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Industry Leaders Discuss How to Strengthen the 401(k) and Broaden Retirement Savings

Washington, DC, January 8, 2010 - In late 2009—having weathered a bear market in stocks that started in late 2007 and continued through early 2009—a large majority of Americans had confidence in their 401(k) and similar retirement plans and their investment options, according to new research released today by the Investment Company Institute.

In a survey of 3,000 households, ICI found that overall 73 percent of households surveyed indicated that they are confident that retirement plan accounts can help people reach their retirement goals. Among households that participate in defined contribution (DC) plans or own individual retirement accounts (IRAs), 78 percent expressed confidence in these plans. Even larger majorities supported key features of the 401(k) system, including tax advantages for employee and employer savings, payroll deduction, and individual choice and control.

“We have found that Americans express confidence in their 401(k) plans and support for the system’s key features in overwhelming numbers,” said Paul Schott Stevens, ICI president and CEO, at a Newsmakers forum at the National Press Club in Washington, DC. “The 401(k) system has a long and productive future ahead in providing retirement security for millions and millions of Americans.”

Other new findings from the household opinion survey conducted during November–December 2009 include:

- Americans like the 401(k) system. Among households expressing an opinion about retirement plans, 90 percent had a favorable opinion. Support was strong even among households with no DC plan or IRA; in this group, 85 percent of those with an opinion said they had a favorable impression of these accounts.
- Households value the discipline and investment opportunity that 401(k) plans present. Most households with DC accounts agreed that these plans helped them think about the long term and made it easier for them to save.
- Savers want choice and control. Among DC account–owning households, 98 percent said it is important to them to have choice in and control of their retirement plan investments.
- DC account holders like their plan investment options. Overall, 85 percent of DC account–owning households agreed that their plans offer a good lineup of investment options.
- Retirees do not want mandates related to account draw down in retirement. Survey respondents overwhelmingly believe retirees should be able to make their own decisions about how to manage their assets in retirement, with 70 percent opposed to the concept of a mandated annuity or government payout.

The new research report, [Enduring Confidence in the 401\(k\) System: Investor Attitudes and Actions](#), was unveiled today at the National Press Club. ICI’s Stevens, Vanguard Chairman Emeritus and Senior Adviser John J. Brennan, and Ariel President Mellody Hobson discussed the findings and offered an agenda to build upon the public’s strong sentiment for the current 401(k) system by improving and strengthening the retirement system and expanding its reach to more Americans.

[Vanguard retirement account participant data](#) find that investors’ overall positive sentiments about the 401(k) are matched by their actions. Through the third quarter of 2009, six of 10 Vanguard 401(k) plan participants have account balances similar to or larger than those of two years ago, despite the dramatic decline in stock prices during that period. Recovery has been even stronger among participants who hold target date funds in their plans: seven of 10 of these participants have seen their account balances recover.

“Investors largely stayed the course and recovered through the combined power of regular savings, diversified portfolios, and the sharp stock market recovery since March 2009 lows,” said Vanguard’s Brennan.

A new ICI survey of plan recordkeepers, covering nearly 24 million DC plan accounts from January–September 2009 shows that participants did not take extreme actions with their 401(k)s during the market downturn. The findings include:

- Americans are staying the course and continuing to save. In the first three quarters of 2009, 95 percent of participants kept contributing.
- Investors are largely maintaining their asset allocations. Only about one in 10 changed the asset allocation of their account balances and one in 10 changed the asset allocation of their contributions.
- Withdrawal and loan activities are in line with historical numbers. DC plan participants are not tapping their accounts any more than they have in the past. Only 2.6 percent took withdrawals and only 1.3 percent took hardship withdrawals; 16.8 percent had loans outstanding, in line with historical experience.

Despite the strong public support for the current 401(k) system, the industry supports improving and strengthening the 401(k) and retirement system and expanding its reach to more Americans. ICI has advocated several steps to strengthen retirement, including improving disclosure about all investment options in 401(k)s; enhancing understanding of target date funds; making it easier for small employers to offer plans; providing workers in jobs that do not offer plans access to payroll deductions to save in an IRA; providing financial and investor education to all Americans; putting Social Security on sound financial footing; relaxing required minimum distribution rules; and removing obstacles to allow employers to diversify participants out of concentrations of company stock.

Recent research conducted by [Ariel Investments and Hewitt Associates](#) shows significant differences across racial and ethnic groups in how employees save and invest in their 401(k) plans, with lower participation and contribution rates among African-American and Hispanic workers.

“Through efforts to improve saving and investing behaviors, the minority savings disparity is an area where we can actually move the needle in a positive direction. Minority employees in companies can and want to do a better job in savings,” said Ariel’s Hobson. “The best way to expand the reach of savings for all Americans is financial literacy, education, and opportunity. The industry looks forward to working with Congress and regulators to find effective solutions that best serve Americans investors and savers.”

The study released today updates and expands upon a similar study, [Retirement Saving in Wake of Financial Market Volatility](#), which ICI conducted at year-end 2008.

ICI has posted a [resource page](#) containing all the materials from the National Press Club forum.

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The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$11.62 trillion and serve almost 90 million shareholders.

Vanguard, headquartered in Valley Forge, Pennsylvania, is one of the world’s largest investment management companies and a leading provider of company-sponsored retirement plan services. Vanguard manages more than \$1.35 trillion in U.S. mutual fund assets. Vanguard offers more than 160 funds to U.S. investors and more than 50 additional funds in non-U.S. markets.

Since 1983, Ariel Investments has employed a disciplined, patient approach to value investing—symbolized by its turtle logo and the firm’s motto of slow and steady wins the race. Founded by John W. Rogers, Jr., Ariel has grown to over 70 employees with approximately \$4.8 billion in assets under management for institutions and individuals alike.