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Defined Contribution Plan Participants' Activities, 2019

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Defined Contribution Plan Participants' Activities, 2019

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Key Findings

- **Defined contribution (DC) plan withdrawal activity in 2019 remained low, although slightly higher than the activity observed in 2018.** In 2019, 3.9 percent of DC plan participants took withdrawals, compared with 3.4 percent in 2018. Levels of hardship withdrawal activity also remained low. Only 1.9 percent of DC plan participants took hardship withdrawals during 2019, compared with 1.6 percent in 2018. The slight uptick in hardship withdrawal activity may reflect phasing in of expanded hardship withdrawal availability from the Bipartisan Budget Act of 2018.
- **The vast majority of DC plan participants continued contributing to their plans in 2019.** In 2019, 2.3 percent of DC plan participants stopped contributing, the same share as in 2018.
- **Most DC plan participants stayed the course with their asset allocations as stock values generally rose throughout the year.** In 2019, 8.3 percent of DC plan participants changed the asset allocation of their account balances and 4.4 percent changed the asset allocation of their contributions. These levels of reallocation activity are slightly lower than the activity observed in 2018.
- **DC plan participants' loan activity was slightly lower than the loan activity observed in 2018.** At the end of December 2019, 16.1 percent of DC plan participants had loans outstanding, compared with 16.7 percent at year-end 2018, and 16.7 percent at year-end 2017.

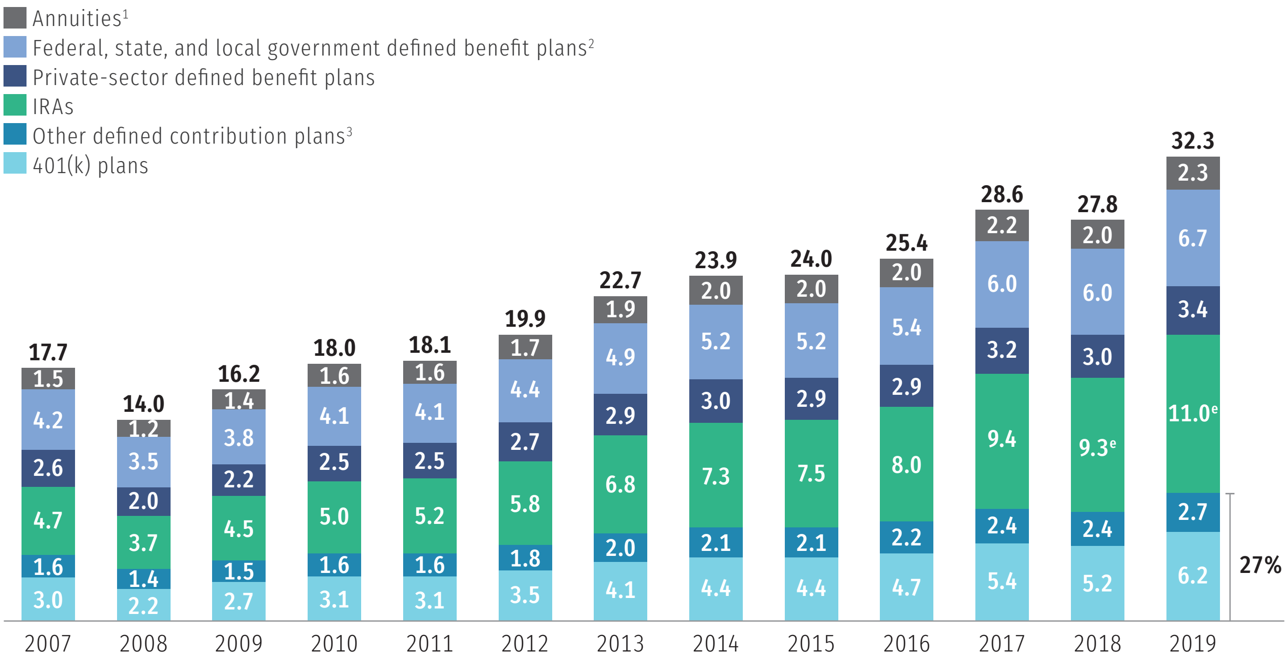
Introduction

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 US households' aggregate financial assets at year-end 2019.[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 30 million employer-based DC retirement plan participant accounts as of December 2019. 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 2019. On net, the S&P 500 total return index was up 31.5 percent in 2019 (Figure 2).

FIGURE 1

27 Percent of US Retirement Assets Were Defined Contribution Plan Assets

Trillions of dollars, end-of-period



[1] Annuities include all fixed and variable annuities held outside of retirement plans and IRAs.

[2] 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.

[3] Other DC plans include 403(b) plans, 457 plans, the Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP), and private-sector employer-sponsored DC plans without 401(k) features.

[e] Data are estimated.

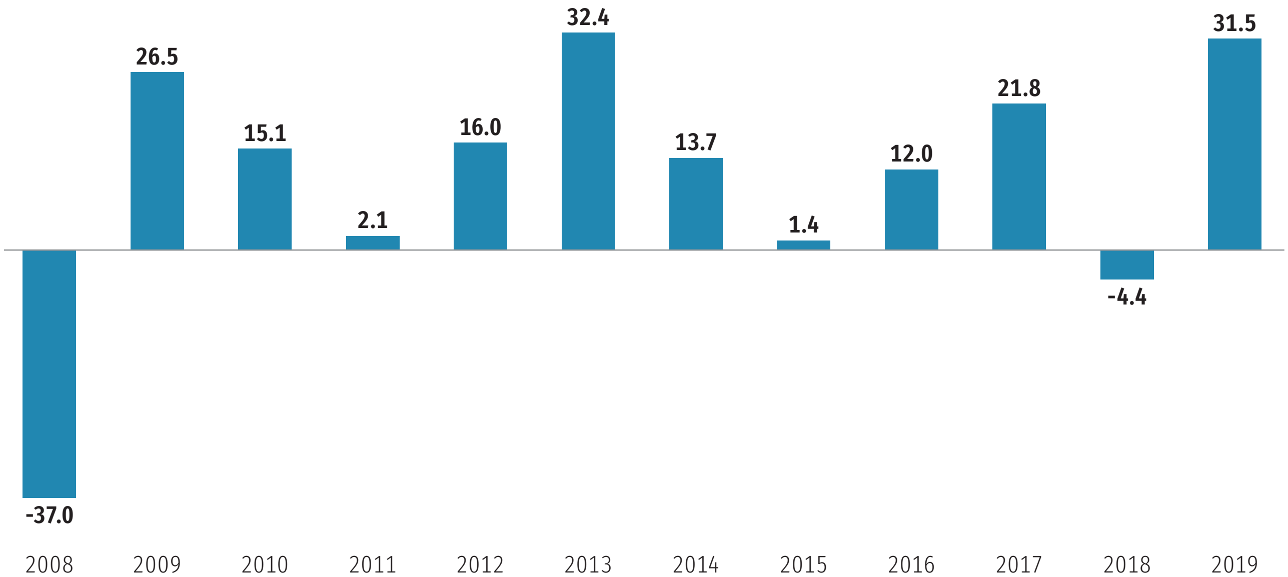
Note: Components may not add to the total because of rounding.

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 2020

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 2019

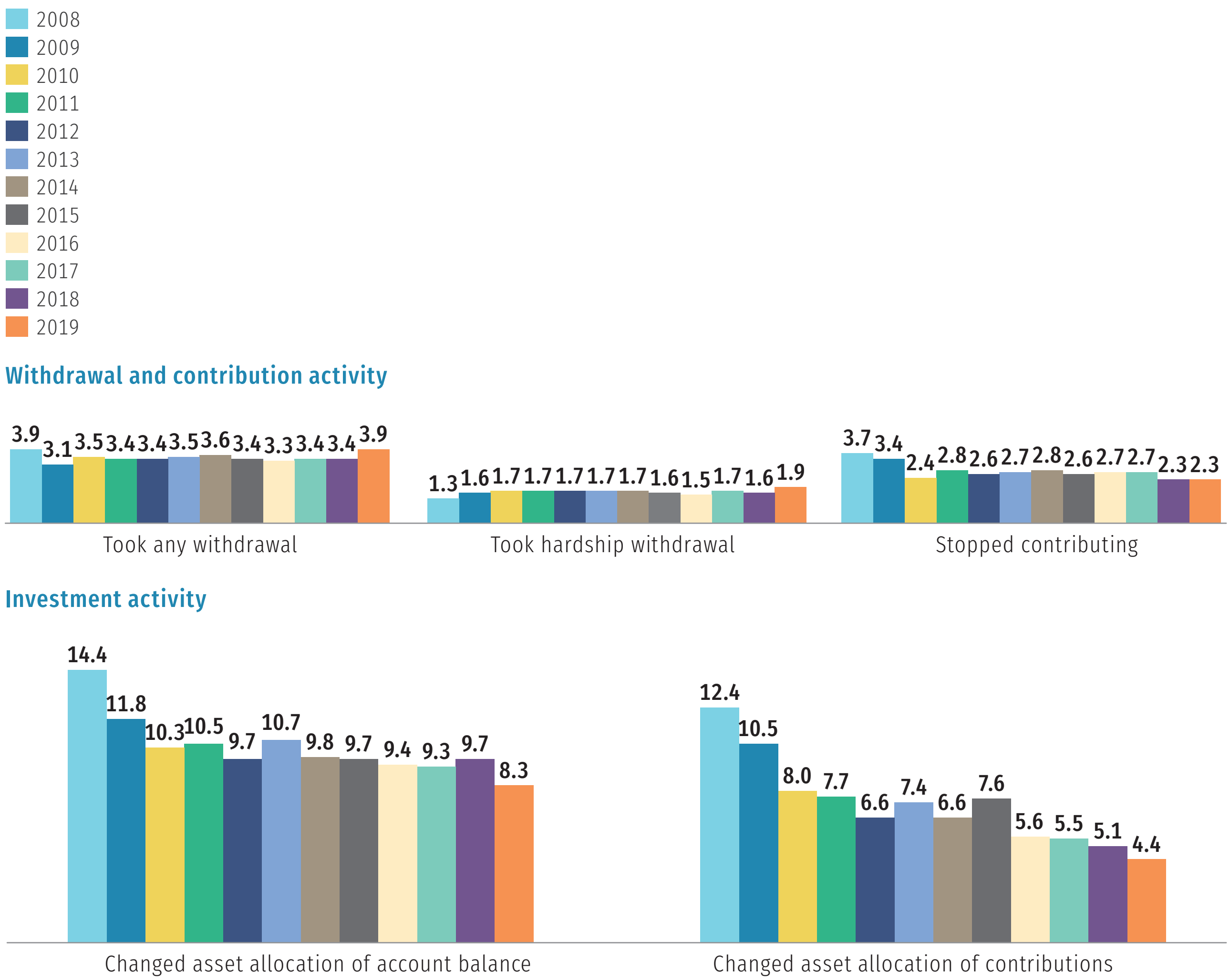
The withdrawal and contribution data indicate that essentially all DC plan participants continued to save in their retirement plans at work. DC plan participants' withdrawal activity[2] during 2019 remained low, although slightly higher than the activity observed in the prior year.[3] In 2019, 3.9 percent of DC plan participants took withdrawals from their DC plan accounts, with 1.9 percent taking hardship withdrawals (Figure 3, top panel).[4] The slight uptick in hardship withdrawal activity may reflect phasing in of the Bipartisan Budget Act of 2018, which expanded hardship withdrawal availability in several ways, including expanding the sources for hardship withdrawals to include earnings and certain employer contributions, dropping the requirement that a participant first take advantage of a plan loan, and eliminating the six-month suspension of contributions after taking a hardship withdrawal.[5]

The share of participants that stopped making contributions in 2019 was in line with activity in prior years. In 2019, 2.3 percent of DC plan participants stopped contributing, the same share as in 2018 (Figure 3, top panel). 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



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; more than 26 million DC plan participants in 2015; more than 29 million DC plan participants in 2016; and more than 30 million DC plan participants in 2017, 2018, and 2019.

Source: ICI Survey of DC Plan Recordkeepers (2008–2019)

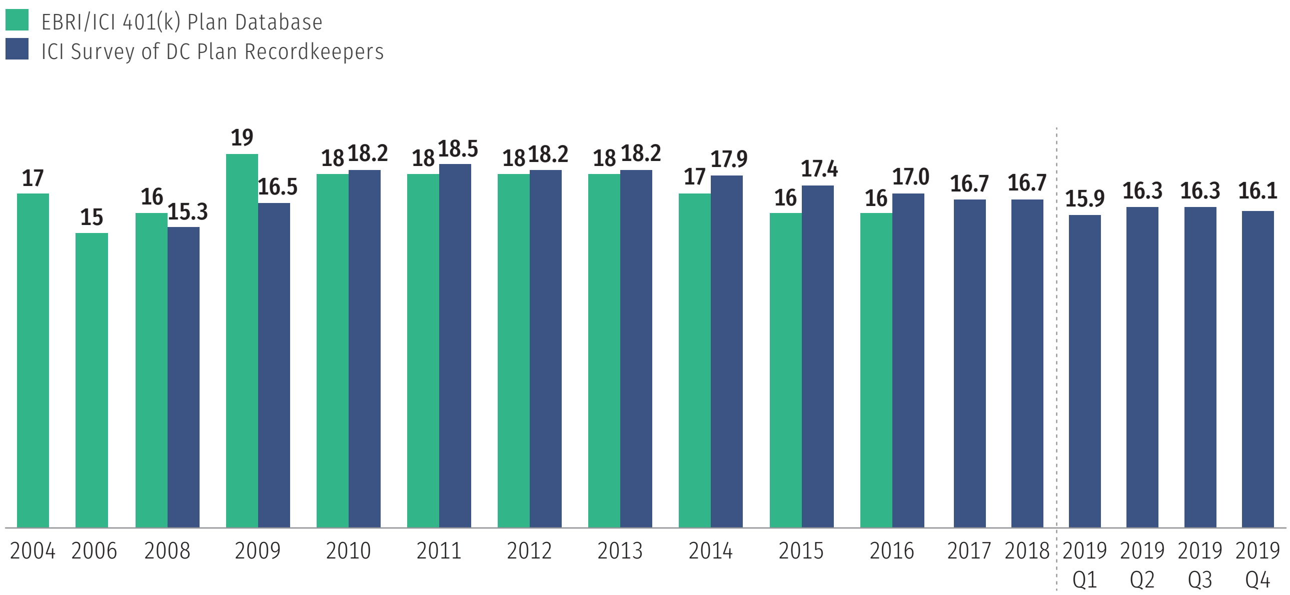
The survey of recordkeeping firms also gathered information about asset allocation changes in DC account balances or contributions.[6] During 2019, 8.3 percent of DC plan participants had changed the asset allocation of their account balances, compared with 9.7 percent during 2018 (Figure 3, lower panel).[7] In 2019, 4.4 percent of DC plan participants changed the asset allocation of their contributions, compared with 5.1 percent in 2018, and 5.5 percent in 2017.

Two factors appear to influence DC plan participants' loan activity: reaction to financial stresses and a seasonal pattern. 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).[8] This pattern of activity is similar to that observed in the wake of the bear market and recession in the early 2000s.[9] 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. At year-end 2019, 16.1 percent of DC plan participants had loans outstanding, compared with 16.3 percent at the end of September 2019, and 16.7 percent at year-end 2018. 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 5). Overall, loan activity was a little lower in 2019 compared with recent years.

FIGURE 4

401(k) Loan Activity

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



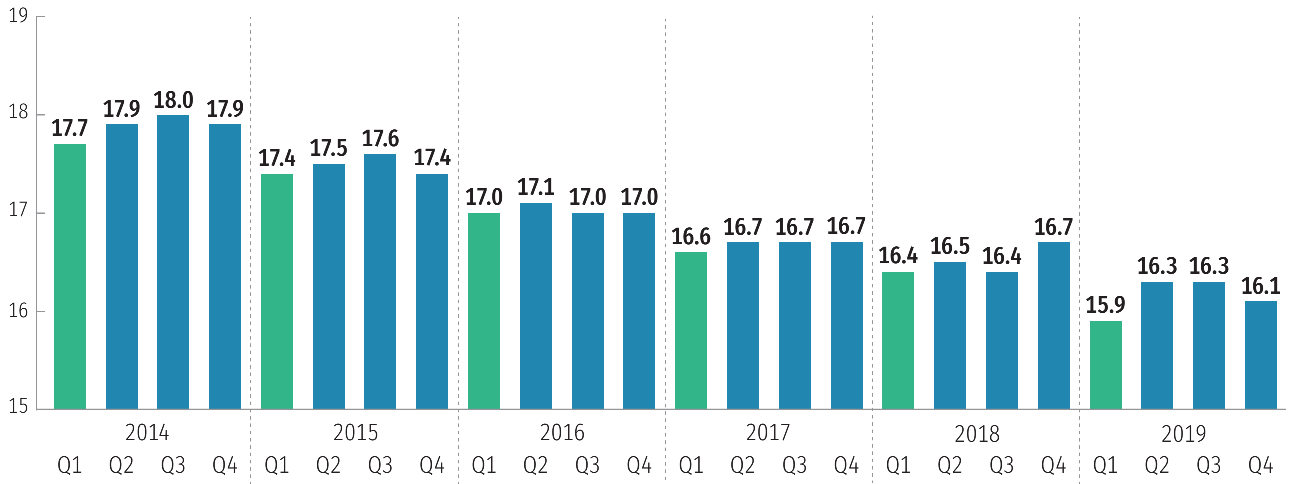
Note: The EBRI/ICI data cover 401(k) plans; the ICI Survey of DC Plan Recordkeepers covers DC plans more generally (although 401(k) plans make up the bulk of DC plans).

Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (2004–2016) and ICI Survey of DC Plan Recordkeepers (December 2008–December 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 vertical axis ranges from 15 to 19 percent to highlight the seasonal variation in 401(k) loan activity.

Source: ICI Survey of DC Plan Recordkeepers (March 2014–December 2019)

Additional Reading

» The US Retirement Market, Fourth Quarter 2019
www.ici.org/research/stats/retirement

» American Views on Defined Contribution Plan Saving, 2019
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

» The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2018
www.ici.org/pdf/per25-04.pdf

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

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

Notes

[1] Total financial assets of US households were $95.6 trillion at year-end 2019. See US Federal Reserve Board 2020. For total retirement market data, see Investment Company Institute 2020.

[2] The withdrawal rates observed for 2019 (3.9 percent of DC plan participants with withdrawals; 1.9 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. Prior to plan year 2019, if a plan allowed loans, participants generally were required to take a loan before they were permitted to take a hardship withdrawal. The Bipartisan Budget Act of 2018 expanded available hardship withdrawal sources and access. See Dold 2018, Joint Committee on Taxation 2019 (pp. 104–105), Internal Revenue Service 2020, and note 5.

[5] As explained by the Internal Revenue Service 2020:

> The Bipartisan Budget Act of 2018 mandated changes to the 401(k) hardship distribution rules. On November 14, 2018, the Internal Revenue Service released proposed regulations to implement these changes. Generally, these changes relax certain restrictions on taking a hardship distribution. Although the provisions are effective January 1, 2019, for calendar year plans, the proposed regulations do not require changes for 2018–2019. Effective January 1, 2020, following issuance of final regulations, certain changes will be required.
>
> …Under the proposed regulations, effective January 1, 2019, a plan administrator has the option of including or excluding the requirement that the employee first obtain a plan loan prior to requesting a hardship distribution (Reg. Section 1.401(k)-1(d)(3)(iv)(E)).
>
> …Under the proposed regulations effective January 1, 2019, it is optional to prohibit an employee from making elective contributions and employee contributions to the plan and all other plans maintained by the employer for at least six months after receipt of the hardship distribution. Under the proposed regulations effective January 1, 2020, the six-month suspension from making elective contributions is no longer allowed (Reg. Section 1.401(k)-1(d)(3)(iv)(E)(2)).

[6] This measure captures participants' changes to their investments—it does not reflect the rebalancing that occurs inside a given fund investment (e.g., target date funds, which are diversified and rebalance to become more focused on income over time, or lifestyle funds, which rebalance to maintain a certain asset allocation). 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.

[7] Annual rates of account balance reallocation activity observed in the ICI Survey of DC Plan Recordkeepers for 2008–2019 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; for discussion of changes in asset allocation, see note 34 in Holden et al. 2018).

[8] 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.

[9] 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.

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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.

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