

ICI RESEARCH REPORT

# Defined Contribution Plan Participants' Activities, 2010

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# Defined Contribution Plan Participants' Activities, 2010

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# Defined Contribution Plan Participants' Activities, 2010

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## Key Findings

**DC plan withdrawal activity in 2010 remained low and was similar to the prior year's activity.** In 2010, 3.5 percent of DC plan participants took withdrawals, compared with 3.1 percent in 2009. Levels of hardship withdrawal activity also remained low. Only 1.7 percent of DC plan participants took hardship withdrawals during 2010, compared with 1.6 percent in 2009.

**The share of participants that stopped making contributions in 2010 was significantly lower than the share that stopped contributing in 2009.** Only 2.4 percent of DC plan participants stopped contributing in 2010, compared with 3.4 percent during 2009.

**As stock values wandered down and up during the year, most DC plan participants stayed the course with their asset allocations.** In 2010, 10.3 percent of DC plan participants changed the asset allocation of their account balances and 8.0 percent changed the asset allocation of their contributions. These levels of reallocation activity were slightly lower compared with the activity observed a year earlier.

**DC plan participants' loan activity continued to edge up throughout 2010, a pattern of activity that also was observed in the wake of the bear market and recession earlier in the decade.** At the end of December 2010, 18.2 percent of DC plan participants had loans outstanding, compared with 16.5 percent at year-end 2009 and 15.3 percent at year-end 2008.

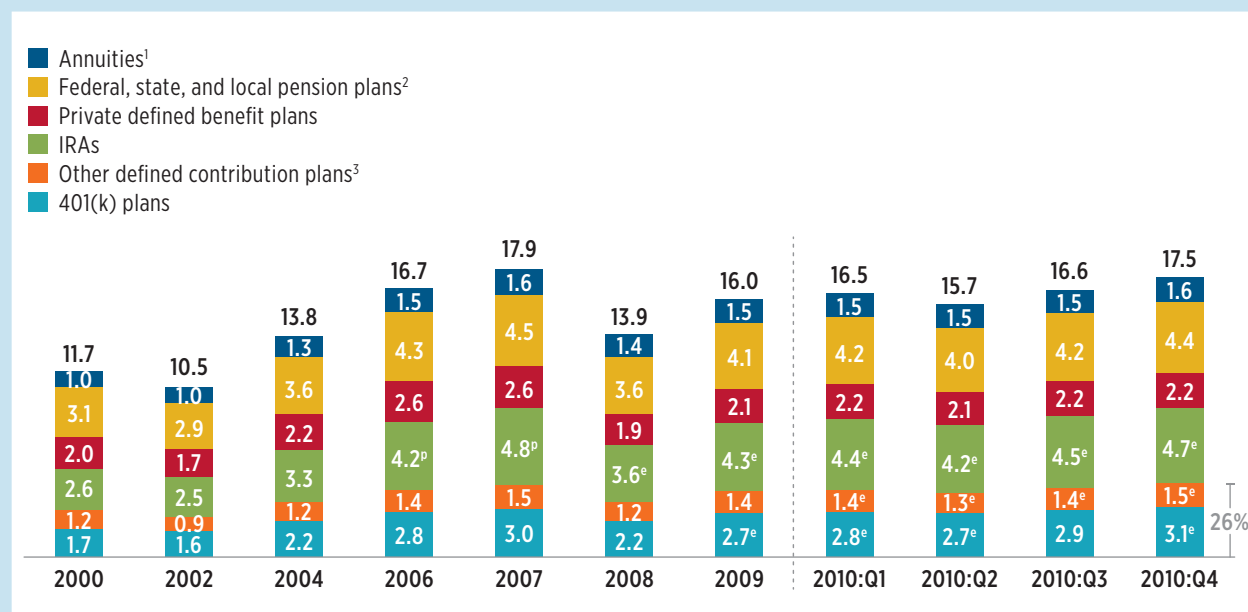
## Introduction

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 almost one-tenth of U.S. households' aggregate financial assets at year-end 2010.<sup>1</sup> To measure participant-directed changes in DC plans, ICI has been tracking participant activity through recordkeeper surveys since 2008.<sup>2</sup> 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 23 million

FIGURE 1

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

Trillions of dollars; end-of-period, selected time 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 (including 401(k) plans).

<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 and Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP).

<sup>3</sup> Other DC plans include 403(b) plans, 457 plans, and private employer-sponsored DC plans without 401(k) features.

<sup>e</sup> Data are estimated.

<sup>p</sup> Data are preliminary.

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

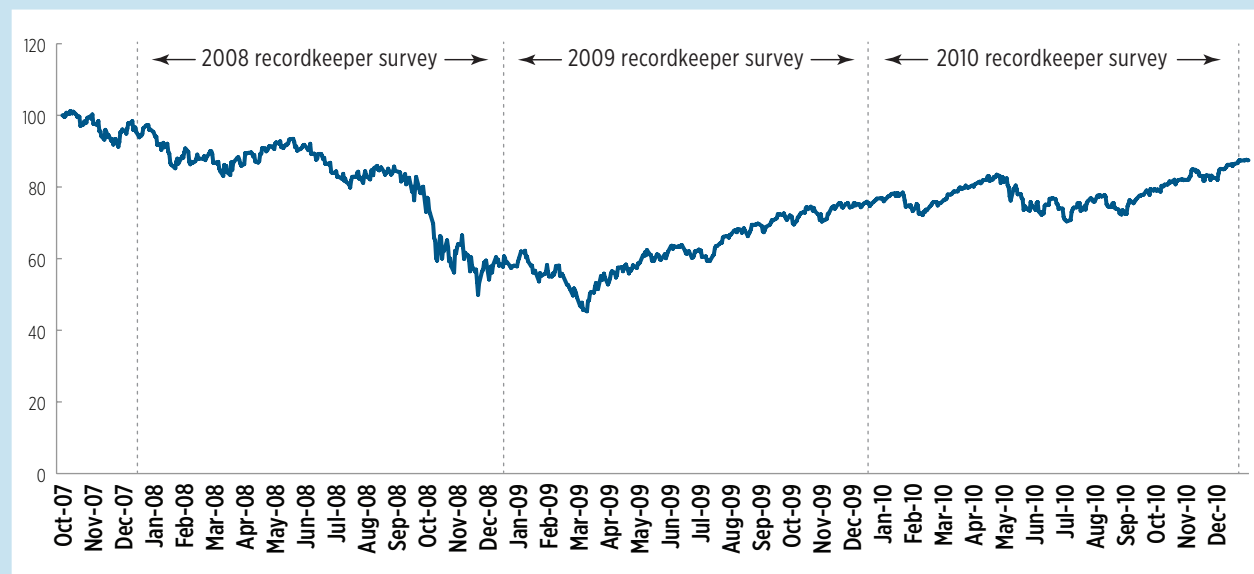
Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

employer-based DC retirement plan participant accounts as of December 2010. The broad scope of the recordkeeper survey provides valuable inferences about recent withdrawal, contribution, asset allocation, and loan decisions of participants in these plans. The most recent survey covered DC plan participants' activities in 2010, while stock prices trended downward through early February, rose through late April, fell again by the end of June, then trended slightly upward over the remainder of the year (Figure 2).<sup>3</sup> On net, the S&P 500 total return index was up 15.1 percent in 2010.

FIGURE 2

### Domestic Stock Market Index

S&P 500 total return index; day-end level,\* October 2007–December 2010



\* The S&P 500 is an index of 500 stocks chosen for market size, liquidity, and industry group representation. In the figure, the index is set to 100 in October 2007.

Sources: Investment Company Institute, Bloomberg, and Standard & Poor's

## DC Plan Participants' Activities in 2010

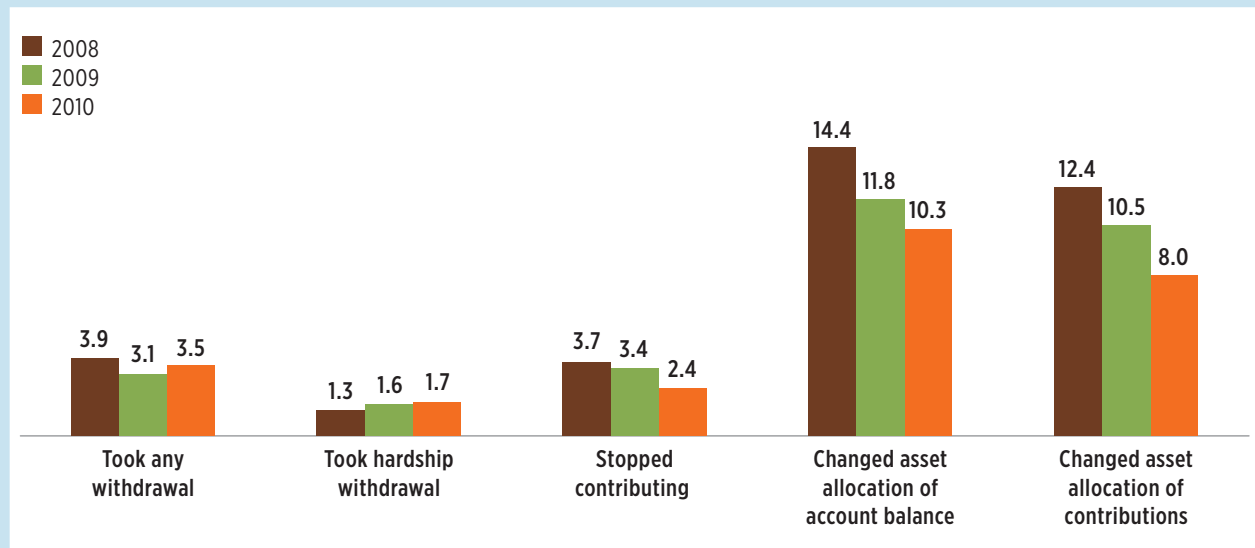
The withdrawal and contribution data indicate that essentially all DC plan participants continued to save in their retirement plans at work. DC plan participants' withdrawal activity<sup>4</sup> during 2010 was in line with activity observed in the prior year, and a negligible share of participants stopped contributing during 2010. In 2010, 3.5 percent of DC plan participants took withdrawals from their DC plan accounts, with 1.7 percent taking hardship withdrawals (Figure 3).<sup>5</sup> These levels of activity are similar to 2009. A lower percentage of DC plan participants stopped contributing in 2010 compared to a year earlier. In 2010, only 2.4 percent of DC plan participants stopped contributing, compared with 3.4 percent in 2009 and 3.7 percent in 2008. It is possible that some of these participants stopped contributing because they reached the annual contribution limit.<sup>6</sup>

The survey of recordkeeping firms also gathered information about asset allocation changes in DC account balances or contributions. During 2010, 10.3 percent of DC plan participants had changed the asset allocation of their account balances, compared with 11.8 percent in 2009 (Figure 3).<sup>7</sup> Reallocation activity regarding contributions was also lower in 2010 compared with the prior year: 8.0 percent of DC plan participants had changed the asset allocation of their contributions in 2010, compared with 10.5 percent in 2009.

FIGURE 3

### Defined Contribution Plan Participants' Activities in 2010

Summary of recordkeeper data, percentage of participants



Note: The samples include more than 22 million DC plan participants for data covering full-year 2008; nearly 24 million DC plan participants for data covering full-year 2009; and more than 23 million DC plan participants for data covering full-year 2010.

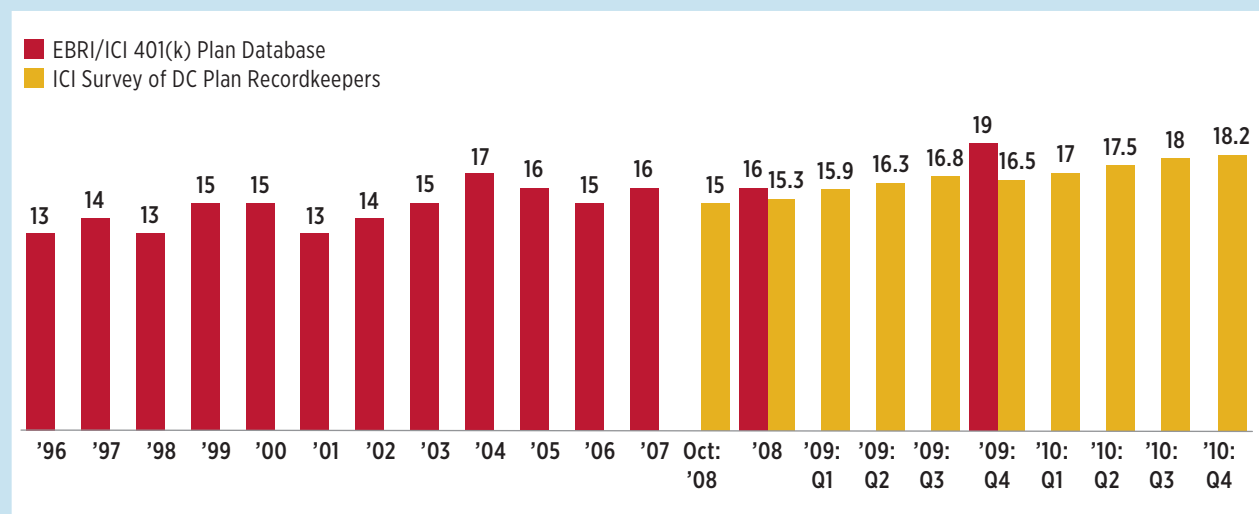
Source: ICI survey of DC plan recordkeeper data (January–December 2008; January–December 2009; January–December 2010)

Loan activity edged up throughout 2010, a pattern of activity that is similar to that observed in the wake of the bear market and recession earlier in the decade.<sup>8</sup> The sample of recordkeepers reported that as of December 2010, 18.2 percent of DC plan participants had loans outstanding compared with 16.5 percent at year-end 2009 (Figure 4). Although the ICI Survey of DC Plan Recordkeepers consistently finds a slightly lower percentage of DC plan participants with loans outstanding as compared with the EBRI/ICI 401(k) database, the EBRI/ICI data exhibit a similar upward trend in 2009.<sup>9</sup>

FIGURE 4

### 401(k) Loan Activity

Percentage of 401(k) participants who had loans outstanding; end-of-period; 1996–2009, October 2008, 2009:Q1–2010:Q4



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

Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (1996–2009); ICI Survey of DC Plan Recordkeepers (October 2008–December 2010)

### Additional Reading

- » “The U.S. Retirement Market, Fourth Quarter 2010.” Investment Company Institute. Available at [www.ici.org/pressroom/news/ret\\_10\\_q4](http://www.ici.org/pressroom/news/ret_10_q4).
- » *Commitment to Retirement Security*. Investment Company Institute. Available at [www.ici.org/pdf/ppr\\_11\\_com\\_ret.pdf](http://www.ici.org/pdf/ppr_11_com_ret.pdf).
- » *Enduring Confidence in the 401(k) System*. Investment Company Institute. Available at [www.ici.org/pdf/ppr\\_10\\_ret\\_saving.pdf](http://www.ici.org/pdf/ppr_10_ret_saving.pdf).
- » *ICI Resources on 401(k) Plans*. Investment Company Institute. Available at [www.ici.org/401k](http://www.ici.org/401k).

## Notes

- <sup>1</sup> Total financial assets of U.S. households were \$47.6 trillion at year-end 2010. See Federal Reserve Board 2011.
- <sup>2</sup> This report updates recordkeeper survey data first published for year-to-date October 2008 (see Reid and Holden 2008), then for full-year 2008 (see Investment Company Institute 2009a), then for the first half of 2009 (see Investment Company Institute 2009b), then for the first three-quarters of 2009 (see Holden, Sabelhaus, and Reid 2010), then for full-year 2009 (see Investment Company Institute 2010), then for the first quarter 2010 (see Holden 2010a), then for first half 2010 (see Holden 2010b), and then for the first three-quarters of 2010 (see Holden, Bass, and Reid 2011).

Caution should be exercised when comparing the results from the surveys for different time periods. Data should only be compared for similar time periods because it is important to compare time periods of equal length and the same timing during the year. 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 important to compare time periods that may experience these similar “seasonal” effects. In addition to these seasonal effects, DC plan participant activity may be influenced by cyclical factors (e.g., recent stock market returns). Whereas 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.

- <sup>3</sup> The S&P 500 total return index fell 5.1 percent between December 31, 2009, and February 8, 2010. It then rose 15.6 percent between February 8, 2010, and April 23, 2010, fell 15.6 percent between April 23, 2010, and July 2, 2010, then rose 10.5 percent between July 2, 2010, and August 9, 2010, fell 6.8 percent between August 9, 2010, and August 30, 2010, before trending essentially upward for the remainder of the year.
- <sup>4</sup> The withdrawal rates observed for 2010 (3.5 percent of DC plan participants with withdrawals; 1.7 percent with hardship withdrawals) were similar to those for 2009 (3.1 percent of DC plan participants with withdrawals; 1.6 percent with hardship withdrawals), which were in line with past years’ experiences among the recordkeepers and the rate of withdrawal activity observed in the EBRI/ICI 401(k) database in 2000 (at the beginning of the 2000–2002 bear market in equities). The Employee Benefit Research Institute (EBRI) and ICI collaborate on an annual 401(k) data collection project. Analysis of the 2000 EBRI/ICI 401(k) database found that 4.5 percent of active 401(k) plan participants had taken in-service withdrawals, including hardship withdrawals. Withdrawal activity varied with participant age; participants younger than 60 were much less likely to take withdrawals compared with participants in their sixties. See Holden and VanDerhei 2002.
- <sup>5</sup> There are two types of withdrawals possible from DC plans: nonhardship and hardship. An in-service withdrawal occurs if the participant is still employed by the plan sponsor. 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.
- <sup>6</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>7</sup> Annual rates of account balance reallocation activity observed in the ICI Survey of DC Plan Recordkeepers for 2008, 2009, and 2010 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; and discussion of changes in asset allocation and note 42 in Holden, VanDerhei, and Alonso 2010).
- <sup>8</sup> 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.
- <sup>9</sup> The EBRI/ICI 401(k) database update reports loan activity among 401(k) participants in plans that allow loans. At year-end 2009, 89 percent of participants in the database were in plans that offer loans; among those participants, 21 percent had loans outstanding at year-end 2009. This translates to 19 percent of all active 401(k) participants having loans outstanding. The year-end 2009 EBRI/ICI database includes statistical information about 20.7 million 401(k) participants in 51,852 plans, with \$1.210 trillion in assets. See Holden, VanDerhei, and Alonso 2010.

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