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Defined Contribution Plan Participants' Activities, First Quarter 2021

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Defined Contribution Plan Participants' Activities, First Quarter 2021

Sarah Holden, ICI senior director of retirement and investor research; Daniel Schrass, ICI economist; and Elena Barone Chism, ICI associate general counsel for retirement policy, prepared this report.

Key Findings

- **Defined contribution (DC) plan withdrawal activity in the first quarter of 2021 remained low, although it was slightly higher than the activity observed in the first quarter of 2020.** In 2021:Q1, 2.2 percent of DC plan participants took withdrawals, compared with 1.8 percent of DC plan participants in 2020:Q1 (as the COVID-19 pandemic hit the United States), 1.4 percent in 2019:Q1, and 2.7 percent in 2009:Q1 (another time of financial market stress). Levels of hardship withdrawal activity also remained low, edging down compared with the same period a year earlier. Only 0.6 percent of DC plan participants took hardship withdrawals during 2021:Q1, compared with 0.8 percent in 2020:Q1, 0.5 percent in 2019:Q1, and 1.2 percent in 2009:Q1. Some of the uptick in hardship withdrawal activity may reflect increasing awareness of expanded hardship withdrawal availability from the Bipartisan Budget Act of 2018. Withdrawal activity also likely reflects the impact of ongoing financial stresses relating to the COVID-19 pandemic, although the penalty relief and increased flexibility in plan withdrawals under the Coronavirus Aid, Relief, and Economic Security (CARES) Act (enacted March 27, 2020) are no longer available in 2021.
- **Preliminary data indicate that the commitment to contribution activity in 2021:Q1 continued at the high rate observed in the first three months of other years.** A preliminary estimate indicates that only 0.8 percent of DC plan participants stopped contributing in 2021:Q1, compared with 1.4 percent in 2020:Q1 and 2.7 percent in 2009:Q1.
- **Most DC plan participants stayed the course with their asset allocations as stock values edged up during the first three months of the year.** In the first quarter of 2021, 5.5 percent of DC plan participants changed the asset allocation of their account balances, slightly lower than 6.2 percent in 2020:Q1 and in line with 5.5 percent in 2009:Q1. In 2021:Q1, 3.9 percent changed the asset allocation of their contributions, about in line with 4.1 percent in 2020:Q1 but lower than 7.3 percent in 2009:Q1.
- **DC plan participants' loan activity edged down in the first quarter of 2021.** At the end of March 2021, 14.3 percent of DC plan participants had loans outstanding, compared with 14.8 percent at year-end 2020 and 16.3 percent at the end of March 2020.

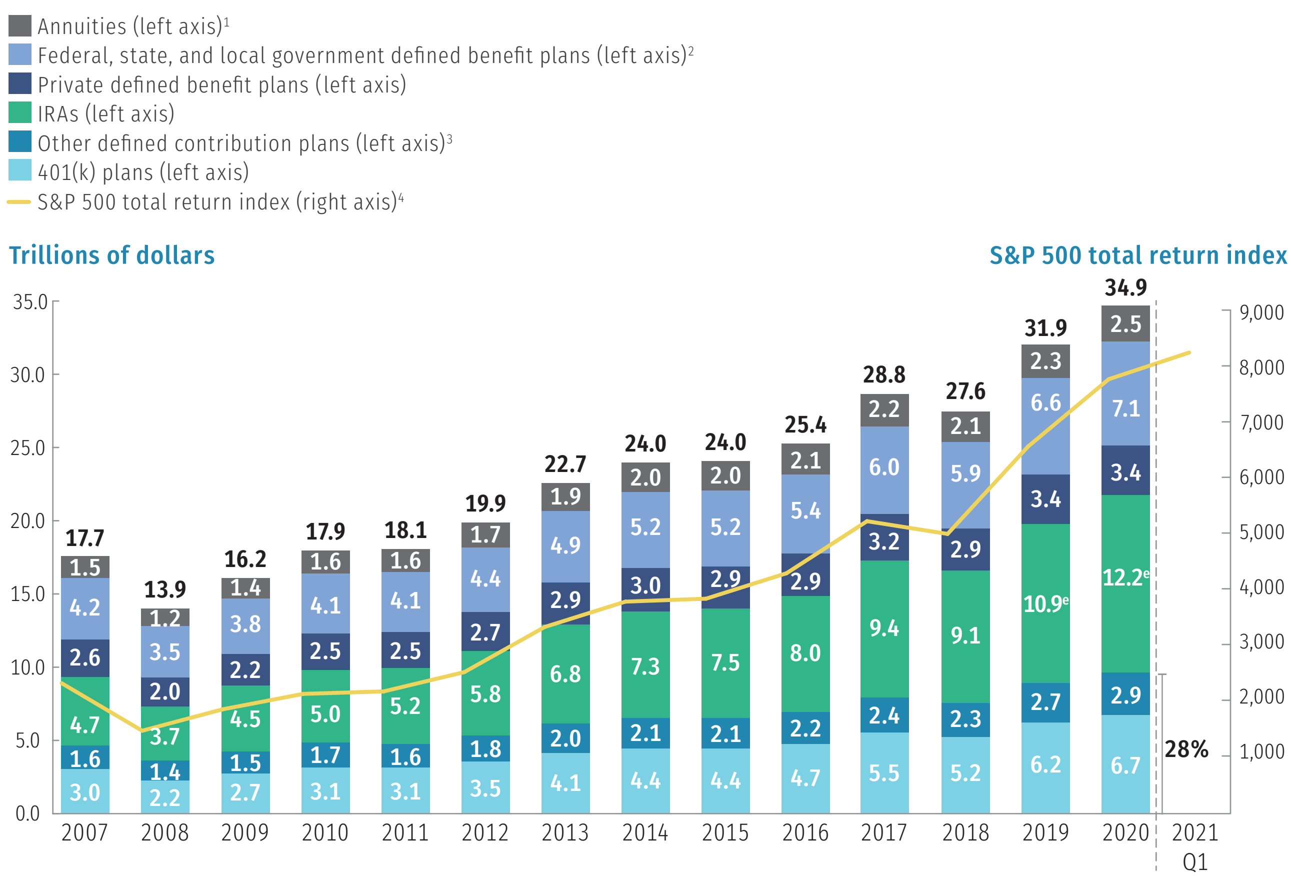
Introduction

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 2020.[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 more than 30 million employer-based DC retirement plan participant accounts as of March 2021. The broad scope of the recordkeeper survey

FIGURE 1

28 Percent of US Retirement Assets Were Defined Contribution Plan Assets at Year-End 2020

US retirement assets and S&P 500 total return index, end-of-period



[1] Annuities include all fixed and variable annuities held outside of retirement plans and IRAs.

[2] 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.

[3] Other DC plans include 403(b) plans, 457 plans, the Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP), and private-sector employer-sponsored DC plans without 401(k) features.

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

[e] Data are estimated.

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

Sources: Investment Company Institute, Bloomberg, Standard & Poor'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 2021 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 2021.[2] In this period, stock prices edged up (Figure 1); on net, the S&P 500 total return index was up 6.2 percent in the first quarter of 2021 (Figure 2).

DC Plan Participants' Activities in 2021: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 2021 remained low, although slightly higher than the activity observed in the first quarter of the prior year (Figure 3, page 5).[3] In 2021:Q1, 2.2 percent of DC plan participants took withdrawals, compared with 1.8 percent in 2020:Q1 and 2.7 percent in 2009:Q1 (another time of financial market stress). Levels of hardship withdrawal activity also remained low, edging down compared with the same period a year earlier. Only 0.6 percent of DC plan participants took hardship withdrawals during 2021:Q1, compared with 0.8 percent in 2020:Q1 and 1.2 percent in 2009:Q1. Some of the uptick in recent hardship withdrawal activity may reflect changes in policy. The Bipartisan Budget Act of 2018 expanded hardship withdrawal availability in several ways, including expanding the sources for hardship withdrawals to include earnings and certain employer contributions, dropping the requirement that a participant first take advantage of a plan loan, and eliminating the six-month suspension of contributions after taking a hardship withdrawal.[4] DC plan withdrawal activity was slightly higher for the year as a whole in 2019, likely reflecting these changes.[5] In addition, the onset of financial stress resulting from the COVID-19 pandemic could have played a role, although the penalty relief and increased flexibility in plan withdrawals under the Coronavirus Aid, Relief, and Economic Security (CARES) Act (enacted March 27, 2020) are no longer available for withdrawals in 2021. The CARES Act contained provisions to provide penalty relief for taxpayers affected by COVID-19 taking early withdrawals from retirement accounts, as well as optional DC retirement plan provisions to expand availability of in-service distributions for those affected by COVID-19, allow repayment of coronavirus-related distributions (CRDs),[6] increase the amount available for a plan loan, and add flexibility in repayment of plan loans.[7]

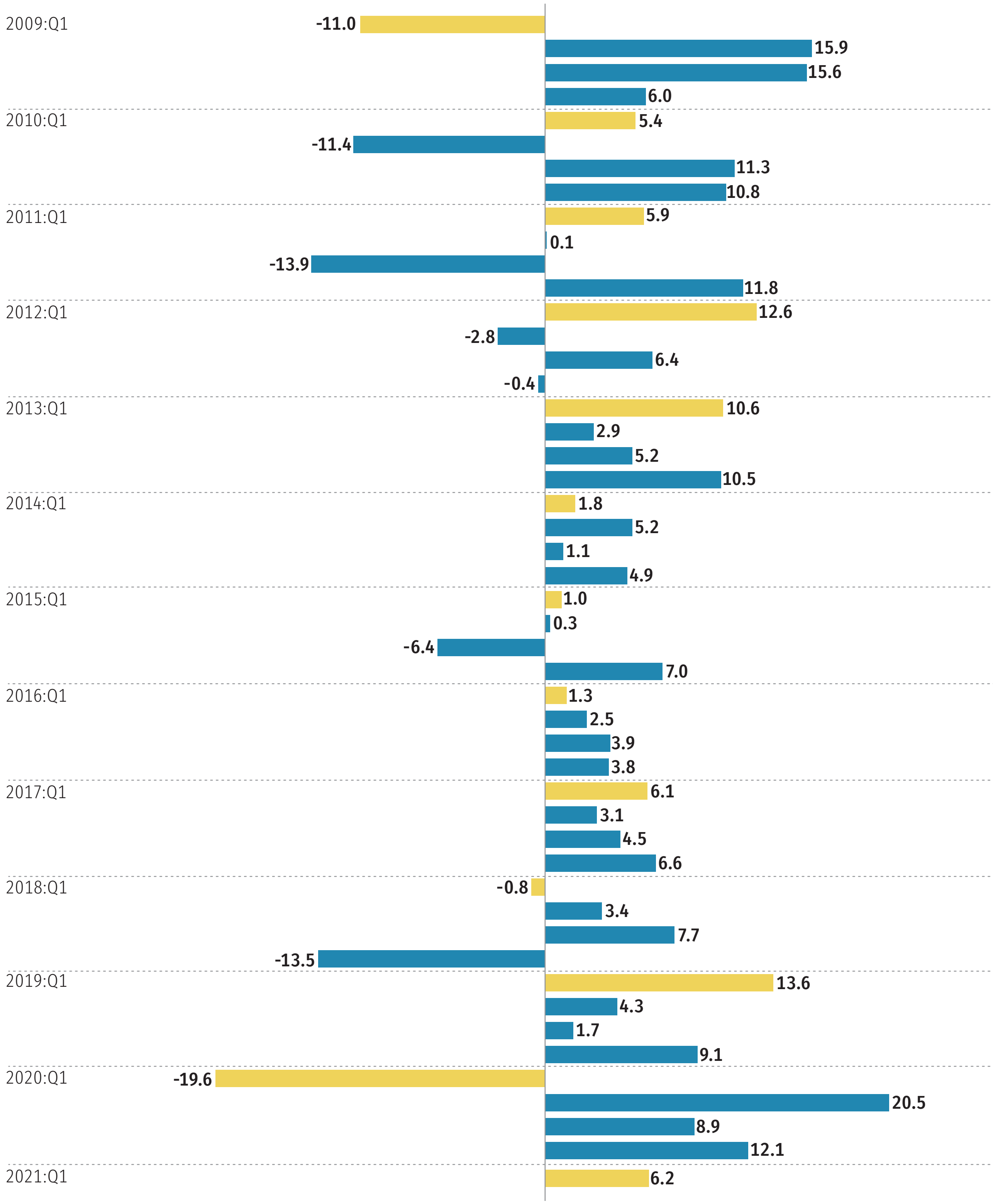
Preliminary data on the share of participants that stopped making contributions in 2021:Q1 were in line with activity observed in the first quarter of prior years.[8] In 2021:Q1, a preliminary estimate indicates that 0.8 percent of DC plan participants stopped contributing, compared with 1.4 percent in 2020:Q1 and 2.7 percent in 2009:Q1 (Figure 3, page 5). It is possible that some of these participants stopped contributing simply because they reached the annual contribution limit.

The survey of recordkeeping firms also gathered information about asset allocation changes in DC account balances or contributions.[9] Most DC plan participants stayed the course with their asset allocations as stock values edged up during the first three months of the year (Figures 1 and 2). In the first quarter of 2021, 5.5 percent of DC plan participants changed the asset allocation of their account balances, compared with 6.2 percent during 2020:Q1 and in line with 5.5 percent in 2009:Q1 (Figure 3, page 6).[10] In 2021:Q1, 3.9 percent of DC plan participants changed the asset allocation of their contributions, compared with 4.1 percent in 2020:Q1 and 7.3 percent in 2009:Q1. These levels of reallocation activity are slightly lower than the activity observed in the same time frame a year earlier.

FIGURE 2

Equity Returns

Percent change in the S&P 500 total return index, quarter-end to quarter-end



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

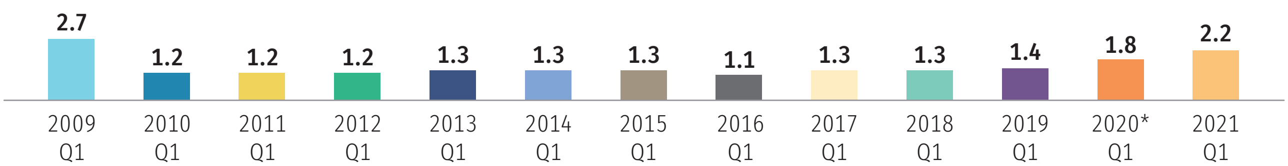
Sources: Investment Company Institute, Bloomberg, and Standard & Poor's

FIGURE 3

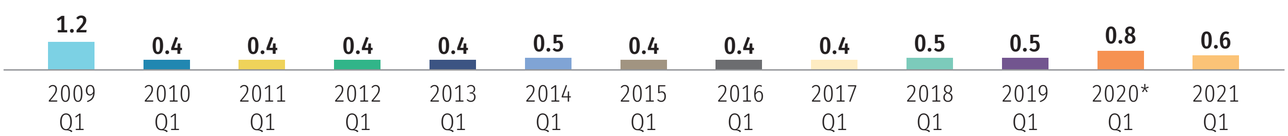
Defined Contribution Plan Participants' Activities

Summary of recordkeeper data, percentage of participants

Took any withdrawal



Took hardship withdrawal



Stopped contributing

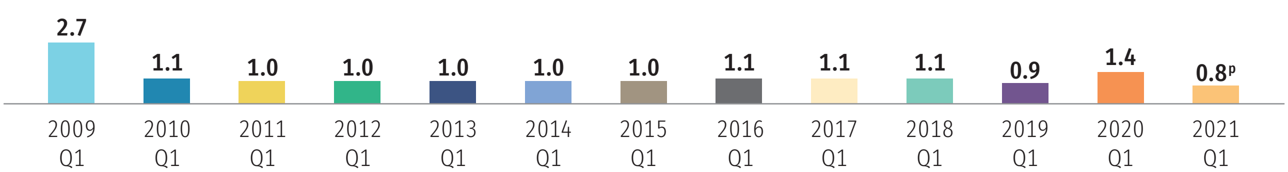


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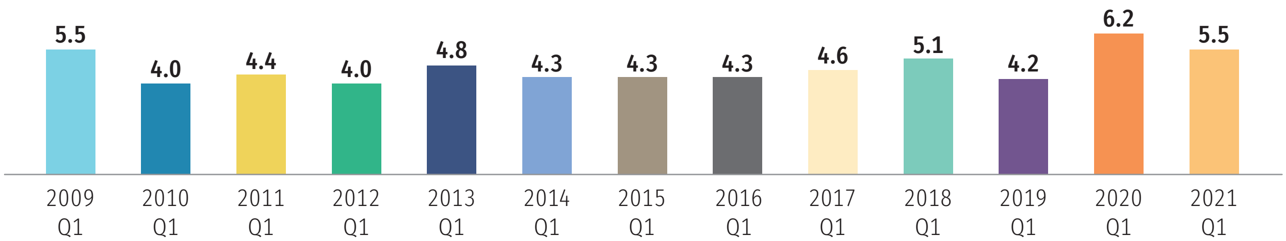
FIGURE 3, CONTINUED

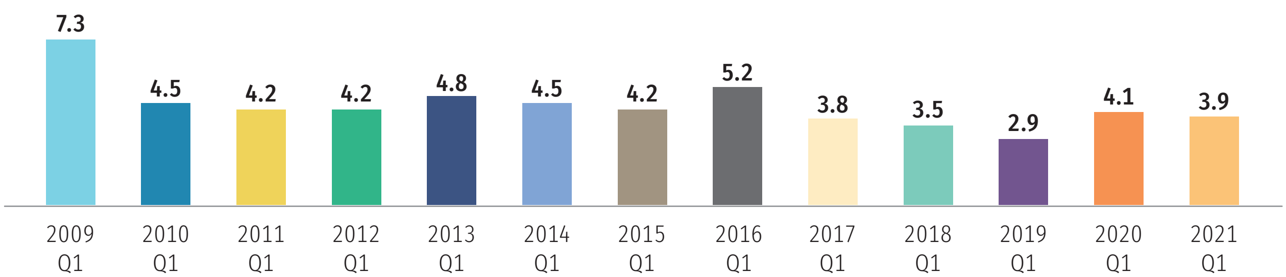
Defined Contribution Plan Participants' Activities

Summary of recordkeeper data, percentage of participants

Changed asset allocation of account balance



Changed asset allocation of contributions



* These withdrawals do not include coronavirus-related distributions (CRDs) identified by the recordkeepers.

p Data are preliminary based on a partial sample of DC plans in the survey.

Note: The samples include nearly 24 million DC plan participants in 2009–2014; more than 26 million in 2015:Q1; more than 27 million in 2016:Q1; and more than 30 million in 2017:Q1, 2018:Q1, 2019:Q1, 2020:Q1, and 2021:Q1.

Source: ICI Survey of DC Plan Recordkeepers (2009:Q1–2021:Q1)

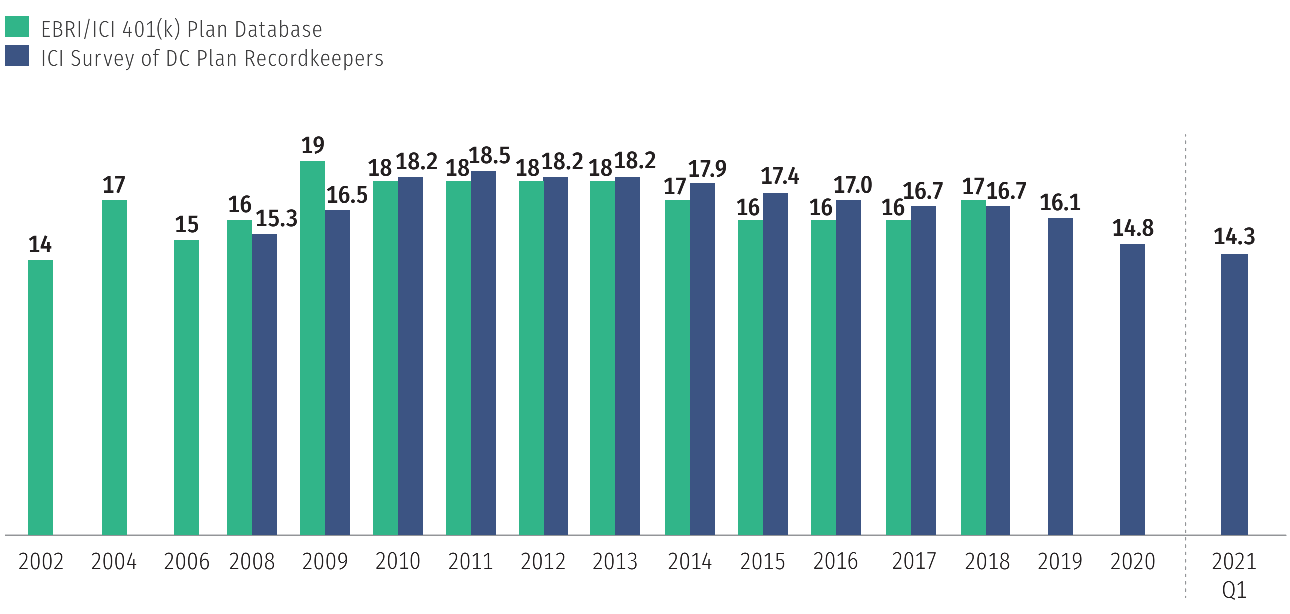
DC plan participants' loan activity edged down in the first quarter of 2021. At the end of March 2021, 14.3 percent of DC plan participants had loans outstanding, compared with 14.8 percent at year-end 2020 and 16.3 percent at the end of March 2020 (Figures 4 and 5). Historically, two factors appear to influence DC plan participants' loan activity: reaction to financial stresses and a seasonal pattern.[11] 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).[12] This pattern of activity is similar to that observed in the wake of the bear market and recession in the early 2000s.[13] The share of DC plan participants with loans outstanding then leveled out in 2012 through 2014, perhaps reflecting loans supporting consumer spending or home purchases. The sample of recordkeepers reported that as of March 2021, 14.3 percent of DC plan participants had loans outstanding, compared with 14.8 percent at year-end 2020.

While loan activity typically appears to have a quarterly seasonal pattern—the first quarter of the year tends to have lower percentages of DC plan participants with loans outstanding compared with later quarters—loan activity in 2020 was an exception (Figure 5). The percentage of DC plan participants with loans outstanding edged down in 2020:Q2, 2020:Q3, and 2020:Q4, perhaps partly reflecting the use of CRDs (which were available in 2020), instead of loans.[14] Loan activity continued to edge down in 2021:Q1, perhaps following the seasonal pattern observed over the past several years. It is also possible that lingering effects of the pandemic may also be a factor, even as CRDs are no longer an option.

FIGURE 4

401(k) Loan Activity

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



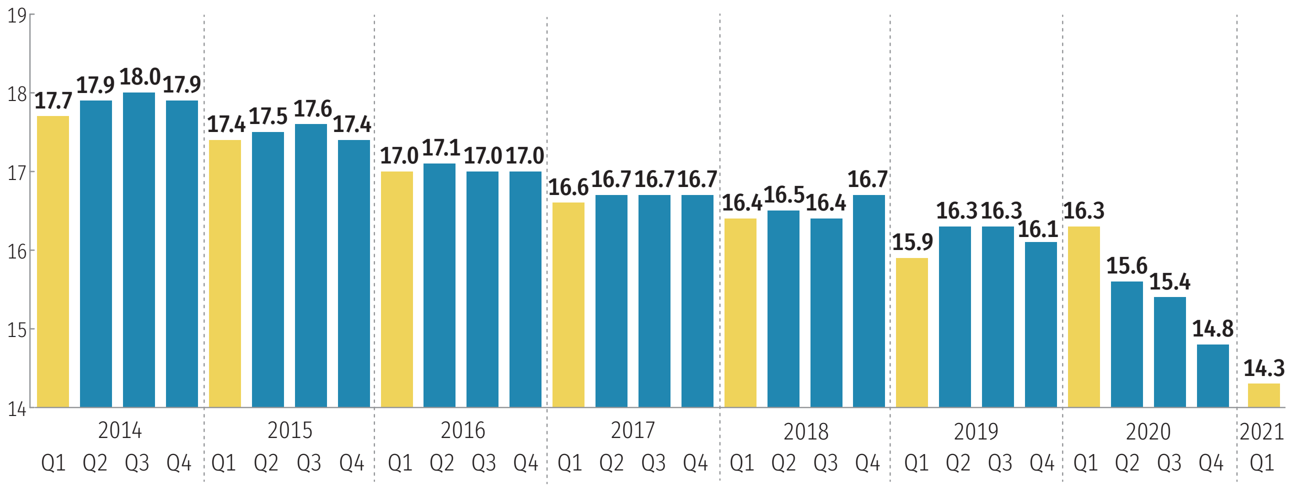
Note: The EBRI/ICI data cover 401(k) plans; the ICI Survey of DC Plan Recordkeepers covers DC plans more generally (although 401(k) plans make up the bulk of DC plans).

Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (2002–2018) and ICI Survey of DC Plan Recordkeepers (December 2008–March 2021)

FIGURE 5

401(k) Loan Activity Typically Varies over the Course of a Year

Percentage of DC plan participants who had loans outstanding, end-of-period



Note: This figure reports loan activity on a quarterly basis (the most recent quarters also are shown in Figure 4). The vertical axis ranges from 14 to 19 percent to highlight the seasonal variation in 401(k) loan activity.

Source: ICI Survey of DC Plan Recordkeepers (March 2014–March 2021)

Additional Reading

» **The US Retirement Market, Fourth Quarter 2020**
www.ici.org/research/stats/retirement

» **American Views on Defined Contribution Plan Saving, 2020**
www.ici.org/pdf/21_ppr_dc_plan_saving.pdf

» **401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2018**
www.ici.org/system/files/attachments/per27-02.pdf

» **The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2019**
www.ici.org/pdf/per26-05.pdf

» **ICI Resources on 401(k) Plans**
www.ici.org/401k

» **ICI Resources on the Retirement System**
www.ici.org/retirement

Notes

[1] Total financial assets of US households were $104.8 trillion at year-end 2020. See US Federal Reserve Board 2021. For total retirement market data, see Investment Company Institute 2021.

[2] This report presents withdrawal, contribution, and asset allocation activity during the first quarter of 2021 and compares the results to earlier periods covering the first quarter of the year. 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 focuses the analysis 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 2020, see Holden, Schrass, and Chism 2021.

[3] 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. Prior to plan year 2019, if a plan allowed loans, participants generally were required to take a loan before they were permitted to take a hardship withdrawal. The Bipartisan Budget Act of 2018 expanded available hardship withdrawal sources and access. See Dold 2018, Joint Committee on Taxation 2019 (pp. 104–105), Internal Revenue Service 2019, and note 4.

The CARES Act (enacted March 27, 2020) contained optional provisions to allow plan sponsors to provide expanded access to DC plan account assets for individuals affected by COVID-19. For additional detail, see Internal Revenue Service 2020.

[4] As explained by Internal Revenue Service 2019:

> The Bipartisan Budget Act of 2018 mandated changes to the 401(k) hardship distribution rules. On November 14, 2018, the Internal Revenue Service released proposed regulations to implement these changes. Generally, these changes relax certain restrictions on taking a hardship distribution. Although the provisions are effective January 1, 2019, for calendar year plans, the proposed regulations do not require changes for 2018–2019. Effective January 1, 2020, following issuance of final regulations, certain changes will be required. Under the proposed regulations, effective January 1, 2019, a plan administrator has the option of including or excluding the requirement that the employee first obtain a plan loan prior to requesting a hardship distribution (Reg. Section 1.401(k)-1(d)(3)(iv)(E)). Under the proposed regulations effective January 1, 2019, it is optional to prohibit an employee from making elective contributions and employee contributions to the plan and all other plans maintained by the employer for at least six months after receipt of the hardship distribution. Under the proposed regulations effective January 1, 2020, the six-month suspension from making elective contributions is no longer allowed (Reg. Section 1.401(k)-1(d)(3)(iv)(E)(2)).

[5] See Holden and Schrass 2020.

[6] A CRD is any distribution from an eligible retirement plan (up to an aggregate limit of $100,000) made on or after January 1, 2020, and before December 31, 2020, to a qualified individual affected by COVID-19. In 2020, the recordkeepers identified 5.8 percent of DC plan participants taking CRDs. For annual activity through 2020, see Holden, Schrass, and Chism 2021. For a description of the CARES Act provisions, see Internal Revenue Service 2020.

[7] A survey of plan sponsors conducted in early April 2020 found that more than four in 10 plan sponsors surveyed had adopted the provision to allow for CRDs, and close to half had adopted the provision to allow repayment of CRDs during the next three years. Specifically, a Plan Sponsor Council of America survey conducted in early April 2020 with 152 plan sponsor respondents found that 45.4 percent of respondents had adopted the CARES Act provision to allow CRDs of up to $100,000 until December 30, 2020; 46.7 percent had adopted the provision to allow repayment of CRDs during the next three years. For survey results, see Adams and Greenan 2020 and Plan Sponsor Council of America 2020. For a description of these optional COVID-related provisions, see Internal Revenue Service 2020.

[8] 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 contribution activity of active DC plan participants. In this report, the 2021:Q1 estimate is preliminary because the calculation could not be completed for all plans in the sample of recordkeepers by the survey deadline.

[9] This measure captures participants' changes to their investments—it does not reflect the rebalancing that occurs inside a given fund investment (e.g., target date funds, which are diversified and rebalance to become more focused on income over time, or lifestyle funds, which rebalance to maintain a certain asset allocation). For an analysis of the asset allocation of 401(k) plan accounts by participant age (dollar-weighted averages) and the concentration of equities in 401(k) plan accounts by participant age, see Holden, VanDerhei, and Bass 2021.

[10] Annual rates of account balance reallocation activity observed in the ICI Survey of DC Plan Recordkeepers for 2008–2020 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 28 in Holden, VanDerhei, and Bass 2021).

[11] See note 2 for an explanation of seasonal effects.

[12] The EBRI/ICI 401(k) database update reports loan activity among 401(k) participants in plans that allow loans. At year-end 2018, 88 percent of participants in the database were in plans that offer loans; among those participants, 19 percent had loans outstanding at year-end 2018. This translates to 17 percent of all active 401(k) participants having loans outstanding. The year-end 2018 EBRI/ICI database includes statistical information about 14.6 million 401(k) participants in 90,987 plans, with $1.1 trillion in assets. See Holden, VanDerhei, and Bass 2021.

[13] The National Bureau of Economic Research dates the recession earlier in the decade to have occurred between March 2001 and November 2001. The next recession was dated to have occurred between December 2007 and June 2009. More recently, February 2020 was determined to be the (monthly) peak in economic activity, designating the start of a recession. See National Bureau of Economic Research 2020. For 401(k) plan participant loan activity from 1996 through 2018, see Holden, VanDerhei, and Bass 2021.

[14] See Holden, Schrass, and Chism 2021.

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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 17 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, *cum laude*, from Smith College.

Daniel Schrass

Daniel Schrass is an economist in the retirement and investor research division at ICI. At the Institute, he focuses on investor demographics and behavior as well as trends in household retirement saving activity. His detailed research includes analysis of IRA-owning households and individual IRA investors in the IRA Investor Database™, which includes data on more than 17 million IRA investors. He also conducts research with government surveys such as the Survey of Consumer Finances, the Current Population Survey, and the Survey of Household Economics and Decisionmaking. Before joining ICI in October 2007, 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.

Elena Barone Chism

Elena Barone Chism is associate general counsel for retirement policy at ICI. Her responsibilities include advocating for the Institute's membership on retirement security issues and assisting members and Institute staff in understanding tax and ERISA rules that affect defined contribution plans, IRAs, and similar savings vehicles. Before ICI, Chism was in private practice at the Groom Law Group. Chism received her JD with honors from the George Washington University Law School, where she was articles editor of *The Environmental Lawyer*. She received a BA, with distinction, from Duke University.