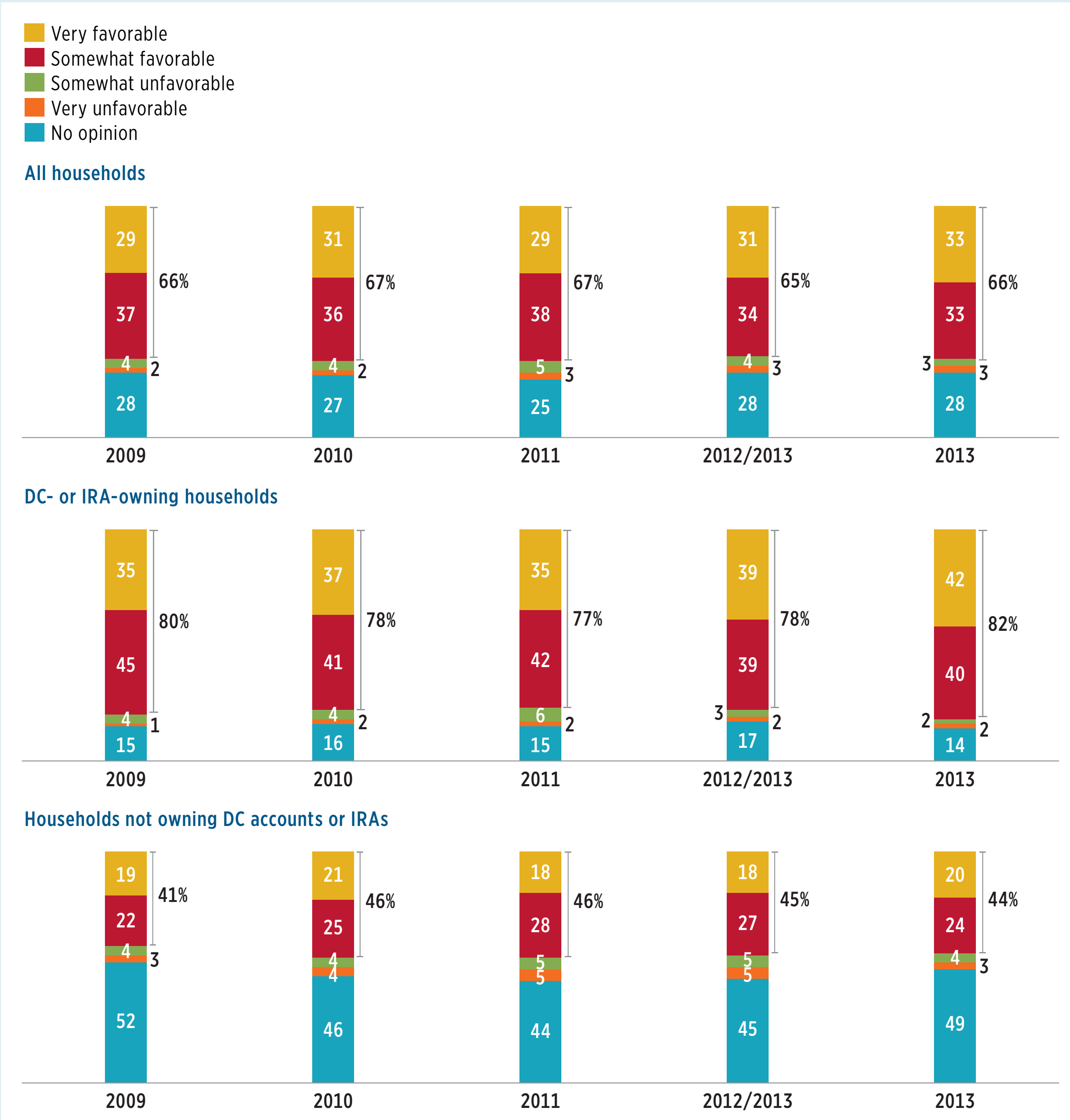
Views on Features of Defined Contribution Plan Saving

The survey explored a variety of characteristics of 401(k) plans to understand the views that households with DC accounts have of 401(k) and other participant-directed retirement plans. Most DC account–owning households agreed that employer-sponsored retirement accounts helped them "think about the long term, not just my current needs" (91 percent), and that payroll deduction "makes it easier for me to save" (90 percent) (Figure 2). These top-line results were similar to the prior five years of survey results.[8] In addition, there was little variation in responses across age and income groups, although the lowest-income households (less than $50,000 in household income) were somewhat less likely to agree that payroll deduction made it easier to save compared with households with incomes of $50,000 or more.

FIGURE 1

Opinions of 401(k) and Similar Retirement Plan Accounts

Percentage of U.S. households by ownership status; fall, 2009–2011; November 2012–January 2013; fall 2013



Note: In 2009, the sample includes 1,976 DC- or IRA-owning households and 1,017 households not owning DC accounts or IRAs. In 2010, the sample includes 1,977 DC- or IRA-owning households and 1,026 households not owning DC accounts or IRAs. In 2011, the sample includes 1,965 DC- or IRA-owning households and 1,022 households not owning DC accounts or IRAs. In 2012/2013, the sample includes 2,417 DC- or IRA-owning households and 1,575 households not owning DC accounts or IRAs. In 2013, the sample includes 1,802 DC- or IRA-owning households and 1,189 households not owning DC accounts or IRAs.

Source: ICI tabulation of GfK OmniTel survey data (fall, 2009–2011; November 2012–January 2013; fall 2013)

Saving in employer-sponsored retirement plans (and IRAs) has certain tax advantages. For example, the contributions that a worker makes to these plans typically reduce current taxable income by the amount of the contribution. In addition, the retirement accounts benefit from tax-deferred growth because taxes are not due until the individual withdraws money from the account.[9] Overall, 87 percent of DC-owning households agreed that the "tax treatment of my retirement plan is a big incentive to contribute" (Figure 2). Agreement was high across all age and income groups, although it was somewhat higher for households with incomes of $50,000 or more (about nine in 10), compared with households with incomes below $50,000 (81 percent).

Two other possible benefits resonated less with retirement plan participants. First, saving from each paycheck into a retirement plan helps workers to continue investing in down markets, dollar-cost average their investments, and benefit when stock and bond markets recover. Interviewees were asked whether "knowing that I'm saving from every paycheck makes me less worried about the stock market's performance." A majority (68 percent) agreed with that statement; households with incomes less than $30,000 were just as likely to indicate that knowing that they were saving from every paycheck made them less worried about the stock market's performance compared with those earning between $50,000 and $99,999 (Figure 2). Among households with incomes of $100,000 or more, almost three in four indicated that knowing they were saving from every paycheck made them less worried.

Second, 43 percent of households with DC accounts agreed with the statement: "I probably wouldn't save for retirement if I didn't have a retirement plan at work" (Figure 2). Agreement was the highest (63 percent) among households with incomes of less than $30,000, fell to about half for households with incomes between $30,000 and $99,999, and was the weakest (30 percent) among households with incomes of $100,000 or more. The fact that higher-income respondents were more likely to disagree is consistent with other household survey information finding that this group typically lists retirement as its most important savings goal.[10] In addition, for households with higher incomes, Social Security does not replace as much income in retirement as it does for lower-income households, making it far more necessary for middle- and upper-income households to have retirement savings to supplement their Social Security benefits.[11, 12]

The fall 2013 survey repeated two questions that were new to the 2009 survey: one regarding participants' views on the lineup of investment options in their DC plans,[13] and the other asking their views on the importance of choice in, and control of, investments in their retirement plan accounts. Overall, 86 percent of DC account–owning households agreed that their plans offer a good lineup of investment options (Figure 2). Satisfaction with the lineup of investment options tended to rise with household income; about nine in 10 of households with incomes of $50,000 or more agreed with the statement compared with less than eight in 10 of households with incomes of less than $50,000. A vast majority of DC account–owning households—regardless of age or income—agreed that it was important for them to have choice in, and control of, their retirement plan investments.

FIGURE 2

Defined Contribution Account–Owning Households' Views on the Defined Contribution Savings Vehicle

Percentage of DC-owning households agreeing with each statement by age or household income, fall 2013

	All DC-owning households	Age of household survey respondent			
		Younger than 35	35 to 49	50 to 64	65 or older
It is important to have choice in, and control of, the investments in my retirement plan account.	96	99	98	94	89
My employer-sponsored retirement account helps me think about the long term, not just my current needs.	91	88	95	93	83
Payroll deduction makes it easier for me to save.	90	85	94	92	86
The tax treatment of my retirement plan is a big incentive to contribute.	87	84	89	88	84
My employer-sponsored retirement plan offers me a good lineup of investment options.	86	83	91	87	80
Knowing that I'm saving from every paycheck makes me less worried about the stock market's performance.	68	70	72	64	70
I probably wouldn't save for retirement if I didn't have a retirement plan at work.	43	43	45	40	45
Number of respondents	*1,455*				

	All DC-owning households	Household income			
		Less than $30,000	$30,000 to $49,999	$50,000 to $99,999	$100,000 or more
It is important to have choice in, and control of, the investments in my retirement plan account.	96	87	96	97	98
My employer-sponsored retirement account helps me think about the long term, not just my current needs.	91	81	87	95	93
Payroll deduction makes it easier for me to save.	90	81	83	93	94
The tax treatment of my retirement plan is a big incentive to contribute.	87	81	81	88	90
My employer-sponsored retirement plan offers me a good lineup of investment options.	86	79	77	89	90
Knowing that I'm saving from every paycheck makes me less worried about the stock market's performance.	68	67	68	66	74
I probably wouldn't save for retirement if I didn't have a retirement plan at work.	43	63	52	50	30
Number of respondents	*1,455*				

Note: The figure reports the percentage of DC-owning households who "strongly agreed" or "somewhat agreed" with the statement. The remaining households "somewhat disagreed" or "strongly disagreed."

Source: ICI tabulation of GfK OmniTel survey data (fall 2013)

Views on Proposed Changes to Defined Contribution Plan Accounts

Survey respondents also were asked their views on changing two key DC plan account features: tax deferral and investment control.

Views on Tax Deferral

Some opinion leaders and policymakers have questioned the public policy value of the tax deferral that 401(k) plans (and IRAs) receive. Survey respondents were asked whether the government should take away these tax incentives. A very large majority, 86 percent, disagreed that the tax incentives of DC plans should be removed (Figure 3). Opposition to elimination of the tax advantages was the strongest among households with DC accounts or IRAs, with 90 percent opposing the removal of the tax advantages. But even 81 percent of households without DC accounts or IRAs opposed eliminating the incentives. In fall 2013, higher-income households were more likely to oppose removal of the tax advantages (94 percent) compared with lower-income households (79 percent), as were households 35 or older compared with younger households (82 percent) (Figure 4).

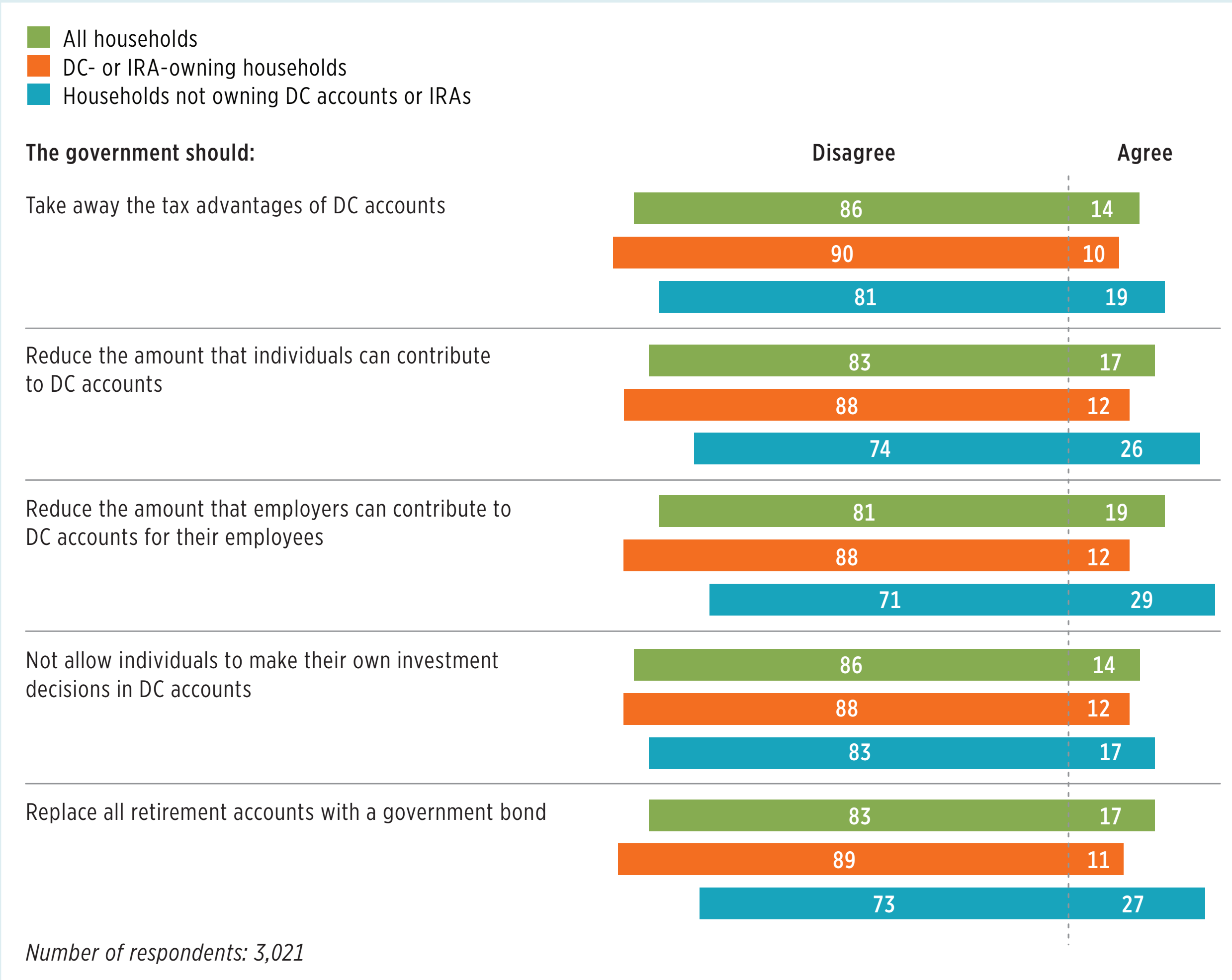
The survey also asked whether the limits on individual contributions to DC accounts should be reduced.[14] A very large majority opposed reducing the contribution limits, with 83 percent of all households opposed in fall 2013 (Figure 3). Among households with DC accounts or IRAs in fall 2013, 88 percent disagreed with reducing the contribution limits, whereas among households without retirement accounts, 74 percent disagreed with reducing the contribution limits.

The survey also asked households about employer contributions to DC plan accounts.[15] In fall 2013, 81 percent of U.S. households opposed reducing the amount that employers can contribute to DC plan accounts for their employees (Figure 3). Among households with DC accounts or IRAs in fall 2013, 88 percent disagreed with reducing the employer contribution limits, whereas among households without retirement accounts, 71 percent disagreed with reducing the employer contribution limits.

FIGURE 3

Opinions of Suggested Changes to Retirement Accounts

Percentage of U.S. households agreeing or disagreeing with each statement by ownership status, fall 2013



Note: The figure plots in the "agree" column the percentage of households who "strongly agreed" or "somewhat agreed" with the statement, and the percentage of households who "somewhat disagreed" or "strongly disagreed" in the "disagree" column.

Source: ICI tabulation of GfK OmniTel survey data (fall 2013)

FIGURE 4

Opinions of Suggested Changes to Retirement Accounts Vary Somewhat with Age and Household Income

Percentage of U.S. households disagreeing with each statement by age or household income, fall 2013

Disagreeing that the government should:	All households	Age of household survey respondent: Younger than 35	35 to 49	50 to 64	65 or older
Take away the tax advantages of DC accounts	86	82	88	89	86
Reduce the amount that individuals can contribute to DC accounts	83	77	85	86	82
Reduce the amount that employers can contribute to DC accounts for their employees	81	76	82	85	79
Not allow individuals to make their own investment decisions in DC accounts	86	84	91	85	84
Replace all retirement accounts with a government bond	83	77	83	86	84
Number of respondents	*3,021*				

Disagreeing that the government should:	All households	Household income: Less than $30,000	$30,000 to $49,999	$50,000 to $99,999	$100,000 or more
Take away the tax advantages of DC accounts	86	79	87	89	94
Reduce the amount that individuals can contribute to DC accounts	83	73	78	88	93
Reduce the amount that employers can contribute to DC accounts for their employees	81	69	79	86	92
Not allow individuals to make their own investment decisions in DC accounts	86	82	86	85	90
Replace all retirement accounts with a government bond	83	72	81	91	92
Number of respondents	*3,021*				

Note: The figure reports the percentage of households who "strongly disagreed" or "somewhat disagreed" with the statement. The remaining households "somewhat agreed" or "strongly agreed."

Source: ICI tabulation of GfK OmniTel survey data (fall 2013)

Views on Investment Control

Households also resisted suggestions to change individual investment control in DC accounts. When respondents were asked if they agreed or disagreed with the statement: "The government should not allow individuals to make their own investment decisions in DC accounts," 86 percent disagreed (Figure 3). The degree of opposition was higher among households with DC accounts or IRAs (88 percent) than it was for those without retirement accounts (83 percent).

In a similar vein, respondents were asked how they viewed a proposal for the government to "replace all retirement accounts with a government bond." Despite the stock market downturn from late 2007 through early 2009 and continued stock market volatility, government control of workers' savings is not a popular remedy. In fall 2013, 83 percent of respondents disagreed with this proposal (Figure 3), with the strongest opposition among households aged 50 to 64 and households with incomes of $50,000 or more (Figure 4). Among households with retirement accounts, 89 percent opposed this proposal, compared with 73 percent of households without retirement accounts (Figure 3).[16]

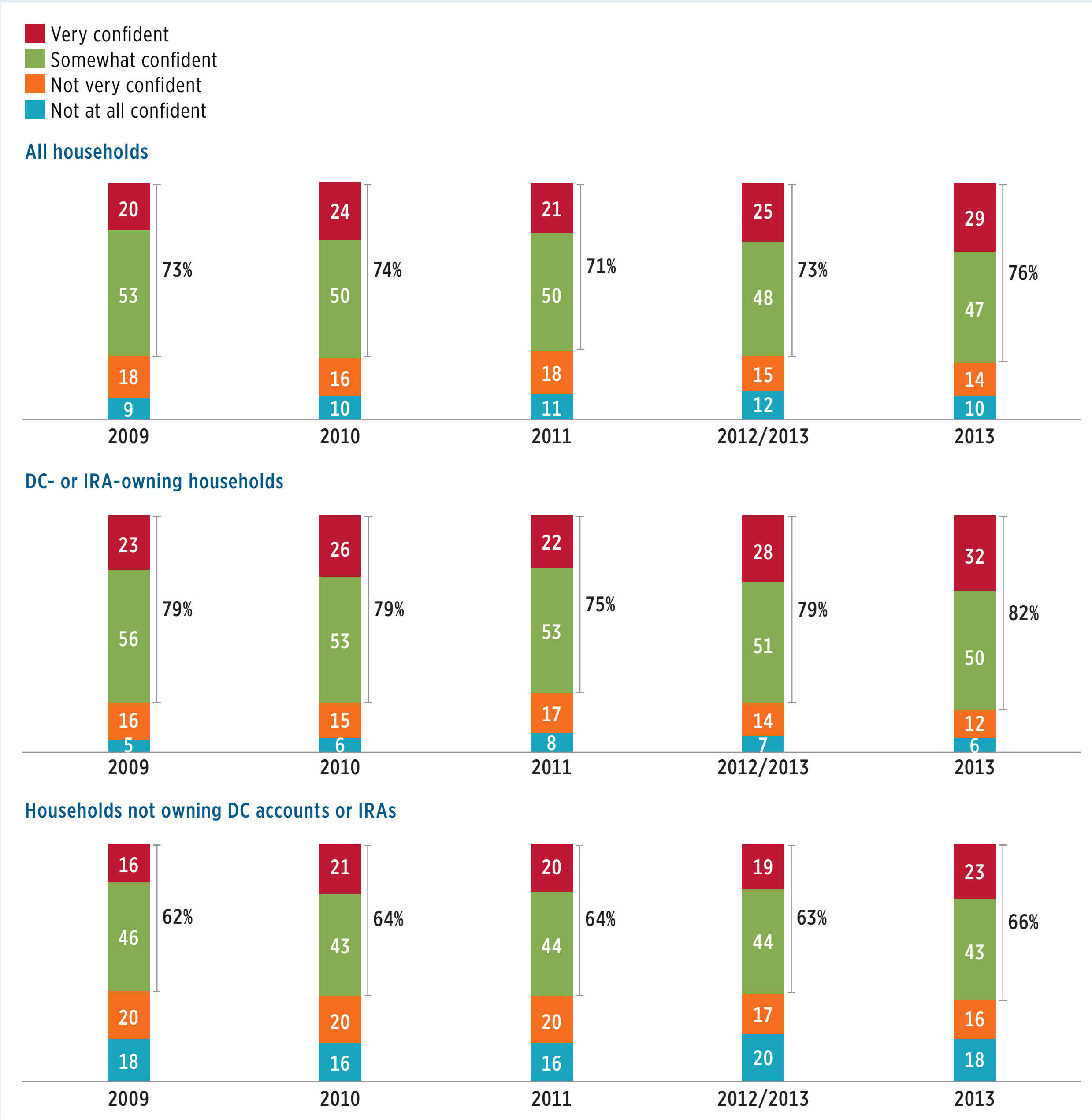
Confidence in Defined Contribution Plan Accounts

The survey also asked respondents to indicate their confidence in the ability of the 401(k) system to help individuals meet their retirement goals. Overall, in fall 2013, 76 percent of households indicated that they were either "somewhat" or "very" confident that 401(k) and other employer-sponsored retirement plan accounts can help people meet their retirement goals, similar to the confidence levels expressed in 2012/2013 (73 percent), 2011 (71 percent), 2010 (74 percent), and 2009 (73 percent) (Figure 5).[17] At 82 percent, that confidence was higher among those who currently owned DC accounts or IRAs in fall 2013, but even 66 percent of non-owners expressed confidence in the retirement plan account approach.

FIGURE 5

Confidence That Retirement Plan Accounts Can Help Individuals Meet Retirement Goals

Percentage of U.S. households by ownership status; fall, 2009–2011; November 2012–January 2013; fall 2013



Note: In 2009, the sample includes 1,959 DC- or IRA-owning households and 969 households not owning DC accounts or IRAs. In 2010, the sample includes 1,966 DC- or IRA-owning households and 997 households not owning DC accounts or IRAs. In 2011, the sample includes 1,961 DC- or IRA-owning households and 1,005 households not owning DC accounts or IRAs. In 2012/2013, the sample includes 2,400 DC- or IRA-owning households and 1,533 households not owning DC accounts or IRAs. In 2013, the sample includes 1,801 DC- or IRA-owning households and 1,173 households not owning DC accounts or IRAs.

Source: ICI tabulation of GfK OmniTel survey data (fall, 2009–2011; November 2012–January 2013; fall 2013)

Notes

[1] ICI conducts a separate survey of DC plan recordkeepers on a cumulative quarterly basis. For the annual results from that survey, see Holden and Schrass 2013a.

[2] For the earlier reports, see Reid and Holden 2008; Holden, Sabelhaus, and Reid 2010; Holden, Bass, and Reid 2011; Holden and Bass 2012; and Holden and Bass 2013.

[3] DC plan accounts include 401(k), 403(b), 457, and other DC plans without 401(k) features.

[4] At the end of the third quarter of 2013, total retirement assets were $21.9 trillion, with $5.6 trillion in DC plans and $6.2 trillion in IRAs. See Investment Company Institute 2013 for the most recent estimates of total U.S. retirement market assets.

[5] Fifty-three percent of U.S. households had DC accounts, 38 percent had IRAs, and on net, 62 percent held DC accounts or IRAs. These data were tabulated from ICI's Annual Mutual Fund Shareholder Tracking Survey fielded in May 2013 (sample of 4,001 U.S. households). See Holden and Schrass 2013b and 2013c; and Burham, Bogdan, and Schrass 2013 for additional details.

[6] For the earlier reports, see Reid and Holden 2008; Holden, Sabelhaus, and Reid 2010; Holden, Bass, and Reid 2011; Holden and Bass 2012; and Holden and Bass 2013.

[7] A revised weighting methodology resulted in slight revisions to data for prior years. Figure 1 reflects the updated results.

[8] For the earlier survey results, see Reid and Holden 2008; Holden, Sabelhaus, and Reid 2010; Holden, Bass, and Reid 2011; Holden and Bass 2012; and Holden and Bass 2013.

[9] The benefit of tax deferral is not the up-front tax deduction. Indeed, in many cases the benefits of tax deferral will be equivalent to the tax benefits of Roth treatment, which does not involve an up-front tax deduction. Although not immediately obvious, if tax rates are the same at the time of contribution and the time of distribution, the tax treatment of a Roth contribution—in which contributions are taxed but investment earnings and distributions are untaxed—provides the same tax benefits as tax deferral. Because of this fact, tax economists often equate the benefit of tax deferral to earning investment returns—interest, dividends, and capital gains—that are free from tax. For extensive discussion of the tax benefits and revenue costs of tax deferral, see Brady 2012.

[10] The Federal Reserve Board's Survey of Consumer Finances includes questions asking households to give their reasons for saving and to rank the most important reason for saving. Overall, 30 percent of U.S. households in 2010 reported that saving for retirement was their household's primary reason for saving (see Bricker et al. 2012). Prime working-age and middle- to upper-income households were much more likely to indicate that retirement saving was their household's primary savings goal (see Brady and Bogdan 2013). For additional discussion of savings goals and the U.S. retirement system, see Brady, Burham, and Holden 2012.

[11] An individual's Social Security benefit (called the primary insurance amount, or PIA) is derived using a formula applied to their monthly earnings, averaged over their lifetime, after adjusting for inflation and real wage growth (called the average indexed monthly earnings, or AIME). The PIA for newly eligible retirees in 2014 is equal to 90 percent of the first $816 of AIME; plus 32 percent of AIME between $816 and $4,917; and 15 percent of any AIME over $4,917. The decline in the benefit formula percentages—from 90 percent to 32 percent, and then to 15 percent—is the reason why lower earners get a higher benefit relative to their pre-retirement earnings. See U.S. Social Security Administration 2014 for more details about benefit formulas and parameters.

[12] For example, the first-year replacement rate (scheduled Social Security benefits as a percentage of average career earnings) for retired workers in the 1940–1949 birth cohort (individuals aged 64 to 73 in 2013) decreased as income increased. The median replacement rate for the lowest household lifetime earnings quintile was 77 percent; for the middle quintile, the median Social Security replacement rate was 45 percent; and for the highest quintile, it was 32 percent. See Congressional Budget Office 2013. For additional discussion, see Brady and Bogdan 2013 and Brady, Burham, and Holden 2012.

[13] For a comprehensive analysis of the asset allocation of 401(k) accounts, see Holden et al. 2013. For insight into the rebalancing activities of 401(k) plan participants in their accounts or contribution allocations, see Holden and Schrass 2013a.

[14] The 2009, 2010, 2011, and 2012/2013 surveys had the same question. The 2008 survey asked a more general question regarding reducing the tax advantages of such retirement accounts, which is not directly comparable.

[15] This question was first introduced in the 2011 survey.

[16] The greater level of opposition to the government replacing retirement accounts with a government bond among individuals with 401(k)-type plans and IRAs likely is driven, in part, by the fact that the proposal directly affects their ownership of their retirement accounts.

[17] A revised weighting methodology resulted in slight revisions to data for prior years. Figure 5 reflects the updated results.

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