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Investors and Their Long-Term Commitment to Saving

By Paul Schott Stevens

This week, I had the pleasure of addressing members of theRotary Club of Seattle on “The Outlook for Investors and Investing.” My speech approached this subject in part by examining our present situation in the historical context of past market bubbles and downturns.

Here, however, I’d like to simply highlight a few key points I made about recent investor behavior and the evidence of investors’ long-term commitment to saving. These points bear repeating, especially in the context of somewhat gloomy media coverage of recent market developments.

- **Yes, the two bear markets of the last decade have made investors less comfortable with financial risk.**

In 1998, one-third of households that held defined contribution plans or individual retirement accounts expressed willingness to take above-average or substantial risk in return for commensurate financial gains. Since 2009, only one-quarter of these households have said they accept that level of risk.

- **Investors are responding by taking conservative steps with their finances.**

In the Institute’s survey at the end of 2010, we found that almost three out of every five households with financial assets had increased their regular savings rate, reduced their allocation to stocks, or postponed their planned retirement age. Many households made two or all three of these changes.

- **But while investors have become more conservative, they haven’t panicked or given up on investing.**

In each of the three years since the crisis, ICI research has found that fewer than one in 25 participants in defined contribution retirement plans quit contributing to their 401(k) or similar plan. The number that took any withdrawal at all from their plan was on the same order—fewer than one in 25. And fewer than one in 50 took a hardship withdrawal.

Even over the past few months—with the unprecedented downgrade of the U.S. government’s credit rating, the remarkable volatility in stock markets, and the ongoing crisis for sovereign debt in Europe—our recent data on flows into and out of mutual funds show that fund investors are not fleeing equity funds. In fact, despite a rapid increase in stock market volatility in August, the vast majority of mutual fund investors stayed the course with their investments.

- **Savers have been rewarded for their commitment.**

Take 2008–2009. Consistent 401(k) savers who remained invested in 2008 were poised to benefit both from continued contributions and from the market upswing of 2009. As a result, the 28 percent drop in 401(k) account balances they suffered in 2008 was largely offset by a 32 percent gain in 2009.

As I said in Seattle, ICI’s view is that investors understand that they have to make plans and stick with them. Our members have told us that their investors are saying: “The market is volatile—I have to save more.” They recognize that saving is the foundation.

Paul Schott Stevens was President and CEO of ICI.