ICI RESEARCH REPORT

Defined Contribution Plan Participants' Activities, First Half 2012

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Defined Contribution Plan Participants' Activities, First Half 2012

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Key Findings

DC plan withdrawal activity in the first half of 2012 remained low and was similar to the activity observed in the first half of 2011. In 2012:H1, 2.1 percent of DC plan participants took withdrawals, the same pace as in 2011:H1. Levels of hardship withdrawal activity also remained low. Only 0.9 percent of DC plan participants took hardship withdrawals during 2012:H1, compared with 1.1 percent in 2011:H1.

The commitment to contribution activity in 2012:H1 continued at the high rate observed in 2011:H1. Only 1.6 percent of DC plan participants stopped contributing in 2012:H1, compared with 1.6 percent during 2011:H1 and 1.7 percent during 2010:H1.

Most DC plan participants stayed the course with their asset allocations as stock values generally rose over the first six months of the year. In the first half of 2012, 7.1 percent of DC plan participants changed the asset allocation of their account balances and 4.9 percent changed the asset allocation of their contributions. These levels of reallocation activity were similar to the reallocation activity observed in the same time frame a year earlier.

DC plan participants' loan activity edged down slightly by June 2012, although it continues to remain elevated compared with four 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 June 2012, 17.5 percent of DC plan participants had loans outstanding, compared with 18.5 percent at year-end 2011.

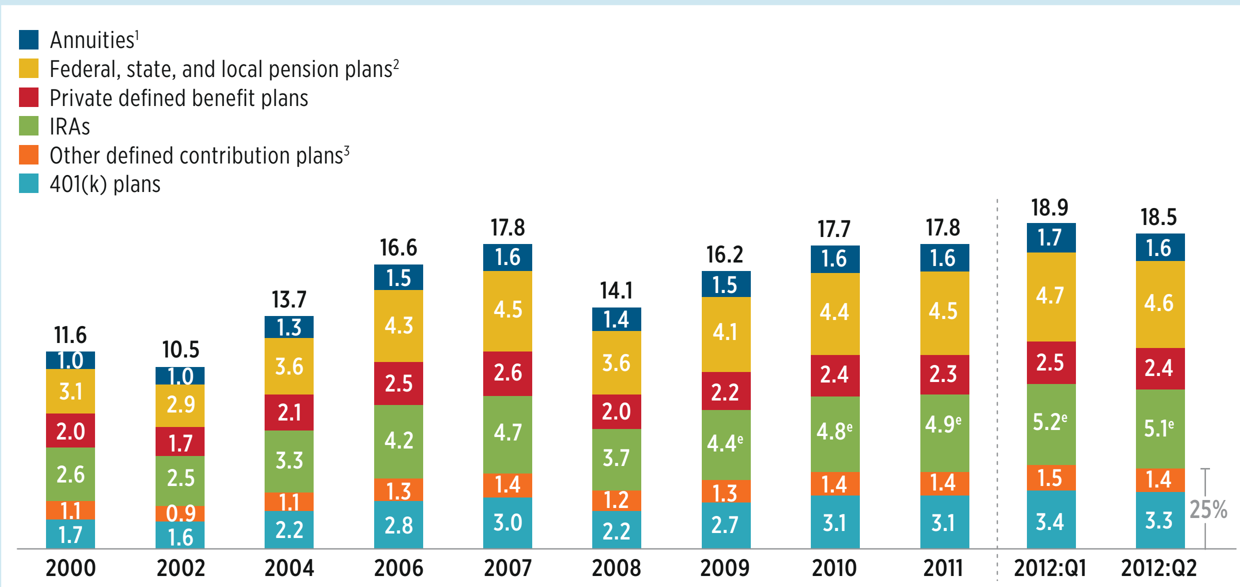
Introduction

Defined contribution (DC) plan assets are a significant component of Americans' retirement assets, representing one-quarter of the total retirement market (Figure 1) and almost one-tenth of U.S. households' aggregate financial assets at the end of the second quarter of 2012.[1] 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 24 million

FIGURE 1

25 Percent of U.S. Retirement Assets Were Defined Contribution Plan Assets

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



	2000	2002	2004	2006	2007	2008	2009	2010	2011	2012:Q1	2012:Q2
Annuities	1.0	1.0	1.3	1.5	1.6	1.4	1.5	1.6	1.6	1.7	1.6
Federal, state, and local pension plans	3.1	2.9	3.6	4.3	4.5	3.6	4.1	4.4	4.5	4.7	4.6
Private defined benefit plans	2.0	1.7	2.1	2.5	2.6	2.0	2.2	2.4	2.3	2.5	2.4
IRAs	2.6	2.5	3.3	4.2	4.7	3.7	4.4[e]	4.8[e]	4.9[e]	5.2[e]	5.1[e]
Other defined contribution plans	1.1	0.9	1.1	1.3	1.4	1.2	1.3	1.4	1.4	1.5	1.4
401(k) plans	1.7	1.6	2.2	2.8	3.0	2.2	2.7	3.1	3.1	3.4	3.3
Total	11.6	10.5	13.7	16.6	17.8	14.1	16.2	17.7	17.8	18.9	18.5

[1] 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).

[2] 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 the Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP).

[3] Other DC plans include 403(b) plans, 457 plans, and private employer-sponsored DC plans without 401(k) features.

[e] Data are estimated.

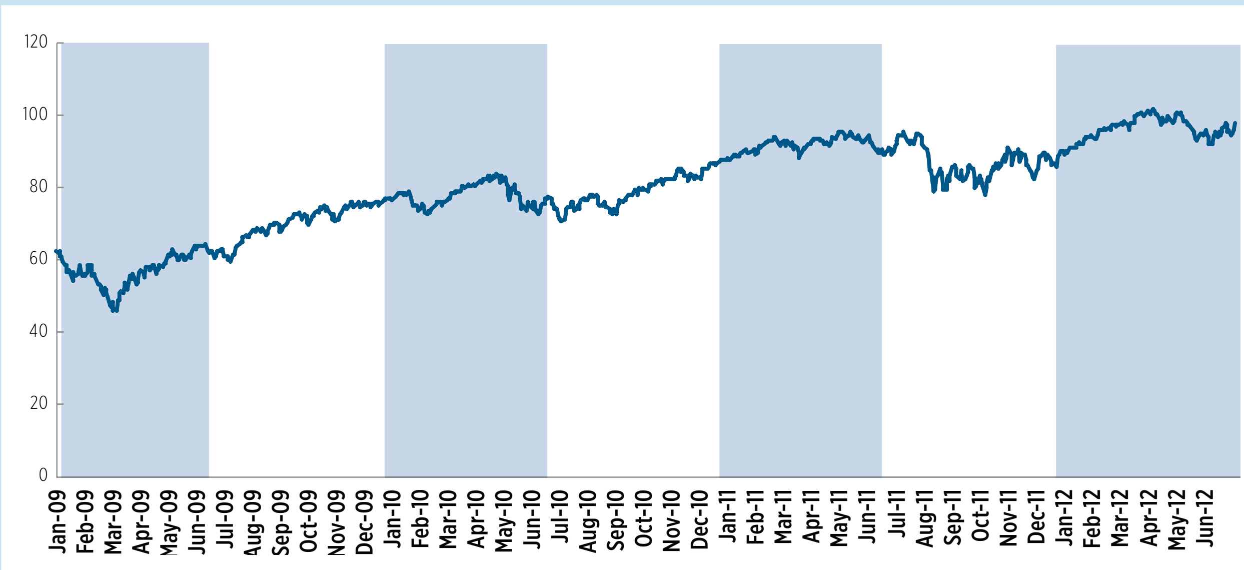
Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division employer-based DC retirement plan participant accounts as of June 2012. 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 six months of 2012,[2] with stock prices generally rising throughout this period (Figure 2). On net, the S&P 500 total return index was up 9.5 percent in 2012:H1.

FIGURE 2

Domestic Stock Market Index

S&P 500 total return index; day-end level, January 2009–June 2012*



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

Note: The shaded areas indicate the periods of the ICI Survey of DC Plan Recordkeepers covering DC plan participants' activities for the first six months of the year.

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

DC Plan Participants' Activities in 2012:H1

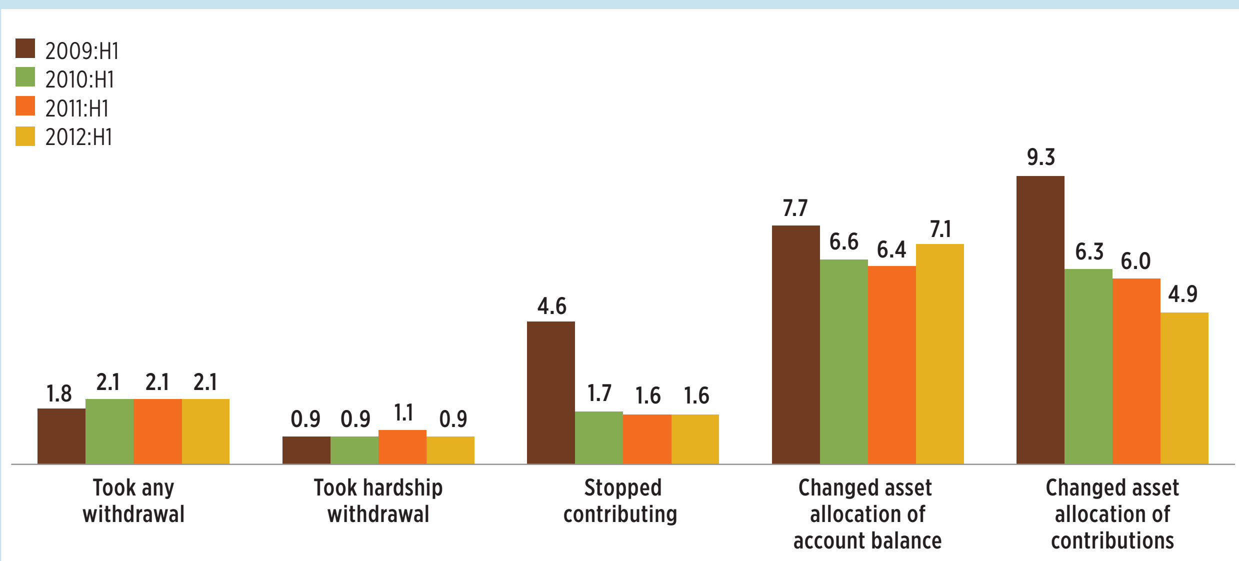
The withdrawal and contribution data indicate that essentially all DC plan participants continued to save in their retirement plans at work. DC plan participants' withdrawal activity during the first half of 2012 was in line with activity observed during the first half of the prior year, and a negligible share of participants stopped contributing during the first half of 2012.[3] In 2012:H1, 2.1 percent of DC plan participants took withdrawals from their DC plan accounts, with 0.9 percent taking hardship withdrawals (Figure 3).[4] These levels of activity are similar to those observed in the first half of 2011. In 2012:H1, only 1.6 percent of DC plan participants stopped contributing, compared with 1.6 percent in 2011:H1 and 1.7 percent in 2010:H1. It is possible that some of these participants stopped contributing simply because they had 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 six months of the year, 7.1 percent of DC plan participants had changed the asset allocation of their account balances, compared with 6.4 percent in 2011:H1 and 6.6 percent in 2010:H1 (Figure 3).[5] Reallocation activity regarding contributions was similar to rates observed in earlier periods; 4.9 percent of DC plan participants changed the asset allocation of their contributions in 2012:H1, compared with 6.0 percent in 2011:H1 and 6.3 percent in 2010:H1.

FIGURE 3

Defined Contribution Plan Participants' Activities in 2012:H1

Summary of recordkeeper data; percentage of participants



Note: The samples include nearly 24 million DC plan participants in 2009:H1, 2010:H1, and 2011:H1, and more than 24 million DC plan participants in 2012:H1. Activity reported covers the first half of each year indicated.

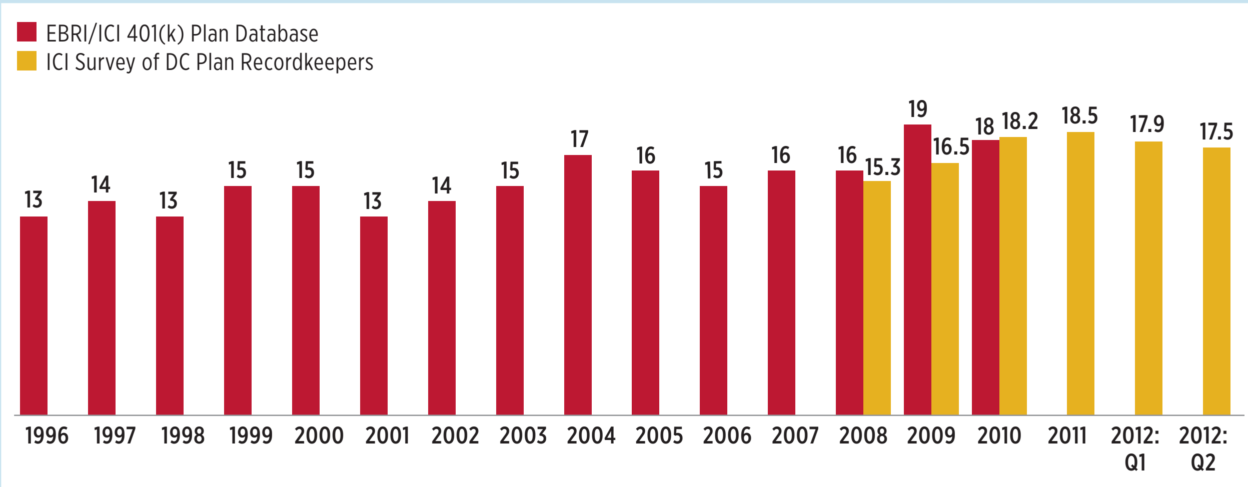
Source: ICI Survey of DC Plan Recordkeepers (January–June 2009; January–June 2010; January–June 2011; January–June 2012)

Loan activity edged down a bit in 2012:Q2, after rising since the end of 2008 and throughout 2011.[6] This pattern of activity is similar to that observed in the wake of the bear market and recession earlier in the decade (Figure 4).[7] The sample of recordkeepers reported that as of June 2012, 17.5 percent of DC plan participants had loans outstanding, compared with 18.5 percent at year-end 2011, and 15.3 percent at year-end 2008.

FIGURE 4

401(k) Loan Activity

Percentage of 401(k) participants who had loans outstanding; end-of-period, 1996–2011 and 2012:Q1–2012:Q2



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 are the bulk of DC plans).

Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (1996–2010); ICI Survey of DC Plan Recordkeepers (December 2008–June 2012)

Additional Reading

» **"The U.S. Retirement Market, Second Quarter 2012"**
Available at www.ici.org/info/ret_12_q2_data.xls.

» ***America's Commitment to Retirement Security: Investor Attitudes and Actions***
Available at www.ici.org/pdf/ppr_12_retir_sec_update.pdf.

» **"401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2010"**
Available at www.ici.org/pdf/per17-10.pdf.

» **ICI Resources on 401(k) Plans**
Available at www.ici.org/401k.

» **"The Future of Retirement"**
Available at www.ici.org/pressroom/speeches/12_pss_sf_commonwealth_spch.

Notes

[1] Total financial assets of U.S. households were $51.9 trillion at the end of 2012:Q2. See Federal Reserve Board 2012.

[2] This report presents withdrawal, contribution, and asset allocation activity during the first half of 2012 and compares the 2012:H1 rates of activity to 2011:H1, 2010:H1, and 2009:H1. 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 2011, see Holden and Schrass 2012.

[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. 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 generally are 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, 2009, 2010, and 2011 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 32 in Holden et al. 2011).

[6] The EBRI/ICI 401(k) database update reports loan activity among 401(k) participants in plans that allow loans. At year-end 2010, 87 percent of participants in the database were in plans that offer loans; among those participants, 21 percent had loans outstanding at year-end 2010. This translates to 18 percent of all active 401(k) participants having loans outstanding. The year-end 2010 EBRI/ICI database includes statistical information about 23.4 million 401(k) participants in 64,455 plans, with $1.414 trillion in assets. See Holden et al. 2011.

[7] 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.

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