The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers.


Copyright © 2018 by the Investment Company Institute. All rights reserved.
Defined Contribution Plan Participants’ Activities, First Quarter 2018

Sarah Holden, ICI Senior Director of Retirement and Investor Research, and Daniel Schrass, ICI Associate Economist, prepared this report.

Key Findings

Defined contribution (DC) plan withdrawal activity in the first quarter of 2018 remained low and was similar to the first quarter in the prior year. In 2018:Q1, 1.3 percent of DC plan participants took withdrawals, the same share as in 2017:Q1. Levels of hardship withdrawal activity also remained low. Only 0.5 percent of DC plan participants took hardship withdrawals during 2018:Q1, about the same share as in 2017:Q1.

The commitment to contribution activity in 2018:Q1 continued at the high rate observed in 2017:Q1. Only 1.1 percent of DC plan participants stopped contributing in 2018:Q1, the same pace as in 2017:Q1.

Most DC plan participants stayed the course with their asset allocations as stock values edged down during the first three months of the year. In the first quarter of 2018, 5.1 percent of DC plan participants changed the asset allocation of their account balances, compared with 4.6 percent in 2017:Q1. In the first quarter of 2018, 3.5 percent of participants changed the asset allocation of their contributions, compared with 3.8 percent in the first quarter of 2017. These levels of activity are similar to activity observed in the same time frame a year earlier.

DC plan participants’ loan activity edged down in the first quarter of 2018, 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 2018, 16.4 percent of DC plan participants had loans outstanding, compared with 16.7 percent at year-end 2017.
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 the end of the first quarter of 2018. 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 2018. 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 2018. In this period, stock prices edged down (Figure 2); on net, the S&P 500 total return index was down 0.8 percent in the first quarter of 2018.

1 Annuities include all fixed and variable annuities held outside of retirement plans and IRAs.
2 Federal, state, and local defined benefit 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.
4 Data are estimated.

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

DC Plan Participants’ Activities in 2018: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 2018 was in line with activity observed during the first quarter of the prior year, and a negligible share of participants stopped contributing during 2018:Q1. In 2018:Q1, 1.3 percent of DC plan participants took withdrawals from their DC plan accounts, with 0.5 percent taking hardship withdrawals (Figure 3). These levels of activity are similar to those observed in the first quarter of 2017. In 2018:Q1, 1.1 percent of DC plan participants stopped making contributions, the same share as in 2017: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. During the first three months of the year, 5.1 percent of DC plan participants had changed the asset allocation of their account balances, compared with 4.6 percent in 2017:Q1 (Figure 3). Reallocation activity regarding contributions was roughly in line with the rates observed in recent earlier periods; 3.5 percent of DC plan participants had changed the asset allocation of their contributions in 2018:Q1, compared with 3.8 percent in 2017:Q1.

FIGURE 3
Defined Contribution Plan Participants’ Activities
Summary of recordkeeper data, percentage of participants

Withdrawal and contribution activity

- 2009:Q1
- 2010:Q1
- 2011:Q1
- 2012:Q1
- 2013:Q1
- 2014:Q1
- 2015:Q1
- 2016:Q1
- 2017:Q1
- 2018:Q1

Contribution activity

- Took any withdrawal
- Took hardship withdrawal

Investment activity

- Changed asset allocation of account balance
- Changed asset allocation of contributions

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 and 2018:Q1.

Two factors appear to influence DC plan participants’ loan activity: reaction to financial stresses and a seasonal pattern. 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). This pattern of activity is similar to that observed in the wake of the bear market and recession in the early 2000s. The share of DC plan participants with loans outstanding then leveled out from 2012 through 2015, perhaps reflecting loans supporting consumer spending or home purchases. The sample of recordkeepers reported that as of March 2018, 16.4 percent of DC plan participants had loans outstanding, compared with 16.7 percent at year-end 2017. 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 2018:Q1, following the seasonal pattern observed over the past several years.

![Figure 4: 401(k) Loan Activity](image)

**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).

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, 2014:Q1–2018:Q1

Note: This figure reports loan activity on a quarterly basis (the most recent quarters also are 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 2018)

Additional Reading
» American Views on Defined Contribution Plan Saving, 2017
» The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2017
   www.ici.org/pdf/per24-04.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 $81.7 trillion at the end of 2018:Q1. See US Federal Reserve Board 2018.

2 This report presents withdrawal, contribution, and asset allocation activity during the first quarter of 2018 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 2017, see Holden and Schrass 2018.

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 2008–2017 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. 2017).

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 2015, 87 percent of participants in the database were in plans that offer loans; among those participants, 18 percent had loans outstanding at year-end 2015. This translates to 16 percent of all active 401(k) participants having loans outstanding. The year-end 2015 EBRI/ICI database includes statistical information about 26.1 million 401(k) participants in 101,625 plans, with $1.9 trillion in assets. See Holden et al. 2017.

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.
References


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 nearly 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 is an associate 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 nearly 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.


