

ICI RESEARCH REPORT

# Defined Contribution Plan Participants' Activities, 2016

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## Contents

Key Findings .....	1
Introduction .....	2
DC Plan Participants' Activities in 2016 .....	4
Notes .....	6
References .....	7

## Figures

FIGURE 1	28 Percent of US Retirement Assets Were Defined Contribution Plan Assets	2
FIGURE 2	Equity Returns .....	3
FIGURE 3	Defined Contribution Plan Participants' Activities .....	4
FIGURE 4	401(k) Loan Activity .....	5



# Defined Contribution Plan Participants' Activities, 2016

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## Key Findings

**Defined contribution (DC) plan withdrawal activity in 2016 remained low and was similar to activity in prior years.** In 2016, 3.3 percent of DC plan participants took withdrawals, compared with 3.4 percent in 2015. Levels of hardship withdrawal activity also remained low. Only 1.5 percent of DC plan participants took hardship withdrawals during 2016, compared with 1.6 percent in 2015.

**The vast majority of DC plan participants continued contributing to their plans in 2016.** In 2016, 2.7 percent of DC plan participants stopped contributing, compared with 2.6 percent during 2015 and 2.8 percent in 2014.

**Most DC plan participants stayed the course with their asset allocations as stock values generally rose throughout the year.** In 2016, 9.4 percent of DC plan participants changed the asset allocation of their account balances and 5.6 percent changed the asset allocation of their contributions. Account balance reallocation activity was little changed and contribution reallocation activity was slightly lower than the reallocation activity observed in the same time frame a year earlier.

**DC plan participants' loan activity was lower than a year earlier, though still elevated compared with eight years ago.** At the end of December 2016, 17.0 percent of DC plan participants had loans outstanding, compared with 17.4 percent at year-end 2015. Loan activity continues to remain elevated compared with eight years ago (at year-end 2008, 15.3 percent of DC plan participants had loans outstanding).

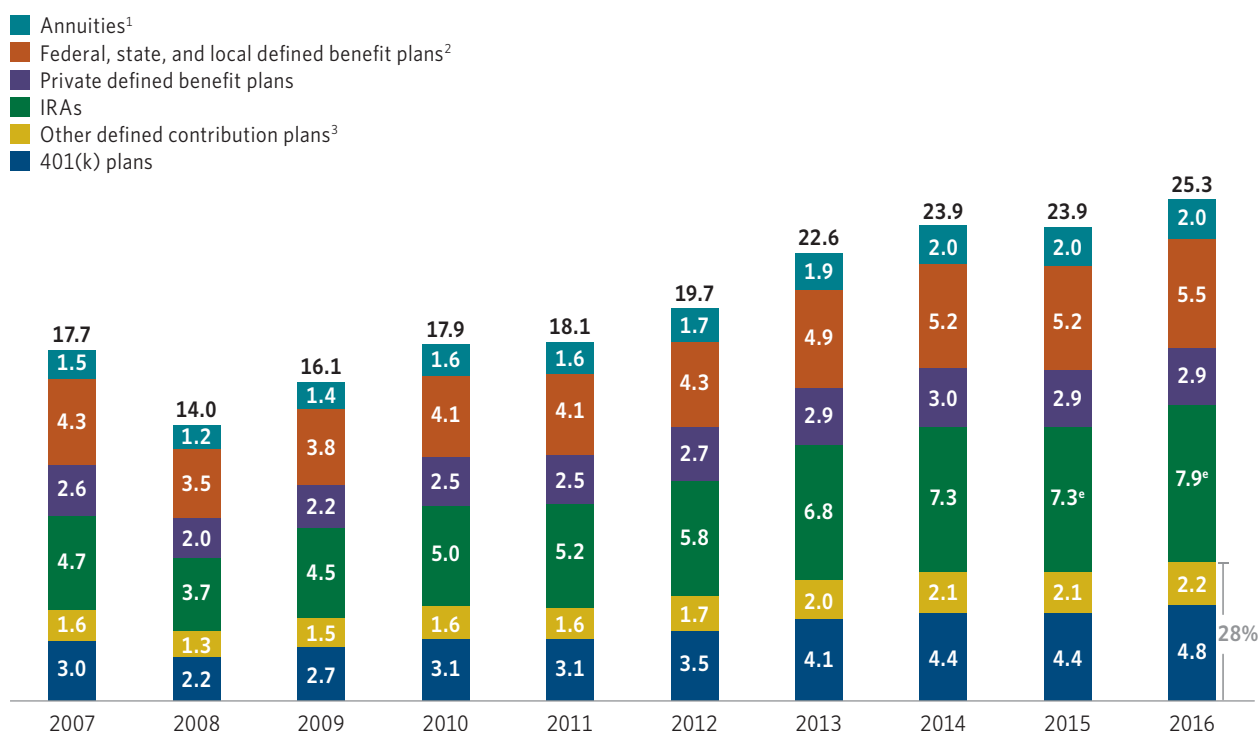
## Introduction

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 about one-tenth of US households' aggregate financial assets at year-end 2016.<sup>1</sup> 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

FIGURE 1

### 28 Percent of US Retirement Assets Were Defined Contribution Plan Assets

Trillions of dollars; end-of-period, 2007-2016



<sup>1</sup> 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. Because ICI estimates of annuities held in IRAs, 457 plans, and 403(b) plans are netted from the Federal Reserve Board's financial accounts' annuities (life insurance pension fund reserves) figure and reported in their respective categories by ICI, ICI reports a lower annuities total than in the financial accounts of the United States (see US Federal Reserve Board 2017).

<sup>2</sup> Federal pension plans include US 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.

<sup>3</sup> Other defined contribution (DC) plans include 403(b) plans, 457 plans, the Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP), and private employer-sponsored DC plans without 401(k) features.

<sup>e</sup> Data are estimated.

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

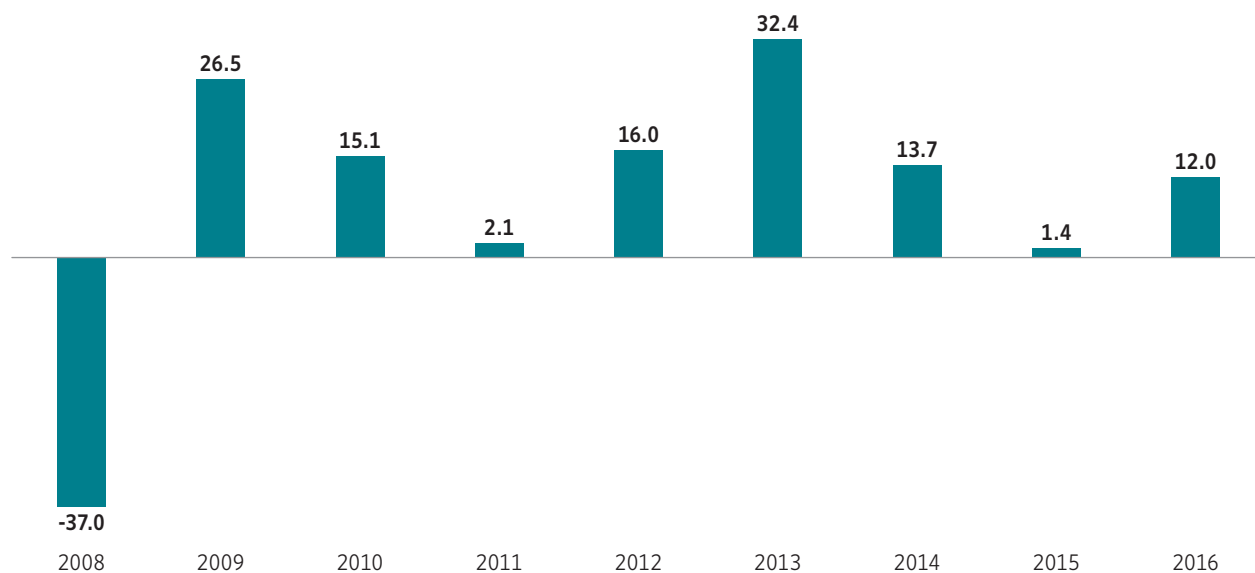
Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division; see Investment Company Institute 2017

section of recordkeeping firms representing a broad range of DC plans and covering more than 29 million employer-based DC retirement plan participant accounts as of December 2016. 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 2016. In this period, stock prices generally rose (Figure 2); on net, the S&P 500 total return index was up 12.0 percent in 2016.

FIGURE 2

### Equity Returns

*Percent change in the S&P 500 total return index, 2008-2016*



Note: The S&P 500 total return index consists of 500 US stocks chosen for market size, liquidity, and industry group representation.

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

## DC Plan Participants' Activities in 2016

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<sup>2</sup> during 2016 was in line with activity observed in the prior year, and a negligible share of participants stopped contributing during 2016.<sup>3</sup> In 2016, 3.3 percent of DC plan participants took withdrawals from their DC plan accounts, with 1.5 percent taking hardship withdrawals (Figure 3, top panel).<sup>4</sup> These levels of activity are similar to 2015. The share of participants that stopped making contributions in 2016 was in line with activity in prior years. In 2016, 2.7 percent of DC plan participants stopped contributing, compared with 2.6 percent in 2015 and 2.8 percent in 2014. 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



#### Withdrawal and contribution activity



#### Investment activity



Note: The samples include more than 22 million DC plan participants in 2008; about 24 million DC plan participants in 2009–2013; more than 25 million DC plan participants in 2014; more than 26 million DC plan participants in 2015; and more than 29 million DC plan participants in 2016.  
Source: ICI Survey of DC Plan Recordkeepers (2008–2016)



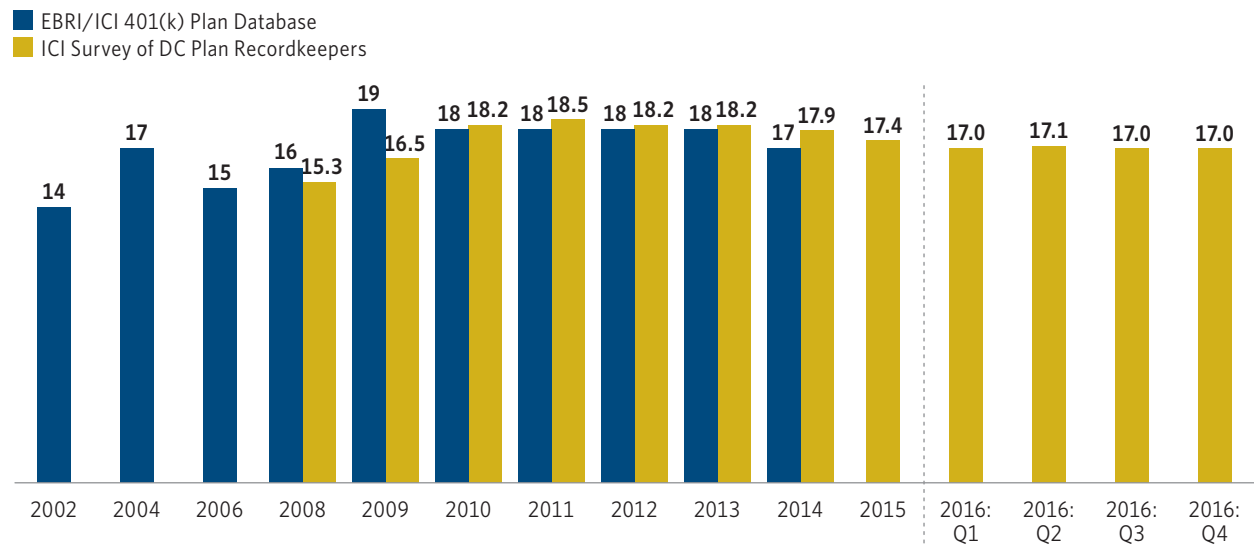
The survey of recordkeeping firms also gathered information about asset allocation changes in DC account balances or contributions. During 2016, 9.4 percent of DC plan participants had changed the asset allocation of their account balances, compared with 9.7 percent during 2015 (Figure 3, lower panel).<sup>5</sup> Reallocation activity regarding contributions in 2016 was slightly lower than recent years: 5.6 percent of DC plan participants had changed the asset allocation of their contributions in 2016, compared with 7.6 percent in 2015 and 6.6 percent in 2014.

Loan activity in 2016 remained in line with recent quarters, after rising since the end of 2008 through 2011. Likely responding to financial stresses, the percentage of DC plan participants with loans outstanding rose from the end of 2008 (15.3 percent) through 2011 (18.5 percent) (Figure 4).<sup>6</sup> This pattern of activity is similar to that observed in the wake of the bear market and recession earlier in the decade.<sup>7</sup> The share of DC plan participants with loans outstanding leveled out in 2012 through 2014, perhaps reflecting loans supporting resumed consumer spending or home purchases. At year-end 2016, the share of DC plan participants with loans outstanding was 17.0 percent, compared with 17.4 percent at year-end 2015.

FIGURE 4

### 401(k) Loan Activity

Percentage of 401(k) plan participants who had loans outstanding; end-of-period, selected periods



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 (2002–2014) and ICI Survey of DC Plan Recordkeepers (December 2008–December 2016)

## Notes

- <sup>1</sup> Total financial assets of US households were \$75.5 trillion at year-end 2016. See US Federal Reserve Board 2017.
- <sup>2</sup> The withdrawal rates observed for 2016 (3.3 percent of DC plan participants with withdrawals; 1.5 percent with hardship withdrawals) were in line with past years' experiences among the recordkeepers and 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). 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 2002.
- <sup>3</sup> 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.
- <sup>4</sup> There are two possible types of withdrawals from DC plans: nonhardship and hardship. Generally, withdrawals made by participants 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 generally are required to take a loan before they are permitted to take a hardship withdrawal.
- <sup>5</sup> Annual rates of account balance reallocation activity observed in the ICI Survey of DC Plan Recordkeepers for 2008-2016 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; for discussion of changes in asset allocation, see note 33 in Holden et al. 2016).
- <sup>6</sup> The EBRI/ICI 401(k) database update reports loan activity among 401(k) participants in plans that allow loans. At year-end 2014, 87 percent of participants in the database were in plans that offer loans; among those participants, 20 percent had loans outstanding at year-end 2014. This translates to 17 percent of all active 401(k) participants having loans outstanding. The year-end 2014 EBRI/ICI database includes statistical information about 24.9 million 401(k) participants in 81,139 plans, with \$1.9 trillion in assets. See Holden et al. 2016.
- <sup>7</sup> 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.

## References

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### **Additional Reading**

- » American Views on Defined Contribution Plan Saving, 2016  
[www.ici.org/pdf/ppr\\_17\\_dc\\_plan\\_saving.pdf](http://www.ici.org/pdf/ppr_17_dc_plan_saving.pdf)
- » What Does Consistent Participation in 401(k) Plans Generate? Changes in 401(k) Account Balances, 2010-2014  
[www.ici.org/pdf/per22-05.pdf](http://www.ici.org/pdf/per22-05.pdf)
- » ICI Resources on 401(k) Plans  
[www.ici.org/401k](http://www.ici.org/401k)
- » ICI Resources on the Retirement System  
[www.ici.org/retirement](http://www.ici.org/retirement)

### *Sarah Holden*



Sarah Holden, ICI senior director of retirement and investor research, leads the Institute's research efforts on investor demographics and behavior and retirement and tax policy. Holden, who joined ICI in 1999, heads efforts to track trends in household retirement saving activity and ownership of funds as well as other investments inside and outside retirement accounts. She is responsible for analysis of 401(k) plan participant activity using data collected in a collaborative effort with the Employee Benefit Research Institute (EBRI), known as the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. In addition, she oversees The IRA Investor Database™, which contains data on more than 15 million IRA investors and allows analysis of IRA investors' contribution, rollover, conversion, and withdrawal activity, and asset allocation. Before joining ICI, Holden served as an economist at the Federal Reserve Board of Governors. She has a PhD in economics from the University of Michigan and a BA in mathematics and economics from Smith College.

### *Daniel Schrass*



Daniel Schrass is an associate economist in the retirement and investor research division at the Investment Company Institute (ICI). He joined ICI in October 2007. At the Institute, he focuses on investor demographics and behavior as well as trends in household retirement saving activity, including detailed research into IRA-owning households and individual IRA investors. Before joining ICI, he served as an economist at the US Bureau of Labor Statistics. He has an MA in applied economics from the Johns Hopkins University and a BS in economics from the Pennsylvania State University.

