

ICI RESEARCH REPORT

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# Defined Contribution Plan Participants' Activities, First Three Quarters of 2019

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# Defined Contribution Plan Participants' Activities, First Three Quarters of 2019

*Sarah Holden, ICI senior director of retirement and investor research, and Daniel Schrass, ICI economist, prepared this report.*

## Key Findings

- » **Defined contribution (DC) plan withdrawal activity in the first three quarters of 2019 remained low, although slightly higher than the activity observed in the first three quarters of 2018.** In the first three quarters of 2019, 3.3 percent of DC plan participants took withdrawals, compared with 2.9 percent in the first three quarters of 2018. Levels of hardship withdrawal activity also remained low. Only 1.6 percent of DC plan participants took hardship withdrawals during the first three quarters of 2019, compared with 1.4 percent in the first three quarters of 2018.
- » **The commitment to contribution activity in the first three quarters of 2019 continued at the high rate observed in the first three quarters of 2018.** Only 1.9 percent of DC plan participants stopped contributing in the first three quarters of 2019, compared with 2.2 percent in the first three quarters of 2018.
- » **Most DC plan participants stayed the course with their asset allocations as stock values increased over the first nine months of the year.** Account balance reallocation activity was slightly lower than the activity observed in the same time frame a year earlier and contribution reallocation activity was little changed. In the first three quarters of 2019, 7.1 percent of DC plan participants changed the asset allocation of their account balances, compared with 8.4 percent in the first three quarters of 2018. In the first three quarters of 2019, 4.2 percent changed the asset allocation of their contributions, compared with 4.4 percent in the first three quarters of 2018.
- » **DC plan participants' loan activity was little changed at the end of September 2019.** At the end of September 2019, 16.3 percent of DC plan participants had loans outstanding, compared with 16.4 percent a year earlier.

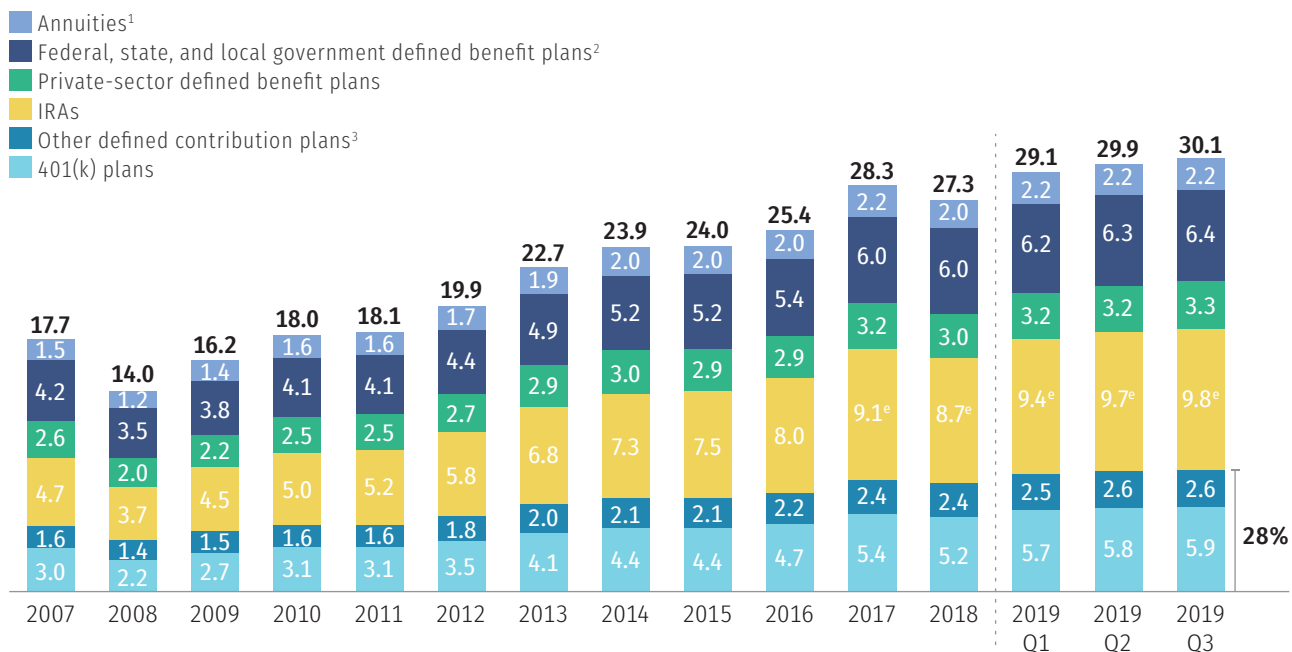
## Introduction

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 nearly one-tenth of US households' aggregate financial assets at the end of the third quarter of 2019.<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 30 million employer-based DC retirement plan participant accounts as of September 2019. 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 2019.<sup>2</sup> Stock prices generally rose throughout this period (Figure 2)—on net, the S&P 500 total return index was up 20.6 percent in the first three quarters of 2019.

FIGURE 1

## 28 Percent of US Retirement Assets Were Defined Contribution Plan Assets

Trillions of dollars, end-of-period



<sup>1</sup> Annuities include all fixed and variable annuities held outside of retirement plans and IRAs.

<sup>2</sup> Federal pension 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.

<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.

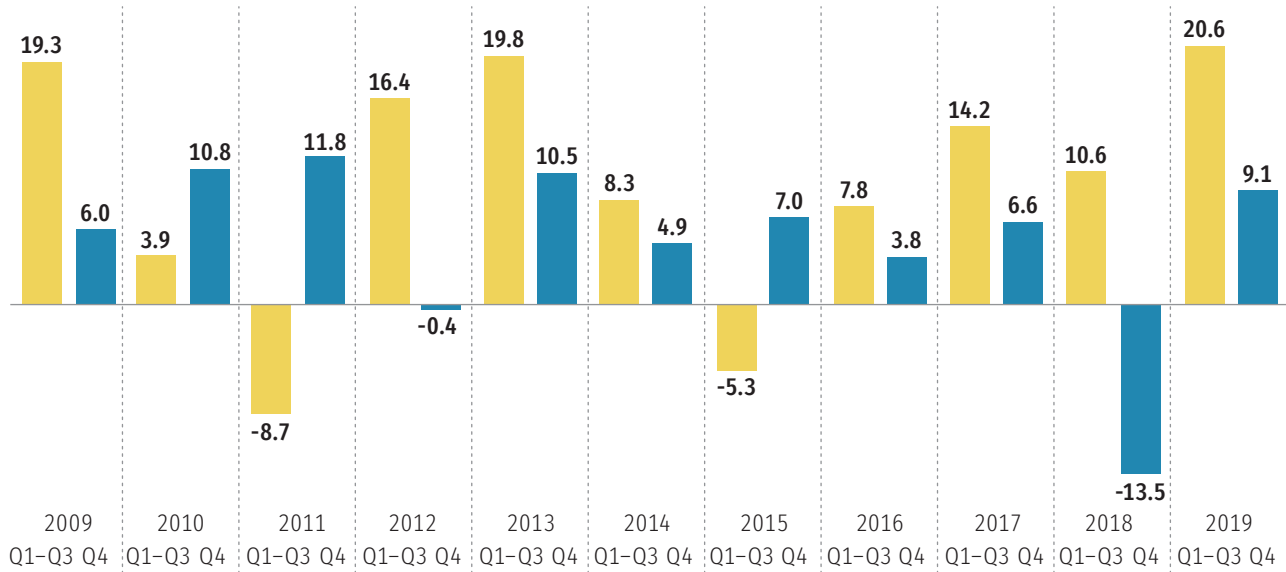
Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division; see Investment Company Institute 2019

FIGURE 2

**Equity Returns**

Percent change in the S&P 500 total return index



Note: The S&P 500 total return index consists of 500 US 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 2019

The withdrawal and contribution data for the first three quarters of 2019 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.<sup>3</sup> DC plan participants' withdrawal activity during the first three quarters of 2019 remained low, although slightly higher than the activity observed during the first three quarters of most of the previous years of the survey. Between January 2019 and September 2019, only 3.3 percent of DC plan participants took withdrawals from their DC plan accounts, with 1.6 percent taking hardship withdrawals (Figure 3, top panel).<sup>4</sup> DC plan participants continued saving in their DC plans during the first three quarters of 2019. The recordkeeper survey data indicated that only a negligible share—1.9 percent of DC plan participants—stopped making contributions during the first three quarters of 2019, compared with 2.2 percent in the first three quarters of 2018 (Figure 3, top panel). It is possible that some of these participants stopped contributing simply because they had reached the annual contribution limit.



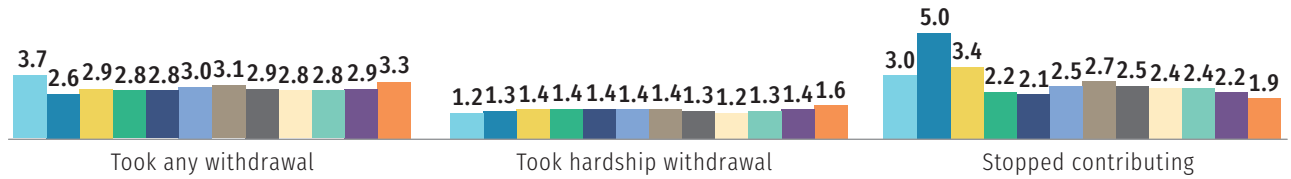
FIGURE 3

## Defined Contribution Plan Participants' Activities

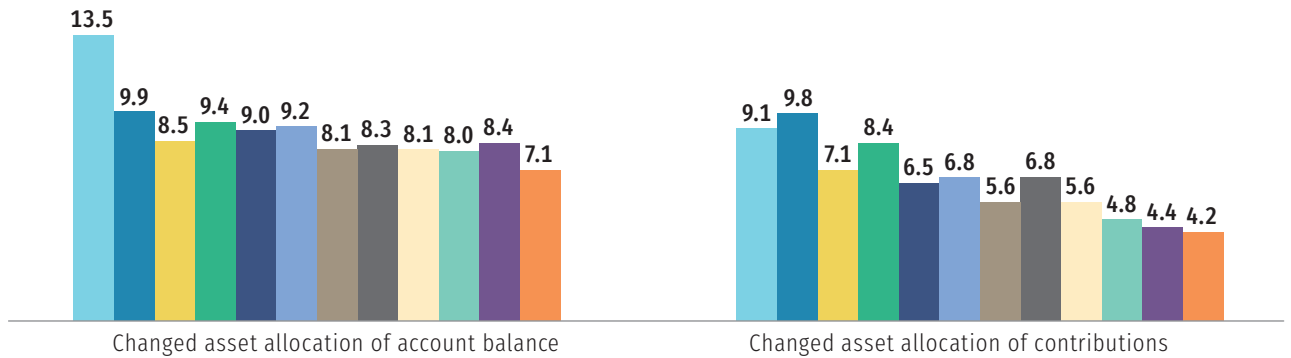
Summary of recordkeeper data, percentage of participants

- January–October 2008
- January–September 2009
- January–September 2010
- January–September 2011
- January–September 2012
- January–September 2013
- January–September 2014
- January–September 2015
- January–September 2016
- January–September 2017
- January–September 2018
- January–September 2019

### Withdrawal and contribution activity



### Investment activity



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; more than 25 million DC plan participants for data covering January–September 2014; more than 26 million DC plan participants for data covering January–September 2015; more than 28 million DC plan participants for data covering January–September 2016; and more than 30 million DC plan participants for data covering January–September 2017, January–September 2018, and January–September 2019.

Source: ICI Survey of DC Plan Recordkeepers

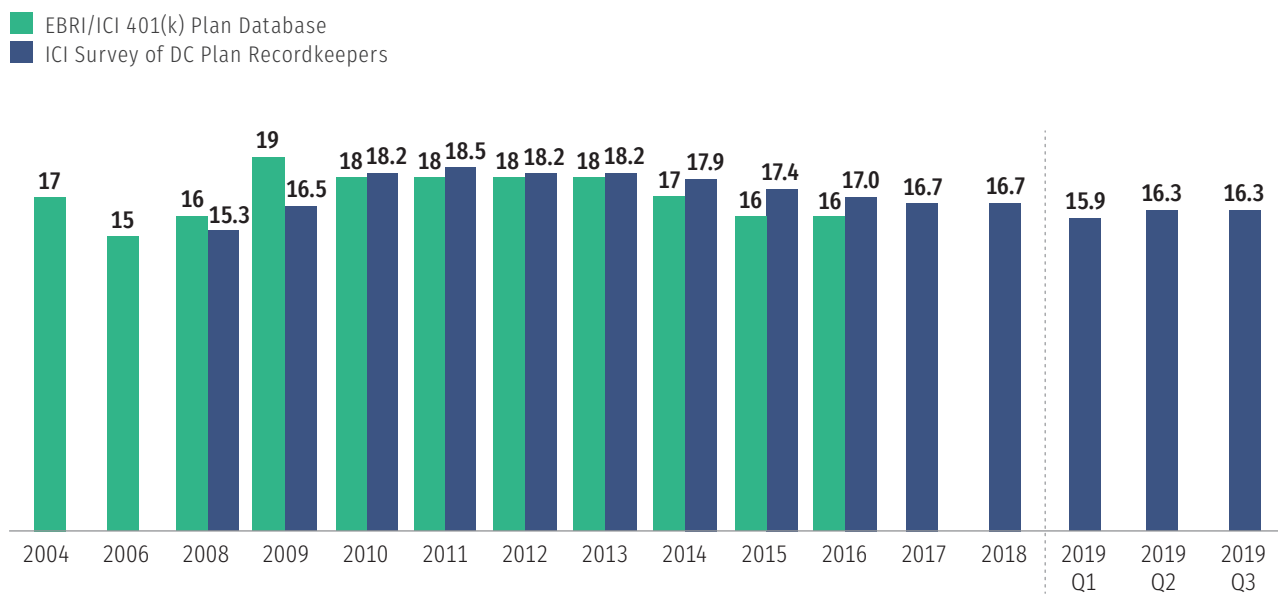
The survey of recordkeeping firms also gathered information about asset allocation changes in DC account balances or contributions.<sup>5</sup> In any given period, a minority of DC plan participants made participant-initiated asset allocation changes.<sup>6</sup> Between January 2019 and September 2019, 7.1 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 first three quarters of 2018. In the first three quarters of 2019, 4.2 percent of DC plan participants changed the asset allocation of their contributions, compared with 4.4 percent in the first three quarters of 2018 and 4.8 percent in the first three quarters of 2017.

Two factors seem to be influencing DC plan participants' loan activity: reaction to financial stresses and a seasonal pattern.<sup>7</sup> Likely responding to financial stresses, the percentage of DC plan participants with loans outstanding rose from the end of 2008 (15.3 percent) through 2011 (18.5 percent) (Figure 4).<sup>8</sup> This pattern of activity is similar to that observed in the wake of the bear market and recession in the early 2000s.<sup>9</sup> The share of DC plan participants with loans outstanding then leveled out in 2012 through 2014, perhaps reflecting loans supporting consumer spending or home purchases. The sample of recordkeepers reported that as of September 2019, 16.3 percent of DC plan participants had loans outstanding, compared with 15.9 percent at the end of March 2019, and 16.7 percent at year-end 2018 (Figure 5). Loan activity appears to have a quarterly seasonal pattern: the percentage of DC plan participants with loans outstanding in the first quarter of the year tends to be lower compared with later quarters.

FIGURE 4

### 401(k) Loan Activity

Percentage of 401(k) plan participants who had loans outstanding, end-of-period



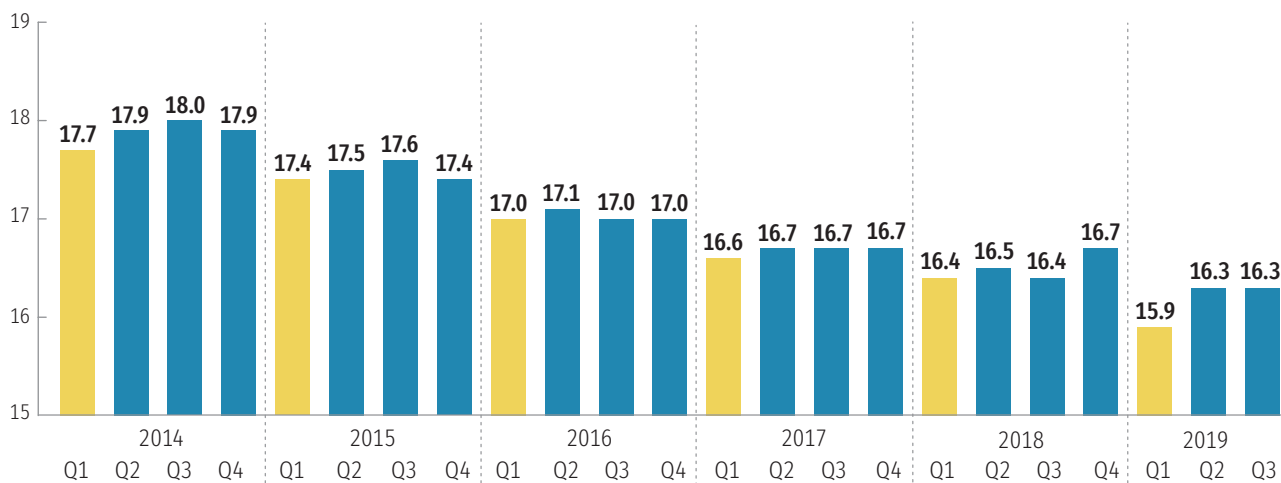
Note: The EBRI/ICI data cover 401(k) plans; the ICI Survey of DC Plan Recordkeepers covers DC plans more generally (although 401(k) plans make up the bulk of DC plans).

Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (2002–2016) and ICI Survey of DC Plan Recordkeepers (December 2008–June 2019)

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



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–June 2019)

### Additional Reading

- » The US Retirement Market, Third Quarter 2019  
[www.ici.org/research/stats/retirement](http://www.ici.org/research/stats/retirement)
- » American Views on Defined Contribution Plan Saving, 2019  
[www.ici.org/pdf/20\\_ppr\\_dc\\_plan\\_saving.pdf](http://www.ici.org/pdf/20_ppr_dc_plan_saving.pdf)
- » 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016  
[www.ici.org/pdf/per24-06.pdf](http://www.ici.org/pdf/per24-06.pdf)
- » The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2018  
[www.ici.org/pdf/per25-04.pdf](http://www.ici.org/pdf/per25-04.pdf)
- » ICI Resources on 401(k) Plans  
[www.ici.org/401k](http://www.ici.org/401k)
- » ICI Resources on the Retirement System  
[www.ici.org/retirement](http://www.ici.org/retirement)

## Notes

- <sup>1</sup> Total financial assets of US households were \$91.0 trillion at the end of 2019:Q3. See US Federal Reserve Board 2019. For total retirement market data, see Investment Company Institute 2019.
- <sup>2</sup> This report presents withdrawal, contribution, and asset allocation activity during the first three quarters of 2019 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 focuses the analysis 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 2018, see Holden and Schrass 2019.
- <sup>3</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>4</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>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. 2018.
- <sup>6</sup> Annual rates of account balance reallocation activity observed in the ICI Survey of DC Plan Recordkeepers for 2008–2018 (see Holden and Schrass 2019) 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 34 in Holden et al. 2018).
- <sup>7</sup> See note 2 for an explanation of seasonal effects.
- <sup>8</sup> The EBRI/ICI 401(k) database update reports loan activity among 401(k) participants in plans that allow loans. At year-end 2016, 86 percent of participants in the database were in plans that offer loans; among those participants, 19 percent had loans outstanding at year-end 2016. This translates to 16 percent of all active 401(k) participants having loans outstanding. The year-end 2016 EBRI/ICI database includes statistical information about 27.1 million 401(k) participants in 110,794 plans, with \$2.0 trillion in assets. See Holden et al. 2018.
- <sup>9</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. For 401(k) plan participant loan activity from 1996 through 2016, see Holden et al. 2018.



## References

Holden, Sarah, Peter Brady, and Michael Hadley. 2006. "401(k) Plans: A 25-Year Retrospective." *Investment Company Institute Perspective* 12, no. 2 (November). Available at [www.ici.org/pdf/per12-02.pdf](http://www.ici.org/pdf/per12-02.pdf).

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US Federal Reserve Board. 2019. *Financial Accounts of the United States: Flow of Funds, Balance Sheets, and Integrated Macroeconomic Accounts, Third Quarter 2019, Z.1 Release* (December). Washington, DC: Federal Reserve Board. Available at [www.federalreserve.gov/releases/Z1/current](http://www.federalreserve.gov/releases/Z1/current).



### **Sarah Holden**

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 more than 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**

Daniel Schrass is an 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 more than 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.