Commitment to Retirement Security

Investor Attitudes and Actions

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Sarah Holden, ICI Senior Director of Retirement and Investor Research, Steven Bass, ICI Assistant Economist, and Brian Reid, ICI Chief Economist, prepared this report

Executive Summary

With millions of U.S. households personally directing their retirement savings, the Investment Company Institute (ICI) has sought to get a sense of retirement savers' activity and sentiment in light of the extraordinary financial market volatility and economic stresses of the past three years. This report summarizes results from two surveys covering 2010 data—a survey of U.S. households and a survey of defined contribution (DC) plan recordkeepers. The household survey results reflect households' responses collected in the last two months of 2010. The recordkeeper survey results cover the first nine months of 2010. Both sets of results update surveys fielded in 2008 and 2009.[1]

Household Survey Results from November 2010 to December 2010

The household survey polled respondents about their views on DC retirement plan saving and their confidence in 401(k) and other DC plan accounts. The survey also offered respondents the opportunity to reflect on actions they may have taken in the past three years with respect to their saving, investments, and retirement age. Survey responses indicated that households value the discipline and investment opportunity that 401(k) plans represent and that households were resistant to changing the tax preferences or investment control in those accounts. Households generally remained committed to their regular saving and planned retirement dates. Likely reflecting the reduced willingness to take investment risk that households have expressed since the financial market crisis, on net, households shifted their investments to be more conservative, although more than half made no changes to their investment strategies.

Views on Defined Contribution Account Saving

Households generally expressed favorable impressions of DC plan accounts:

- In the fall of 2010, 64 percent of U.S. households had favorable impressions of 401(k) and similar plan accounts, compared with 63 percent in 2009.
- In the fall of 2010, among households expressing an opinion, 91 percent had favorable impressions of 401(k) plans, with 41 percent agreeing that they had a "very favorable" impression.
- 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.
- Survey responses in the fall of 2010 indicated that households appreciate the key features of DC plans, a result that is similar to the fall 2008 and fall 2009 survey results.
- Most households with DC accounts agreed that these plans helped them think about the long term and made it easier for them to save. More than four in 10 DC-owning households indicated they probably wouldn't be saving for retirement if it weren't for their DC plans. In addition, saving paycheck-by-paycheck made nearly six out of 10 households surveyed less worried about the stock market.
- More than 80 percent of DC-owning households said the immediate tax savings from their retirement plans were a big incentive to contribute.
- Nearly all households with DC accounts agreed that it was important to have choice in, and control of, the investment options in their DC plans. Eighty-three percent indicated that their DC plan offered a good lineup of investment options.
- In addition, households' views on policy changes revealed a preference to preserve retirement account features and flexibility. As with the fall 2008 and fall 2009 surveys, households were asked about policy changes involving DC plan saving.
- A majority of households disagreed with proposals to remove or reduce tax incentives for retirement savings.
- Nearly nine in 10 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 Retirement Accounts

Despite the stock market downturn that began in late 2007 and continued through early 2009, and the market volatility experienced in 2010, households—whether they had DC plan accounts or not—were generally confident in these plans' ability to help individuals meet their retirement goals.

- Among households owning DC accounts or individual retirement accounts (IRAs), nearly eight in 10 indicated they were confident that such accounts can help people meet their retirement goals.
- Among households not owning DC accounts or IRAs, two-thirds expressed confidence that such accounts could help people meet their retirement goals.

Households' Changes to Saving, Investment Strategy, and Retirement Age

In 2010, the survey was expanded to determine households' reactions to the past three years of poor economic conditions and stock market volatility. The survey asked about changes in three areas of financial planning for retirement: regular saving amounts, investment strategy, and retirement age. Separate analysis of each action gives the impression of little change in response to the financial stresses of the past three years. However, household movement to be more financially conservative is discernable when the combinations of three actions—increasing regular saving, shifting investments away from stocks, or increasing retirement age—are analyzed.

- The majority of households remained committed to saving even during these years of financial stress. Forty-seven percent of households with retirement accounts or other financial investments in the fall of 2010 kept saving the same amount and 28 percent increased their regular savings.
- More than half of households with retirement accounts or other financial investments in the fall of 2010 indicated that they had made no change in their investment strategies in response to the financial conditions of the past three years. Likely reflecting the decreased willingness to take risk expressed by households since the financial market crisis started, 37 percent indicated they had shifted investments to be more conservative—that is, away from stocks and toward bond and money market assets.
- A minority of U.S. households made changes to the age at which they plan to retire or retired as a result of the economic conditions of the past three years. Sixteen percent delayed retirement or increased their expected retirement age, while 14 percent took an early retirement or lowered their expected retirement age. Seventy percent of households surveyed indicated no change in retirement age.
- Among households owning retirement accounts or other financial investments, 58 percent made at least one change toward being more financially conservative—increasing saving, shifting investments away from stocks, or increasing retirement age. Among those moving toward being more financially conservative, 64 percent made only one of the actions indicated, 30 percent did two of the three, and 6 percent did all three.

ICI Survey of Defined Contribution Plan Recordkeepers

In contrast to the household survey questions—which focused on a three-year time period and actions involving the household's investments both inside and outside of retirement accounts—the recordkeeper survey focused on activities in nearly 24 million DC accounts during the first three quarters of 2010. The recordkeeper survey results with respect to saving and investing indicated:

- » Participants have continued saving in their plans. Only 3.4 percent of DC plan participants stopped contributions in the first three quarters of 2010, compared with 5.0 percent of participants during the comparable time period a year earlier.
- » Most DC plan participants stayed the course with their asset allocations in the first three quarters of 2010. During the first three quarters of 2010, 8.5 percent of DC plan participants changed the asset allocation of their account balances, and 7.1 percent changed the asset allocation of their contributions. These rates of asset allocation activity were lower than during similar time periods in the previous two years.

The ICI Survey of DC Plan Recordkeepers also gathered information on participants' loan and withdrawal activity:

- » During the first three quarters of 2010, DC plan participants generally did not tap their accounts. Withdrawals during the first three quarters of 2010 were at a similar pace as the same time frame a year earlier. Only 2.9 percent of DC plan participants took withdrawals in the first three quarters of 2010, with only 1.4 percent taking hardship withdrawals.
- » Loan activity edged up in the wake of the poor economy. At the end of September 2010, the ICI recordkeeper survey data indicated 18.0 percent of DC plan participants had loans outstanding, compared with 16.5 percent of participants at year-end 2009 and 15.3 percent at year-end 2008.

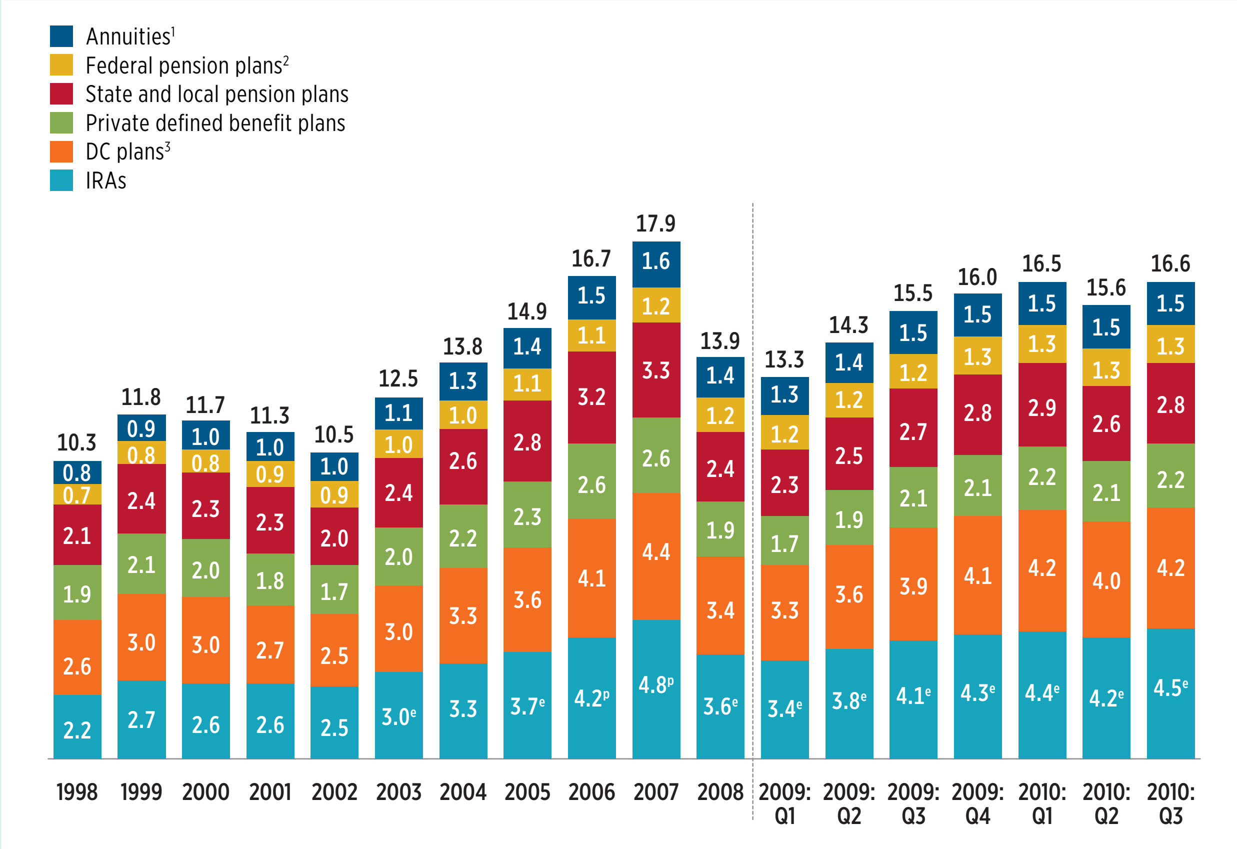
Introduction

IRAs and DC plan accounts[2] 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 (Figure 1),[3] and nearly two-thirds of U.S. households have a portion of their assets invested in them.[4] The stock market decline that started in late 2007 and continued into early 2009 and the weak economic growth during the past several years have led some opinion leaders and policymakers to raise questions about the value that these retirement accounts provide American workers and retirees.[5]

FIGURE 1

U.S. Retirement Assets

Trillions of dollars, end-of-period, 1998–2008, 2009:Q1–2010:Q3



[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] DC plans include 403(b) plans, 457 plans, and private employer-sponsored DC plans (including 401(k) plans).

[e] Data are estimated.

[p] Data are preliminary.

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

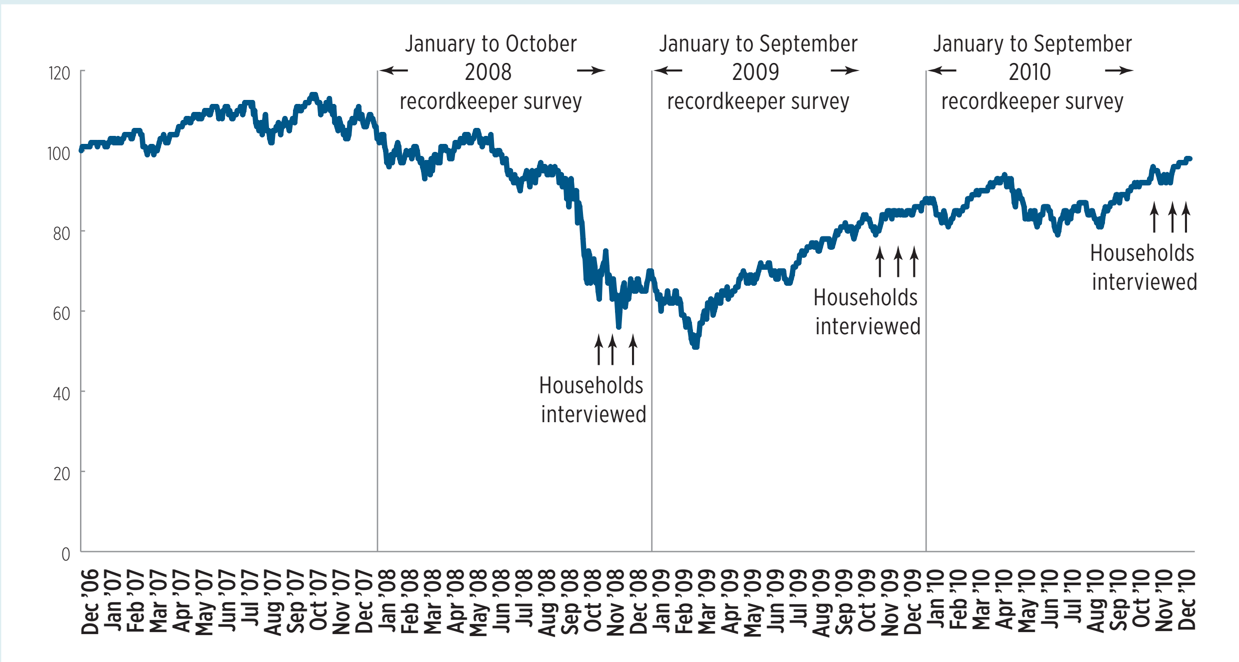
Sources: Investment Company Institute, Federal Reserve Board, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

Against this backdrop (Figure 2) and for the past three years, ICI has sought to find out: (1) what, if anything, households have done with respect to their retirement saving in response to the financial market volatility and weak economy; (2) what their views were on their 401(k) plans; and (3) what their opinions were on some proposed policy changes. The research has two components: a survey of U.S. households and a survey of DC plan recordkeepers (firms that keep the account-level records of DC plans). The combination of household survey and recordkeeper data makes it possible to simultaneously look at what households believe and what DC plan investors actually do.

FIGURE 2

Domestic Stock Market Index

S&P 500 total return index; day-end level, December 2006–December 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 December 2006.

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

This report is the third update of both components of that research.[6] The first component consists of answers to questions included in a series of national telephone surveys that GfK Custom Research North America fielded every other weekend from mid-November 2010 through mid-December 2010, covering a total sample of 3,000 U.S. households.[7] Second, the recordkeeper survey is updated to cover activity for January 2010 through September 2010, compared with similar time periods for 2008 and 2009. The surveyed firms track the accounts of about 40 percent of all DC plan participants, and these firms provided information on DC plan participant contributions, changes in asset allocation, withdrawals, and loans.

This report sheds light on households' views of 401(k) and similar DC plans by analyzing survey responses to four different questions. First, all households, whether they owned retirement accounts or not, were asked how favorably they viewed DC plan accounts and what influenced their opinions. Second, households owning DC accounts were asked to agree or disagree with statements describing features of DC plans. Third, all households were asked to agree or disagree with some proposed changes to DC accounts. And fourth, 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.

The next section of the report analyzes household survey responses regarding changes made to saving, investment strategy, and retirement age in response to the past three years of market volatility and the poor economic conditions. While this section focuses on a three-year time period and household investments both inside and outside of retirement accounts, the section that follows presents results from the DC plan recordkeeper survey focusing exclusively on DC plans and on the first three quarters of 2010.

There are two appendices. Appendix I summarizes the survey methodology. It also provides some key demographic characteristics of the survey respondents and additional analysis to supplement the main discussion in the report. Appendix II presents the exact wording of ICI's survey questions.

Views of Defined Contribution Plan Accounts

The survey tackled the evaluation of Americans' views on saving in 401(k) and similar accounts through four avenues of questioning: (1) soliciting whether respondents had favorable, unfavorable, or no opinions of such accounts, (2) asking respondents to agree or disagree with statements evaluating the features of DC account saving, (3) asking respondents to agree or disagree with some proposed changes to two key features of DC accounts, and (4) asking respondents their degree of confidence in DC accounts to help individuals meet their retirement goals.

Favorability Toward Defined Contribution Plan Saving

A majority of U.S. households continued to have favorable impressions of 401(k) and similar retirement accounts. In 2010, 64 percent of U.S. households had "very" or "somewhat" favorable impressions of DC plan accounts, similar to the 63 percent who had favorable impressions of DC plan accounts in 2009 (Figure 3).[8] Households owning DC accounts or IRAs were more likely to express an opinion of DC account investing and 78 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 were favorable (compared with 94 percent with favorable opinions among account owners with opinions).

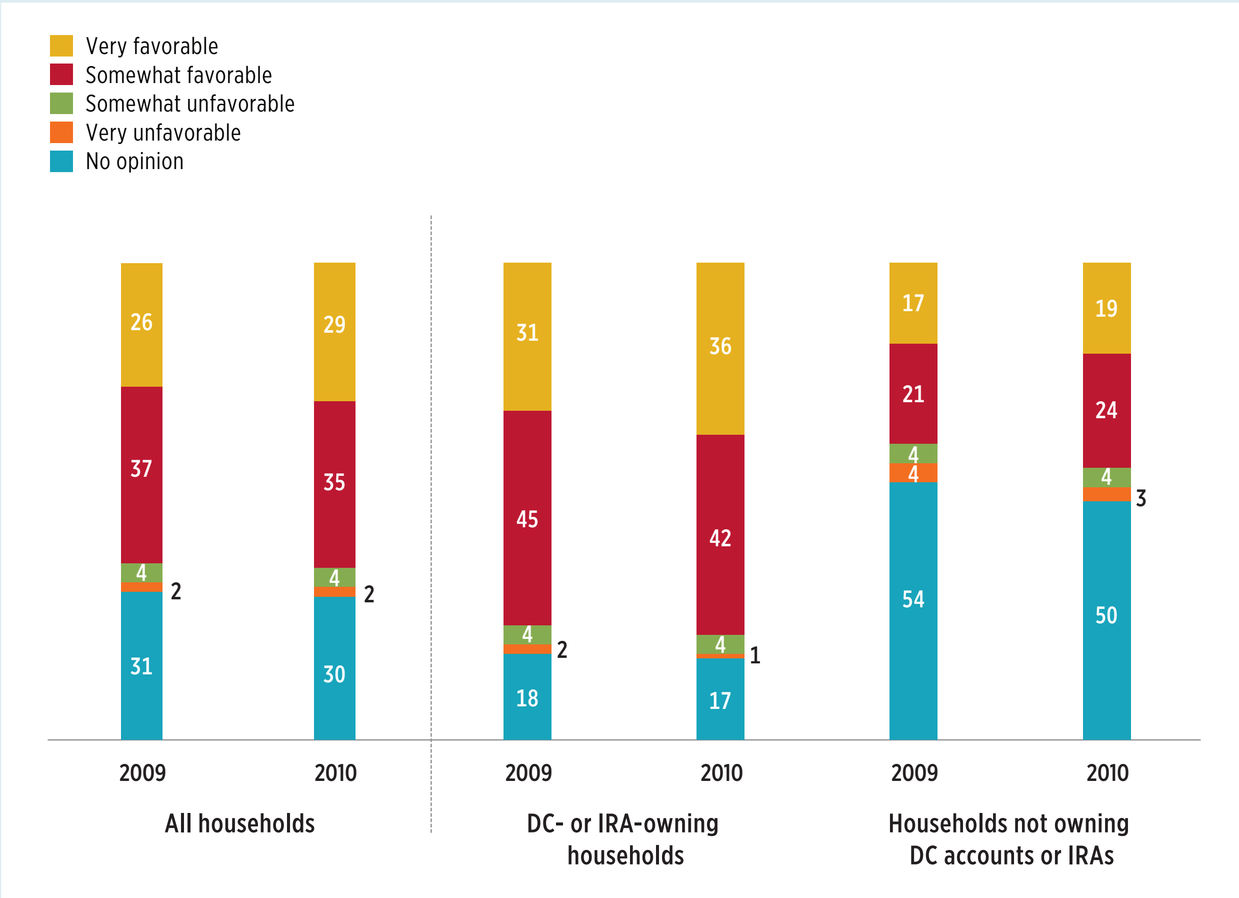
Respondents who expressed an opinion about 401(k) and similar accounts were also asked about the sources of information and other factors that affect their views of those retirement plans. They were provided with a list of possible influences and asked to indicate (on a four-point scale) whether that particular source or piece of information was important in shaping their opinion.

In general, respondents indicated that their opinions were influenced by many sources of information, with each factor listed being ranked as either "somewhat" or "very" important in influencing their views of 401(k) plans by more than 50 percent of respondents (Figure 4). Ninety-six percent of respondents indicated that the ability of retirement accounts to accumulate significant savings was important. Plan account investment performance was identified as an important factor by 95 percent of respondents. Ninety-two percent of respondents indicated their personal experience with a retirement plan was important in shaping their opinion. Media coverage of 401(k) plans was considered important by 56 percent of respondents, well below recent events in financial markets (87 percent), materials or seminars provided by an employer (82 percent), and friends and family (82 percent). These results were similar to the 2009 survey results.[9]

FIGURE 3

Opinions of 401(k) and Similar Retirement Plan Accounts

Percentage of U.S. households by ownership status, fall 2009 and fall 2010



Note: In 2009, the sample includes 1,931 DC- or IRA-owning households and 1,050 households not owning DC accounts or IRAs. In 2010, the sample includes 1,845 DC- or IRA-owning households and 1,142 households not owning DC accounts or IRAs.

Source: ICI tabulation of GfK OmniTel survey data (November and December 2009; and November and December 2010)

FIGURE 4

What Shapes Opinions of Retirement Plan Accounts

Percentage of U.S. households that have an opinion of 401(k) and similar retirement plan accounts responding that the listed factor is important in shaping their opinions of such accounts by ownership status,[1, 2] fall 2010

	All households with opinions	DC- or IRA-owning households with opinions	Households with opinions not owning DC accounts or IRAs
The ability of retirement plan accounts to accumulate significant savings	96	98	92
Performance of retirement plan account investments	95	97	90
Your personal experience with a retirement plan	92	94	87
Recent events in financial markets	87	89	79
Materials or seminars provided by an employer about a retirement plan	82	82	84
Friends and family	82	81	85
Media coverage about 401(k) plans	56	55	61
Number of respondents	2,099	1,522	577

[1] Figure reports the percentage of households that have an opinion of 401(k) and similar retirement plan accounts who rated the factor as "very important" or "somewhat important." The remaining households rated the factor as "not too important" or "not at all important."

[2] Multiple responses are included.

Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)

Households' Evaluation of Features of Defined Contribution Plan Saving

The household survey explored a variety of characteristics of 401(k) plans to understand the views that working Americans have of 401(k) and other participant-directed retirement plans. The vast majority of DC account–owning households agreed that employer-sponsored retirement accounts helped them "think about the long term, not just my current needs" (92 percent), and that payroll deduction "makes it easier for me to save" (90 percent; Figure 5).[10] These top-line results were similar to the 2009 and 2008 survey responses.[11] In addition, there was little variation in responses among age and income groups, although respondents who were youngest (younger than 35) were somewhat less likely to agree that payroll deduction made it easier for them to save, compared with households aged 35 or older.

Saving in employer-sponsored retirement plans (and IRAs) has certain tax advantages. For example, contributions that a worker makes to these plans typically reduce a worker's 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.[12] Overall, 82 percent of DC-owning households agreed that the "immediate tax savings from my retirement plan are a big incentive to contribute" (Figure 5). Agreement was high across all age and income groups, although it was somewhat higher for households with incomes of $100,000 or more (89 percent), compared with households with incomes below $30,000 (74 percent).

Two other possible benefits resonated less with retirement plan participants. 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 (58 percent) agreed with that statement, with support being the lowest among preretirement and younger retiree households (aged 50 to 64; Figure 5).

A substantial portion of households with DC accounts (44 percent) agreed with the statement that "I probably wouldn't save for retirement if I didn't have a retirement plan at work" (Figure 5), similar to 2009 and 2008. Agreement was the highest among households with incomes of less than $35,000 (58 percent) and the weakest among households with incomes of $100,000 or more (29 percent), which indicates that lower-income households are more likely to acknowledge that DC accounts increase their saving. The fact that higher-income respondents were more likely to disagree is consistent with other household survey information that finds that these groups typically list retirement as their most important savings goal.[13] In addition, for households with higher incomes, Social Security provides a lower replacement of income in retirement than 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.[14, 15]

The 2010 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, and the other asking their views on the importance of control in, and choice of, investments in their retirement plan accounts. Overall, 83 percent of DC account–owning households agreed that their plans offer a good lineup of investment options (Figure 5), and that sentiment was universal across the working-age population. Nearly all 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 5

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 2010

		Age of household survey respondent			
	All DC-owning households	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	97	97	96	96
My employer-sponsored retirement account helps me think about the long term, not just my current needs.	92	90	92	94	91
Payroll deduction makes it easier for me to save.	90	84	93	93	90
My employer-sponsored retirement plan offers me a good lineup of investment options.	83	82	88	84	75
The immediate tax savings from my retirement plan are a big incentive to contribute.	82	78	86	83	80
Knowing that I'm saving from every paycheck makes me less worried about the stock market's performance.	58	58	60	54	61
I probably wouldn't save for retirement if I didn't have a retirement plan at work.	44	42	47	40	47
Number of respondents	1,528				

Continued on the next page

FIGURE 5 CONTINUED

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 2010

		Household income			
	All DC-owning households	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	95	96	97	97
My employer-sponsored retirement account helps me think about the long term, not just my current needs.	92	86	90	94	95
Payroll deduction makes it easier for me to save.	90	85	89	91	92
My employer-sponsored retirement plan offers me a good lineup of investment options.	83	72	78	86	91
The immediate tax savings from my retirement plan are a big incentive to contribute.	82	74	81	82	89
Knowing that I'm saving from every paycheck makes me less worried about the stock market's performance.	58	59	58	57	61
I probably wouldn't save for retirement if I didn't have a retirement plan at work.	44	58	53	44	29
Number of respondents	1,528				

Note: 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." See Appendix II for the exact wording of the question.

Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)

Views of Proposed Changes to Defined Contribution Plan Accounts

Households also were asked their views on changing two key DC plan account features: the tax advantages and investment control. 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 advantages. A very large majority, 88 percent, disagreed that the tax incentives of DC plans should be removed (Figure 6). Opposition to elimination of the tax advantages was the strongest among households with such accounts, with 90 percent opposing the removal of the tax advantages. But even 83 percent of the households without these accounts opposed eliminating the incentives. The 2010 level of support from non-owners was similar to the 2009 survey results (82 percent) and up from 76 percent in 2008.[16] Prime working-age households (aged 35 to 64) were slightly more likely to oppose removal of the tax advantages, compared with the youngest and oldest households.[17]

The survey also asked whether the limits on contributions should be reduced.[18] A very large majority opposed reducing the contribution limits, with 82 percent of all households opposed in 2010 (Figure 6). Among households with retirement accounts, 87 percent disagreed with reducing the limits, whereas among households without such accounts, 75 percent disagreed with reducing the contribution limits.[19] Similar levels of opposition were expressed by households surveyed in 2009.

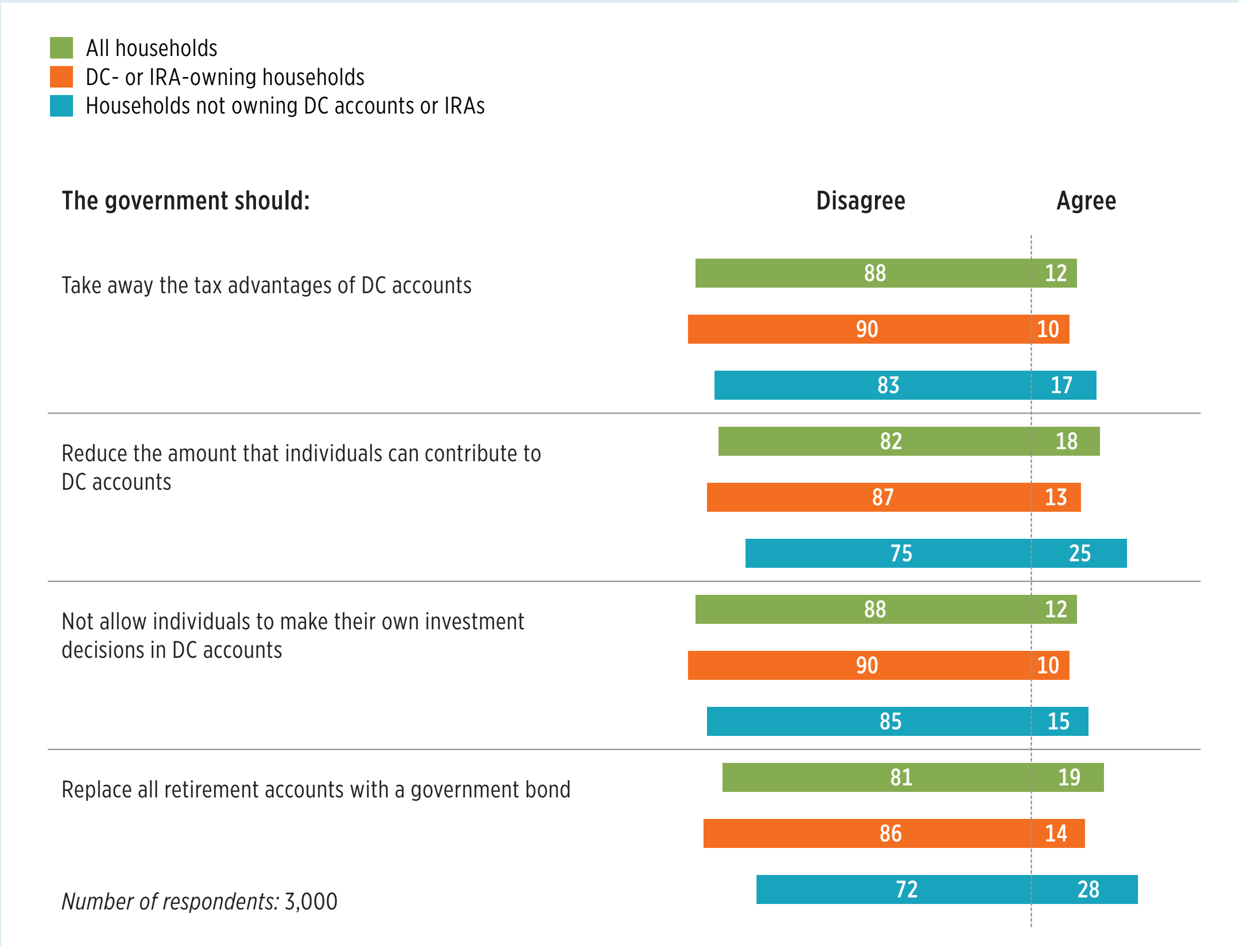
Households also resisted suggestions to change individual investment control in DC accounts. When interviewees were asked if they agreed or disagreed with the statement that the "government should not allow individuals to make their own investment decisions" in DC retirement accounts, 88 percent disagreed (Figure 6). Disapproval of this statement was relatively universal across all age groups.[20] The degree of opposition was higher among households with DC accounts or IRAs (90 percent) than it was for those without such plans (85 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 volatility through 2010, government control of workers' savings is not a popular remedy. Eighty-one percent of respondents disagreed with this proposal (Figure 6), with the strongest opposition among households aged 65 or older, or households with incomes of $30,000 or more. Among households with retirement accounts, 86 percent opposed this proposal, compared with 72 percent of households without these accounts who disagreed with this recommendation.[21]

FIGURE 6

Households' Opinions of Suggested Changes to Retirement Accounts

Percentage of U.S. households agreeing or disagreeing with each statement by ownership status, fall 2010



Note: 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. See Appendix II for the exact wording of the question. For data about these views by household respondent age or income in 2010, see Figure A5 in Appendix I.

Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)

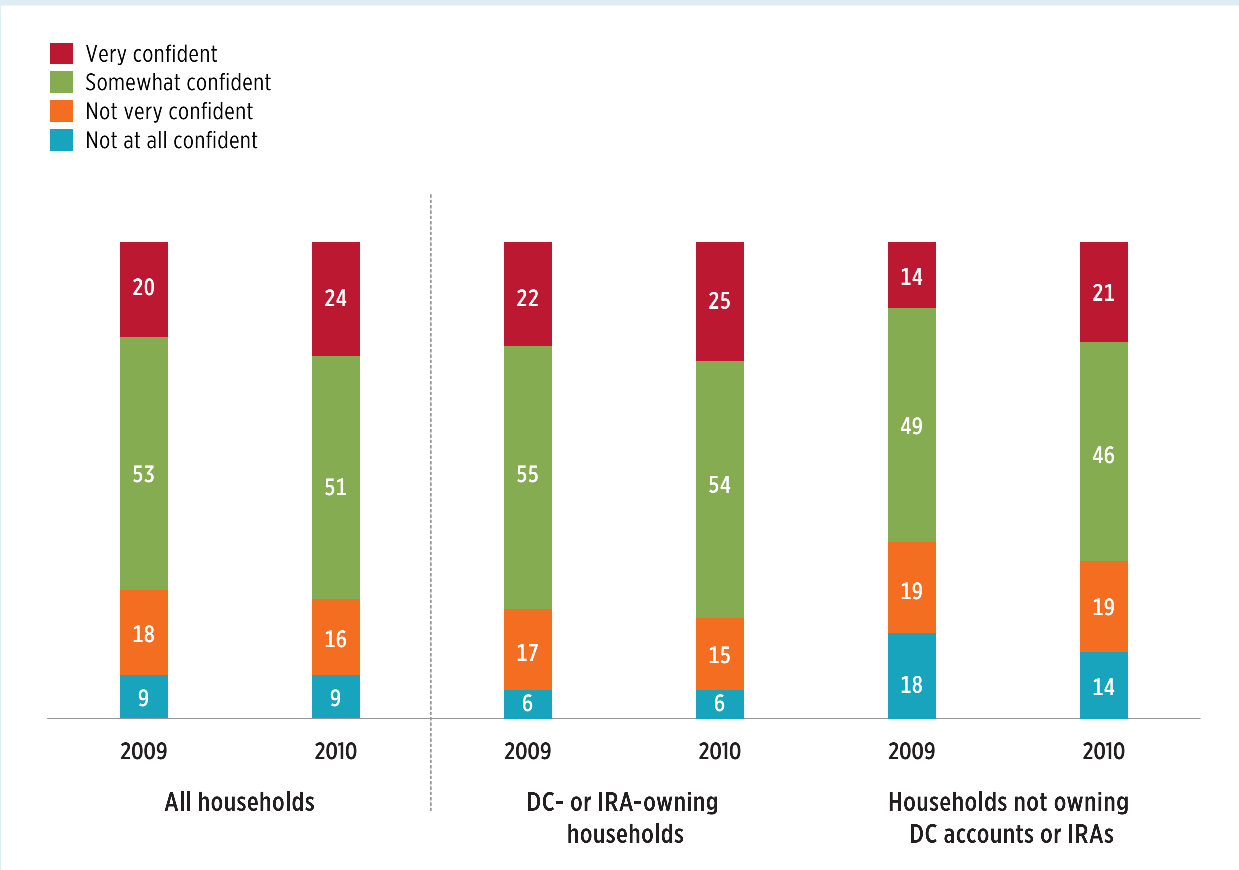
Household Confidence in Defined Contribution Plan Accounts

The ultimate test of trust in the 401(k) system is the confidence of investors in their ability to reach their retirement goals. Overall, in the fall of 2010, 75 percent of households indicated that they are either "somewhat" or "very" confident that 401(k) and other employer-sponsored retirement plan accounts can help people reach their retirement goals, similar to the confidence level in 2009 (73 percent; Figure 7). At 79 percent, that confidence was higher among those who currently owned IRAs or DC accounts in 2010, but even 67 percent of non-owners expressed confidence in the retirement plan account approach.[22]

FIGURE 7

Confidence That Retirement Plan Accounts Can Help Individuals Meet Retirement Goals

Percentage of U.S. households by ownership status, fall 2009 and fall 2010



Note: In 2009, the sample includes 1,919 DC- or IRA-owning households and 994 households not owning DC accounts or IRAs. In 2010, the sample includes 1,837 DC- or IRA-owning households and 1,107 households not owning DC accounts or IRAs. For data about confidence by ownership status and age, see Figures A6 and A7 in Appendix I.

Source: ICI tabulation of GfK OmniTel survey data (November and December 2009; and November and December 2010)

Households' Actions Taken in Response to the Economic Stresses of the Past Three Years

The fall 2010 survey contained a new battery of questions aimed to get respondents to think about whether they have changed their approach to saving, investing, and retirement planning over the past three years as a result of the weak economy and volatile stock market. Households with DC accounts, IRAs, or other financial assets were asked if they changed their regular saving amount and if they changed their investment strategy. All households were asked if they changed their actual or planned retirement age. Separate analysis of each action gives the impression of little change among households in response to the financial stresses of the past three years. However, household movement to be more financially conservative is discernible when the combinations of three actions—increasing regular saving, shifting investments away from stocks, or increasing retirement age—are analyzed. Fifty-eight percent of households with retirement accounts or other financial assets in the fall of 2010 made at least one of these moves to be more financially conservative over the past three years.

Changes to Regular Saving

Three-quarters of households with financial investments continued to be committed to their regular saving despite the economic stresses of the past three years. Overall, 47 percent of U.S. households with financial investments indicated that they did not change the amount that they save regularly and 28 percent indicated they had increased their regular saving amounts (Figure 8). The remaining 25 percent indicated they were saving less as a result of the financial turmoil of the past few years. The fraction reporting they were saving less is about the same across all age groups, but the fraction reporting they were saving more is higher among younger households; 34 percent for households younger than 35 versus 19 percent among households aged 65 or older. Older households were more likely to report no change in saving compared with younger households; 43 percent for households younger than 35 versus 56 percent for households aged 65 or older.

Changes in regular saving activity varied somewhat across income groups. Thirty-nine percent of households earning less than $30,000 reported they had reduced their regular saving as a result of the economic stresses, while only 14 percent of households earning $100,000 or more did so (Figure 8). This is offset mostly by those who reported increased saving—18 percent for households earning less than $30,000 and rising to 38 percent for households earning $100,000 or more. Persistence in maintaining the regular saving amount ranged from 43 percent of households in the lowest income group to 48 percent of households in the highest income group.

FIGURE 8

Change in Regular Saving in Response to the Economic Stresses of the Past Three Years

Percentage of U.S. households owning financial investments[1] that took the action indicated by age, household income, or employment status, fall 2010

	All households owning financial investments[1]	Age of household survey respondent			
		Younger than 35	35 to 49	50 to 64	65 or older
Made no change in regular saving amount	47	43	45	47	56
Increased regular saving amount	28	34	28	27	19
Decreased regular saving amount	25	23	27	26	25
Total	100	100	100	100	100
Number of respondents	2,039				

	All households owning financial investments[1]	Household income			
		Less than $30,000	$30,000 to $49,999	$50,000 to $99,999	$100,000 or more
Made no change in regular saving amount	47	43	47	46	48
Increased regular saving amount	28	18	22	32	38
Decreased regular saving amount	25	39	31	22	14
Total	100	100	100	100	100
Number of respondents	2,039				

	All households owning financial investments[1]	Employment status of household survey respondent			
				Not employed	
		Working full-time	Working part-time	Retired	Other[2]
Made no change in regular saving amount	47	47	42	52	44
Increased regular saving amount	28	31	27	20	26
Decreased regular saving amount	25	22	31	28	30
Total	100	100	100	100	100
Number of respondents	2,039				

[1] Households owning financial investments include households owning DC accounts, IRAs, or other financial assets (e.g., stocks, bonds, mutual funds, variable annuities).

[2] This category includes students, homemakers, and temporarily unemployed individuals.

Note: See Appendix II for the exact wording of the question.

Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)

Households' changes in regular saving activity also varied with the employment status of the household at the time of the survey. Respondents who increased their regular saving amounts over the past three years were more likely to be employed full-time in late 2010, while those who decreased their regular saving amounts were more likely to be working part-time or not working, including retirees. Among respondents who were working full-time at the time of the survey, 31 percent increased their saving and 22 percent decreased their saving (Figure 8). The reduction of regular saving was more prevalent among respondents with more tenuous connection to the workforce—those who were working part-time or not working, including retirees. Indeed, 31 percent of respondents who were working part-time, 28 percent of retirees, and 30 percent of other not-working households decreased their regular saving amounts.

Changes to Investment Strategy

Households were also asked if they had changed their investment strategy in response to the economic stresses and volatile stock market experience of the past three years. A key factor influencing individuals' investment strategies is their comfort with investment risk.

At the end of 2010, 59 percent of U.S. households indicated they were willing to take average or greater investment risk, compared with 62 percent at the end of 2009 (Figure 9). Households owning DC accounts or IRAs indicated greater willingness to take risk compared with non-owning households. At the end of 2010, 73 percent of DC- or IRA-owning households were willing to take average or greater financial risk, compared with 39 percent of households not owning retirement accounts.

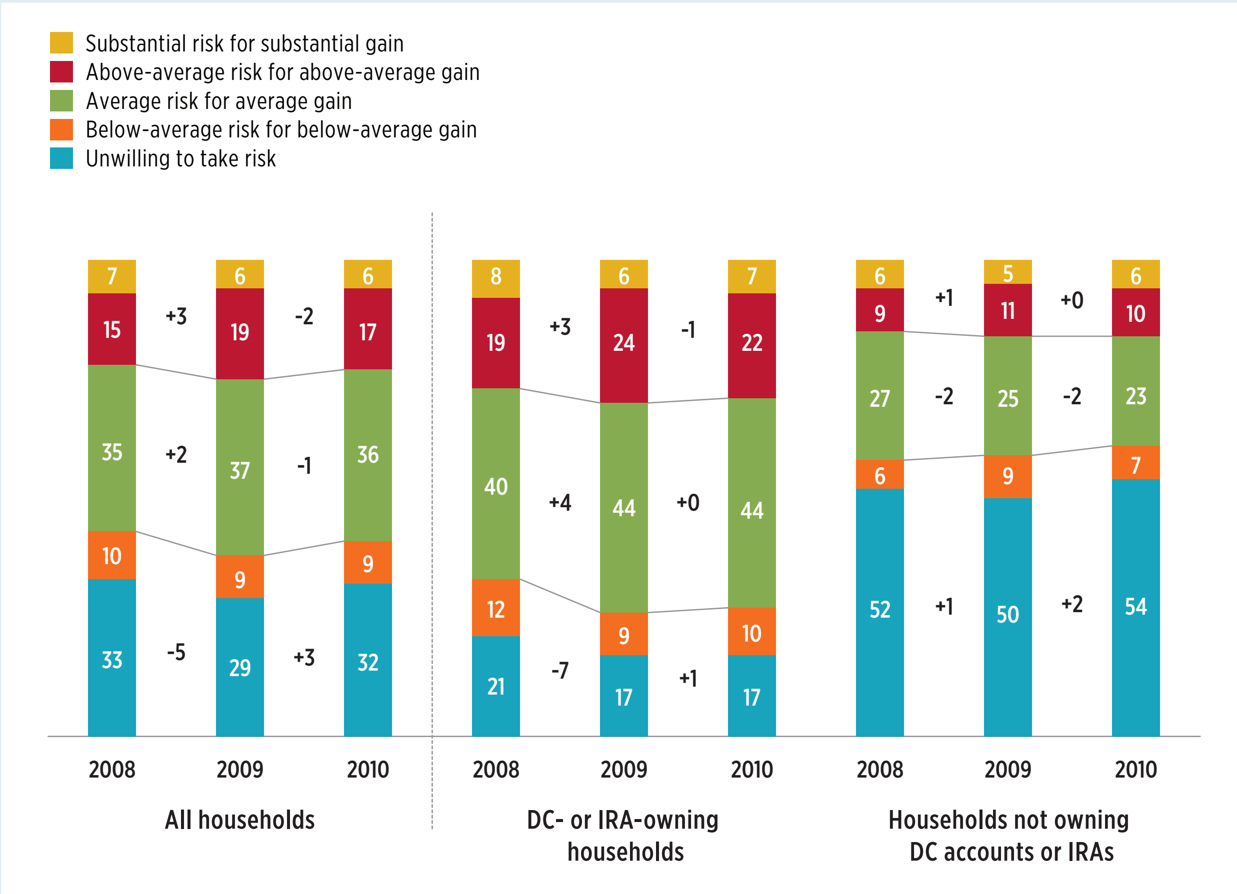
In aggregate, U.S. households' willingness to take risk, which tends to move with the stock market, has fallen in the wake of the financial crisis that started in late 2007.[23] The survey results from November and December 2010 indicate that households' willingness to take risk still has not recovered. Against this backdrop, more than half of respondents in 2010—52 percent overall—indicated they made no change in their investment strategy over the past three years (Figure 10). Among households making changes, the movement tended to be toward more conservative investing. Thirty-seven percent of respondents reported they had shifted investments to be more conservative (toward bonds and money market investments), and the remaining 11 percent shifted investments to be less conservative (toward stocks).

Preretirement and younger retiree households (aged 50 to 64) were more likely to report activity and were more likely to be shifting investments to be more conservative (that is, away from stocks and toward bonds, cash, or money market funds), compared with other age groups. Forty-three percent of households aged 50 to 64 had shifted investments to be more conservative in the past three years, while 47 percent had made no change in their investment strategy, and 10 percent had shifted investments to be less conservative (Figure 10). In contrast, in the younger than 35 age group, 32 percent had shifted investments to be more conservative, 55 percent made no change, and 13 percent had shifted investments to be less conservative.

FIGURE 9

Households' Willingness to Take Investment Risk Reflects the Market Environment

Percentage of U.S. households by ownership status; fall 2008, fall 2009, and fall 2010



Note: In 2008, there were 3,000 households surveyed, of which 1,890 owned DC accounts or IRAs, and the remaining 1,110 households did not. In 2009, there were 3,000 households surveyed, of which 1,941 owned DC accounts or IRAs, and the remaining 1,059 households did not. In 2010, there were 3,000 households surveyed, of which 1,851 owned DC accounts or IRAs, and the remaining 1,149 households did not. See Appendix II for the exact wording of the question. For data about the willingness to take risk by ownership status and age in 2010, see Figure A4 in Appendix I.

Source: ICI tabulation of GfK OmniTel survey data (October, November, and December 2008; November and December 2009; and November and December 2010)

FIGURE 10

Change in Investment Strategy in Response to the Economic Stresses of the Past Three Years

Percentage of U.S. households owning financial investments that took the action indicated by age or household income, fall 2010*

	All households owning financial investments*	Age of household survey respondent			
		Younger than 35	35 to 49	50 to 64	65 or older
Made no change in investment strategy	52	55	54	47	52
Shifted investments to be more conservative	37	32	34	43	38
Shifted investments to be less conservative	11	13	12	10	10
Total	100	100	100	100	100
Number of respondents	2,039				

	All households owning financial investments*	Household income			
		Less than $30,000	$30,000 to $49,999	$50,000 to $99,999	$100,000 or more
Made no change in investment strategy	52	52	57	52	47
Shifted investments to be more conservative	37	36	33	36	42
Shifted investments to be less conservative	11	12	10	12	11
Total	100	100	100	100	100
Number of respondents	2,039				

*Households owning financial investments include households owning DC accounts, IRAs, or other financial assets (e.g., stocks, bonds, mutual funds, variable annuities).

Note: See Appendix II for the exact wording of the question.

Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)

Changes to Retirement Age

All households surveyed in 2010 were asked to think about whether they had changed their actual or planned retirement age in response to the economic and financial events of the past three years. Overall, 70 percent of respondents made no change in their retirement plans; 16 percent delayed taking retirement or increased their expected retirement age, and 14 percent took early retirement or lowered their expected retirement age (Figure 11).[24]

As was the case with investment portfolio changes, there was significantly more activity with respect to retirement age among preretirement and younger retiree households (aged 50 to 64) compared with other households. About one-quarter of households younger than 50 made changes to retirement age, compared with 40 percent of those aged 50 to 64 and 31 percent of those aged 65 or older (Figure 11). Households aged 50 or older were more likely to report they took early retirement or lowered their retirement age (about one in five), compared with younger households (fewer than one in 10). Preretirement and younger retiree households were the most likely to indicate they delayed retirement or increased their expected retirement age compared with other households: 21 percent of households aged 50 to 64 indicated delayed retirement plans. Some of the higher levels of activity observed among these households may reflect a lifecycle effect, that is to say, they are at a juncture in their career and lifecycle at which such decisions become more salient.

Changes to retirement plans varied little by household income with about seven out of 10 households indicating no change in plans regardless of their income (Figure 11). Nevertheless, the lowest-income respondents (earning less than $30,000) were more likely to take early retirement or lower their expected retirement age compared with higher-income respondents. Eighteen percent of households earning less than $30,000 indicated they took early retirement or lowered their expected retirement age. The lowest-income respondents were less likely to delay retirement or increase their retirement age compared with the remaining income groups.

Combinations of Changes

Households could and did make combinations of changes to their retirement plans. Overall, 75 percent of respondents owning retirement accounts or other financial investments made at least one of the three changes asked about and 25 percent made no changes at all (Figure 12). Over the past three years, 31 percent of households owning financial investments made one of the changes; 28 percent made two of the changes; and 16 percent changed their saving, investing, and retirement age. Preretirement and younger retiree households (aged 50 to 64) were more likely to have made changes compared with other age groups, likely reflecting the more immediate relevancy of such retirement planning activities.

FIGURE 11

Change in Retirement Age in Response to the Economic Stresses of the Past Three Years

Percentage of U.S. households that took the action indicated by age or household income, fall 2010

		Age of household survey respondent			
	All households	Younger than 35	35 to 49	50 to 64	65 or older
Made no change in retirement plans	70	74	76	60	69
Delayed taking retirement or increased expected retirement age	16	17	15	21	8
Took early retirement or lowered expected retirement age	14	9	9	19	23
Total	100	100	100	100	100
Number of respondents	3,000				

		Household income			
	All households	Less than $30,000	$30,000 to $49,999	$50,000 to $99,999	$100,000 or more
Made no change in retirement plans	70	68	71	71	72
Delayed taking retirement or increased expected retirement age	16	14	16	17	17
Took early retirement or lowered expected retirement age	14	18	13	12	11
Total	100	100	100	100	100
Number of respondents	3,000				

Note: See Appendix II for the exact wording of the question.

Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)

FIGURE 12

Preretirement and Younger Retiree Households Were More Likely to Make Changes in Response to the Economic Stresses of the Past Three Years

Percentage of U.S. households owning financial investments[1] who made the indicated number of changes to their regular savings amounts, investment risk, or retirement date by age or household income, fall 2010

		Age of household survey respondent			
Number of changes[2]	All households owning financial investments[1]	Younger than 35	35 to 49	50 to 64	65 or older
Zero	25	26	29	21	26
One	31	32	31	29	35
Two	28	29	26	29	25
Three	16	13	14	21	14
Total	100	100	100	100	100
Number of respondents	2,039				

		Household income			
Number of changes[2]	All households owning financial investments[1]	Less than $30,000	$30,000 to $49,999	$50,000 to $99,999	$100,000 or more
Zero	25	22	29	26	27
One	31	33	29	30	29
Two	28	26	26	30	28
Three	16	19	16	14	16
Total	100	100	100	100	100
Number of respondents	2,039				

[1] Households owning financial investments include households owning DC accounts, IRAs, or other financial assets (e.g., stocks, bonds, mutual funds, variable annuities).

[2] Households are counted as having made changes if they responded that they changed their regular savings amounts; changed their investments to be more or less conservative; or took early retirement, delayed retirement, or changed their expected retirement date.

Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)

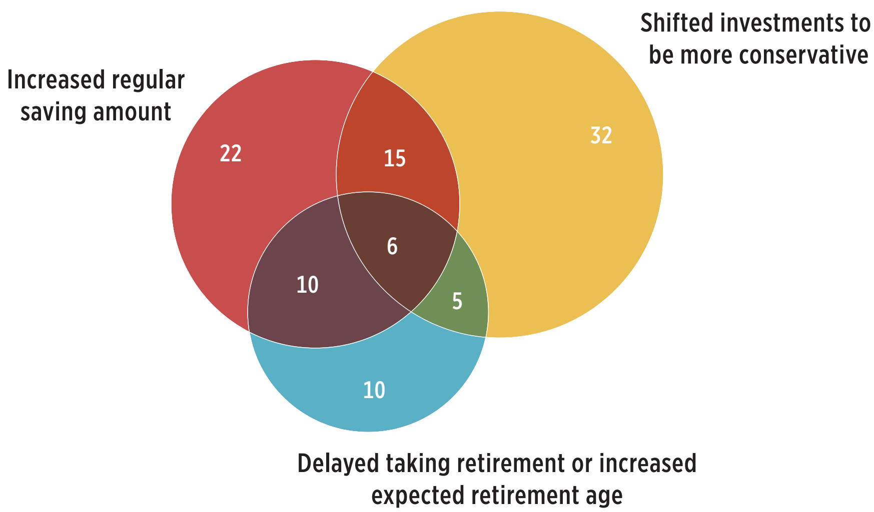
Given the financial market volatility and poor economy, one might expect individuals to become more financially conservative. With respect to planning for retirement, this would suggest individuals would increase their regular saving, shift their investments to be more conservative (toward fixed-income securities and money market funds and away from stocks), and work longer (increase their retirement age). Indeed, 58 percent of households owning financial investments made at least one of those changes in response to the economic stresses of the past three years.

Among households making at least one change to be more financially conservative, 64 percent did only one of the actions: 22 percent increased their regular saving but did not also delay retirement or shift their investments to be more conservative, 32 percent invested more conservatively but did not also increase their saving or retirement age, and 10 percent increased their retirement age but did not also save more or invest more conservatively (Figure 13). Thirty percent of these households did two of the three actions and 6 percent did all three—increased regular saving, shifted their investments away from stocks, and increased their retirement age.

FIGURE 13

Combination of Changes to Be More Financially Conservative

Percentage of households owning financial investments that increased their regular saving, shifted their investments to be more conservative, or increased their retirement age; fall 2010*



*Households owning financial investments include households owning DC accounts, IRAs, or other financial assets (e.g., stocks, bonds, mutual funds, variable annuities).

Note: Among the 2,039 households owning financial investments, 1,186—or 58 percent—made at least one of the actions indicated. See Appendix II for the exact wording of the questions.

Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)

Defined Contribution Plan Participant Activity in the First Three Quarters of 2010

In contrast to the household survey which asked about a three-year time period and the entire household balance sheet, the recordkeeper survey only focused on DC plan accounts in the first nine months of 2010.[25] To understand how DC plan investors reacted to the recession and volatile stock market during the past three years, ICI surveyed recordkeeping firms representing a broad range of DC plans. The September 2010 survey included recordkeepers covering nearly 24 million employer-based DC retirement plan participant accounts. The broad scope of the recordkeeper survey provides valuable inferences about recent contribution, asset allocation, withdrawal, and loan decisions of participants in these plans.

DC plan participants continued saving in their DC plans during the first three quarters of 2010. Despite concerns that plan participants might stop devoting some of their paychecks to retirement saving during times of financial stress, the recordkeeper survey indicated that only 3.4 percent of DC plan participants stopped making contributions during the first three quarters of 2010, compared with 5.0 percent of plan participants during the first three quarters of 2009 and 3.0 percent of participants during the first ten months of 2008 (Figure 14).

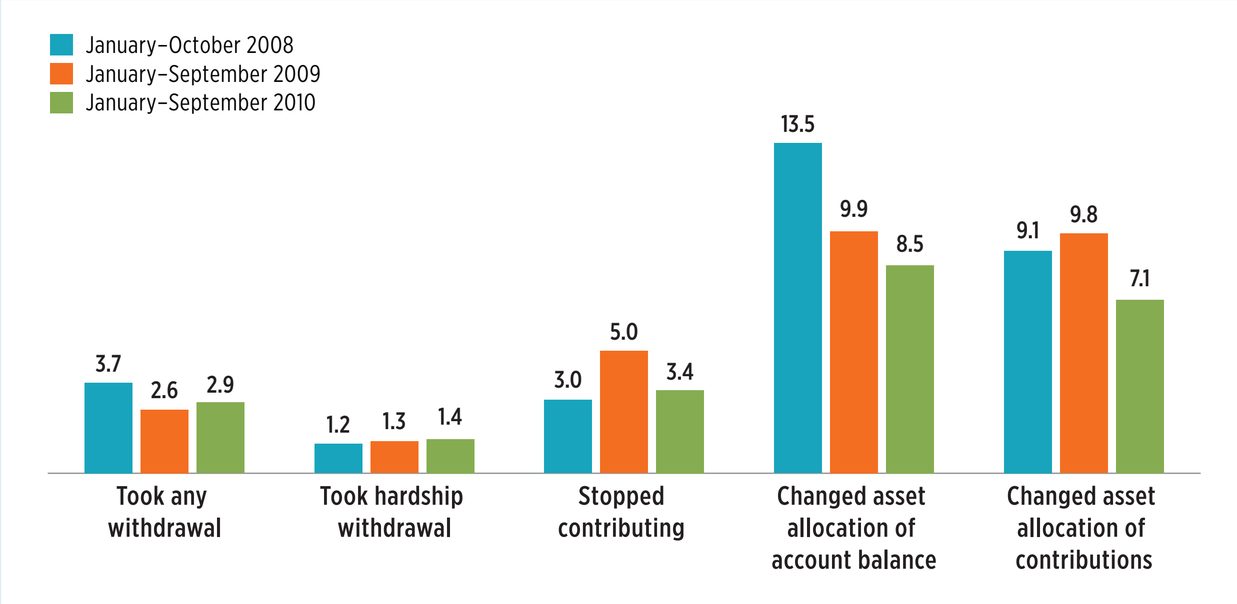
The survey of recordkeeping firms also gathered information about asset allocation changes in DC account balances or contributions. Between January 2010 and September 2010, 8.5 percent of the participants changed the asset allocation of their account balances, while 7.1 percent changed the asset allocation of their contributions (Figure 14). The percentages of participants making changes in asset allocations for balances and contributions are lower compared with the same time period a year earlier (January to September 2009). In any given time period, a minority of DC plan participants made asset allocation changes.[26]

The withdrawal data indicate that most DC plan participants did continue to preserve the assets in their retirement plans at work. Between January 2010 and September 2010, only 2.9 percent of plan participants took withdrawals from their participant-directed retirement plans, with 1.4 percent taking hardship withdrawals (Figure 14).[27] These withdrawal rates are very much in line with the recordkeeper results for the first three quarters of 2009 and the first ten months of 2008.[28]

FIGURE 14

Defined Contribution Plan Participant Activities

Summary of recordkeeper data; percentage of participants



Note: The samples include more than 22 million DC plan participants for data covering January–October 2008 and nearly 24 million DC plan participants for data covering January–September 2009 and January–September 2010.

Source: ICI Survey of DC Plan Recordkeepers (January–October 2008; January–September 2009; and January–September 2010)

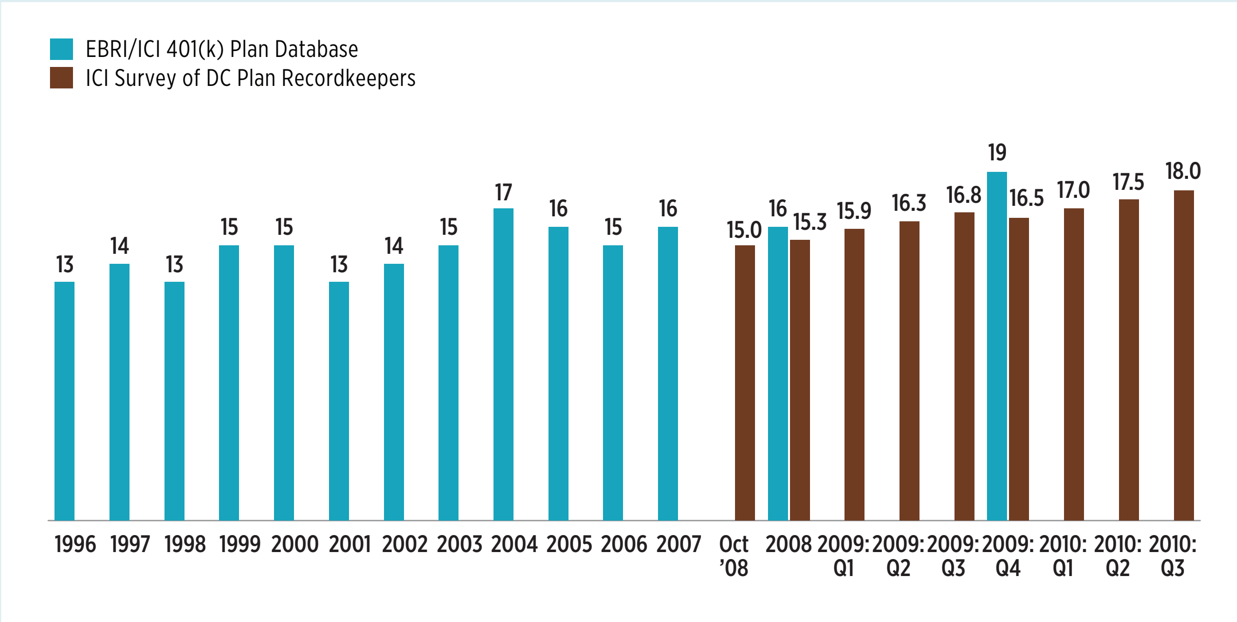
Although loan activity has edged up in the wake of the economic stresses, it is still the case that fewer than one in five DC plan participants had loans outstanding at the end of September 2010. At the end of September 2010, the ICI recordkeeper survey data indicated 18.0 percent of participants had loans outstanding, compared with 16.5 percent of participants at year-end 2009 and 15.3 percent at year-end 2008 (Figure 15). By comparison, the EBRI/ICI 401(k) database indicated that 16 percent of 401(k) participants had loans outstanding at year-end 2008 and 19 percent had loans outstanding at year-end 2009.[29]

Furthermore, the size of 401(k) loans, measured either as the dollar amount or as a percentage of the account balance, tends to be quite small according to EBRI/ICI research.[30, 31] Participants tend to repay the loans (with interest) to their accounts, thereby limiting the negative effects that loans would have on the overall accumulations at retirement.[32]

FIGURE 15

401(k) Loan Activity

Percentage of participants who had loans outstanding; end-of-period; 1996–2009, October 2008, 2009:Q1–2010:Q3



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

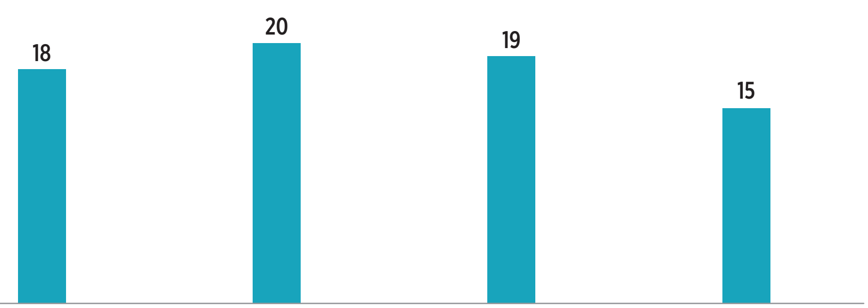
Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (1996–2009) and ICI Survey of DC Plan Recordkeepers (October 2008–September 2010)

Contribution and Withdrawal Activity in IRAs

Results from a separate ICI survey effort find that IRA-owning households' contribution and withdrawal activities in tax years 2007, 2008, and 2009 were not noticeably affected by the economic stresses of the past three years. ICI's Annual IRA Owners Survey, fielded in May 2008, May 2009, and May 2010, found that behavior of IRA-owning households in tax year 2009 was little changed from tax years 2007 and 2008. Indeed, 15 percent of all U.S. households contributed to any type of IRA in tax year 2009, as was the case in tax year 2008 and 2007. The percentage of IRA-owning households making contributions also was relatively constant over the past three years: 37 percent of IRA-owning households made contributions in 2009, compared with 39 percent in 2008 and 37 percent in 2007. The median contribution amount rose to $4,500 in tax year 2009 and was $4,000 in 2008 and 2007. Despite the volatile stock market and weak economy, traditional IRA withdrawal activity fell in 2009, reflecting the suspension of required minimum distributions in that year. Fifteen percent of traditional IRA–owning households took withdrawals in 2009, down from 19 percent in 2008 and 20 percent in 2007. The median withdrawal amount was $7,500 in 2009 compared with $6,000 in 2008 and $7,000 in 2007.

Traditional IRA Withdrawal Activity Is Limited and Usually Retirement Related

Percentage of U.S. households with traditional IRAs, 2007–2010[1]



Percentage who took withdrawal in	**2006**	**2007**	**2008**	**2009**[2]
Among traditional IRA–owning households in	2007	2008	2009	2010

[1] Figure reports withdrawal activity in the year indicated among traditional IRA–owning households in the subsequent year.

[2] Required minimum distributions were suspended for tax year 2009.

Source: Investment Company Institute IRA Owners Survey

For additional information on the ICI IRA Owners Survey, see Investment Company Institute 2010 and Holden and Schrass 2010a, 2010b, 2010c, and 2010d.

Appendix I: Characteristics of the GfK OmniTel Survey Sample and Additional Analysis

GfK OmniTel Survey

OmniTel is a weekly national telephone omnibus service of GfK Custom Research North America. The sample for each week's OmniTel wave consists of 1,000 completed interviews, made up of male and female adults (in approximately equal number), all 18 years of age or older. Each OmniTel study is based on a random digit dialing (RDD) probability sample of all telephone households in the continental United States.[33]

The median age group among households in this survey is 45 to 49, and the median income group is $40,000 to $49,999. The overall sampling error for the survey is ± 1.8 percentage points at the 95 percent confidence level.[34]

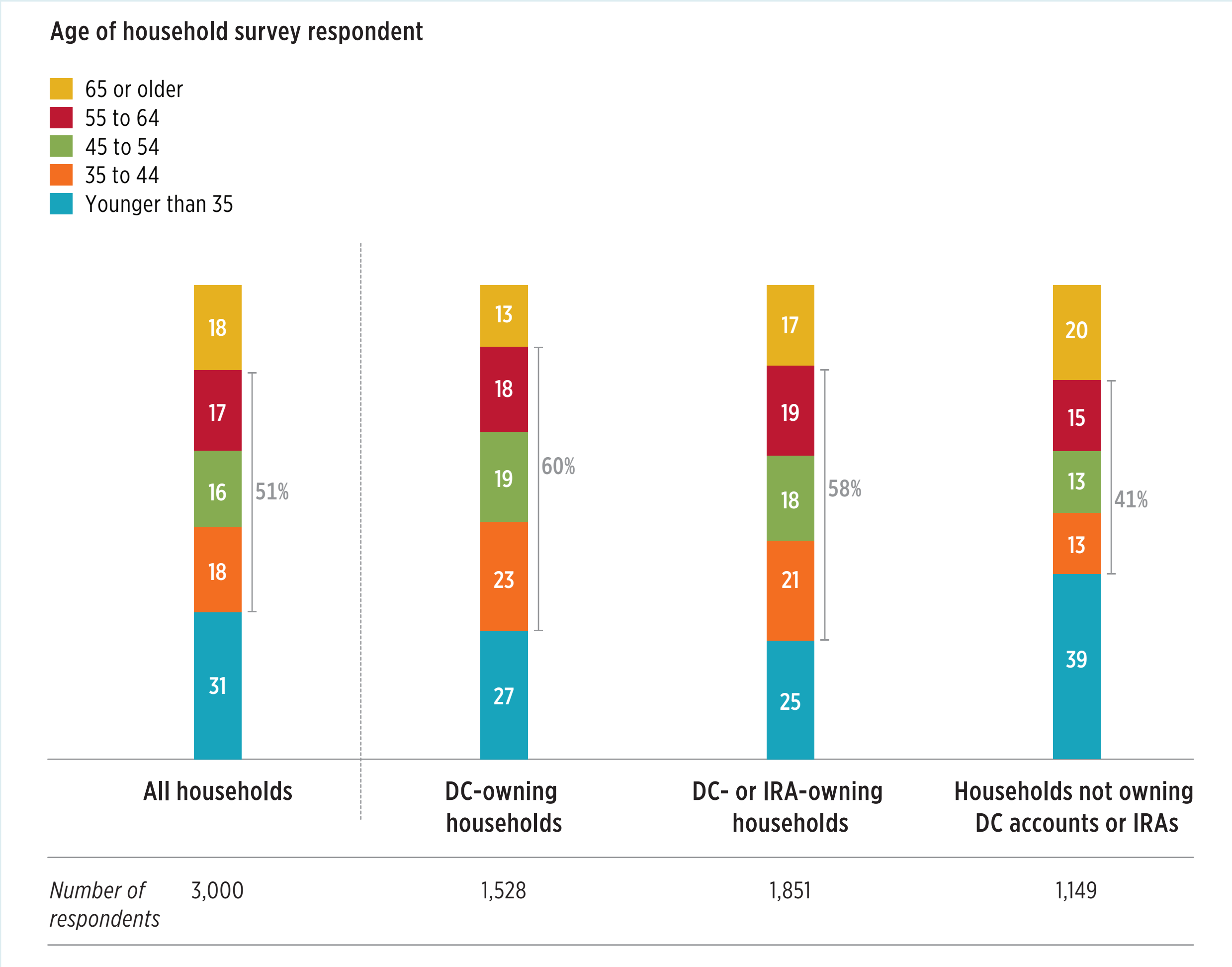
Characteristics of the Survey Sample

The characteristics of the sample are consistent with the samples used in other, ongoing ICI research. The age distributions of DC-owning and DC- or IRA-owning households are more concentrated toward prime working years, ages 35 to 64, compared with households not owning such retirement accounts (Figure A1). Also, incomes of households owning retirement accounts are higher than for non-owners, but two-thirds of households with retirement accounts have between $25,000 and $100,000 of income (Figure A2). Households owning DC accounts or IRAs were more likely to be employed full-time compared with households not owning such accounts (Figure A3). Finally, the willingness to take investment risk within the sample follows the same pattern observed in other household surveys, with older households expressing more reluctance to take on more risk to increase returns, compared with younger households; and households owning DC accounts or IRAs expressing more willingness to take on investment risk than non-owning households (Figure A4).[35]

FIGURE A1

Age Composition of U.S. Households in the Opinion Survey

Percentage of U.S. households by ownership status and age, fall 2010

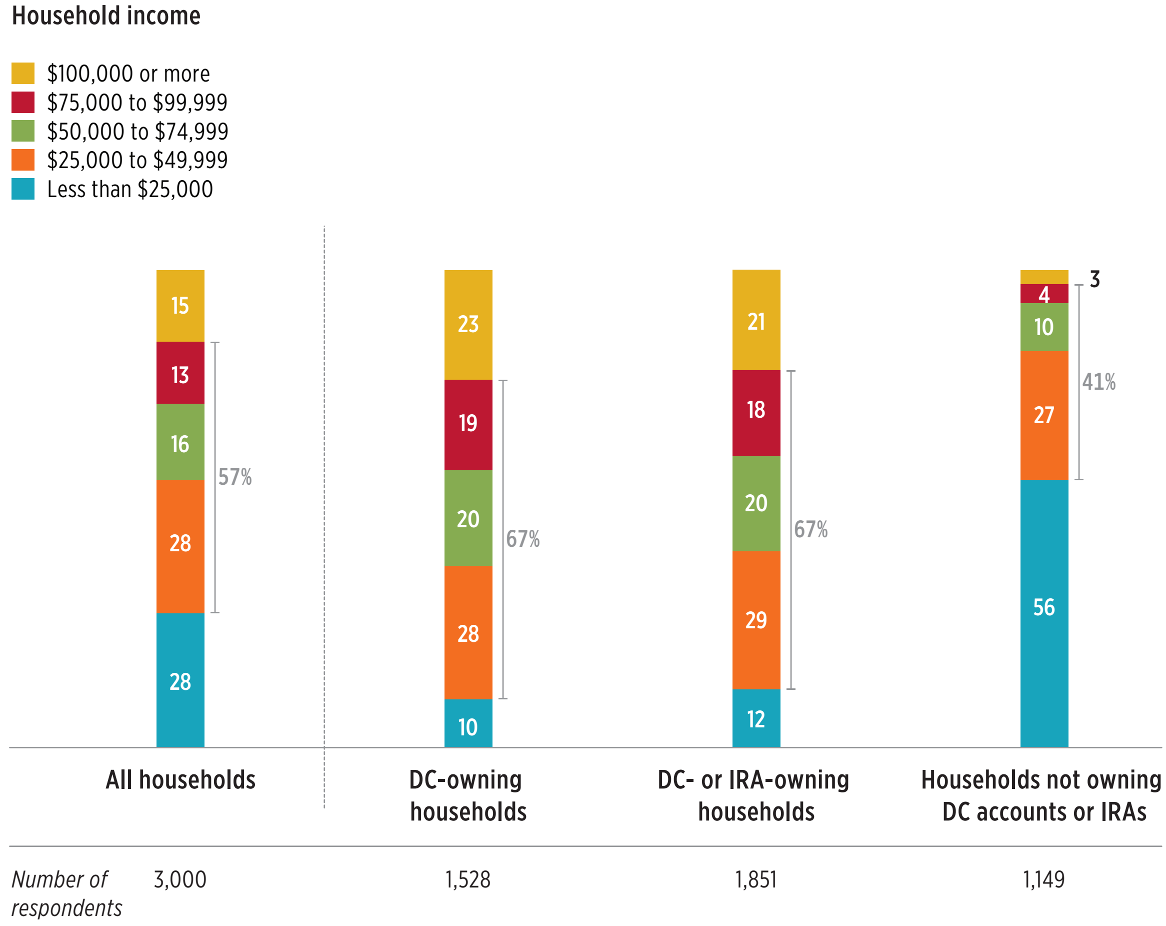


Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)

FIGURE A2

Income Composition of U.S. Households in the Opinion Survey

Percentage of U.S. households by ownership status and household income, fall 2010

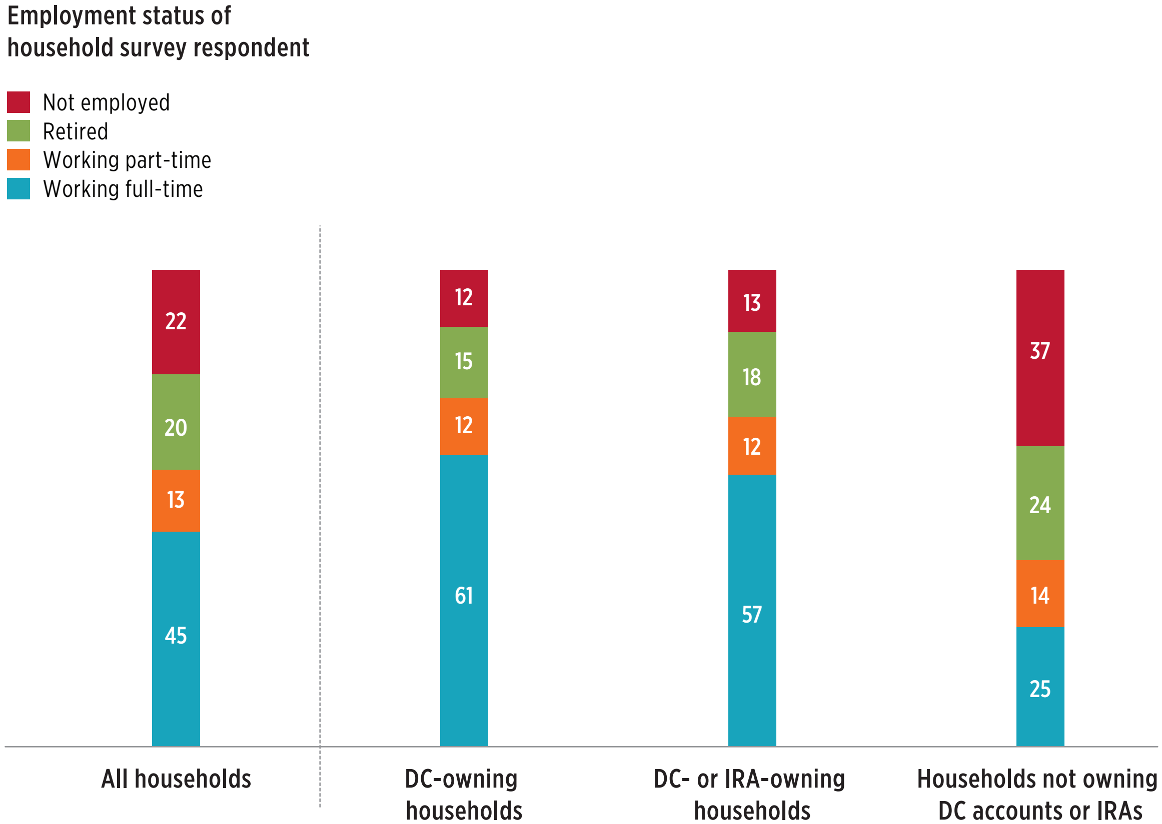


Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)

FIGURE A3

Employment Composition of U.S. Households in the Opinion Survey

Percentage of U.S. households by ownership status and employment status, fall 2010



Number of respondents	3,000	1,528	1,851	1,149

Note: Only household survey respondents who indicated they were not employed were asked if they were "retired." Survey respondents who were not employed include students, homemakers, and temporarily unemployed individuals.

Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)

FIGURE A4

Households' Willingness to Take Investment Risk

Percentage of U.S. households by age and ownership status, fall 2010

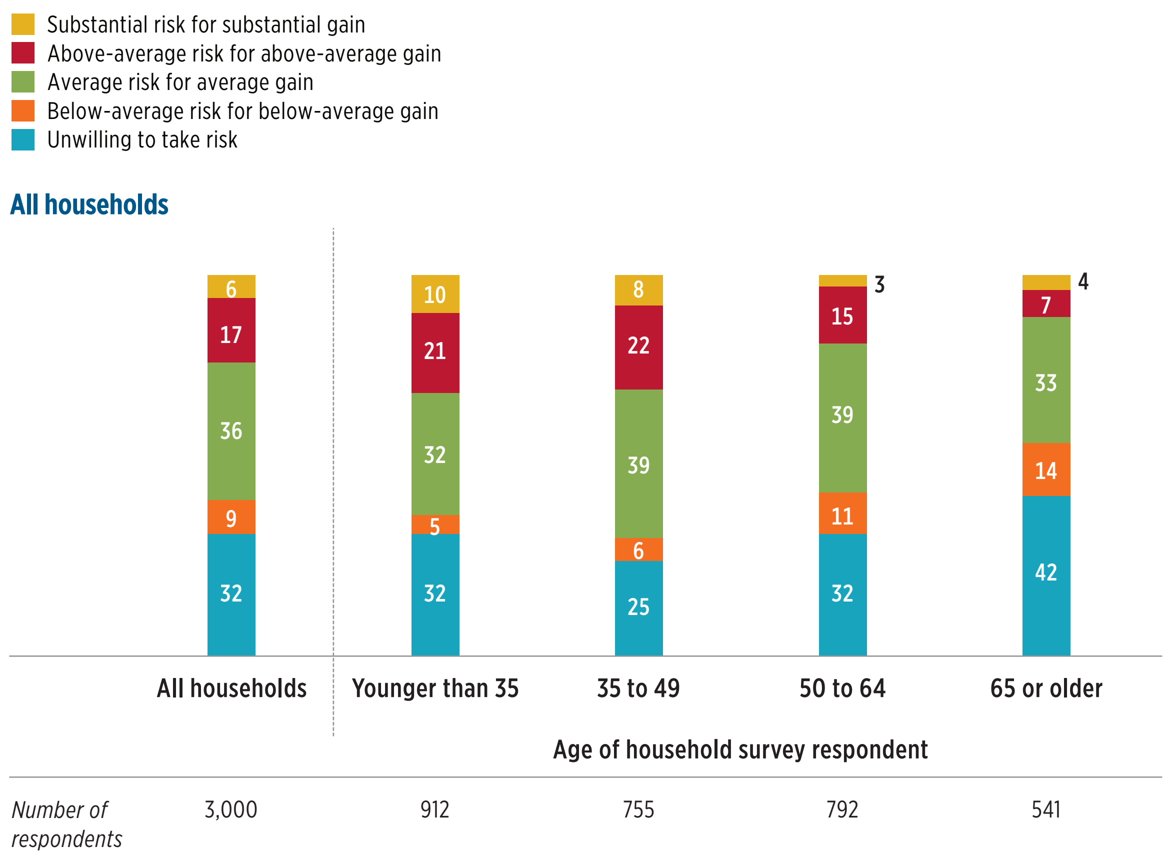


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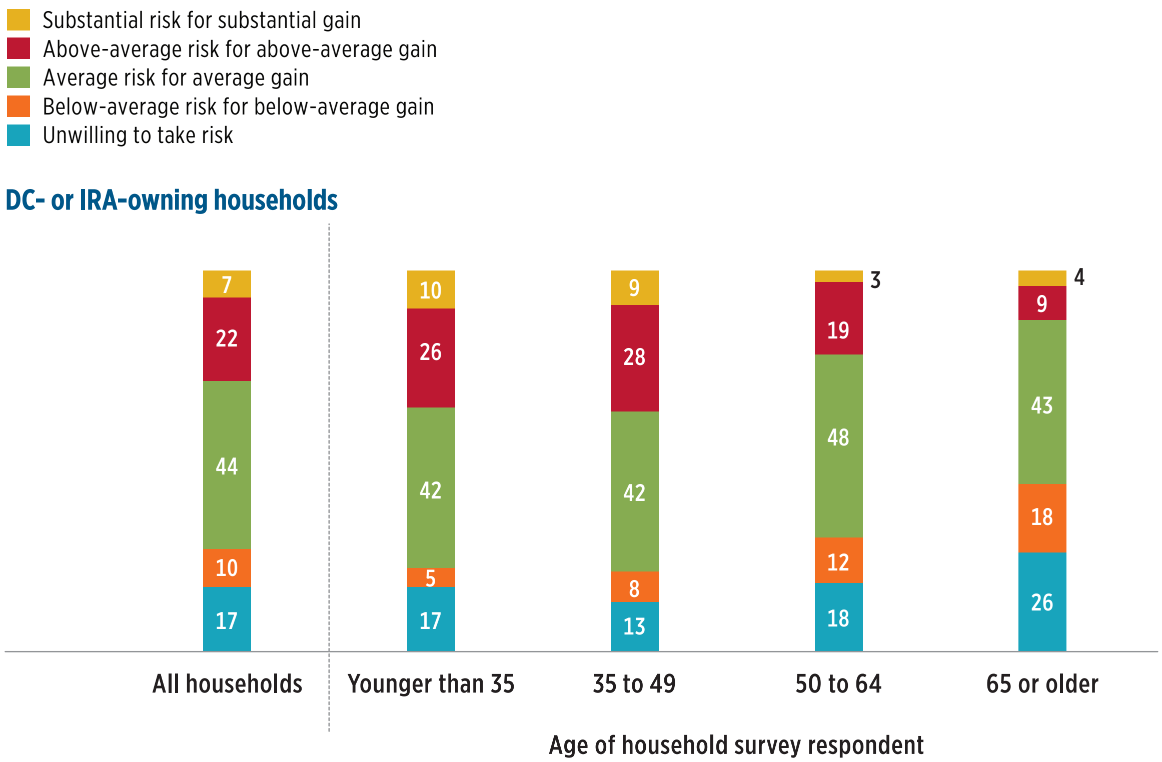
FIGURE A4 CONTINUED

Households' Willingness to Take Investment Risk

Percentage of U.S. households by age and ownership status, fall 2010



Number of respondents	1,851	467	541	533	310

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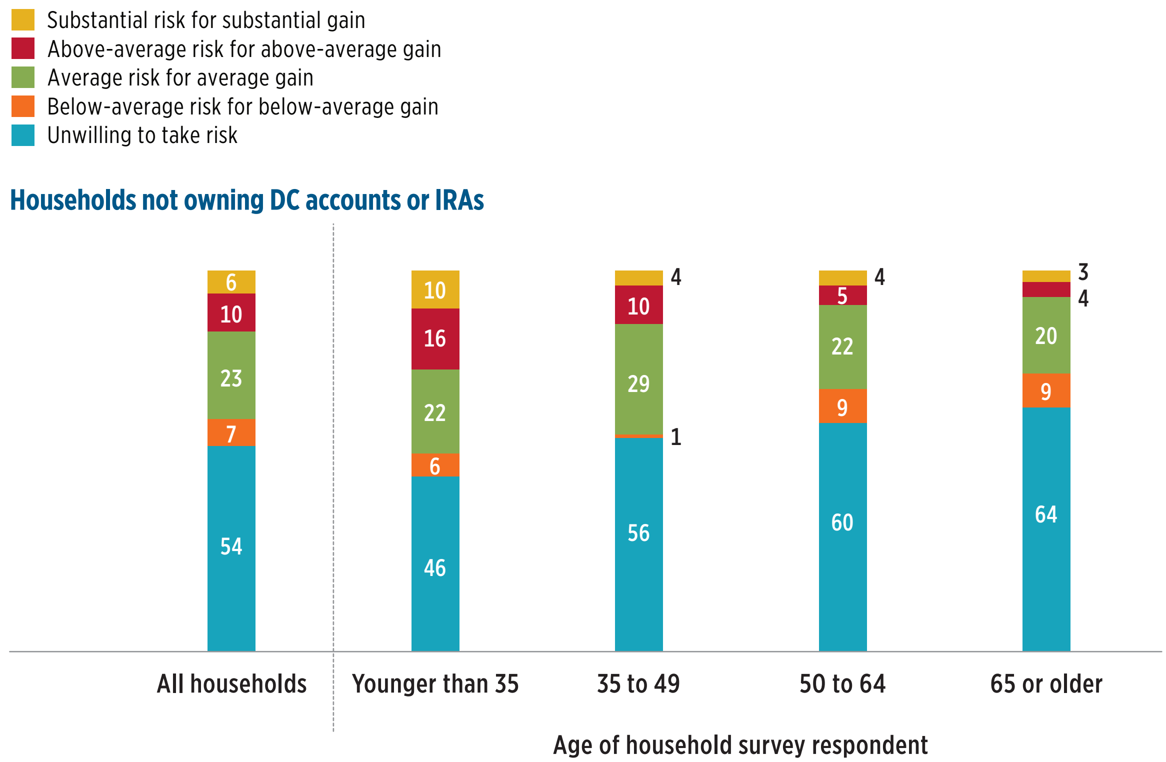
FIGURE A4 CONTINUED

Households' Willingness to Take Investment Risk

Percentage of U.S. households by age and ownership status, fall 2010



Number of respondents	All households	Younger than 35	35 to 49	50 to 64	65 or older
	1,149	446	214	259	230

Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)

Views on Suggested Changes to DC Plan Accounts

Figure 6 in the report presented responses to questions regarding respondents' opinions on some suggested changes to the tax treatment and investment control of DC plan accounts. Figure A5 reports responses across all households (whether they own DC accounts or not) by age of the survey respondent or household income.

FIGURE A5

Households' Opinions of Suggested Changes

Percentage of U.S. households disagreeing with each statement by age or household income, fall 2010

		Age of household survey respondent			
Disagreeing that the government should:	**All households**	**Younger than 35**	**35 to 49**	**50 to 64**	**65 or older**
Take away the tax advantages of DC accounts	88	86	88	90	86
Reduce the amount that individuals can contribute to DC accounts	82	75	85	87	84
Not allow individuals to make their own investment decisions in DC accounts	88	89	87	89	86
Replace all retirement accounts with a government bond	81	74	81	83	87
Number of respondents	3,000				

		Household income			
Disagreeing that the government should:	**All households**	**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	88	84	89	88	93
Reduce the amount that individuals can contribute to DC accounts	82	74	85	88	92
Not allow individuals to make their own investment decisions in DC accounts	88	82	92	89	92
Replace all retirement accounts with a government bond	81	68	84	88	89
Number of respondents	3,000				

Note: Figure reports the percentage of households who "strongly disagreed" or "somewhat disagreed" with the statement. The remaining households "somewhat agreed" or "strongly agreed." See Appendix II for the exact wording of the question.
Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)

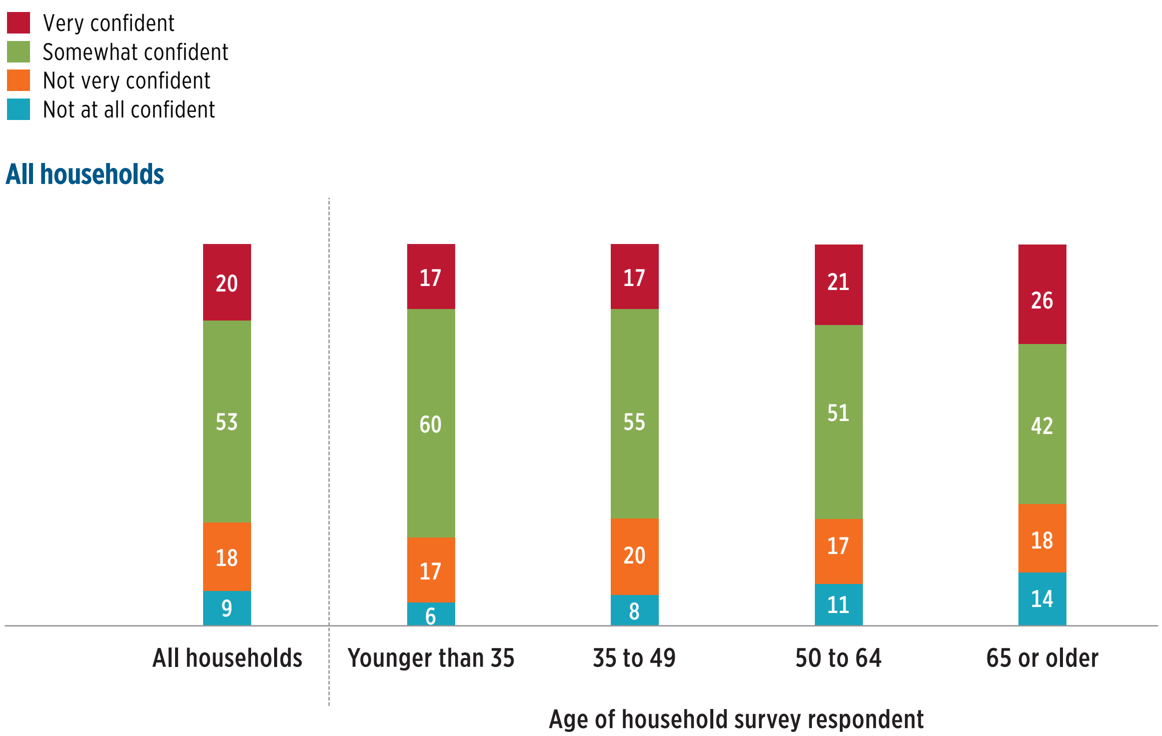
Confidence in Retirement Plan Accounts

Figure 7 in the report summarized respondents' confidence in the ability of retirement plan accounts to help individuals meet their retirement goals. Figures A6 and A7 analyze variation in confidence across households by DC account or IRA ownership status and age of the household survey respondent for 2009 and 2010.

FIGURE A6

Confidence in 2009 That Retirement Plan Accounts Can Help Individuals Meet Retirement Goals

Percentage of U.S. households by age and ownership status, fall 2009



Number of respondents	2,913	881	728	767	537

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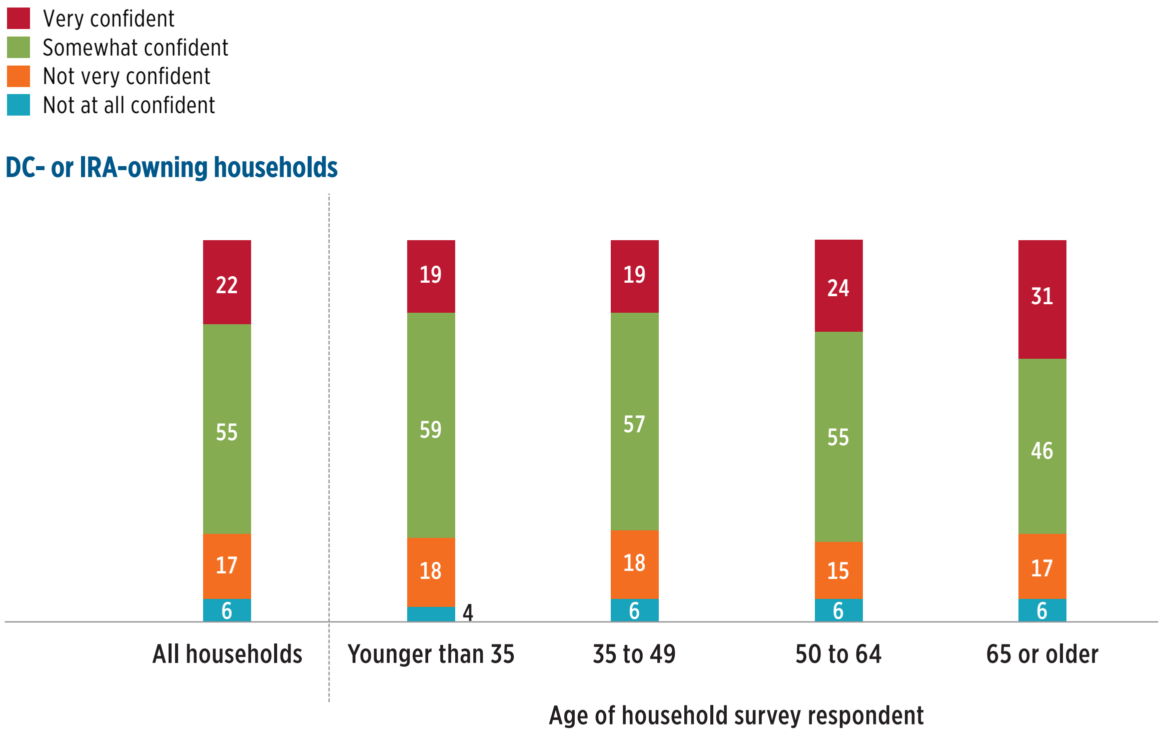
FIGURE A6 CONTINUED

Confidence in 2009 That Retirement Plan Accounts Can Help Individuals Meet Retirement Goals

Percentage of U.S. households by age and ownership status, fall 2009



	All households	Younger than 35	35 to 49	50 to 64	65 or older
Number of respondents	1,919	533	553	540	293

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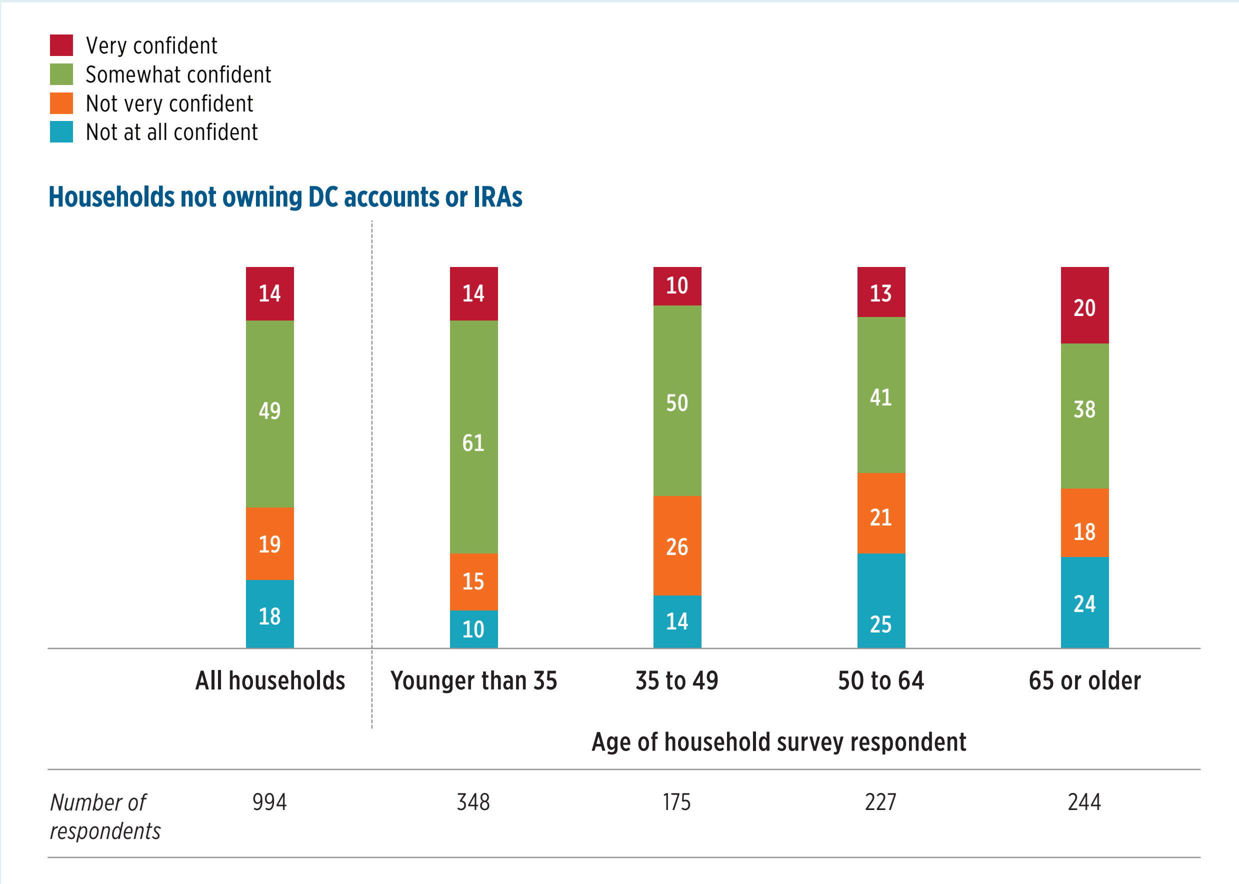
FIGURE A6 CONTINUED

Confidence in 2009 That Retirement Plan Accounts Can Help Individuals Meet Retirement Goals

Percentage of U.S. households by age and ownership status, fall 2009

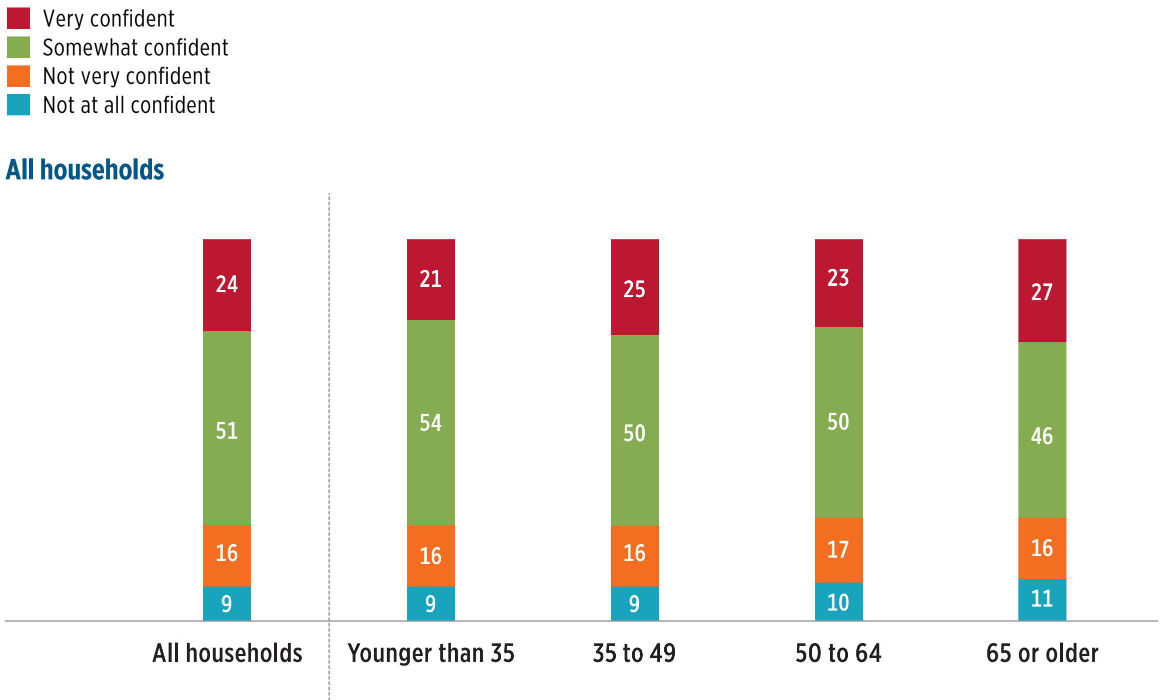


Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)

FIGURE A7

Confidence in 2010 That Retirement Plan Accounts Can Help Individuals Meet Retirement Goals

Percentage of U.S. households by age and ownership status, fall 2010



	All households	Younger than 35	35 to 49	50 to 64	65 or older
Number of respondents	2,944	891	750	781	522

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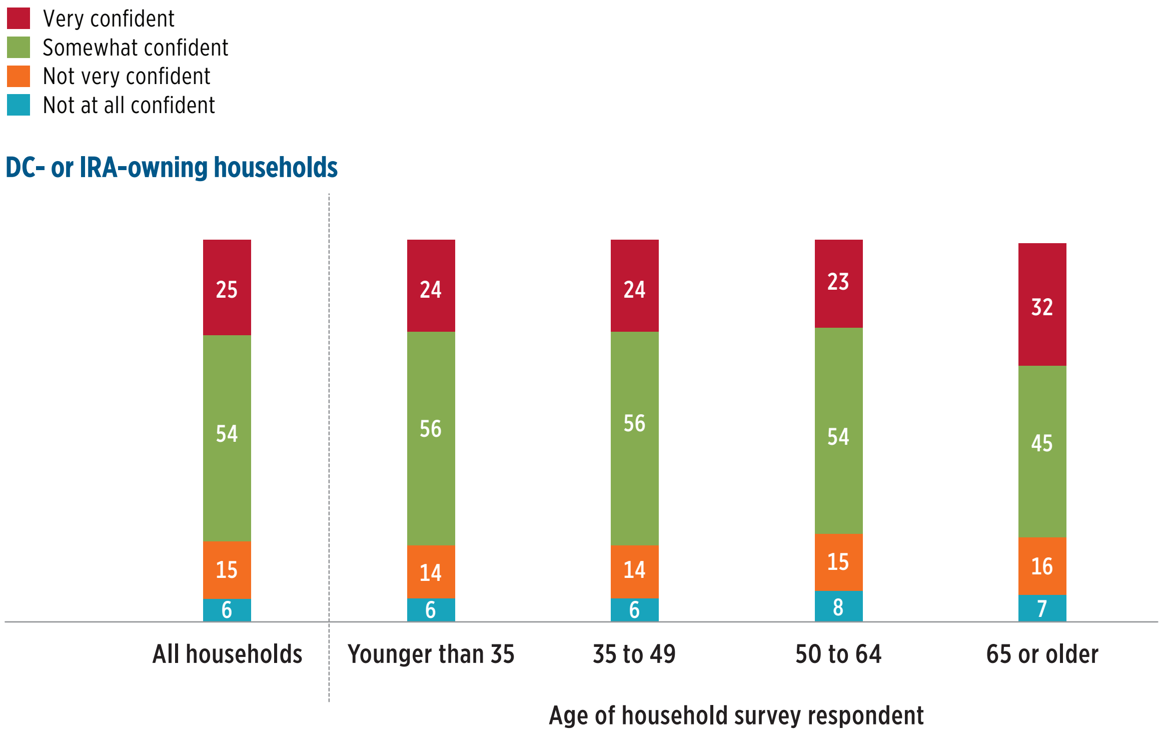
FIGURE A7 CONTINUED

Confidence in 2010 That Retirement Plan Accounts Can Help Individuals Meet Retirement Goals

Percentage of U.S. households by age and ownership status, fall 2010



	All households	Younger than 35	35 to 49	50 to 64	65 or older
Number of respondents	1,837	464	539	532	302

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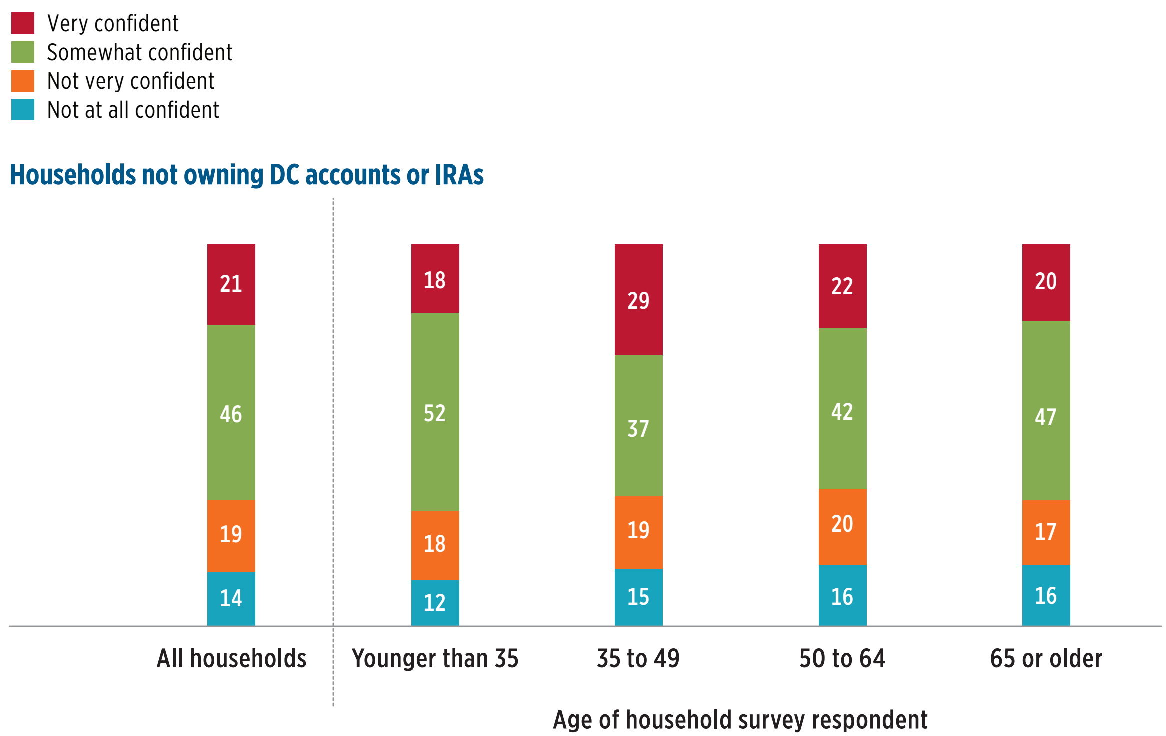
FIGURE A7 CONTINUED

Confidence in 2010 That Retirement Plan Accounts Can Help Individuals Meet Retirement Goals

Percentage of U.S. households by age and ownership status, fall 2010



	All households	Younger than 35	35 to 49	50 to 64	65 or older
Number of respondents	1,107	427	211	249	220

Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)

Appendix II: ICI's Survey Questions

I have a few questions relating to the recent financial market performance and your saving and investing.

#1 (ASK ALL:) Do you or does someone else in your household have an employer-sponsored retirement plan account? These retirement plans can be called 401(k), 403(b), 457, or thrift savings plans.
[ ] Yes [ ] No [ ] Don't know

#2 (IF #1 = NO/DON'T KNOW, START WITH:) We are interested in your opinions on these types of retirement plan accounts even if your household doesn't currently own them.

(ASK ALL:) Saving in retirement plan accounts such as 401(k) plans has certain tax advantages. For example, 401(k) contributions typically reduce your taxable income since contributions come out of your pay before taxes are withheld. In addition, the retirement plan accounts benefit from tax-deferred growth because taxes are not due until you withdraw the money from the account.

Please indicate whether you **strongly agree**, **somewhat agree**, **somewhat disagree**, or **strongly disagree** with each of the following statements. How about…(READ EACH ITEM and RANDOMIZE LIST)

The government should take away the tax advantages of such retirement plan accounts.

____

The government should reduce the amount that individuals can contribute to such retirement plan accounts.

____

The government should not allow individuals to make their own investment decisions in such accounts.

____

The government should replace all retirement plan accounts with a government bond.

____

#3 (IF #1 = YES, ASK:) When you think about your household's employer-sponsored retirement plan accounts, would you **strongly agree**, **somewhat agree**, **somewhat disagree**, or **strongly disagree** with the following statements? Let's start with… (READ EACH ITEM and RANDOMIZE LIST)

Payroll deduction makes it easier for me to save.

____

My employer-sponsored retirement plan account helps me think about the long term, not just my current needs.

____

I probably wouldn't save for retirement if I didn't have a retirement plan at work.

____

Knowing that I'm saving from every paycheck makes me less worried about the stock market's performance.

____

The immediate tax savings from my retirement plan are a big incentive to contribute.

____

My employer-sponsored retirement plan offers me a good lineup of investment options.

____

It is important to have choice in, and control of, the investments in my retirement plan account.

____

#4 (ASK ALL:) Please tell me which one of the following statements best describes how much investment risk versus reward you personally are usually willing to take when investing. (READ LIST. CHECK ONLY ONE RESPONSE.)

[ ] I am willing to take substantial financial risk for substantial financial gain.

[ ] I am willing to take above-average risk for above-average gain.

[ ] I am willing to take average risk for average gain.

[ ] I am willing to take below-average risk for below-average gain.

[ ] I am not willing to take any financial risk, but I understand I may not make any financial gain.

#5 (IF #1 = NO/DON'T KNOW, START WITH:) We are interested in your opinions on employer-sponsored retirement plan accounts, such as 401(k), 403(b), 457, or thrift savings plans, even if your household doesn't currently own them.

(ASK ALL:) Based on your own opinion and experience, I would like to know your impression of 401(k) and similar retirement plan accounts. Would you say you have a **very favorable**, **somewhat favorable**, **somewhat unfavorable**, or **very unfavorable** impression—or no opinion—of retirement plan accounts? (READ LIST. CHECK ONLY ONE RESPONSE.)

[ ] Very favorable

[ ] Somewhat favorable

[ ] Somewhat unfavorable

[ ] Very unfavorable

[ ] No opinion

[ ] Don't know

#6 (ASK ALL, EXCEPT IF #5 = NO OPINION/DON'T KNOW:) How important are each of the following in determining your overall opinion of retirement plan accounts? Please tell me whether each item is very important, somewhat important, not too important, or not at all important. (READ EACH ITEM and RANDOMIZE LIST.)

Friends and family

____

Media coverage about 401(k) plans

____

Performance of retirement plan account investments**

____

Recent events in financial markets

____

Your personal experience with a retirement plan**

____

Materials or seminars provided by an employer about a retirement plan**

____

The ability of retirement plan accounts to accumulate significant savings

____

** = Accept “not applicable” for these.

#7 (IF #1 = YES, ASK:) Based on your own personal experience, how confident are you that your 401(k) or other employer-sponsored retirement plan accounts can help you meet your retirement goals? Are you…? (READ LIST. CHECK ONLY ONE RESPONSE.)

(IF #1 = NO/DON’T KNOW, ASK:) In your opinion, how confident are you that 401(k) or other employer-sponsored retirement plan accounts can help people meet their retirement goals? Are you…? (READ LIST. CHECK ONLY ONE RESPONSE.)

[ ] Very confident

[ ] Somewhat confident

[ ] Not very confident

[ ] Not at all confident

[ ] Don’t know

#9 (ASK ALL:) Do you or does someone else in your household have either a traditional IRA or a Roth IRA? These are retirement accounts that individuals can establish on their own.
[ ] Yes [ ] No [ ] Don’t know

#10 (IF #1 = NO OR DK AND #8 = NO OR DK, ASK) Do you or does someone else in your household own financial investments such as stocks, bonds, mutual funds, or variable annuities?
[ ] Yes [ ] No [ ] Don’t know

#11 (IF #1 = YES OR #9 = YES OR #10 = YES, ASK) Over the past three years the poor economy and volatile stock market have changed the way some people approach decisions about saving, investing, and retirement planning. We are interested in any changes that your household made during the past few years.

11A. In terms of saving, whether inside or outside retirement accounts, would you say that you... (READ LIST. CHECK ONLY ONE RESPONSE.)

[ ] Did not change the amount you are regularly saving

[ ] Increased the amount you are regularly saving

[ ] Decreased the amount you are regularly saving

11B. In terms of investing, whether inside or outside retirement accounts, would you say that you... (READ LIST. CHECK ONLY ONE RESPONSE.)

[ ] Made no change in your investment strategy

[ ] Shifted investments to be more conservative (that is, away from stocks and toward bonds, cash, or money market funds)

[ ] Shifted investments to be less conservative (that is, away from bonds, cash, or money market funds and toward stocks)

11C. In terms of retirement planning, would you say that you... (READ LIST. CHECK ONLY ONE RESPONSE.)

[ ] Made no change in your retirement plans

[ ] Delayed taking retirement or increased your expected retirement age

[ ] Took early retirement or lowered your expected retirement age

#12 (ASK #12 IF #11 IS NOT ASKED. THAT IS, ASK ONLY IF #1 = NO or DK AND #9 = NO or DK AND #10 = NO or DK) Over the past three years the poor economy and volatile stock market have changed the way some people approach decisions about retirement planning. We are interested in any changes that your household made during the past few years.

In terms of retirement planning, would you say that you... (READ LIST. CHECK ONLY ONE RESPONSE.)

[ ] Made no change in your retirement plans

[ ] Delayed taking retirement or increased your expected retirement age

[ ] Took early retirement or lowered your expected retirement age

Notes

[1] See Reid and Holden 2008 and Holden, Sabelhaus, and Reid 2010.

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

[3] See Investment Company Institute 2011 (forthcoming) for the most recent estimates of total U.S. retirement market assets.

[4] About half (52 percent) of U.S. households had DC accounts, 41 percent had IRAs, and 65 percent held DC accounts or IRAs on net. These data were tabulated from ICI's Annual Mutual Fund Shareholder Tracking Survey fielded in May 2010 (sample of 4,200 U.S. households). See Holden and Schrass 2010c and 2010d and Bogdan, Sabelhaus, and Schrass 2010 for additional details.

[5] See, for example, Stephen Gandel, "Why It's Time to Retire the 401(k)," *Time*, October 9, 2009, and Brett Arends, "Warning: Retirement Disaster Ahead," *Wall Street Journal*, October 28, 2010.

[6] For the earlier reports, see Reid and Holden 2008 and Holden, Sabelhaus, and Reid 2010.

[7] See Appendix I for a description of the survey methodology and demographic characteristics of the survey respondents. See Appendix II for the text of ICI's survey questions.

[8] See Holden, Sabelhaus, and Reid 2010.

[9] See Holden, Sabelhaus, and Reid 2010.

[10] See Appendix II for the exact wording of ICI's survey questions.

[11] See Reid and Holden 2008 and Holden, Sabelhaus, and Reid 2010 for the earlier survey results.

[12] 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—where 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.

[13] 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, 34 percent of U.S. households in 2007 reported that saving for retirement was their household's primary reason for saving (see Bucks et al. 2009). 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 Sigrist 2008).

[14] 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 2011 is equal to 90 percent of the first $749 of AIME; plus 32 percent of AIME between $749 and $4,517; and 15 percent of any AIME over $4,517. 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 preretirement earnings. See U.S. Social Security Administration 2011 for more details about benefit formulas and parameters.

[15] 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 60 to 69 in 2009) decreased as income increased. The median replacement rate for the lowest household lifetime earnings quintile was 71 percent; for the middle quintile, the median Social Security replacement rate was 43 percent; and for the highest quintile, it was 31 percent. See Congressional Budget Office 2010. For additional discussion, see Brady and Sigrist 2008.

[16] See Reid and Holden 2008 and Holden, Sabelhaus, and Reid 2010.

[17] See Figure A5 in Appendix I.

[18] The 2009 survey 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.

[19] Opposition to reducing the contribution limits was the greatest among households aged 35 or older, with 84 percent or more opposed to a reduction (see Figure A5 in Appendix I). And although middle- and upper-income households were more likely to be opposed, a substantial majority of lower-income households also disagreed with reducing the contribution limits. Among households with incomes of $100,000 or more, 92 percent disagreed with reducing the contribution limits, compared with 74 percent of the households making less than $30,000.

[20] See Figure A5 in Appendix I.

[21] 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. In addition, participants with such accounts are more willing to take investment risk, on average, than are households not investing in these accounts. When asked about their willingness to take investment risk, 73 percent of DC- or IRA-owning households were willing to take average or more risk, compared with 39 percent of the households not invested in these plans (see Figure 9). The lower risk tolerance among nonparticipants could explain, in part, why they would be more willing to let the government replace such accounts with a government bond.

[22] For analysis of confidence in DC plan accounts by ownership status and age, see Figure A6 (2009 data) and Figure A7 (2010 data) in Appendix I.

[23] The correlation between stock returns and risk tolerance for 2008–2009 is also consistent with observations going back to the late 1980s. See Sabelhaus, Bogdan, and Schrass 2008.

[24] Households owning financial investments displayed similar activity: 68 percent of households with financial investments made no change in their retirement plans; 18 percent delayed taking retirement or increased their expected retirement age, and 14 percent took early retirement or lowered their expected retirement age.

[25] It is not possible to compare the household survey and DC plan recordkeeper survey results directly because they cover different time periods and different lengths of time; different respondents (households versus individual DC plan participant accounts) and different assets (entire household balance sheet versus DC plan account).

[26] Other data also indicate that in any given time period a minority of DC plan participants are making asset allocation changes. 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). Although the EBRI/ICI 401(k) database does not have information on participant trading activity, it is possible to compare snapshots of year-end asset allocations among participants present in multiple years in the database. An analysis of changes in year-end asset allocation among a consistent group of 5.3 million 401(k) participants between year-end 1999 and year-end 2002 suggests that 71 percent of 401(k) participants did not actively change their equity fund allocation during that time period. See Holden and VanDerhei 2003. Analysis of a 2007–2008 longitudinal sample drawn from the EBRI/ICI 401(k) database and analysis of a 2008–2009 longitudinal sample drawn from the EBRI/ICI 401(k) database also suggest that most participants did not make dramatic shifts in the asset allocation of their account balances in the year analyzed (see Holden, VanDerhei, and Alonso 2009 and 2010).

[27] 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.

[28] This level of withdrawal activity is consistent with 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 2002a and 2002b.

[29] The EBRI/ICI 401(k) database update reports loan activity among 401(k) participants in plans that allow loans. Eighty-nine 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 on 20.7 million 401(k) participants in 51,852 plans, with $1.210 trillion in assets. See Holden, VanDerhei, and Alonso 2010.

[30] At year-end 2009, the median loan outstanding was $3,972, compared with $3,889 at year-end 2008 and $4,167 at year-end 2007. At year-end 2009, on average, loans outstanding represented 15 percent of the remaining account balance. See Holden, VanDerhei, and Alonso 2010.

[31] Official data on aggregate 401(k) plan assets also indicate that loans are small. In plan-year 2008 (the latest data available), only 2.2 percent of the $2.2 trillion in 401(k) plan assets were participant loans. In addition, only $663 million flowed out of 401(k) plans as the result of converting a loan into a withdrawal/distribution ("deemed distribution of participant loans"). See U.S. Department of Labor, Employee Benefits Security Administration 2010.

[32] The EBRI/ICI 401(k) Accumulation Projection Model examines the impact of loan activity on future 401(k) accumulations. See Holden and VanDerhei 2002a.

[33] The RDD sampling system is computer-based and provides an equal probability of selection for each and every telephone household. All completed interviews are weighted to ensure accurate and reliable representation of the total population, 18 years or older. The raw data are weighted by a custom-designed computer program, which automatically develops a weighting factor for each respondent. This procedure employs five variables: age, gender, education, race/ethnicity, and geographic region. Each interview is assigned a single weight derived from the relationship between the actual proportion of the population with its specific combination of age, gender, education, race/ethnicity, and geographic characteristics and the proportion in the sample that week.

[34] The use of sample surveys is standard practice for constructing estimates about a total population. Estimates derived through survey sampling are subject to sampling error. As sample size increases, the level of potential sampling error generally becomes smaller.

[35] For example, see Sabelhaus, Bogdan, and Schrass 2008, which reports tabulations of Survey of Consumer Finances data; Bogdan, Sabelhaus, and Schrass 2010, which tabulates the 2010 ICI Annual Mutual Fund Shareholder Tracking Survey data; and Holden and Schrass 2010c and 2010d, which tabulates the 2010 ICI IRA Owners Survey data.

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