ICI RESEARCH REPORT

Defined Contribution Plan Participants' Activities, First Quarter 2014

August 2014

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Suggested citation: Holden, Sarah, and Daniel Schrass. 2014. "Defined Contribution Plan Participants' Activities, First Quarter 2014." *ICI Research Report* (August). Available at www.ici.org/pdf/ppr_14_rec_survey_q1.pdf.

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Key Findings

DC plan withdrawal activity in the first quarter of 2014 remained low and was similar to the first quarter in the prior year. In 2014:Q1, 1.3 percent of DC plan participants took withdrawals, the same share as in 2013:Q1. Levels of hardship withdrawal activity also remained low. Only 0.5 percent of DC plan participants took hardship withdrawals during 2014:Q1, compared with 0.4 percent during 2013:Q1.

The commitment to contribution activity in 2014:Q1 continued at the high rate observed in 2013:Q1. Only 1.0 percent of DC plan participants stopped contributing in 2014:Q1, the same pace as in 2013:Q1.

Most DC plan participants stayed the course with their asset allocations as stock values only edged up a bit during the first three months of the year. In the first quarter of 2014, 4.3 percent of DC plan participants changed the asset allocation of their account balances and 3.8 percent changed the asset allocation of their contributions. These levels of reallocation activity were slightly lower than the reallocation activity observed in the same time frame a year earlier.

DC plan participants' loan activity moved down by the end of March 2014, although it continues to remain elevated compared with six years ago. At the end of March 2014, 17.7 percent of DC plan participants had loans outstanding, compared with 18.2 percent at year-end 2013, and 15.3 percent at year-end 2008.

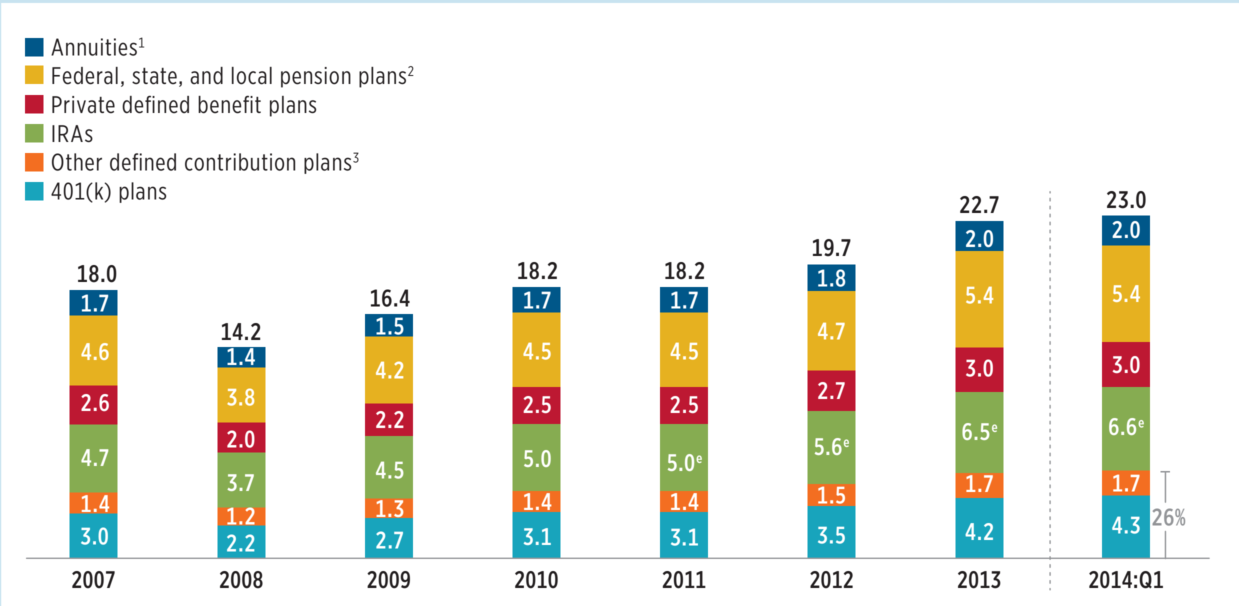
Introduction

Defined contribution (DC) plan assets are a significant component of Americans' retirement assets, representing more than one-quarter of the total retirement market (Figure 1) and almost one-tenth of U.S. households' aggregate financial assets at the end of the first quarter of 2014.[1] To measure participant-directed changes in DC plans, ICI has been tracking participant activity through recordkeeper surveys since 2008. This report updates results from ICI's survey of a cross section of recordkeeping firms representing a broad range of DC plans and covering

FIGURE 1

26 Percent of U.S. Retirement Assets Were Defined Contribution Plan Assets

Trillions of dollars; end-of-period, selected periods



[1] Annuities include all fixed and variable annuity reserves at life insurance companies less annuities held by IRAs, 403(b) plans, 457 plans, and private pension funds. Some of these annuity reserves represent assets of individuals held outside retirement plan arrangements and IRAs; however, information to separate out such reserves is not available. The Federal Reserve Board financial accounts' annuities total includes annuities held in IRAs, 457 plans, and 403(b) plans. ICI reports these totals separately, thus this figure reports a lower annuities total than the financial accounts (see U.S. Federal Reserve Board 2014).

[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] Other DC plans include 403(b) plans, 457 plans, and private employer-sponsored DC plans without 401(k) features.

[e] Data are estimated.

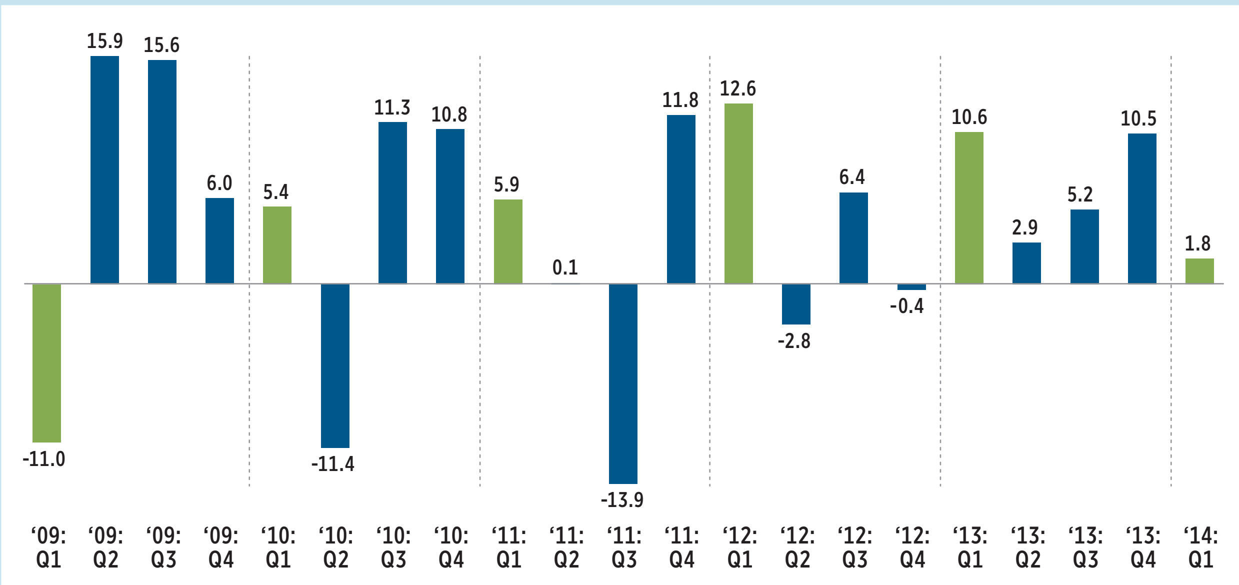
Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, U.S. Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division; see Investment Company Institute 2014 about 24 million employer-based DC retirement plan participant accounts as of March 2014. The broad scope of the recordkeeper survey provides valuable insights about recent withdrawal, contribution, asset allocation, and loan decisions of participants in these plans. The most recent survey covered DC plan participants' activities in the first three months of 2014.[2] In this period, stock prices only edged up a bit (Figure 2); on net, the S&P 500 total return index was up 1.8 percent in the first quarter of 2014. Stock market price movement influences investors' perceptions about risk and may prompt some to reevaluate their asset allocation.[3]

FIGURE 2

Equity Returns

Percent change in the S&P 500 total return index, 2009:Q1–2014:Q1



Note: The S&P 500 total return index consists of 500 U.S. stocks chosen for market size, liquidity, and industry group representation.
Sources: Investment Company Institute, Bloomberg, and Standard & Poor's

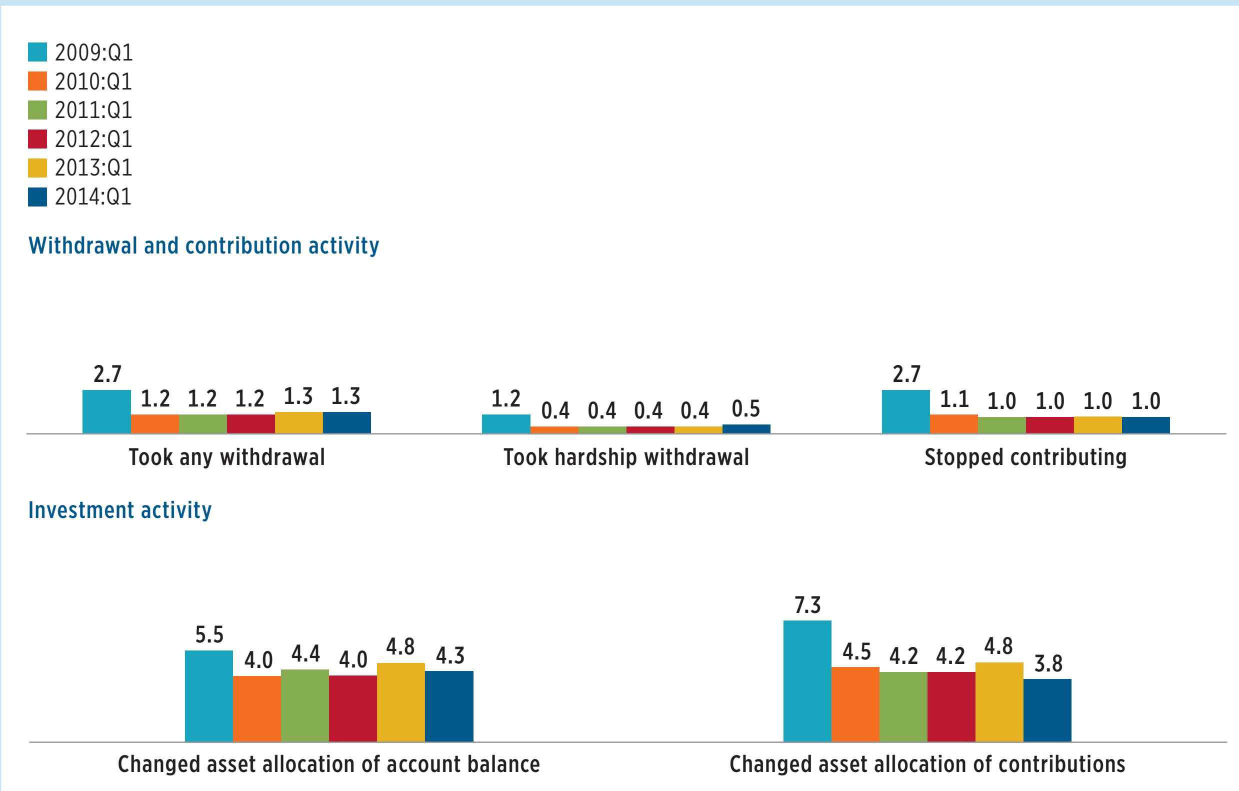
DC Plan Participants' Activities in 2014:Q1

The withdrawal and contribution data indicate that essentially all DC plan participants continued to save in their retirement plans at work. DC plan participants' withdrawal activity during the first quarter of 2014 was in line with activity observed during the first quarter of the prior year, and a negligible share of participants stopped contributing during 2014:Q1.[4] In 2014:Q1, 1.3 percent of DC plan participants took withdrawals from their DC plan accounts, with 0.5 percent taking hardship withdrawals (Figure 3).[5] These levels of activity are similar to those observed in the first quarter of 2013. In 2014:Q1, 1.0 percent of DC plan participants stopped making contributions, the same share as in 2013:Q1. It is possible that some of these participants stopped contributing simply because they reached the annual contribution limit.

FIGURE 3

Defined Contribution Plan Participants' Activities

Summary of recordkeeper data, percentage of participants



Note: The samples include nearly 24 million DC plan participants in 2009–2014.

Source: ICI Survey of DC Plan Recordkeepers (2009–2014)

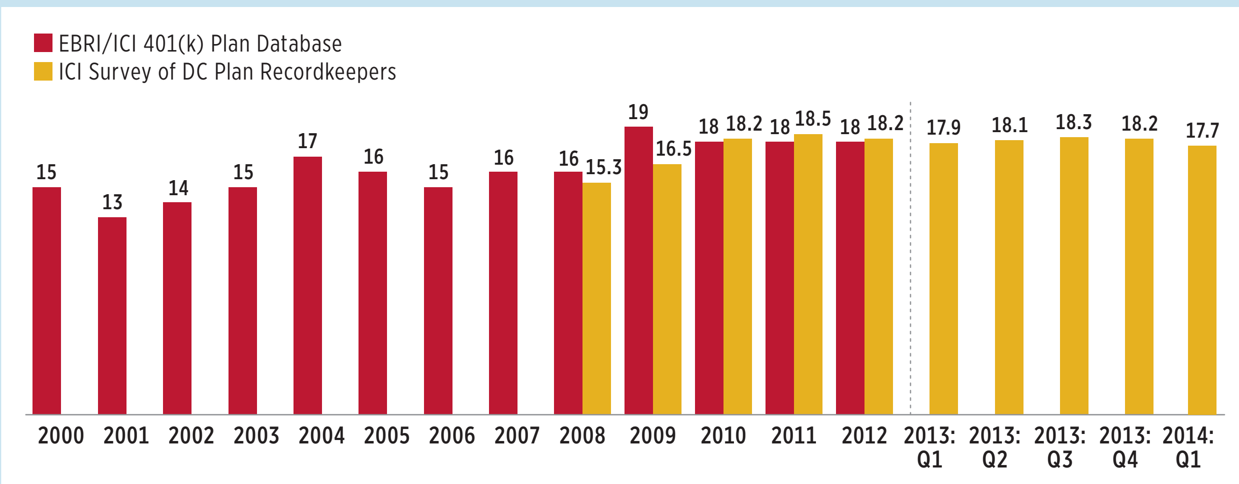
The survey of recordkeeping firms also gathered information about asset allocation changes in DC account balances or contributions. During the first three months of the year, 4.3 percent of DC plan participants had changed the asset allocation of their account balances, compared with 4.8 percent in 2013:Q1 (Figure 3).[6] Reallocation activity regarding contributions was slightly lower than the rates observed in earlier periods; 3.8 percent of DC plan participants had changed the asset allocation of their contributions in 2014:Q1, compared with 4.8 percent in 2013:Q1 and 4.2 percent in 2012:Q1.

Loan activity moved down in 2014:Q1, after rising from the end of 2008 through 2011 and leveling out in 2012 and 2013.[7] This pattern of activity is similar to that observed in the wake of the bear market and recession earlier in the decade (Figure 4).[8] The sample of recordkeepers reported that as of March 2014, 17.7 percent of DC plan participants had loans outstanding, compared with 18.2 percent at year-end 2013, and 15.3 percent at year-end 2008.

FIGURE 4

401(k) Loan Activity

Percentage of 401(k) plan participants who had loans outstanding; end-of-period, 2000–2012 and 2013:Q1–2014:Q1



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

Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (2000–2012) and ICI Survey of DC Plan Recordkeepers (December 2008–March 2014)

Additional Reading

- » **The U.S. Retirement Market, First Quarter 2014**
  Available at www.ici.org/info/ret_14_q1_data.xls.
- » **Americans' Views on Defined Contribution Plan Saving**
  Available at www.ici.org/pdf/ppr_14_dc_plan_saving.pdf.
- » **401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2012**
  Available at www.ici.org/pdf/per19-12.pdf.
- » **What Does Consistent Participation in 401(k) Plans Generate? Changes in 401(k) Account Balances, 2007–2012**
  Available at www.ici.org/pdf/per20-04.pdf.
- » **ICI Resources on 401(k) Plans**
  Available at www.ici.org/401k.
- » **ICI Resources on the Retirement System**
  Available at www.ici.org/retirement.

Notes

[1] Total financial assets of U.S. households were $67.2 trillion at the end of 2014:Q1. See U.S. Federal Reserve Board 2014.

[2] This report presents withdrawal, contribution, and asset allocation activity during the first quarter of 2014 and compares the 2014:Q1 rates of activity to 2013:Q1, 2012:Q1, 2011:Q1, 2010:Q1, and 2009:Q1. Caution should be exercised when comparing the results from the surveys for different periods. Data should only be compared for similar periods—evaluating periods that are similar in terms of length and timing during the year allows us to focus on the relevant variables. For example, if there are any effects that are typical for the beginning of the year (e.g., people getting bonuses to invest, profit-sharing contributions occurring in the first quarter, people reacting to upcoming taxes, people reacting to past holiday spending), then it is essential to compare periods that also may experience these "seasonal" effects. In addition to seasonal effects, DC plan participant activity may be influenced by cyclical factors (e.g., recent stock market returns). Because some participants may visit their asset allocations at the beginning of the year and not again, it is not possible to translate the year-to-date figures into an estimate of activity for the whole year. For annual activity through 2013, see Holden and Schrass 2014.

[3] For example, see Burham, Bogdan, and Schrass 2013 and Holden, Bass, and Reid 2011.

[4] The recordkeepers typically remove participants who are no longer working for the employer sponsoring the plan. It would not be correct to include such separated, retired, or terminated participants, because they cannot contribute. The goal of the survey is to measure the activity of active DC plan participants.

[5] There are two possible types of withdrawals from DC plans: nonhardship and hardship. 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.

[6] Annual rates of account balance reallocation activity observed in the ICI Survey of DC Plan Recordkeepers for 2008, 2009, 2010, 2011, 2012, and 2013 are consistent with the behavior observed in earlier years in other data sources. Historically, recordkeepers find that in any given year, DC plan participants generally do not rebalance in their accounts (for references to this research, see note 80 in Holden, Brady, and Hadley 2006; and discussion of changes in asset allocation and note 32 in Holden et al. 2013).

[7] The EBRI/ICI 401(k) database update reports loan activity among 401(k) participants in plans that allow loans. At year-end 2012, 87 percent of participants in the database were in plans that offer loans; among those participants, 21 percent had loans outstanding at year-end 2012. This translates to 18 percent of all active 401(k) participants having loans outstanding. The year-end 2012 EBRI/ICI database includes statistical information about 24.0 million 401(k) participants in 64,619 plans, with $1.536 trillion in assets. See Holden et al. 2013.

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

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