ICI RESEARCH REPORT

Defined Contribution Plan Participants' Activities, 2015

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Key Findings

Defined contribution (DC) plan withdrawal activity in 2015 remained low and was similar to activity in prior years. In 2015, 3.4 percent of DC plan participants took withdrawals, compared with 3.6 percent in 2014 and 3.5 percent in 2013. Levels of hardship withdrawal activity also remained low. Only 1.6 percent of DC plan participants took hardship withdrawals during 2015, similar to the past several years.

The vast majority of DC plan participants continued contributing to their plans in 2015. In 2015, 2.6 percent of DC plan participants stopped contributing, compared with 2.8 percent during 2014 and 2.7 percent in 2013.

Most DC plan participants stayed the course with their asset allocations as stock values were essentially flat for the year. In 2015, 9.7 percent of DC plan participants changed the asset allocation of their account balances and 7.6 percent changed the asset allocation of their contributions. These levels of reallocation activity were in line with reallocation activity observed over the past few years.

DC plan participants' loan activity was lower than a year earlier, though still elevated compared with seven years ago. At the end of December 2015, 17.4 percent of DC plan participants had loans outstanding, compared with 17.9 percent at year-end 2014. Loan activity continues to remain elevated compared with seven years ago (at year-end 2008, 15.3 percent of DC plan participants had loans outstanding).

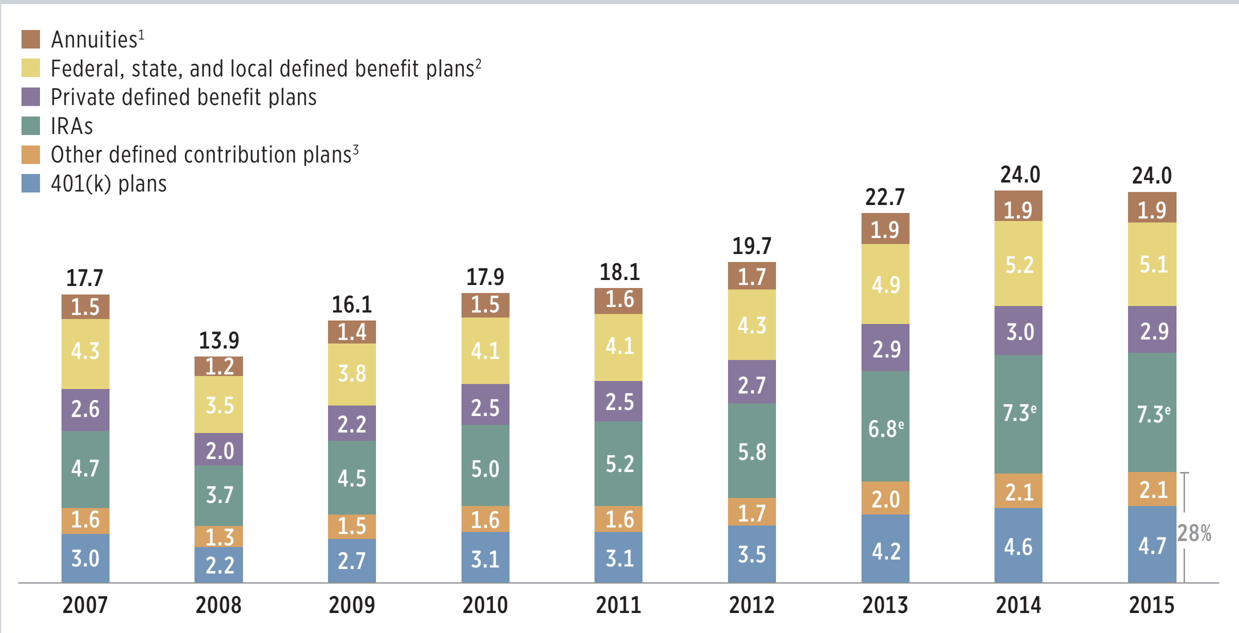
Introduction

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 about one-tenth of U.S. households' aggregate financial assets at year-end 2015.[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 26 million

FIGURE 1

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

Trillions of dollars; end-of-period, 2007–2015



[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. Because ICI estimates of annuities held in IRAs, 457 plans, and 403(b) plans are netted from the Federal Reserve Board's financial accounts' annuities (life insurance pension fund reserves) figure and reported in their respective categories by ICI, ICI reports a lower annuities total than in the financial accounts of the United States (see U.S. Federal Reserve Board 2016).

[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.

[3] 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.

[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; see Investment Company Institute 2016 employer-based DC retirement plan participant accounts as of December 2015. 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 2015. Over the year as a whole, stock prices were close to unchanged, as a decline in the third quarter was more than offset by an increase in the fourth quarter; on net, the S&P 500 total return index edged up 1.4 percent in 2015 (Figure 2).

FIGURE 2

Equity Returns

Percent change in the S&P 500 total return index, 2008–2015

Note: The S&P 500 total return index consists of 500 U.S. stocks chosen for market size, liquidity, and industry group representation.
Sources: Investment Company Institute, Bloomberg, and Standard & Poor's

DC Plan Participants' Activities in 2015

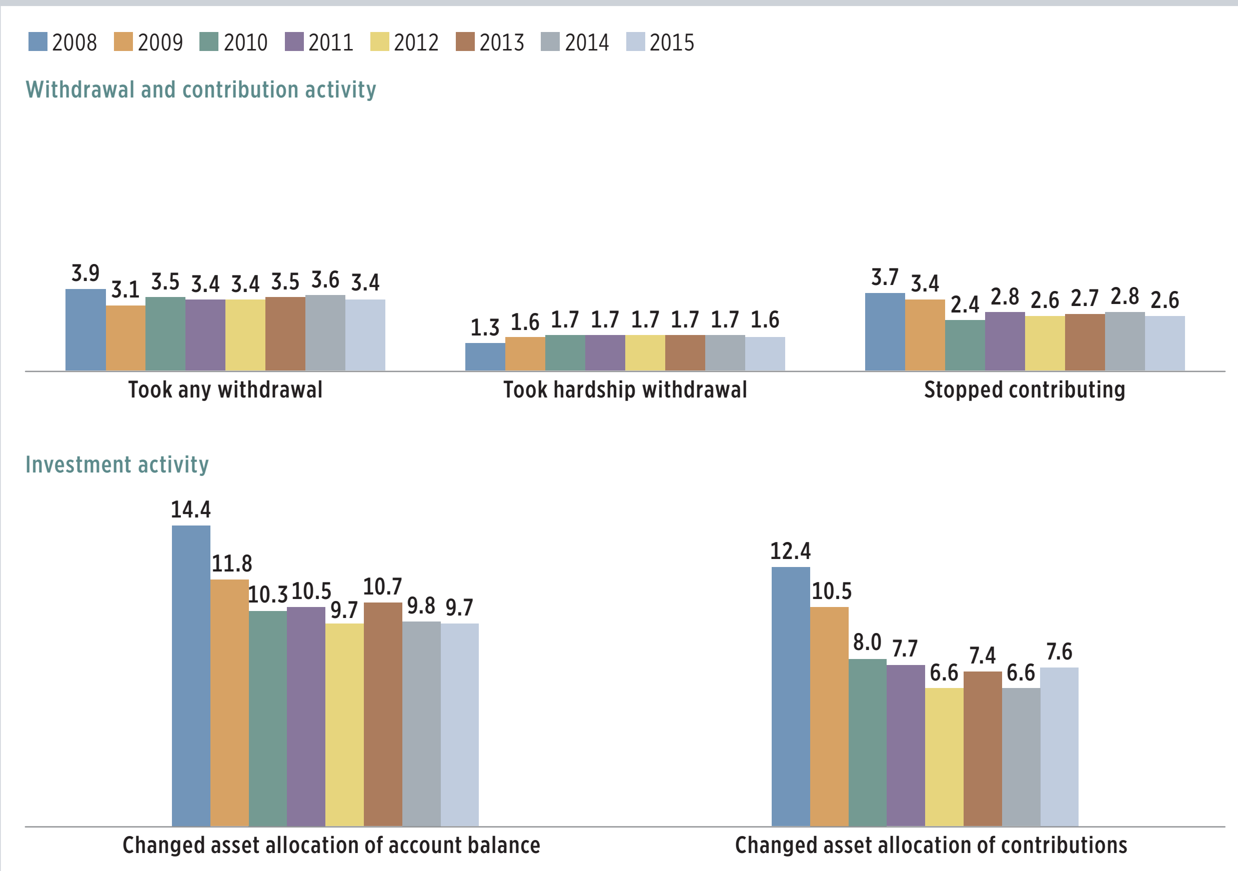
Withdrawal and Contribution Activity

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[2] during 2015 was in line with activity observed in the prior year, and a negligible share of participants stopped contributing during 2015.[3] In 2015, 3.4 percent of DC plan participants took withdrawals from their DC plan accounts, with 1.6 percent taking hardship withdrawals (Figure 3, top panel).[4] These levels of activity are similar to 2014. The share of participants that stopped making contributions in 2015 was in line with activity in prior years. In 2015, 2.6 percent of DC plan participants stopped contributing, compared with 2.8 percent in 2014 and 2.7 percent in 2013. It is possible that some of these participants stopped contributing simply because they reached the annual contribution limit.

FIGURE 3

Defined Contribution Plan Participants' Activities

Summary of recordkeeper data, percentage of participants, 2008–2015



Note: The samples include more than 22 million DC plan participants in 2008; about 24 million DC plan participants in 2009–2013; more than 25 million DC plan participants in 2014; and more than 26 million DC plan participants in 2015.

Source: ICI Survey of DC Plan Recordkeepers (2008–2015)

Investment Activity

The survey of recordkeeping firms also gathered information about asset allocation changes in DC account balances or contributions. During 2015, 9.7 percent of DC plan participants had changed the asset allocation of their account balances, compared with 9.8 percent during 2014 (Figure 3, lower panel).[5] Reallocation activity regarding contributions in 2015 was similar to recent years: 7.6 percent of DC plan participants had changed the asset allocation of their contributions in 2015, compared with 6.6 percent in 2014 and 7.4 percent in 2013.

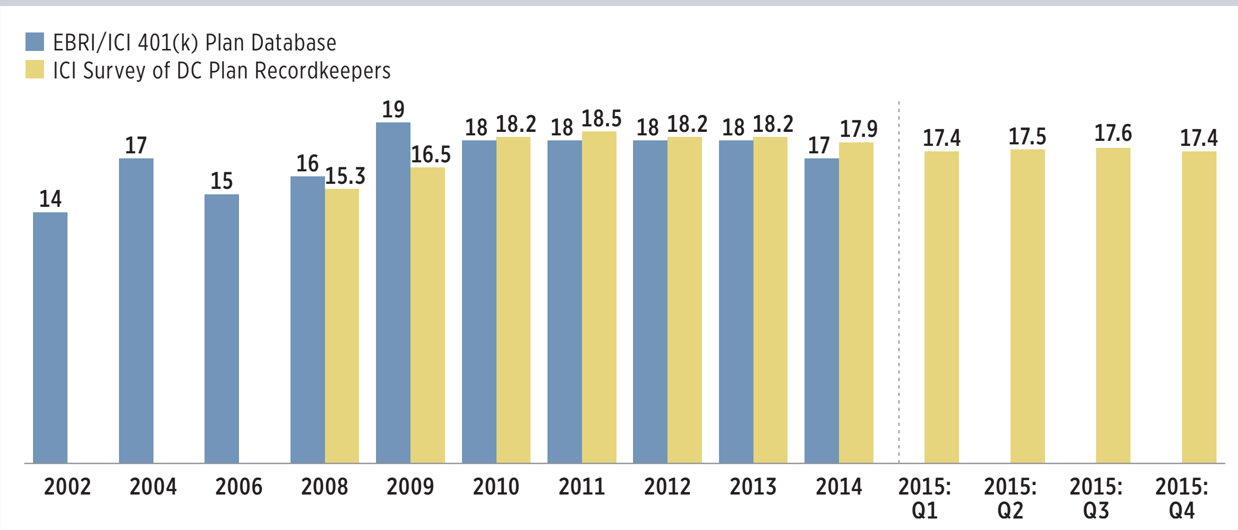
Loan Activity

Two factors seem to be influencing DC plan participants' loan activity: reaction to financial stresses and a seasonal pattern.[6] 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).[7] This pattern of activity is similar to that observed in the wake of the

FIGURE 4

401(k) Loan Activity

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



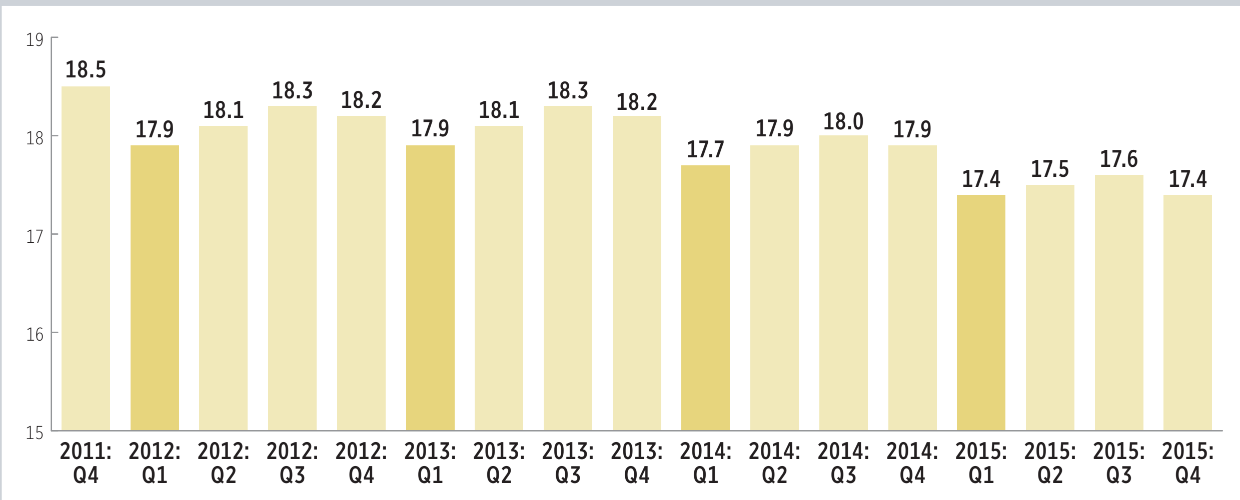
Note: The EBRI/ICI data cover 401(k) plans; the ICI Survey of DC Plan Recordkeepers covers DC plans more generally (although 401(k) plans make up the bulk of DC plans).

Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (2002–2014) and ICI Survey of DC Plan Recordkeepers (December 2008–December 2015) bear market and recession earlier in the decade.[8] The share of DC plan participants with loans outstanding leveled out in 2012 through 2014, perhaps reflecting loans supporting resumed consumer spending or home purchases. At year-end 2015, the share of DC plan participants with loans outstanding edged down to 17.4 percent, compared with 17.9 percent at year-end 2014. Historically, quarterly loan activity appears to have a seasonal pattern: the first quarter of the year tends to have lower percentages of DC plan participants with loans outstanding compared with later quarters (Figure 5).

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, 2011:Q4–2015:Q4



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 (December 2011–December 2015)

Notes

[1] Total financial assets of U.S. households were $70.8 trillion at year-end 2015. See U.S. Federal Reserve Board 2016.

[2] The withdrawal rates observed for 2015 (3.4 percent of DC plan participants with withdrawals; 1.6 percent with hardship withdrawals) 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). 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.

[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. 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.

[5] Annual rates of account balance reallocation activity observed in the ICI Survey of DC Plan Recordkeepers for 2008–2015 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; for discussion of changes in asset allocation, see note 33 in Holden et al. 2016).

[6] Seasonal patterns are effects that recur each calendar year with generally similar timing within years. 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.

[7] The EBRI/ICI 401(k) database update reports loan activity among 401(k) participants in plans that allow loans. At year-end 2014, 87 percent of participants in the database were in plans that offer loans; among those participants, 20 percent had loans outstanding at year-end 2014. This translates to 17 percent of all active 401(k) participants having loans outstanding. The year-end 2014 EBRI/ICI database includes statistical information about 24.9 million 401(k) participants in 81,139 plans, with $1.9 trillion in assets. See Holden et al. 2016.

[8] 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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Additional Reading

» **American Views on Defined Contribution Plan Saving, 2015**
Available at www.ici.org/pdf/ppr_16_dc_plan_saving.pdf.

» **401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2014**
Available at www.ici.org/pdf/per22-03.pdf.

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

» **ICI Resources on the Retirement System**
Available at www.ici.org/retirement.

» **The U.S. Retirement Market, Fourth Quarter 2015**
Available at www.ici.org/info/ret_15_q4_data.xls.

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