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Defined Contribution Plan Participants' Activities, First Quarter 2023

Contents

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A complete historical time series of these data is available in supplemental tables located in a Microsoft Excel file located at www.ici.org/files/2023/23-rpt-recsurveyq1-data.xls.

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Defined Contribution Plan Participants' Activities, First Quarter 2023

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DC Plan Participants' Withdrawal and Contribution Activities

Defined contribution (DC) plan participants' withdrawal activity in the first quarter of 2023 remained low, although it was slightly higher than the activity observed in the first three months of other years. In 2023:Q1, 3.3 percent of DC plan participants took withdrawals, compared with 1.8 percent in 2022:Q1, 2.2 percent in 2021:Q1, 1.8 percent 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) (Figure 1).[1]

Levels of hardship withdrawal activity edged up a bit in the first quarter of 2023, though still low in absolute terms. In 2023:Q1, 1.2 percent of DC plan participants took hardship withdrawals, compared with 0.9 percent of DC plan participants in 2022:Q1, 0.6 percent in 2021:Q1, 0.8 percent in 2020:Q1, 0.5 percent in 2019:Q1, and 1.2 percent in 2009:Q1 (Figure 1). DC plan participants likely continue to feel 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, 2022, or 2023.[2]

DC plan participants' commitment to contribution activity in 2023:Q1 continued at the high rate observed in the first three months of other years. Only 1.0 percent of DC plan participants stopped contributing in 2023:Q1, compared with 0.9 percent in 2022:Q1, 0.8 percent in 2021:Q1, 1.4 percent in 2020:Q1, 0.9 percent in 2019:Q1, and 2.7 percent in 2009:Q1 (Figure 1).[3]

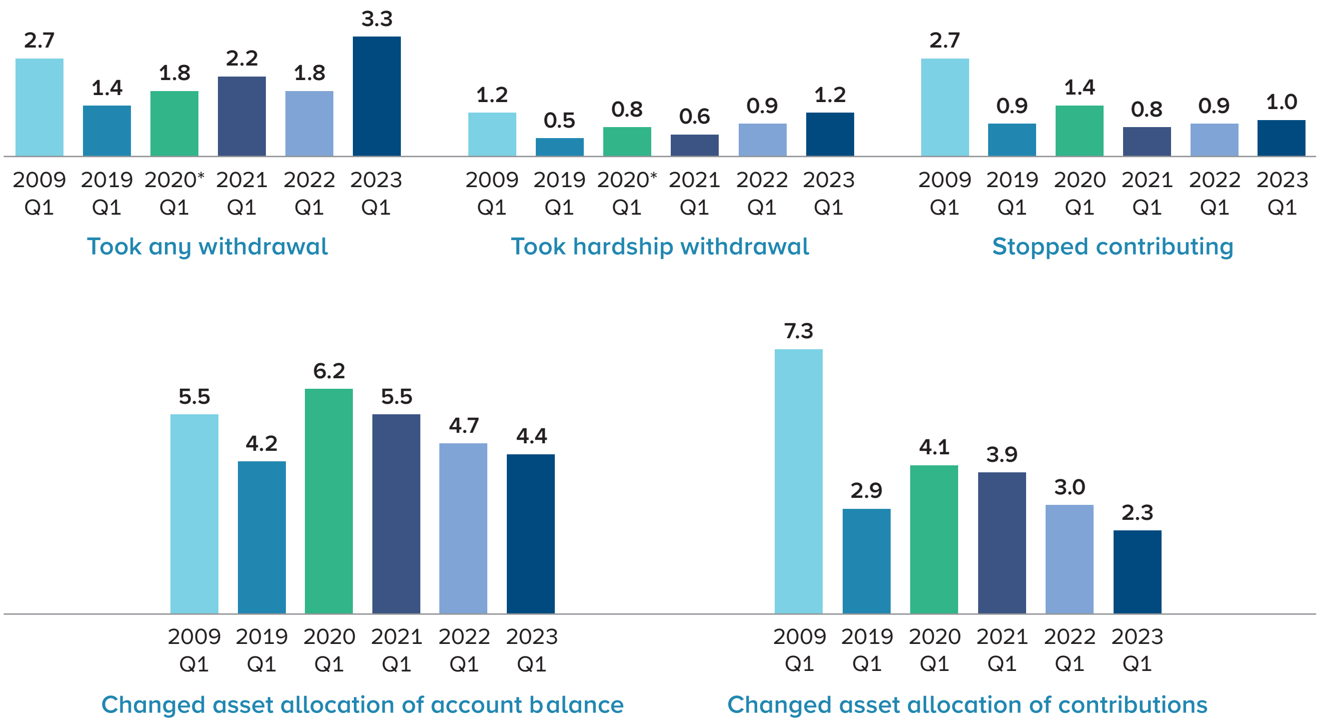
DC Plan Participants' Asset Allocation Changes

Most DC plan participants stayed the course with their asset allocations as stock values generally rose during the first three months of the year.[4] In 2023:Q1, 4.4 percent of DC plan participants changed the asset allocation of their account balances, slightly lower than 4.7 percent in 2022:Q1, 5.5 percent in 2021:Q1, 6.2 percent in 2020:Q1, and 5.5 percent in 2009:Q1 (Figure 1). Even fewer DC plan participants changed the asset allocation of their contributions. In 2023:Q1, 2.3 percent changed the asset allocation of their contributions, a bit lower than in recent years, and much lower than 7.3 percent in 2009:Q1.

FIGURE 1

Defined Contribution Plan Participants' Activities

Summary of recordkeeper data, percentage of participants



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

Note: The samples include nearly 24 million DC plan participants in 2009:Q1; more than 30 million DC plan participants in 2019–2020; more than 35 million DC plan participants in 2021; and more than 40 million DC plan participants in 2022–2023.

Source: ICI Survey of DC Plan Recordkeepers (2009:Q1–2023:Q1)

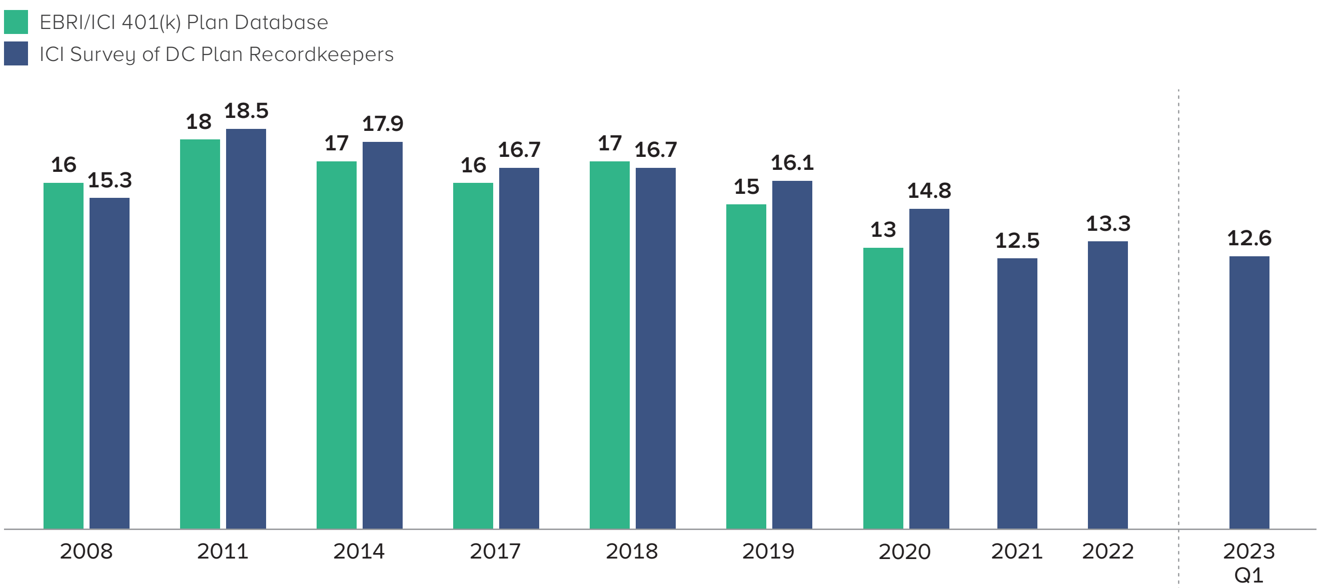
DC Plan Participants' Use of Plan Loans

The DC plan loan feature provides a safety valve that fewer than one in five DC plan participants end up using. DC plan participants' loan activity edged down in the first quarter of 2023 and continues to be close to its historically low level. At the end of March 2023, 12.6 percent of DC plan participants had loans outstanding, compared with 13.3 percent at year-end 2022, and 12.5 percent at year-end 2021 (Figure 2).[5] It is possible that the availability of coronavirus-related distributions (CRDs) in 2020 (under the CARES Act) resulted in reduced loan activity in 2020 and early 2021. Additionally, starting in plan year 2019, a DC plan participant is no longer required by law to first take a plan loan (in plans with a loan option) prior to taking a hardship withdrawal, though some plans may retain this requirement.[6] The recent peak in 401(k) plan loan activity was at year-end 2018, when 16.7 percent of DC plan participants had loans outstanding.[7]

FIGURE 2

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 (2008–2020) and ICI Survey of DC Plan Recordkeepers (December 2008–March 2023)

About ICI Survey of DC Plan Recordkeepers

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 40 million employer-based DC retirement plan participant accounts as of March 2023. 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 2023. In this period, stock prices generally rose. On net, the S&P 500 total return index was up 7.5 percent in the first quarter of 2023.[8]

Notes

[1] 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. The Bipartisan Budget Act of 2018 also changed flexibility with regard to nonhardship withdrawals, providing tax relief for those affected by the 2017 California wildfires, building on disaster relief included in the Disaster Tax Relief and Airport and Airway Extension Act of 2017. The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) provided tax relief for withdrawals related to qualified birth or adoption distributions (QBOADs). See "Disaster-Related Relief" and "Qualified birth or adoption distributions" sections in Internal Revenue Service 2023a; and Internal Revenue Service 2023b, 2023d, and 2023e.

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 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. See Dold 2018, Joint Committee on Taxation 2019 (pp. 104–105), and Internal Revenue Service 2023c.

The 2020 CARES Act 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 2022.

[2] 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 these coronavirus-related distributions (CRDs), increase the amount available for a plan loan, and add flexibility in repayment of plan loans. [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, recordkeepers identified 5.8 percent of DC plan participants taking CRDs. For additional discussion, see Holden, Schrass, and Chism 2023.

[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 contribution activity of active DC plan participants.

[4] When surveyed, DC-owning individuals indicate that their employer-sponsored retirement account helps them think about the long term, not just their current needs. In addition, saving paycheck by paycheck made about eight out of 10 DC-owning individuals surveyed less worried about the short-term performance of their investments. See Holden et al. 2023.

[5] Figure 2 compares DC plan participants' loan activity from the ICI Survey of DC Plan Recordkeepers to 401(k) plan participants' loan activity from the EBRI/ICI 401(k) Plan Database. For full details on the EBRI/ICI 401(k) Plan Database, visit www.ici.org/research/retirement/ebri-ici-401k.

[6] See rule changes from the Bipartisan Budget Act of 2018 discussed in note 1.

[7] See Table 2 in the supplemental tables.

[8] See Yahoo Finance, S&P 500 Total Return Index.

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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. Sarah, 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 millions of IRA investors and allows analysis of IRA investors' contribution, rollover, conversion, and withdrawal activity, and asset allocation. Before joining ICI, Sarah 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.

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Daniel Schrass is an Economist in the retirement and investor research division at ICI. 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 millions of 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.

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