

ICI RESEARCH REPORT

# Defined Contribution Plan Participants' Activities, First Three Quarters of 2014

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# Defined Contribution Plan Participants' Activities, First Three Quarters of 2014

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## Key Findings

**Defined contribution (DC) plan withdrawal activity in the first three quarters of 2014 remained low and was similar to the activity observed in the first three quarters of 2013.** In the first three quarters of 2014, 3.1 percent of DC plan participants took withdrawals, similar to the pace observed over the first three quarters of 2013. Levels of hardship withdrawal activity also remained low. Only 1.4 percent of DC plan participants took hardship withdrawals during the first three quarters of 2014, the same share as in the first three quarters of 2013.

**The commitment to contribution activity in the first three quarters of 2014 continued at the high rate observed in the first three quarters of 2013.** Only 2.7 percent of DC plan participants stopped contributing in the first three quarters of 2014, compared with 2.5 percent during the first three quarters of 2013 and 2.1 percent during the first three quarters of 2012.

**Most DC plan participants stayed the course with their asset allocations as stock values generally rose over the first nine months of the year.** In the first three quarters of 2014, 8.1 percent of DC plan participants changed the asset allocation of their account balances and 5.6 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 remains elevated compared with six years ago.** This pattern of activity also was observed in the wake of the bear market and recession earlier in the decade. At the end of September 2014, 18.0 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.

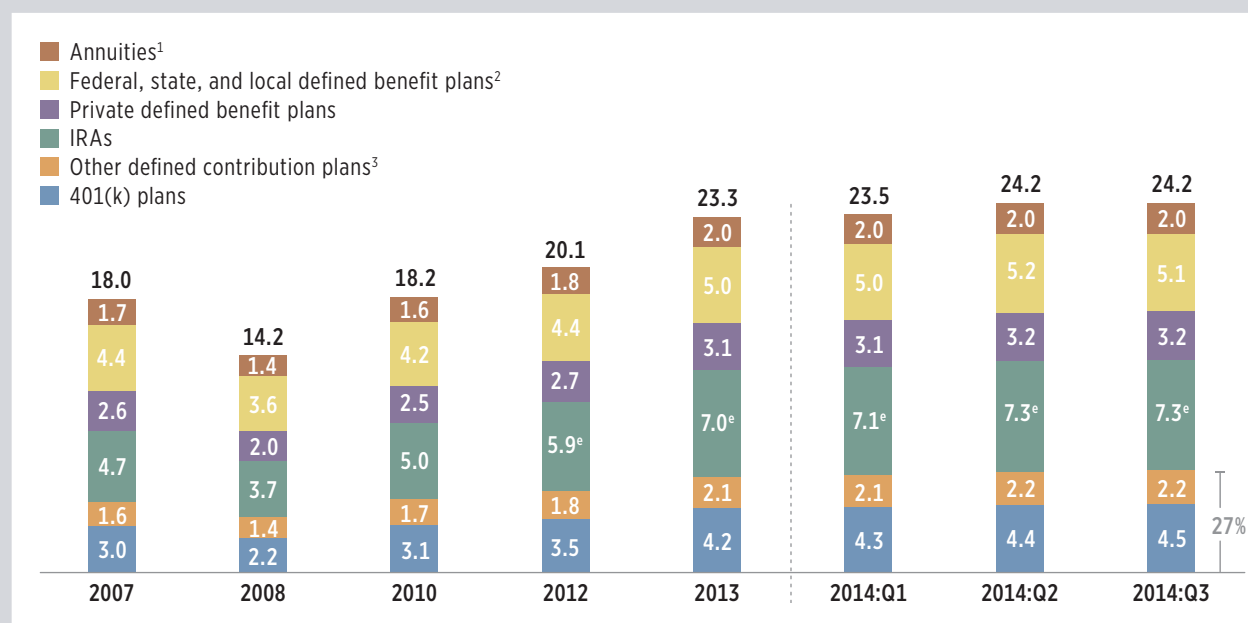
## Introduction

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 one-tenth of U.S. households' aggregate financial assets at the end of the third quarter of 2014.<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 section of recordkeeping firms representing a broad range of DC plans and covering more than

FIGURE 1

### 27 Percent of U.S. Retirement Assets Were Defined Contribution Plan Assets

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



<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. 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. Because 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 (see U.S. Federal Reserve Board 2014).

<sup>2</sup> 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.

<sup>3</sup> 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.

<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, Internal Revenue Service Statistics of Income Division, and Government Accountability Office; see Investment Company Institute 2014

25 million employer-based DC retirement plan participant accounts as of September 2014. The broad scope of the recordkeeper survey provides valuable insights about recent withdrawal, contribution, asset allocation, and loan decisions of participants in DC plans. The most recent survey covered DC plan participants' activities in the first nine months of 2014,<sup>2</sup> with stock prices generally rising throughout this period (Figure 2). On net, the S&P 500 total return index was up 8.3 percent in the first three quarters of 2014.

FIGURE 2

**Equity Returns**

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



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 the First Three Quarters of 2014

### Withdrawal and Contribution Activity

The withdrawal and contribution data indicate that essentially all DC plan participants continued to save in their retirement plans at work. A very small minority of DC plan participants took withdrawals or stopped contributing. DC plan participants' withdrawal activity during the first three quarters of 2014 was in line with activity observed during the first three quarters of 2009, 2010, 2011, 2012, and 2013. Between January 2014 and September 2014, only 3.1 percent of DC plan participants took withdrawals from their participant-directed retirement plans, with 1.4 percent taking hardship withdrawals (Figure 3, top panel).<sup>3</sup>

DC plan participants continued saving in their DC plans during the first three quarters of 2014. The recordkeeper survey data indicated that only a negligible share—2.7 percent of DC plan participants—stopped making contributions during the first three quarters of 2014, compared with 2.5 percent during the first three quarters of 2013, 2.1 percent during the first three quarters of 2012, 2.2 percent during the first three quarters of 2011, 3.4 percent during the first three quarters of 2010, 5.0 percent during the first three quarters of 2009, and 3.0 percent during the first 10 months of 2008 (Figure 3, top panel).<sup>4</sup> It is possible that some of these participants stopped contributing simply because they had reached the annual contribution limit.

### Investment Activity

The survey of recordkeeping firms also gathered information about asset allocation changes in DC account balances or contributions.<sup>5</sup> In any given period, a minority of DC plan participants made participant-initiated asset allocation changes.<sup>6</sup> Between January 2014 and September 2014, 8.1 percent of DC plan participants changed the asset allocation of their account balances (Figure 3, lower panel). This level of reallocation activity was slightly lower than the reallocation activity observed during the comparable periods from 2009 through 2013. Reallocation activity regarding contributions also was lower than rates observed in earlier periods; 5.6 percent of DC plan participants changed the asset allocation of their contributions during the first three quarters of 2014, compared with 6.8 percent in the first three quarters of 2013, 6.5 percent in the first three quarters of 2012, 8.4 percent in the first three quarters of 2011, and 7.1 percent in the first three quarters of 2010.

### Loan Activity

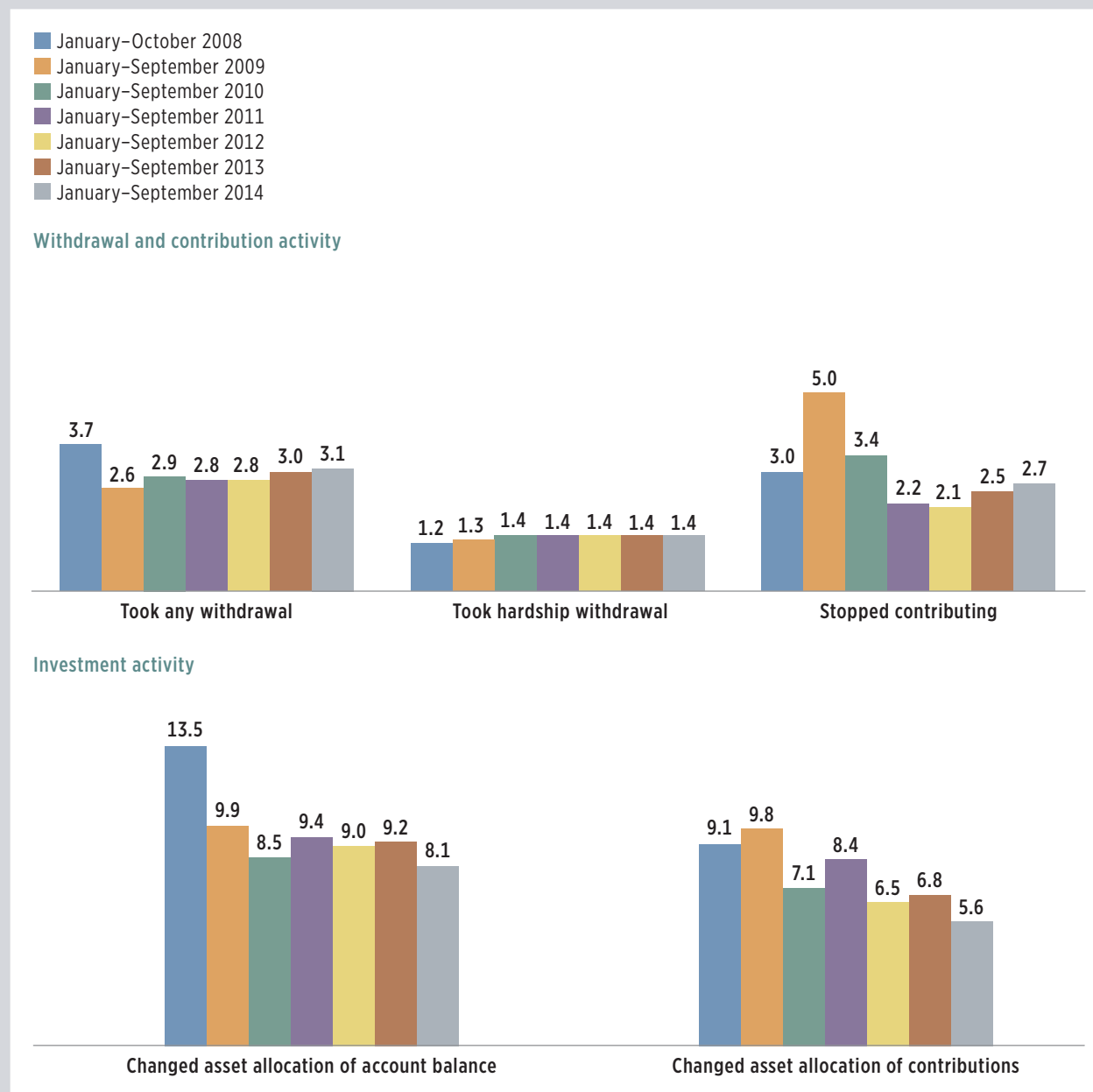
Loan activity in 2014:Q3 remained in line with the past several quarters, after rising since the end of 2008 through 2011.<sup>7</sup> This pattern of activity is similar to that observed in the wake of the bear market and recession in the early 2000s (Figure 4).<sup>8</sup> The sample of recordkeepers reported that as of September 2014, 18.0 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 3

### Defined Contribution Plan Participants' Activities

Summary of recordkeeper data; percentage of participants



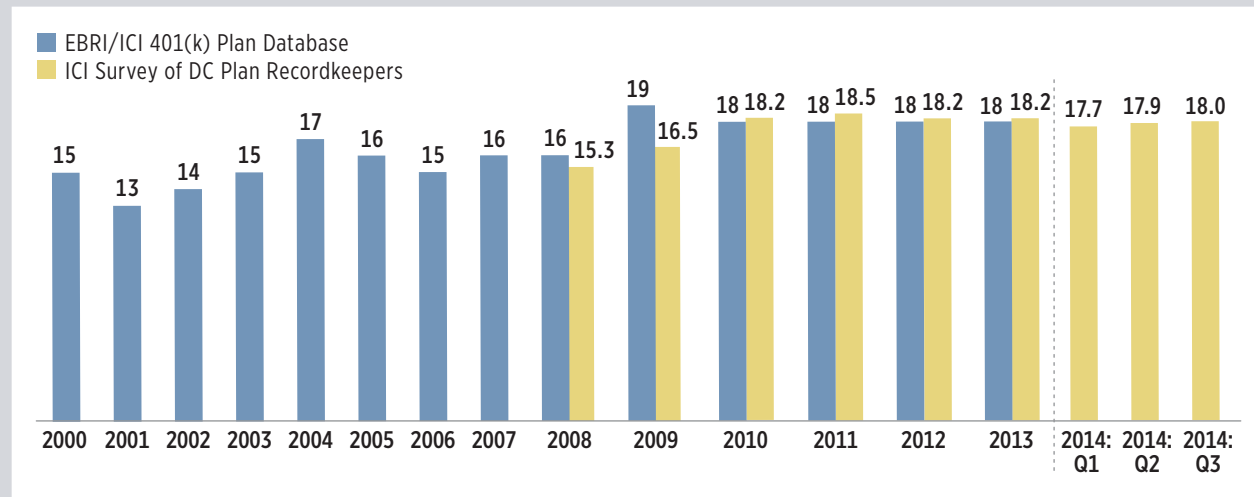
Note: The samples include more than 22 million DC plan participants for data covering January–October 2008; about 24 million DC plan participants for data covering January–September 2009, January–September 2010, January–September 2011, January–September 2012, and January–September 2013; and more than 25 million DC plan participants for data covering January–September 2014.

Source: ICI Survey of DC Plan Recordkeepers

FIGURE 4

### 401(k) Loan Activity

Percentage of 401(k) plan participants with loans outstanding; end-of-period, 2000–2013 and 2014:Q1–2014:Q3



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 (2000–2013) and ICI Survey of DC Plan Recordkeepers (December 2008–September 2014)

#### Additional Reading

» **The U.S. Retirement Market, Third Quarter 2014**

Available at [www.ici.org/info/ret\\_14\\_q3\\_data.xls](http://www.ici.org/info/ret_14_q3_data.xls).

» **American Views on Defined Contribution Plan Saving**

Available at [www.ici.org/pdf/ppr\\_15\\_dc\\_plan\\_saving.pdf](http://www.ici.org/pdf/ppr_15_dc_plan_saving.pdf).

» **401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2013**

Available at [www.ici.org/pdf/per20-10.pdf](http://www.ici.org/pdf/per20-10.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](http://www.ici.org/pdf/per20-04.pdf).

» **ICI Resources on 401(k) Plans**

Available at [www.ici.org/401k](http://www.ici.org/401k).

» **ICI Resources on the Retirement System**

Available at [www.ici.org/retirement](http://www.ici.org/retirement).

## Notes

- <sup>1</sup> Total financial assets of U.S. households were \$66.8 trillion at the end of 2014:Q3. See U.S. Federal Reserve Board 2014. For total retirement market data, see Investment Company Institute 2014.
- <sup>2</sup> This report presents withdrawal, contribution, and asset allocation activity during the first three quarters of 2014 and compares the results to earlier periods covering the first three quarters 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 2013, see Holden and Schrass 2014.
- <sup>3</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>4</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>5</sup> 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 et al. 2014.
- <sup>6</sup> Annual rates of account balance reallocation activity observed in the ICI Survey of DC Plan Recordkeepers for 2008–2013 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; for discussion of changes in asset allocation, see note 32 in Holden et al. 2014).
- <sup>7</sup> The EBRI/ICI 401(k) database update reports loan activity among 401(k) participants in plans that allow loans. At year-end 2013, 87 percent of participants in the database were in plans that offer loans; among those participants, 21 percent had loans outstanding at year-end 2013. This translates to 18 percent of all active 401(k) participants having loans outstanding. The year-end 2013 EBRI/ICI database includes statistical information about 26.4 million 401(k) participants in 72,676 plans, with \$1.912 trillion in assets. See Holden et al. 2014.
- <sup>8</sup> The National Bureau of Economic Research dates the recession in the early 2000s 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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