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Defined Contribution Plan Participants' Activities, First Quarter 2019

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Defined Contribution Plan Participants' Activities, First Quarter 2019

Sarah Holden, ICI senior director of retirement and investor research, and Daniel Schrass, ICI economist, prepared this report.

Key Findings

- **Defined contribution (DC) plan withdrawal activity in the first quarter of 2019 remained low and was similar to the first quarter in the prior year.** In 2019:Q1, 1.4 percent of DC plan participants took withdrawals, similar to the share in 2018:Q1. Levels of hardship withdrawal activity also remained low. Only 0.5 percent of DC plan participants took hardship withdrawals during 2019:Q1, the same share as in 2018:Q1.
- **The commitment to contribution activity in 2019:Q1 continued at the high rate observed in the first three months of recent years.** Only 0.9 percent of DC plan participants stopped contributing in 2019:Q1, about the same pace as in 2018:Q1.
- **Most DC plan participants stayed the course with their asset allocations as stock values moved up during the first three months of the year.** In the first quarter of 2019, 4.2 percent of DC plan participants changed the asset allocation of their account balances, compared with 5.1 percent in 2018:Q1. In the first quarter of 2019, 2.9 percent of participants changed the asset allocation of their contributions, compared with 3.5 percent in the first quarter of 2018. These levels of activity are only slightly lower than the levels of activity observed in the same time frame a year earlier.
- **DC plan participants' loan activity edged down in the first quarter of 2019, following a seasonal pattern observed over the past several years.** The first quarter of the year tends to have lower percentages of DC plan participants with loans outstanding compared with later quarters. At the end of March 2019, 15.9 percent of DC plan participants had loans outstanding, compared with 16.7 percent at year-end 2018.

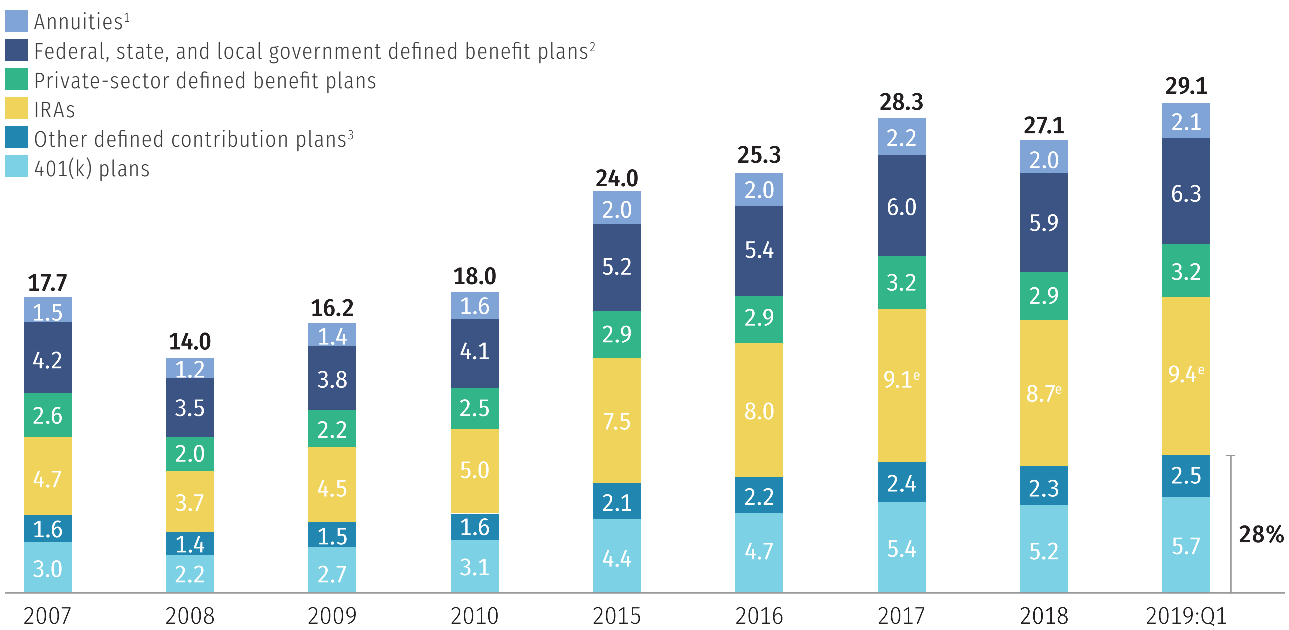
Introduction

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 nearly one-tenth of US households' aggregate financial assets at the end of the first quarter of 2019.[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 2019. 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 2019.[2] In this period, stock prices rose (Figure 2); on net, the S&P 500 total return index was up 13.6 percent in the first quarter of 2019.

FIGURE 1

28 Percent of US Retirement Assets Were Defined Contribution Plan Assets

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



[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 employer-sponsored DC plans without 401(k) features.

[e] Data are estimated.

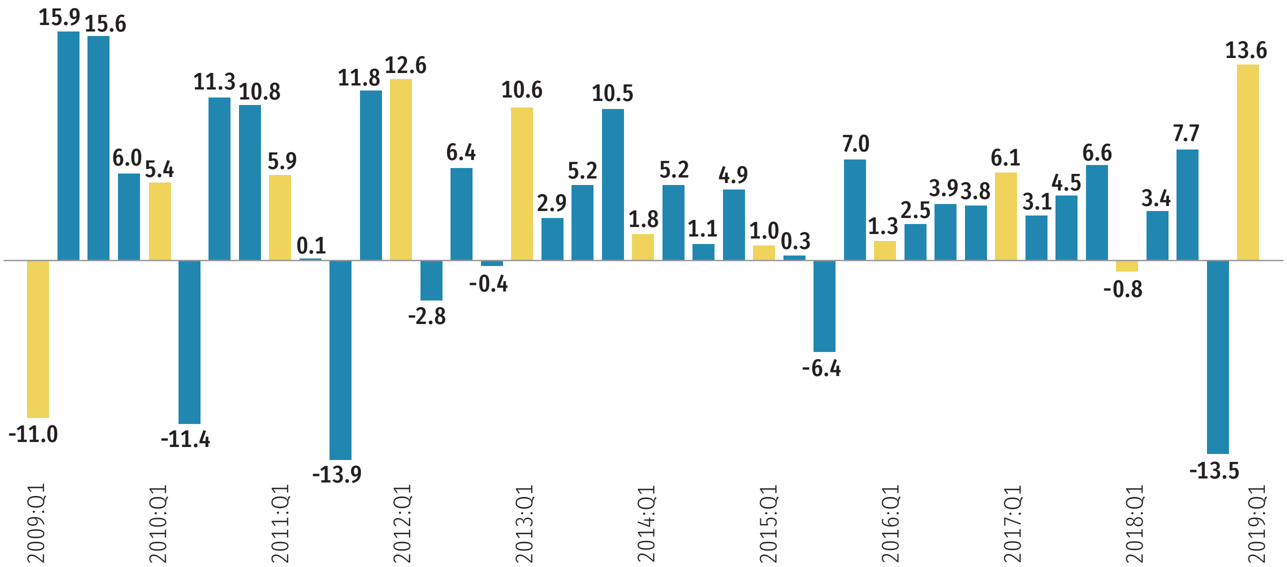
Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, 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 2019

FIGURE 2

Equity Returns

Percent change in the S&P 500 total return index



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 2019:Q1

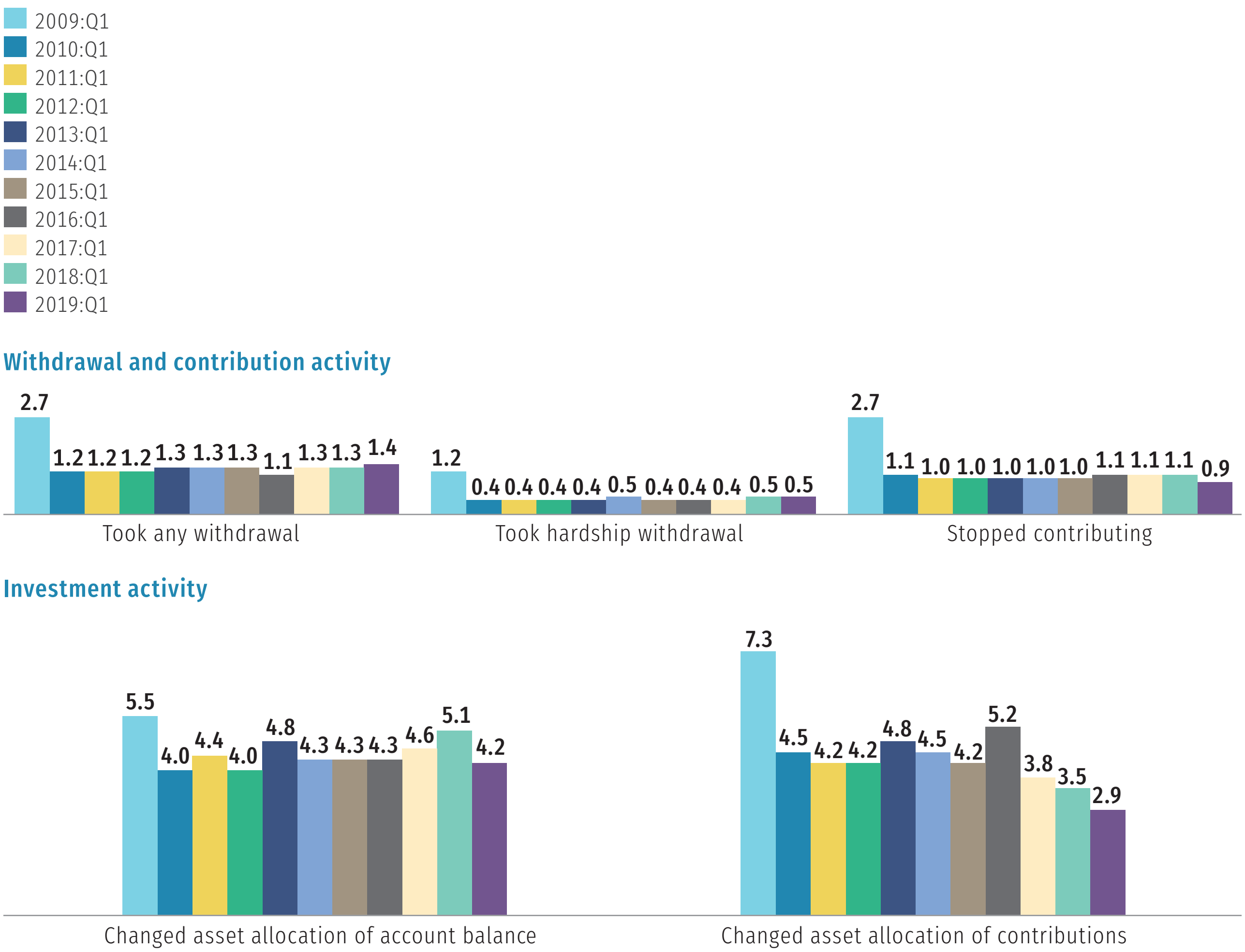
The withdrawal and contribution data indicate that essentially all DC plan participants continued to save in their retirement plans at work. DC plan participants' withdrawal activity during the first quarter of 2019 was in line with activity observed during the first quarter of the prior year, and a negligible share of participants stopped contributing during 2019:Q1.[3] In 2019:Q1, 1.4 percent of DC plan participants took withdrawals from their DC plan accounts, with 0.5 percent taking hardship withdrawals (Figure 3).[4] These levels of activity are similar to those observed in the first quarter of 2018. In 2019:Q1, 0.9 percent of DC plan participants stopped making contributions, about the same share as in 2018:Q1. 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. Asset reallocation activity levels during the first three months of the years were slightly lower than the levels of activity observed in the same time frame a year earlier. During 2019:Q1, 4.2 percent of DC plan participants had changed the asset allocation of their account balances, compared with 5.1 percent in 2018:Q1 (Figure 3).[5] Reallocation activity regarding contributions also was a bit lower than the rates observed in recent earlier periods; 2.9 percent of DC plan participants had changed the asset allocation of their contributions in 2019:Q1, compared with 3.5 percent in 2018:Q1.

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; more than 26 million in 2015:Q1; more than 27 million in 2016:Q1; and more than 30 million in 2017:Q1, 2018:Q1, and 2019:Q1.

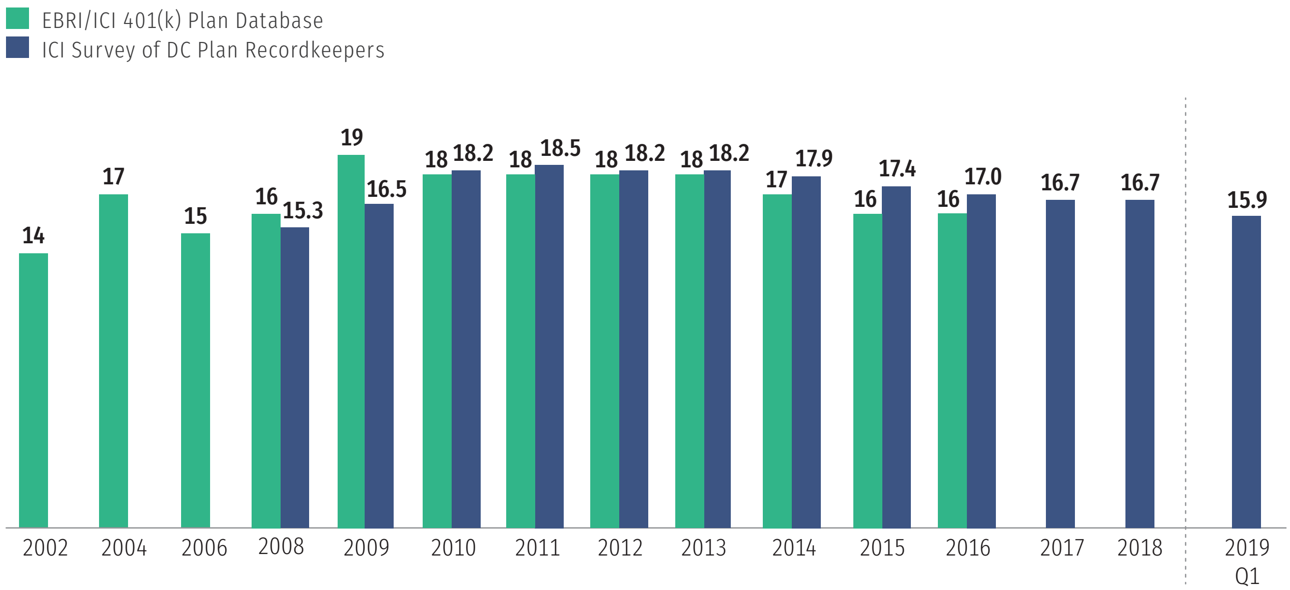
Source: ICI Survey of DC Plan Recordkeepers (2009:Q1–2019:Q1)

Two factors appear to influence DC plan participants' loan activity: reaction to financial stresses and a seasonal pattern.[6] Likely responding to financial stresses, the percentage of DC plan participants with loans outstanding rose from 15.3 percent at the end of 2008 to 18.5 percent at the end of 2011 (Figure 4).[7] This pattern of activity is similar to that observed in the wake of the bear market and recession in the early 2000s.[8] The share of DC plan participants with loans outstanding then hovered at about 18 percent from 2012 through 2014, then edged down to about 17 percent from 2016 through 2018, perhaps reflecting loans supporting consumer spending or home purchases. The sample of recordkeepers reported that as of March 2019, 15.9 percent of DC plan participants had loans outstanding, compared with 16.7 percent at year-end 2018. Loan activity 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 (Figure 5). Loan activity edged down in 2019:Q1, following the seasonal pattern observed over the past several years.

FIGURE 4

401(k) Loan Activity

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



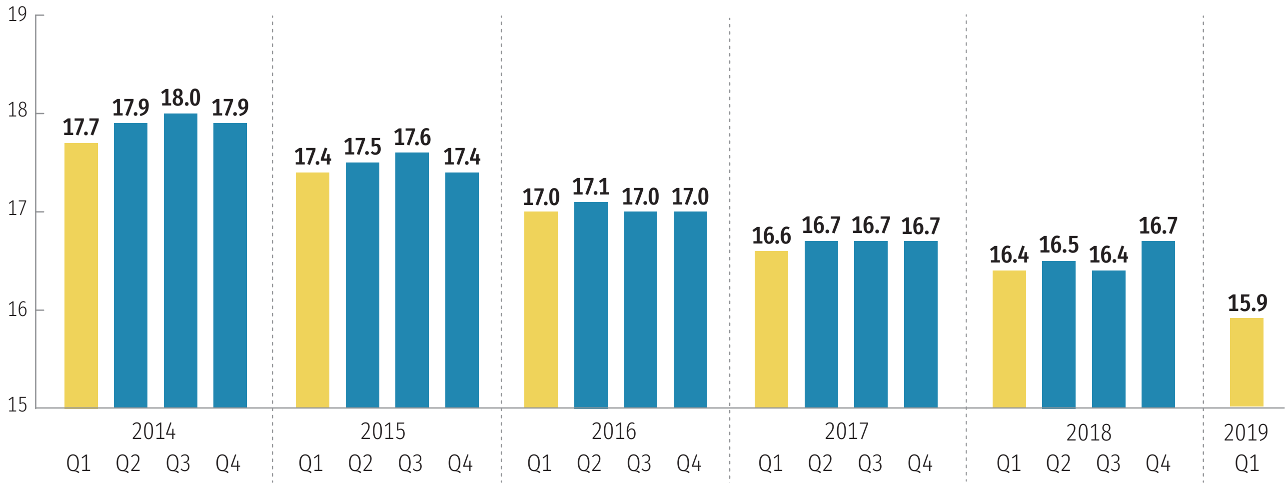
Note: The EBRI/ICI data cover 401(k) plans; the ICI Survey of DC Plan Recordkeepers covers DC plans more generally (although 401(k) plans make up the bulk of DC plans).

Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (2002–2016) and ICI Survey of DC Plan Recordkeepers (December 2008–March 2019)

FIGURE 5

401(k) Loan Activity Tends to Edge Down in the First Quarter, Then Edge Up

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 quarter also is shown in Figure 4). The range on the vertical axis is limited to 15 percent to 19 percent to highlight the seasonal variation in 401(k) loan activity.

Source: ICI Survey of DC Plan Recordkeepers (March 2014–March 2019)

Additional Reading

» The US Retirement Market, First Quarter 2019
www.ici.org/research/stats/retirement

» American Views on Defined Contribution Plan Saving, 2018
www.ici.org/pdf/ppr_19_dc_plan_saving.pdf

» 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016
www.ici.org/pdf/per24-06.pdf

» The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2018
www.ici.org/pdf/per25-04.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 $88.9 trillion at the end of 2019:Q1. See US Federal Reserve Board 2019.

[2] This report presents withdrawal, contribution, and asset allocation activity during the first quarter of 2019 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 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 2018, see Holden and Schrass 2019.

[3] 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.

[4] 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.

[5] Annual rates of account balance reallocation activity observed in the ICI Survey of DC Plan Recordkeepers for 2008–2018 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 34 in Holden et al. 2018).

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

[7] The EBRI/ICI 401(k) database update reports loan activity among 401(k) participants in plans that allow loans. At year-end 2016, 86 percent of participants in the database were in plans that offer loans; among those participants, 19 percent had loans outstanding at year-end 2016. This translates to 16 percent of all active 401(k) participants having loans outstanding. The year-end 2016 EBRI/ICI database includes statistical information about 27.1 million 401(k) participants in 110,794 plans, with $2.0 trillion in assets. See Holden et al. 2018.

[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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Sarah Holden

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Daniel Schrass

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