Enduring Confidence in the 401(k) System

Investor Attitudes and Actions

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Investment Company Institute®

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Executive Summary

With millions of U.S. households personally directing their retirement savings, the Investment Company Institute (ICI) has sought to get a sense of retirement savers' activity and sentiment in light of the extraordinary financial market volatility of the past two years. This paper summarizes results from two surveys conducted by ICI in the last two months of 2009. The results here update surveys first fielded in 2008.[1]

ICI took a two-pronged approach in 2008 and 2009. First, ICI surveyed defined contribution (DC) plan recordkeepers regarding participant activity. Second, ICI surveyed American households about their thoughts on retirement accounts and retirement plan reforms suggested in policy circles.

Results from the 2009 DC plan recordkeeper survey, covering nearly 24 million DC plan accounts, indicated:

- During this time of market volatility, DC plan participants have not tapped their accounts any more than in the past. Only 2.6 percent of DC plan participants took withdrawals in the first three quarters of 2009, with only 1.3 percent taking hardship withdrawals. In addition, loan activity in 2009 was in line with historical experience of the past several years.
- Participants have continued saving in their plans. Only 5 percent stopped contributions in the first three quarters of 2009.
- Most DC plan participants stayed the course with their asset allocations in the first three quarters of 2009. About one in 10 changed the asset allocation of their account balances, and about one in 10 changed the asset allocation of their contributions.

The household survey polled respondents regarding their views on DC retirement plan saving and their confidence in 401(k) and other DC plan accounts. The survey also offered them the opportunity to voice their opinions on reform proposals. Survey responses indicate that households value the discipline and investment opportunity that 401(k) plans represent.

- Most households with DC accounts agreed that these plans helped them think of the long term and made it easier for them to save. Four in 10 DC-owning households indicated they probably wouldn't be saving for retirement if it weren't for their DC plans. In addition, saving paycheck-by-paycheck made nearly six out of 10 households surveyed less worried about the stock market. The 2009 survey results are similar to the 2008 survey results.
- More than 80 percent of DC-owning households said the immediate tax savings for retirement contributions was a big incentive to contribute.
- Nearly all households with DC accounts agreed that it was important to have choice in, and control of, the investment options in their DC plans. Eighty-five percent indicated that their DC plan offered a good lineup of investment options.

Despite the stock market downturn that began in late 2007 and continued through early 2009, households—whether they owned DC plan account balances or not—were generally confident in these plans' ability to help individuals meet their retirement goals.

» Among households expressing an opinion, 91 percent had favorable impressions of 401(k) plans, with 38 percent agreeing that they had a "very favorable" impression. Most households' impressions were shaped by the ability of these accounts to accumulate significant savings, the performance of retirement plan investments, and personal experience with such plans.

» Among households owning DC accounts or individual retirement accounts (IRAs), more than three-quarters indicated they were confident that such accounts can help people meet their retirement goals. Among households not owning DC accounts or IRAs, more than six in 10 expressed confidence that such accounts could help people meet their retirement goals.

Households' views on policy changes revealed a preference to preserve retirement account features and flexibility. As with the surveys from a year earlier, households were asked about policy changes involving DC plan saving. A majority of households disagreed with proposals to remove or reduce tax incentives for retirement savings. Nearly nine in 10 households disagreed with not allowing individuals to make investment decisions in their DC accounts, and eight in 10 disagreed with replacing all retirement accounts with a government bond. In 2009, the survey was expanded to gather households' views on policy regarding the retirees' management or annuitization of account balances.

» Ninety-six percent of all U.S. households indicated they did not want the government to take away retirees' ability to make decisions about retirement assets and income.

» Seven in 10 U.S. households indicated they opposed having the government require retirees to trade a portion of their retirement plan accounts for a fair contract that promises to pay income for life, whether from the government or an insurance company. Opposition to such a proposal was more than 80 percent among older, higher-income groups, for whom annuitization is a more salient issue.

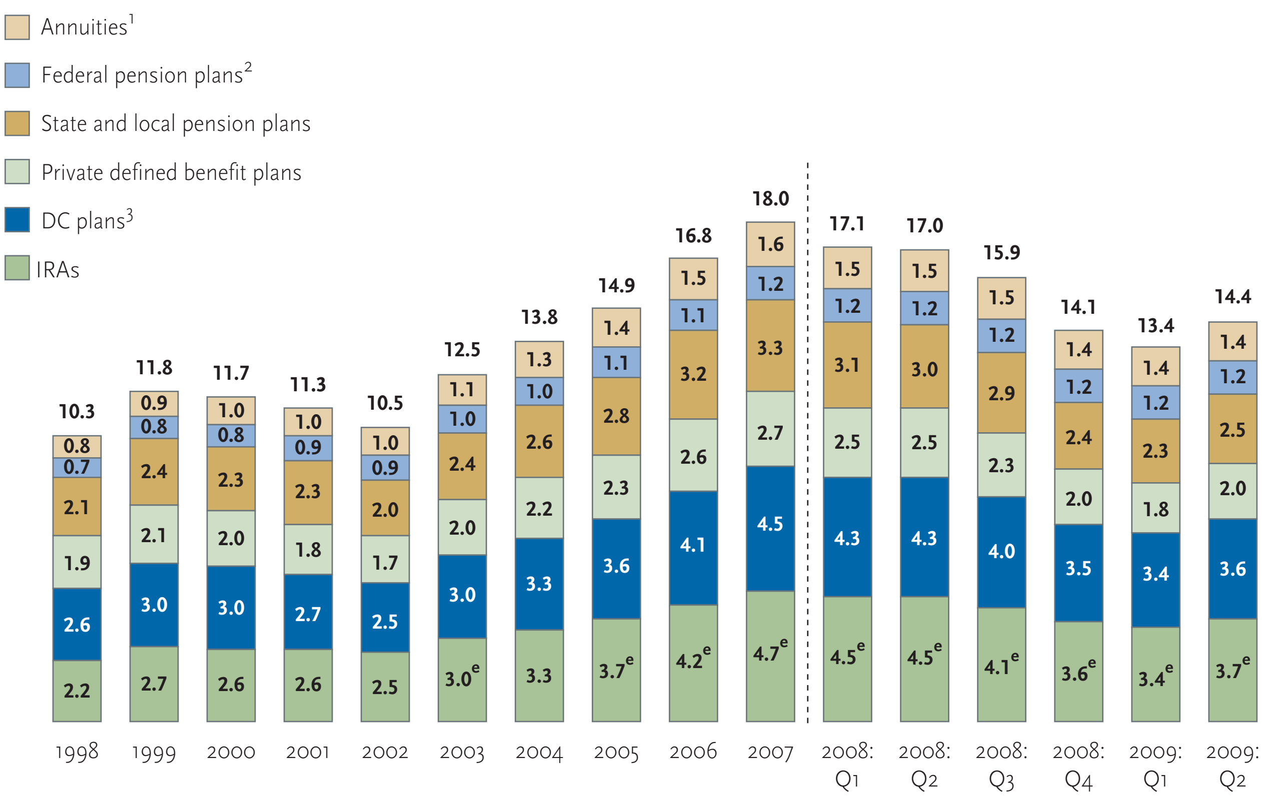
Introduction

IRAs and DC plan accounts[2] have become a common feature of the U.S. retirement landscape. More than half of total U.S. retirement assets are held in such accounts (Figure 1),[3] and nearly two-thirds of U.S. households have a portion of their assets invested in them.[4] The decline in the stock market that started in late 2007 and continued into 2009 has led some opinion leaders and policymakers to raise questions about the value that these retirement accounts provide American workers and retirees.[5]

FIGURE 1

U.S. Retirement Assets

Trillions of dollars, end-of-period, 1998–2007, 2008:Q1–2009:Q2



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

[3]DC plans include 403(b) plans, 457 plans, and private employer-sponsored DC plans (including 401(k) plans).

[e]Data are estimated.

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

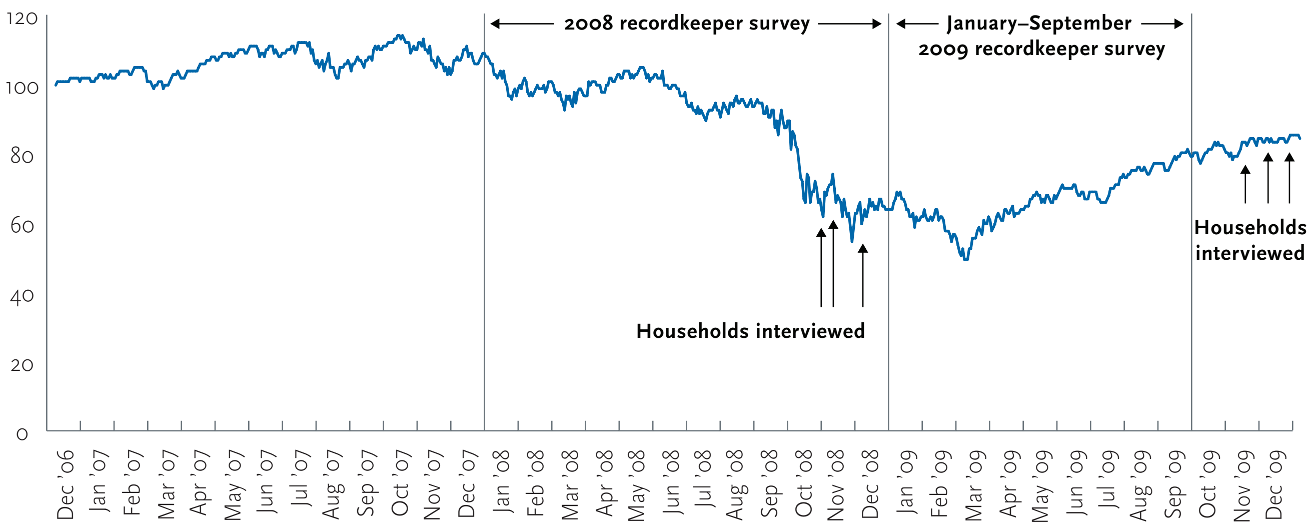
Sources: Investment Company Institute, Federal Reserve Board, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

Against this backdrop (Figure 2), a year ago ICI sought to find out: (1) what, if anything, households have done with respect to their retirement accounts in response to the financial market volatility; (2) what their views were on their 401(k) plans; and (3) what their opinions were on some proposed policy changes. The research a year ago had two components: a survey of DC plan recordkeepers (firms that keep the account-level records of DC plans) and a survey of U.S. households.[6]

FIGURE 2

Domestic Stock Market Index

S&P 500 total return index; day-end level, December 2006–December 2009*



*The S&P 500 is an index of 500 stocks chosen for market size, liquidity, and industry group representation. In the figure, the index is set to 100 in December 2006.

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

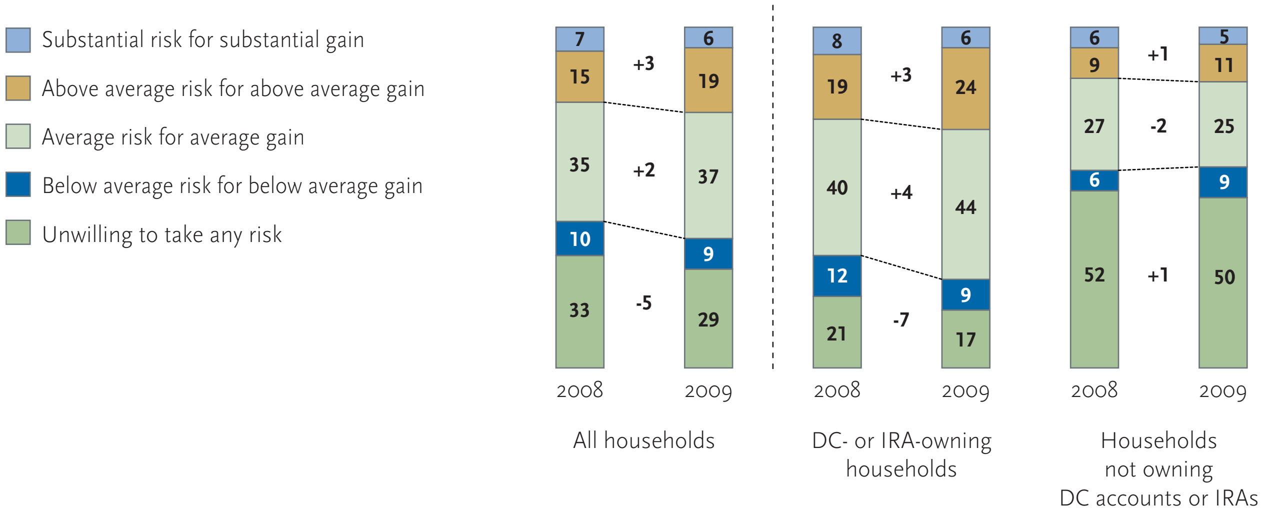
This report updates both components of that research. First, the recordkeeper survey is updated to cover activity for all of 2008 and between January 2009 and September 2009. The surveyed firms track the accounts of about 40 percent of all DC plan participants, and these firms provided information on DC plan participant withdrawals, loans, contributions, and changes in asset allocation. The second component consists of answers to questions included in a series of national telephone surveys that GfK Custom Research North America fielded every other weekend from November 20, 2009, through December 20, 2009, covering a total sample of 3,000 U.S. households.[7]

The combination of household survey and recordkeeper data makes it possible to simultaneously look at what investors believe and what investors actually do. For example, household survey information illuminates one key indicator of investor sentiment: expressed willingness to take risk. Between the end of 2008 and the end of 2009, the fraction of DC- or IRA-owning households willing to take on average or greater financial risk increased noticeably (Figure 3), which is consistent with the improved stock market over that 12-month period (Figure 2).[8]

FIGURE 3

Households' Willingness to Take Investment Risk Reflects Market Environment

Percentage of U.S. households by ownership status, fall 2008 and fall 2009



Number of respondents:	*3,000*	*3,000*	*1,890*	*1,941*	*1,110*	*1,059*

Note: See Appendix II for exact question wording.

Source: ICI tabulation of GfK OmniTel survey data (October–December 2008 and November and December 2009)

However, such variation in investor sentiment does not necessarily mean changes in investor behavior. The recordkeeper information is the key to understanding how investor behavior changed. The recordkeeper data in this survey suggest that investor behavior remained very steady over the past two years of market volatility.

Participant Response to Financial Market Volatility

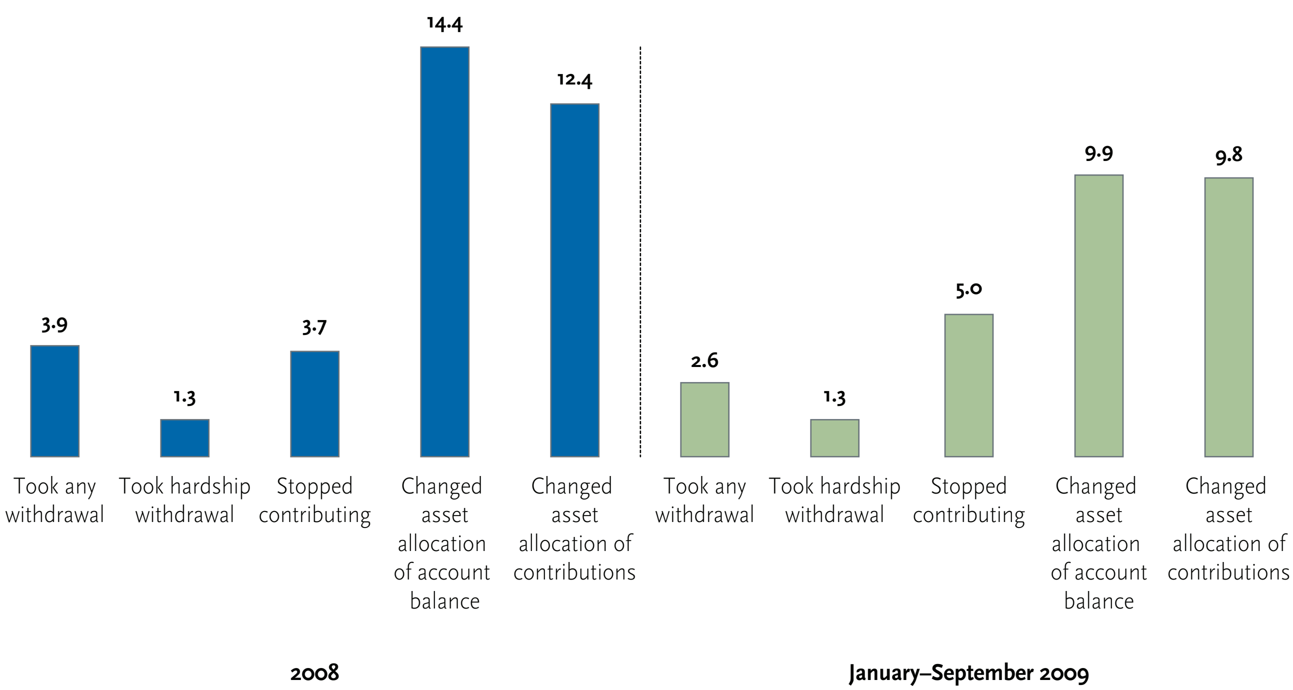
News reports have suggested that investors reacted to the recession and the sharp drop in stock prices that started in late 2007 and continued into 2009 by tapping their workplace retirement accounts, reducing or stopping contributions, or changing how their existing balances or new contributions are invested.[9] To examine these issues, ICI surveyed recordkeeping firms representing a broad range of DC plans and covering nearly 24 million employer-based DC retirement plan participant accounts as of September 2009. The broad scope of the recordkeeper survey provides valuable inferences about recent withdrawal, contribution, asset allocation, and loan decisions of participants in these plans.

The withdrawal and contribution data indicate that most DC plan participants continued to save in their retirement plans at work. Between January 2009 and September 2009, only 2.6 percent of plan participants took withdrawals from their participant-directed retirement plans, with 1.3 percent taking hardship withdrawals (Figure 4).[10]

FIGURE 4

Defined Contribution Plan Participant Activities

Summary of recordkeeper data; 2008 and January–September 2009; percentage of participants



Note: Sample of more than 22 million DC plan participants for data covering full-year 2008; sample of nearly 24 million DC plan participants for data covering the first three quarters of 2009.

Source: ICI survey of DC plan recordkeeper data (January–December 2008 and January–September 2009)

These withdrawal rates are very much in line with the recordkeeper results for the whole of 2008, although the comparison is not exact because the 2009 data only cover nine months.[11] This level of withdrawal activity is also in line with past years' experiences among the recordkeepers, and it is consistent with 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).[12]

In September 2009, 16.8 percent of DC plan participants had loans outstanding, as reported by the sample of recordkeepers (Figure 5). This recent loan activity also is in line with historical experience. The EBRI/ICI 401(k) database indicates that 16 percent of 401(k) participants had loans outstanding at year-end 2008, in line with the past five years and only slightly higher than in the late 1990s.[13]

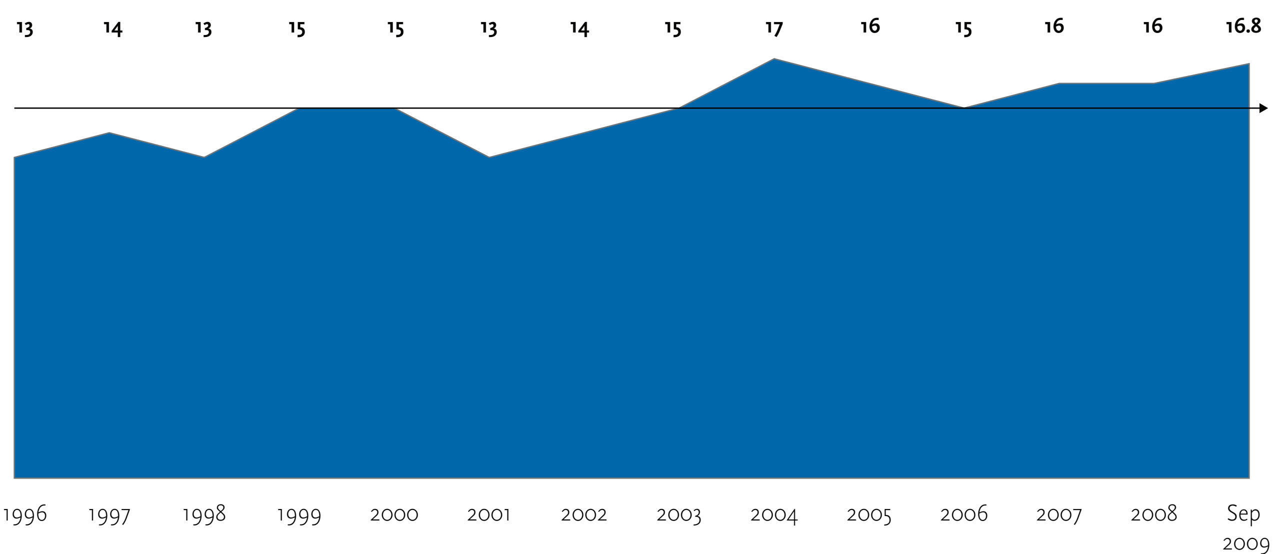
Furthermore, the size of 401(k) loans, measured either as the dollar amount or as a percentage of the account balance, tends to be quite small according to EBRI/ICI research.[14, 15] Participants tend to repay the loans (with interest) to their accounts, thereby limiting the negative effects that loans would have on the overall accumulations at retirement.[16]

Just as few participants tapped their DC plan accounts, few stopped contributing to them. Despite concerns that plan participants might stop devoting some of their paychecks to retirement saving during times of financial stress, recordkeepers indicate that only 5 percent of plan participants stopped making contributions during the first three quarters of 2009, compared with 3.7 percent of participants in 2008 (Figure 4).

FIGURE 5

401(k) Loan Activity Has Been Flat for the Past Five Years

Percentage of 401(k) participants who have loans outstanding, end-of-period, 1996–2009:Q3



Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (1996–2008) and ICI survey of DC plan recordkeeper data (January–September 2009)

The survey of recordkeeping firms also gathered information about asset allocation changes in DC account balances or contributions. Between January 2009 and September 2009, 9.9 percent of the participants changed the asset allocation of their account balances, while 9.8 percent changed the asset allocation of their contributions (Figure 4). As with the fraction of investors taking withdrawals, the percentage making changes in asset allocations for balances and contributions is lower than in 2008. While one cannot directly compare the 12 months of 2008 with the first nine months of 2009, these data are not significantly different from other years and are consistent with the behavior observed during the recession and bear market earlier this decade.[17]

Contribution and Withdrawal Activity in IRAs

Results from a separate ICI survey effort find that IRA-owning households' contribution and withdrawal activities in tax year 2008 were in line with previous years. ICI's Annual IRA Owners Survey, fielded in May 2008 and May 2009, finds that behavior of IRA-owning households in tax year 2008 was little changed from tax year 2007. Indeed, 15 percent of all U.S. households made IRA contributions in both 2007 and 2008, and the percentage of IRA-owning households making contributions actually rose slightly from 37 percent in 2007 to 39 percent in 2008. The median contribution amount was $4,000 in both years. The fraction of traditional IRA-owning households taking withdrawals was 20 percent in 2007 and 19 percent in 2008. The median withdrawal amount fell from $7,000 in 2007 to $6,000 in 2008.

For additional information on the ICI IRA Owners Survey, see Holden and Schrass 2009 and 2010 (forthcoming).

Views on Benefits of Defined Contribution Plan Accounts

The household survey explored a variety of characteristics of 401(k) plans to understand the views that working Americans have of 401(k) and other participant-directed retirement plans. The vast majority of DC account–owning households agreed that employer-sponsored retirement accounts helped them "think about the long term, not just my current needs" (93 percent), and that payroll deduction "makes it easier for me to save" (90 percent; Figure 6).[18] These top-line results were similar to the 2008 survey responses. In addition, there was little variation in responses among age and income groups, although respondents who were youngest (younger than 35) and oldest (65 or older) were, compared with households aged 35 to 64, somewhat less likely to agree that payroll deduction made it easier for them to save.

Saving in employer-sponsored retirement plans (and IRAs) has certain tax advantages. For example, contributions that a worker makes to these plans typically reduce a worker's taxable income by the amount of the contribution. In addition, the retirement accounts benefit from tax-deferred growth because taxes are not due until the individual withdraws money from the account.[19] Overall, 85 percent of DC-owning households agreed that the "immediate tax savings from my retirement plan are a big incentive to contribute" (Figure 6). Agreement was high across all age and income groups, although it was somewhat higher for households with incomes of $50,000 or more (87 percent), compared with households with incomes below $30,000 (78 percent).

Two other possible benefits resonated less with retirement plan participants. Saving from each paycheck into a retirement plan helps workers to continue investing in down markets, dollar-cost average their investments, and benefit when stock and bond markets recover. Interviewees were asked whether "knowing that I'm saving from every paycheck makes me less worried about the stock market's performance." A majority (58 percent) agreed with that statement, with support being the greatest among youngest households (younger than 35) and oldest households (65 or older; Figure 6).

A substantial portion of households with DC accounts (40 percent) agreed with the statement that "I probably wouldn't save for retirement if I didn't have a retirement plan at work." Agreement was the weakest among households with incomes of $50,000 or more, which indicates that lower-income households are more likely to acknowledge that DC accounts increase their saving. The fact that higher-income respondents were more likely to disagree is consistent with other household survey information that finds that these groups typically list retirement as their most important savings goal.[20] In addition, for households with incomes of $50,000 or more, Social Security provides a lower replacement of income in retirement than it does for households earning below $50,000, making it far more necessary for middle- and upper-income households to have retirement savings to supplement their Social Security benefits.[21, 22]

Two new questions were added to the 2009 survey: one regarding DC plan participants' lineup of investment options and the other asking their views on the importance of control in, and choice of, investments in their retirement plan accounts. Overall, 85 percent of DC account–owning households agreed that their plans offer a good lineup of investment options (Figure 6), and that sentiment was universal across the working-age population. Nearly all DC account–owning households, regardless of age or income, agreed that it was important for them to have a choice in, and control of, their retirement plan investments.

FIGURE 6

DC-Owning Households' Views on DC Savings Vehicle

Percentage of DC-owning households agreeing with each statement by age or household income, fall 2009

		Age of household survey respondent			
	All DC-owning households	Younger than 35	35 to 49	50 to 64	65 or older
It is important to have choice in and control of the investments in my retirement plan account.	98	97	99	98	94
My employer-sponsored retirement account helps me think about the long term, not just my current needs.	93	91	96	93	91
Payroll deduction makes it easier for me to save.	90	82	96	94	88
My employer-sponsored retirement plan offers me a good lineup of investment options.	85	86	86	87	78
The immediate tax savings from my retirement plan are a big incentive to contribute.	85	86	82	88	77
Knowing that I'm saving from every paycheck makes me less worried about the stock market's performance.	58	62	57	54	62
I probably wouldn't save for retirement if I didn't have a retirement plan at work.	40	32	42	45	45
Number of respondents	*1,627*				

		Household income		
	All DC-owning households	Less than $30,000	$30,000 to $49,999	$50,000 or more
It is important to have choice in and control of the investments in my retirement plan account.	98	95	97	98
My employer-sponsored retirement account helps me think about the long term, not just my current needs.	93	86	91	95
Payroll deduction makes it easier for me to save.	90	78	89	93
My employer-sponsored retirement plan offers me a good lineup of investment options.	85	80	83	87
The immediate tax savings from my retirement plan are a big incentive to contribute.	85	78	81	87
Knowing that I'm saving from every paycheck makes me less worried about the stock market's performance.	58	58	51	61
I probably wouldn't save for retirement if I didn't have a retirement plan at work.	40	45	45	38
Number of respondents	*1,627*			

Note: Figure reports percentage of DC-owning households who "strongly agreed" or "somewhat agreed" with the statement. The remaining households "somewhat disagreed" or "strongly disagreed." See Appendix II for exact question wording.

Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)

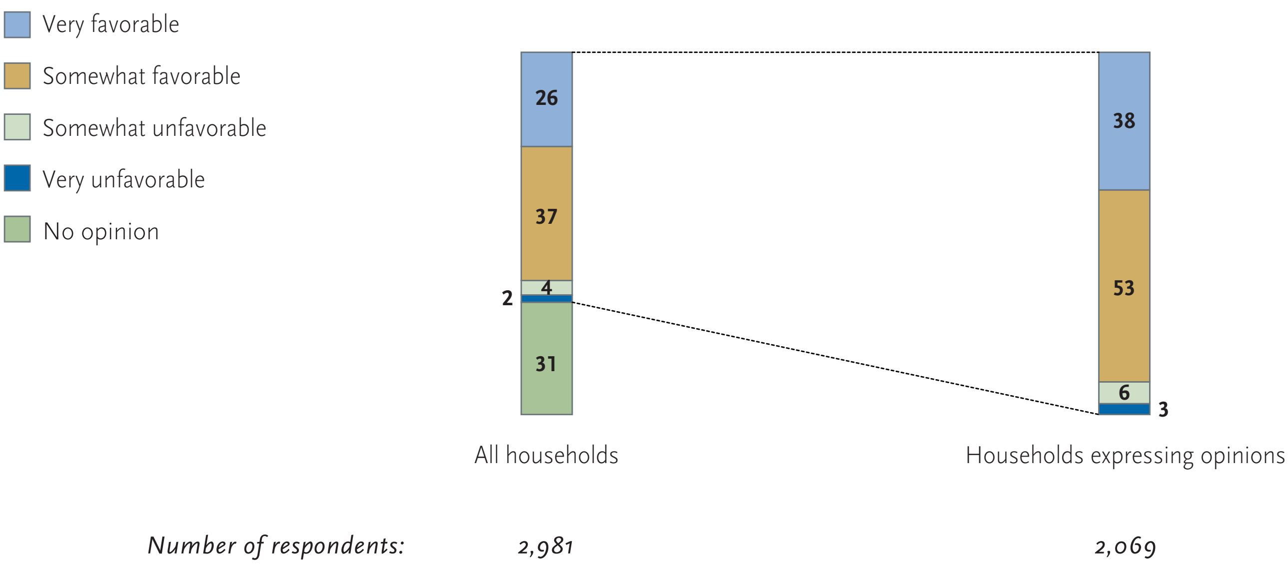
The positive responses to these particular statements about how DC savings plans help households save carry over to households' overall impression of 401(k) and similar retirement accounts. Of the 69 percent of households who expressed an opinion about "401(k) and similar retirement plan accounts," 91 percent had a somewhat or very favorable opinion (Figure 7). The willingness to express an opinion varied depending on whether the household owned a DC plan account or IRA, with 82 percent of such retirement account owners but only 46 percent of non-owners stating views (Figure 8). However, even among the non-owning respondents, 83 percent of those who expressed an opinion were favorable.

Respondents who expressed an opinion about 401(k) and similar accounts were also asked about the sources of information and other factors that affect their views of those retirement plans. They were provided with a list of possible influences and asked to indicate (on a four-point scale) whether that particular source or piece of information was important in shaping their opinion.

FIGURE 7

Impression of 401(k) and Similar Retirement Plan Accounts

Percentage of U.S. households, fall 2009



Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)

FIGURE 8

Impression of 401(k) and Similar Retirement Plan Accounts

Percentage of U.S. households by ownership status, fall 2009

	All households	DC- or IRA-owning households	Households not owning DC accounts or IRAs
Very favorable	26	31	17
Somewhat favorable	37	45	21
Somewhat unfavorable	4	4	4
Very unfavorable	2	2	4
No opinion	31	18	54
Number of respondents	*2,981*	*1,931*	*1,050*

Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)

In general, respondents indicated that their opinions were influenced by many sources of information, with each factor listed being ranked as either "somewhat" or "very" important in influencing their views of 401(k) plans by more than 50 percent of respondents (Figure 9). Ninety-six percent of respondents indicated that the ability of retirement accounts to accumulate significant savings was important. Plan account investment performance was identified as an important factor by 95 percent of respondents. Ninety-four percent of respondents indicated their personal experience with a retirement plan was important in shaping their opinion. Media coverage of 401(k)s was considered important by 52 percent of respondents, well below recent events in financial markets (85 percent), materials or seminars provided by an employer (81 percent), and friends and family (78 percent).

FIGURE 9

What Shapes Opinions of Retirement Plan Accounts

Percentage of U.S. households that have an opinion of 401(k) and similar retirement plan accounts responding that the listed factor is important in shaping their opinions of such accounts by ownership status,[1, 2] fall 2009

	All households with opinions	DC- or IRA-owning households with opinions	Households not owning DC accounts or IRAs with opinions
The ability of retirement plan accounts to accumulate significant savings	96	98	89
Performance of retirement plan account investments	95	97	85
Your personal experience with a retirement plan	94	95	87
Recent events in financial markets	85	87	77
Materials or seminars provided by an employer about a retirement plan	81	81	83
Friends and family	78	77	84
Media coverage about 401(k) plans	52	51	58
Number of respondents	*2,069*	*1,589*	*480*

[1]Figure reports percentage of households who rated the factor as "very important" or "somewhat important." The remaining households rated the factor as "not too important" or "not at all important."

[2]Multiple responses are included.

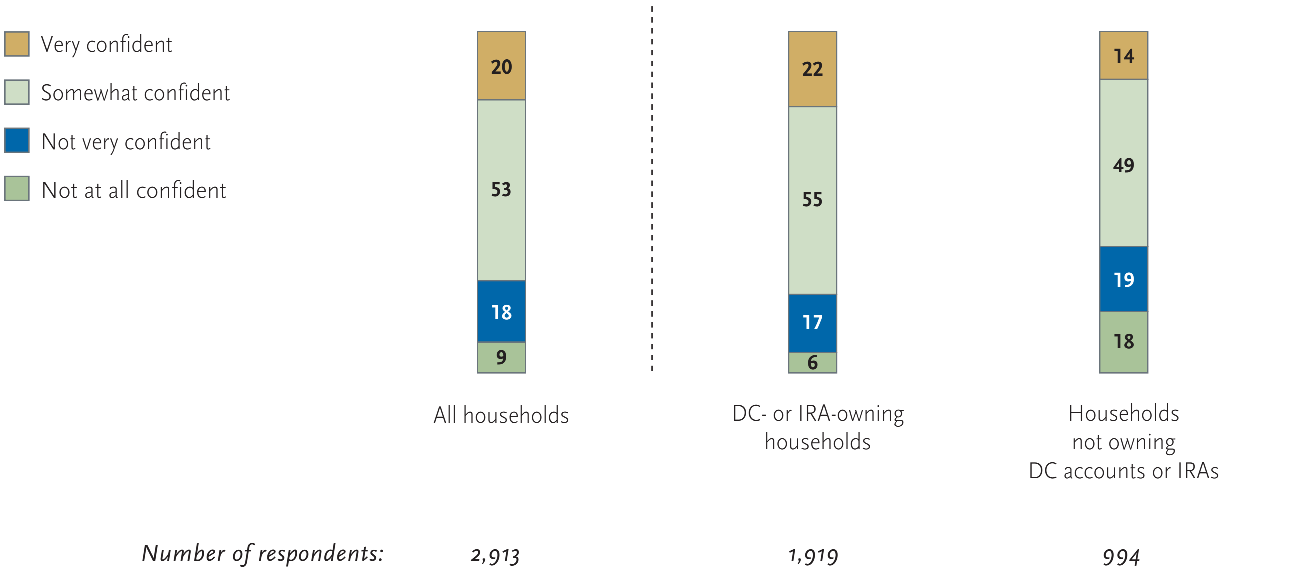
Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)

The ultimate test of faith in the 401(k) system is the confidence of investors in their ability to reach their retirement goals. Overall, 73 percent of households indicated that they are either "somewhat" or "very" confident that retirement plan accounts can help people reach their retirement goals (Figure 10). At 77 percent, that confidence was higher among those who currently own IRAs or DC accounts, but even 63 percent of non-owners expressed faith in the retirement plan account approach.

FIGURE 10

Confidence That Retirement Plan Accounts Can Help Individuals Meet Retirement Goals

Percentage of U.S. households by ownership status, fall 2009



Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)

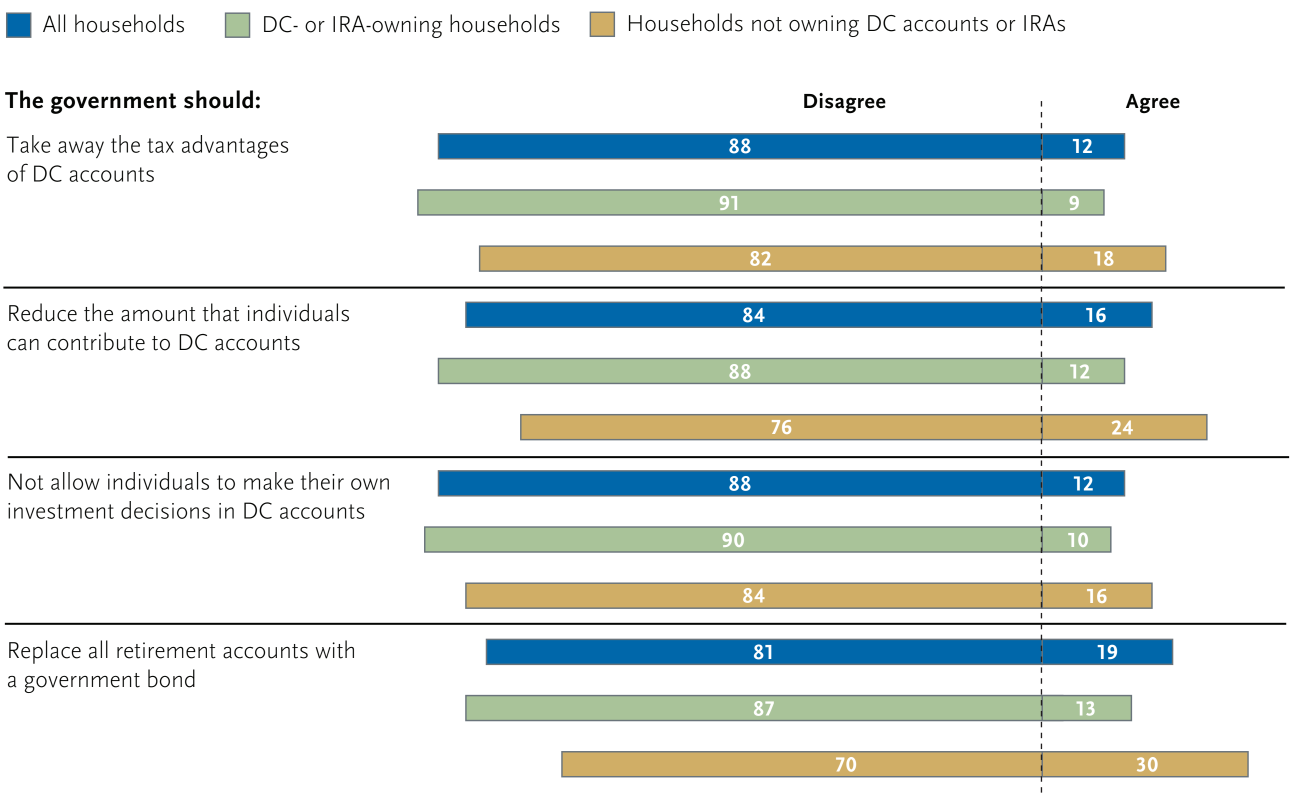
Views on Policy Regarding Retirement Saving

Some opinion leaders and policymakers have questioned the public policy value of the tax deferral that 401(k)s (and IRAs) receive. Survey respondents were asked whether the government should take away these tax advantages. A very large majority, 88 percent, disagreed that the tax incentives of DC plans should be removed (Figure 11).

FIGURE 11

Households' Opinions of Suggested Changes

Percentage of U.S. households agreeing or disagreeing with each statement by ownership status, fall 2009



Number of respondents: 3,000

Note: Figure plots percentage of households who "strongly agreed" or "somewhat agreed" with the statement in the "Agree" column, and the percentage of households, who "somewhat disagreed" or "strongly disagreed," in the "Disagree" column. See Appendix II for exact question wording.

Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)

Opposition to elimination of the tax advantages was the strongest among households with such accounts, with 91 percent opposing the removal of the tax advantages. But even 82 percent of the households without these accounts opposed eliminating the incentives, up from 76 percent in 2008.[23] Prime working-age households (aged 35 to 64) were slightly more likely to oppose removal of the tax advantages, compared with the youngest and oldest households (Figure 12).

The survey also asked whether the limits on contributions should be reduced.[24] A very large majority opposed reducing the contribution limits, with 84 percent of all households opposed (Figure 11). Among households with retirement accounts, 88 percent disagreed with reducing the limits, whereas among households without such accounts, 76 percent disagreed with reducing the contribution limit.

Opposition to reducing the contribution limits was the greatest among households aged 35 or older, with 84 percent or more opposed to a reduction (Figure 12). And although middle- and upper-income households were more likely to be opposed, a substantial majority of lower-income households also disagreed with reducing the contribution limits. Among households with incomes of $50,000 or more, 89 percent disagreed with reducing the contribution limits, compared with 76 percent of the households making less than $30,000.

FIGURE 12

Households' Opinions of Suggested Changes

Percentage of U.S. households disagreeing with each statement by age or income, fall 2009

		Age of household survey respondent			
The government should:	**All households**	**Younger than 35**	**35 to 49**	**50 to 64**	**65 or older**
Take away the tax advantages of DC accounts	88	84	91	91	86
Reduce the amount that individuals can contribute to DC accounts	84	79	88	85	84
Not allow individuals to make their own investment decisions in DC accounts	88	88	90	88	87
Replace all retirement accounts with a government bond	81	75	82	82	86
Number of respondents	*3,000*				

		Household income		
The government should:	**All households**	**Less than $30,000**	**$30,000 to $49,999**	**$50,000 or more**
Take away the tax advantages of DC accounts	88	84	85	93
Reduce the amount that individuals can contribute to DC accounts	84	76	85	89
Not allow individuals to make their own investment decisions in DC accounts	88	83	89	92
Replace all retirement accounts with a government bond	81	69	77	90
Number of respondents	*3,000*			

Note: Figure reports percentage of households who "strongly disagreed" or "somewhat disagreed" with the statement. The remaining households "somewhat agreed" or "strongly agreed." See Appendix II for exact question wording.

Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)

Others have questioned the wisdom of allowing individuals to make their own investment decisions in their retirement accounts. In 2006, U.S. pension laws were changed to give employers more flexibility in assisting their workers to make investment decisions.[25] Recently, however, Congress has considered proposals that would dictate certain types of investment choices. Some observers have even suggested that the government take over these plans or prevent future workers from investing in them.

When interviewees were asked if they agreed or disagreed with the statement that the "government should not allow individuals to make their own investment decisions" in DC retirement accounts, 88 percent disagreed (Figure 11). Disapproval of this statement was slightly stronger among respondents between the ages of 35 and 49, with 90 percent opposing the proposal (Figure 12). The degree of opposition was higher among households with retirement plans (90 percent) than it was for those without such plans (84 percent; Figure 11).

In a similar vein, some observers have proposed that the federal government either assume the risk of individuals' retirement accounts or direct how the savings should be invested. These proposals found strong opposition among households with retirement accounts and even among those without such accounts. Respondents were asked how they viewed a proposal for the government to "replace all retirement accounts with a government bond." Despite the stock market downturn from late 2007 through early 2009, government control of workers' savings is not a popular remedy. Eighty-one percent of respondents disagreed with this proposal, with the strongest opposition among households aged 65 or older, or households with incomes of $30,000 or more (Figures 11 and 12). Among households with retirement accounts, 87 percent opposed this proposal (Figure 11). Seventy percent of households without these accounts disagreed with this recommendation.

The greater level of opposition to the government replacing retirement accounts with a government bond among individuals with 401(k)-type plans and IRAs likely is driven, in part, by the fact that the proposal directly affects their ownership of their retirement accounts. In addition, participants with such accounts are clearly willing to take more investment risk, on average, than are households not investing in these accounts. When asked about their willingness to take risk, nearly three-quarters of DC- or IRA-owning households were willing to take average or more risk, compared with 41 percent of the households not invested in these plans (Figure 3).

The lower risk tolerance among nonparticipants could explain why they would be more willing to let the government replace such accounts with a government bond. These nonparticipating households tend to be lower-income and younger households.[26] They therefore may be less able or willing to put any assets at risk because they rely on these savings to meet current consumption needs. Also, Social Security replaces the largest portion of incomes for lower-income households in retirement.[27]

Views on Policy Regarding Disposition of Retirement Account Balances

Three of the ICI questions investigated household sentiment regarding possible policy changes that would affect retirees' disposition of DC account and IRA balances. The U.S. Department of Labor and the U.S. Department of the Treasury have begun to examine the desirability of policy changes that would either encourage or mandate annuitization of retirement account balances. Such policy proposals find support in some academic research suggesting individuals should annuitize more of their retirement account balances as a means to eliminate the risk of outliving their resources.[28]

Annuitization rates in the United States are low, and it is unclear why individuals usually forego the annuity option. Surveying consumer preferences regarding annuitization policy is difficult because the subject matter is complicated and not particularly salient for many household decisionmakers. In particular, younger households and households with relatively low earnings probably tend to focus much less on the annuitization decision for the same reasons they tend to focus less on retirement saving.[29] In addition to the underlying demographic and economic differences, academic research has shown that word choice in surveys on annuities has a dramatic impact on the perceived desirability of the annuity option.[30]

With these difficulties in mind, ICI asked three questions regarding annuitization policy. In the first question, respondents were asked to react to a simple statement: "Retirees should be able to make their own decisions about how to manage their own retirement assets and income." Ninety-six percent of respondents either "strongly" or "somewhat" agreed with that statement, and the overwhelming positive response did not vary across the population when the sample was split by age, income, or whether the household owned DC accounts or IRAs (Figure 13).

The second and third annuitization questions were focused on sentiment regarding more specific annuitization policy options. The second statement read: "The government should require retirees to trade a portion of their retirement plan accounts for a fair contract that promises to pay them income for life from an insurance company." The third statement replaced "from an insurance company" with "from the government." The distinction between insurance company and government as annuity provider had only a small second-order effect on household sentiment, so the results for the second and third annuity questions were very similar.

Relative to the first question about whether individuals should be able to "make their own decisions," the more specific annuitization proposals revealed interesting differences in consumer sentiment across the population. Overall, more than 70 percent either "somewhat disagreed" or "strongly disagreed" with the proposed policy change (Figures 14 and 15). The overall 70 percent disapproval rate occurred even though the question was worded so as to eliminate bias towards disagreement. If anything, the question risked biasing respondents towards agreement; the proposal indicated that the retiree need only trade "a portion" of their assets under a "fair" contract giving them "income for life."

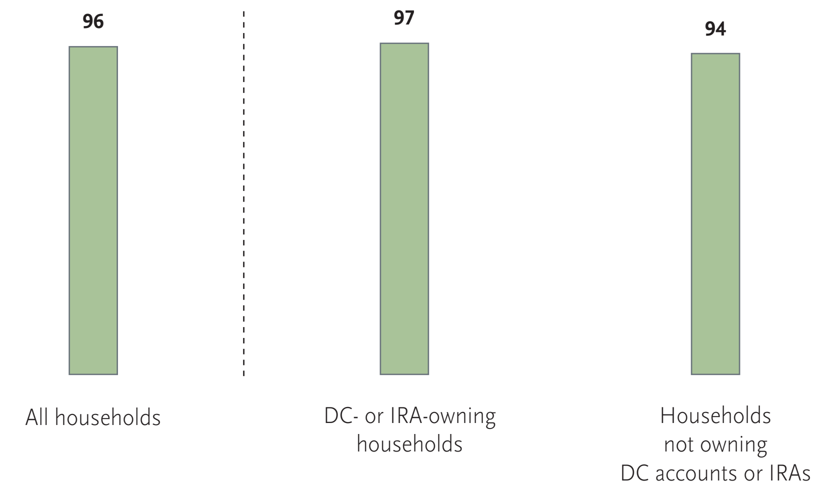
At 75 percent, the disapproval rates for the proposed annuitization requirements are noticeably higher for those owning DC accounts or IRAs (Figures 14 and 15). Disapproval also increases with both age and income. For example, the disapproval rates for respondents younger than 50 in households with incomes of less than $30,000 are 50 percent for the government annuity and 58 percent for the insurance company annuity. At the other extreme, 81 percent of respondents aged 50 or older in households with incomes of $50,000 or more disapproved of either mandate.

In every group, public sentiment runs counter to the mandate, and it is likely that the correlation between age, income, and disapproval rates is to some extent attributable to the complexity and salience of the proposed policy change. The respondents who would be most affected—those who are likely to have significant DC and IRA balances and are approaching or in retirement—were much more opposed to the proposed annuitization requirements.

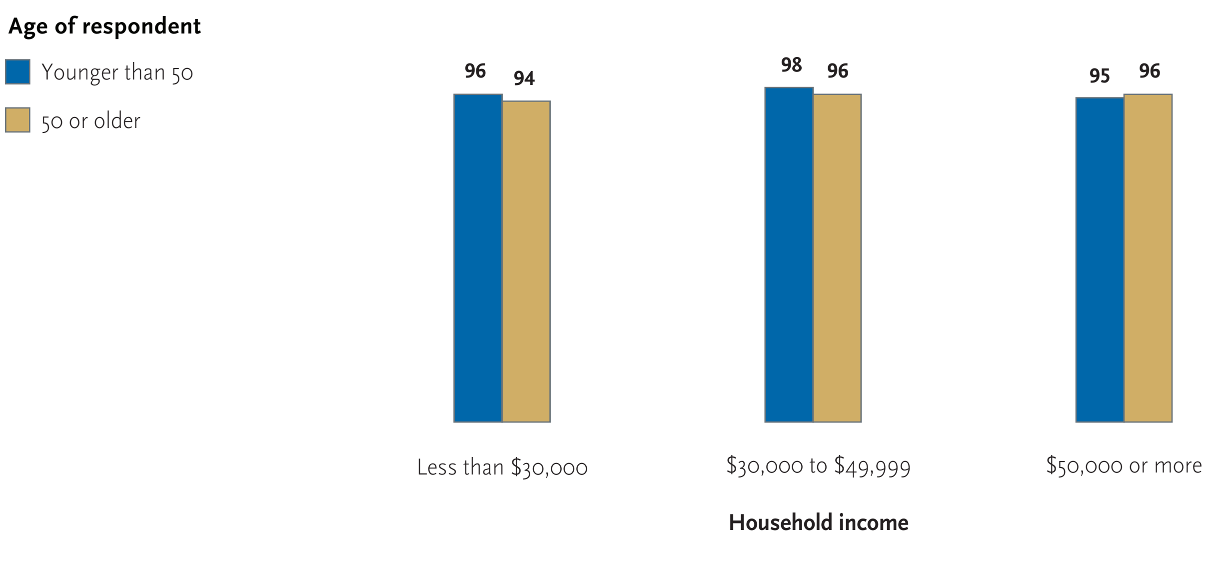
FIGURE 13

Statement: Retirees should be able to make their own decisions about how to manage their own retirement assets and income.

Percentage of U.S. households agreeing by ownership status, fall 2009



Percentage of U.S. households agreeing by age and income, fall 2009



Number of respondents: 3,000

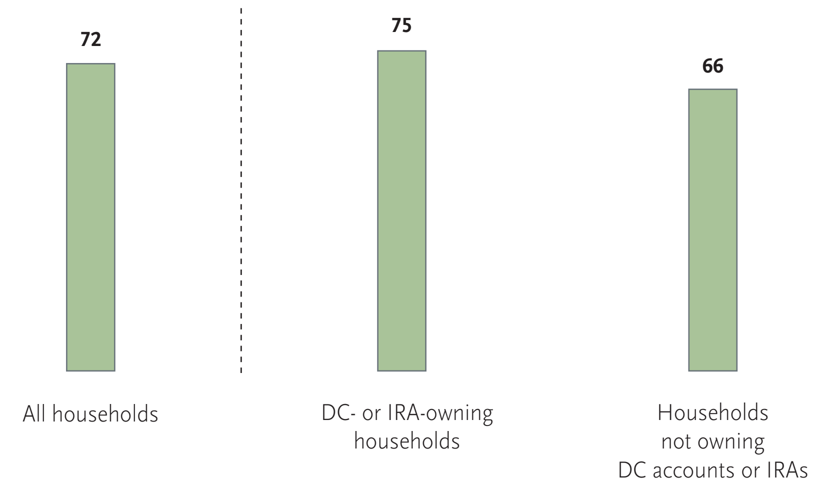
Note: Figure reports percentage of households who "strongly agreed" or "somewhat agreed" with the statement. The remaining households "somewhat disagreed" or "strongly disagreed."

Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)

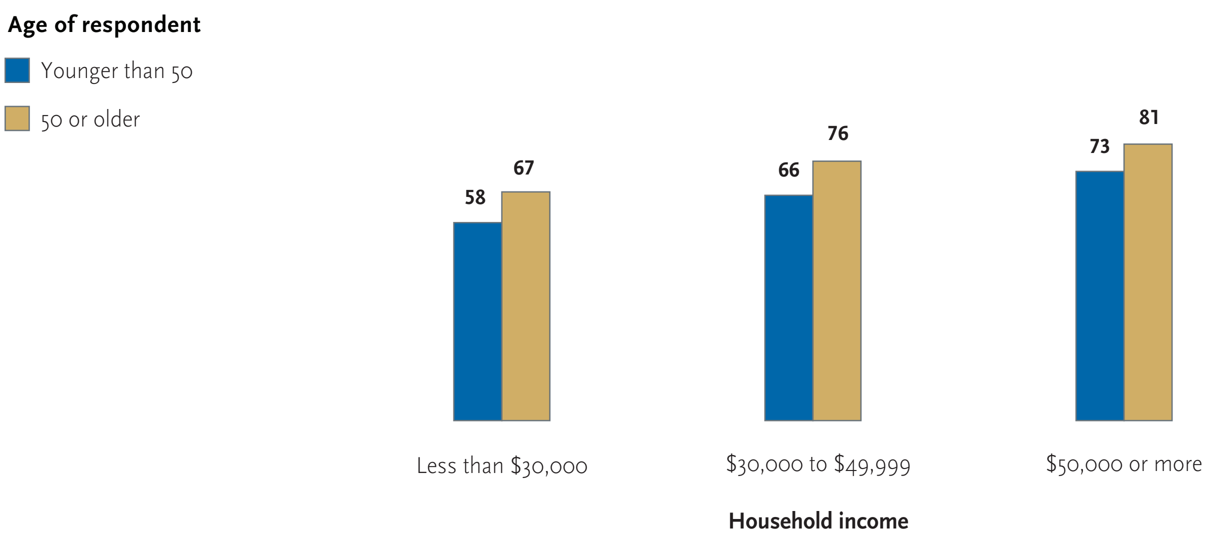
FIGURE 14

Statement: The government should require retirees to trade a portion of their retirement plan accounts for a fair contract that promises to pay them income for life from an insurance company.

Percentage of U.S. households disagreeing by ownership status, fall 2009



Percentage of U.S. households disagreeing by age and income, fall 2009



Number of respondents: 3,000

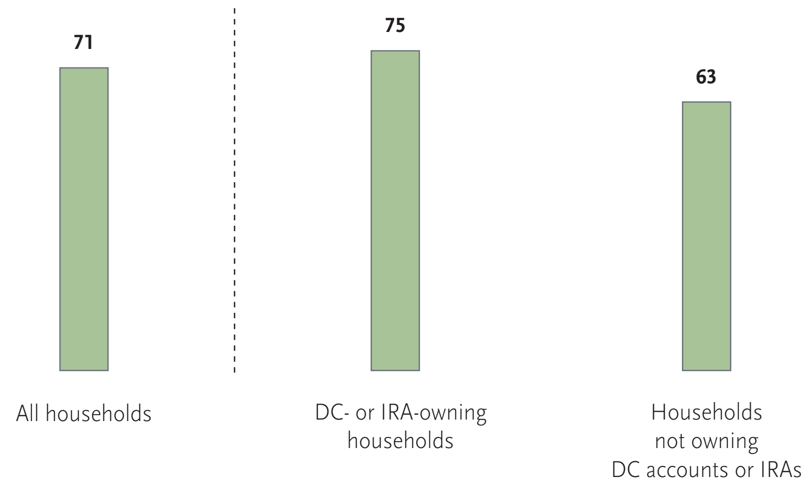
Note: Figure reports percentage of households who "strongly disagreed" or "somewhat disagreed" with the statement. The remaining households "somewhat agreed" or "strongly agreed."

Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)

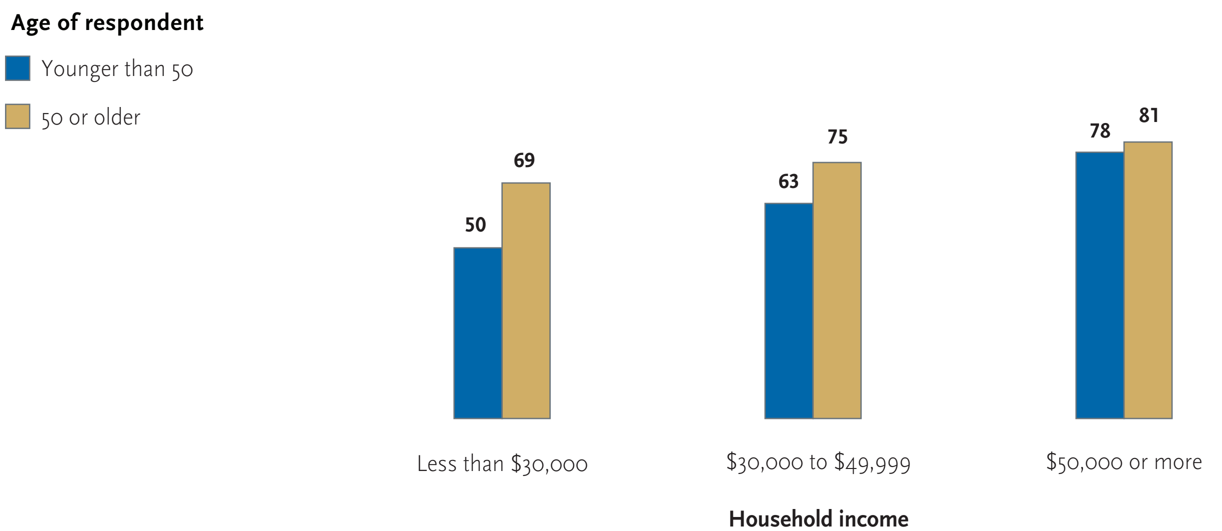
FIGURE 15

Statement: The government should require retirees to trade a portion of their retirement plan accounts for a fair contract that promises to pay them income for life from the government.

Percentage of U.S. households disagreeing by ownership status, fall 2009



Percentage of U.S. households disagreeing by age and income, fall 2009



Number of respondents: 3,000

Note: Figure reports percentage of households who "strongly disagreed" or "somewhat disagreed" with the statement. The remaining households "somewhat agreed" or "strongly agreed."

Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)

Appendix I: Characteristics of the GfK OmniTel Survey Sample

GfK OmniTel Survey

OmniTel is a weekly national telephone omnibus service of GfK Custom Research North America. The sample for each week's OmniTel wave consists of 1,000 completed interviews, made up of male and female adults (in approximately equal number), all 18 years of age or older. Each OmniTel study is based on a random digit dialing (RDD) probability sample of all telephone households in the continental United States.[31]

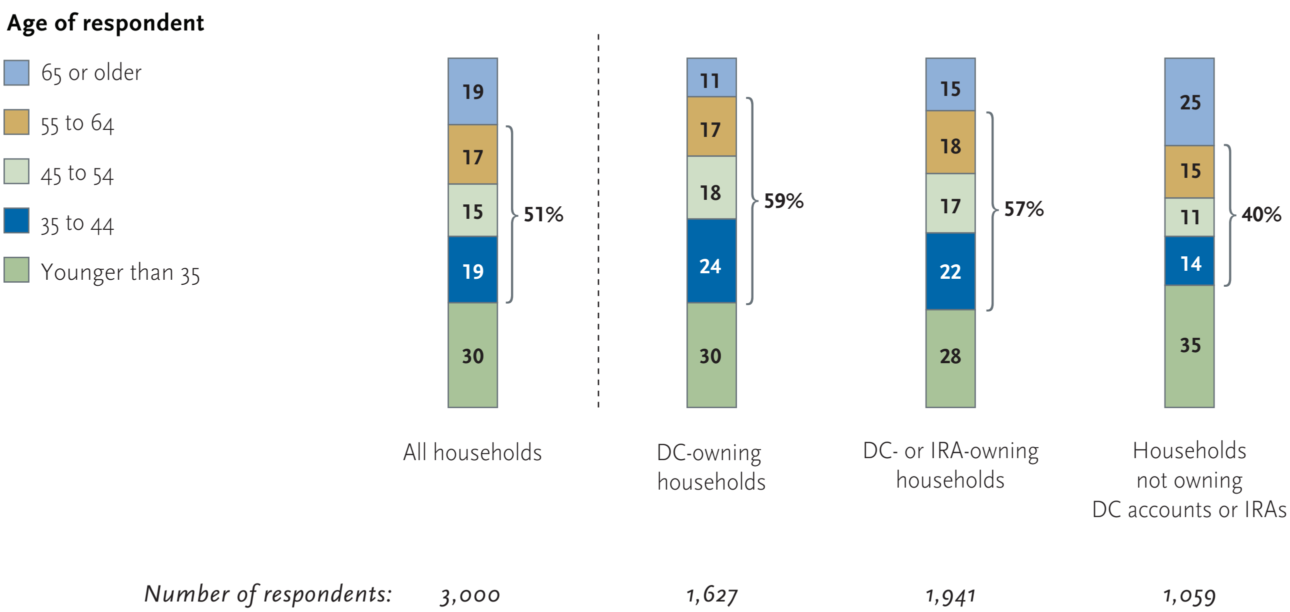
The median age among households in this survey is 45 years old, and the median income group is $40,000 to $49,999. The overall sampling error for the survey is ±1.8 percentage points at the 95 percent confidence level.[32]

The characteristics of the sample are consistent with the samples used in other, ongoing ICI research. The age distributions of DC-owning and DC- or IRA-owning households are more concentrated towards prime working years, ages 35 to 64, compared with households not owning such retirement accounts (Figure A1). Also, incomes of households owning retirement accounts are higher than for non-owners, but roughly two-thirds of households with retirement accounts have between $25,000 and $100,000 of income (Figure A2). Finally, the willingness to take investment risk within the sample follows the same pattern observed in other household surveys, with older households expressing more reluctance to take on more risk to increase returns, compared with younger households (Figure A3).[33]

FIGURE A1

Age Composition of U.S. Households in Opinion Survey

Percentage of U.S. households by ownership status and age, fall 2009

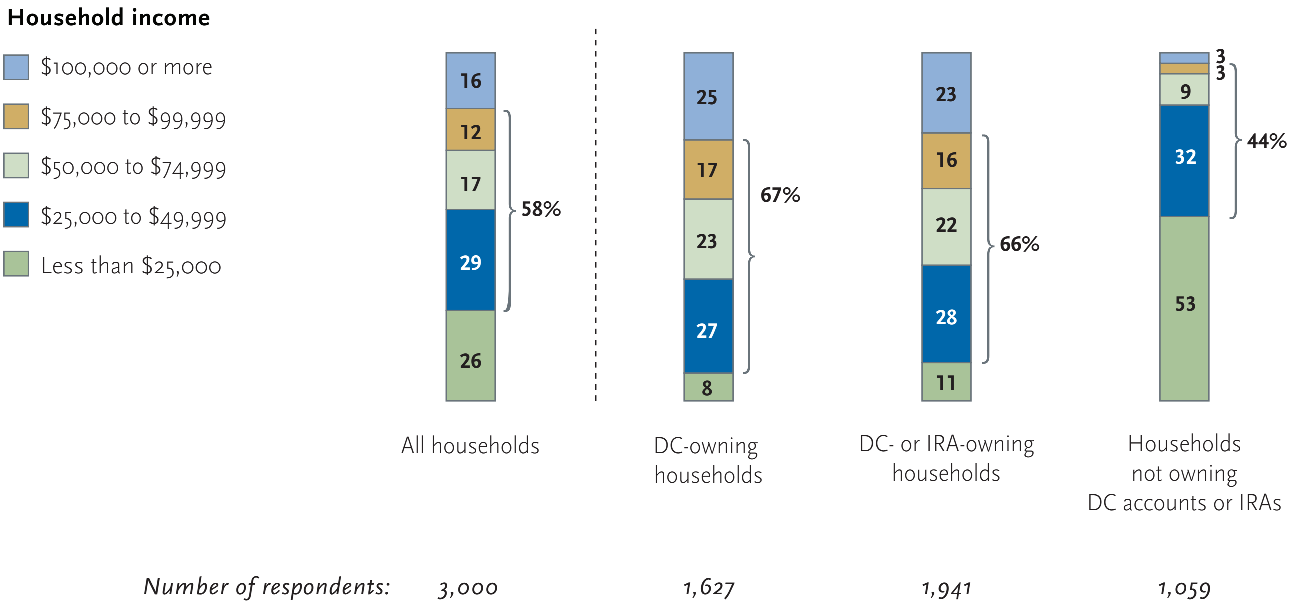


Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)

FIGURE A2

Income Composition of U.S. Households in Opinion Survey

Percentage of U.S. households by ownership status and income, fall 2009

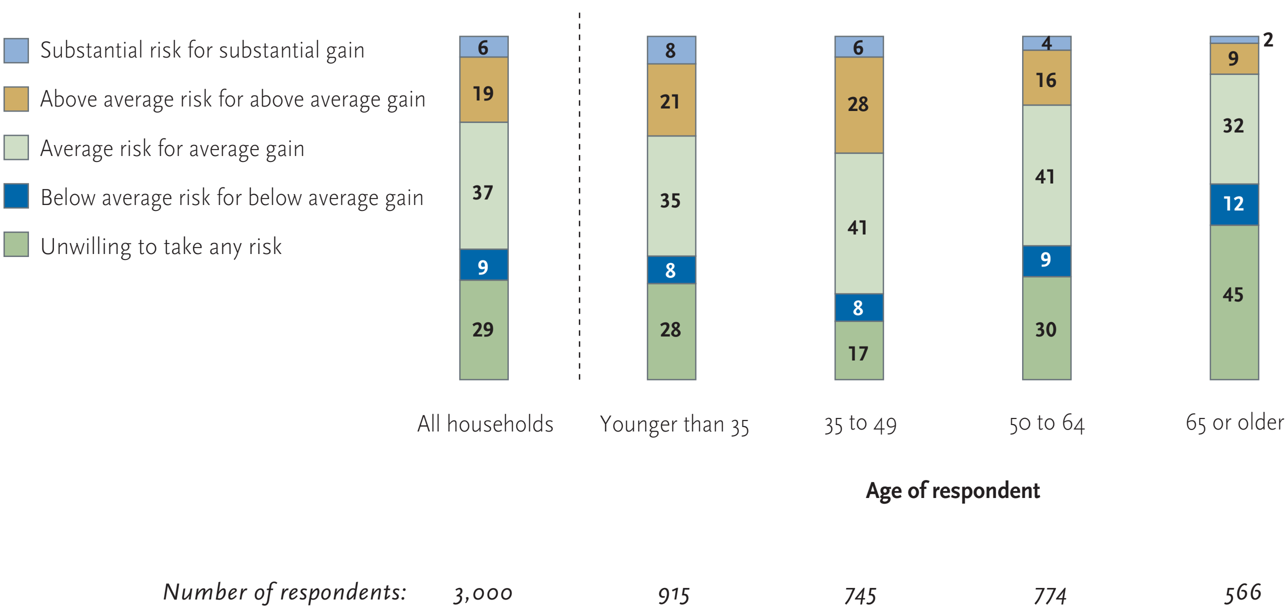


Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)

FIGURE A3

Households' Willingness to Take Risk

Percentage of U.S. households by age, fall 2009



Source: ICI tabulation of GfK OmniTel survey data (November and December 2009)

Appendix II: ICI's Survey Questions

I have a few questions relating to the recent financial market performance and your saving and investing.

#1 (ASK ALL:) Do you or someone else in your household have an employer-sponsored retirement plan account? These retirement plans can be called 401(k), 403(b), 457, or thrift savings plans. **[ ] Yes [ ] No [ ] Don't know**

#2 (IF #1 = NO/DON'T KNOW, START WITH:) We are interested in your opinions on these types of retirement plan accounts even if your household doesn't currently own them.

(ASK ALL:) Saving in retirement plan accounts such as 401(k) plans has certain tax advantages. For example, 401(k) contributions typically reduce your taxable income since contributions come out of your pay before taxes are withheld. In addition, the retirement plan accounts benefit from tax-deferred growth because taxes are not due until you withdraw the money from the account.

Please indicate whether you **strongly agree**, **somewhat agree**, **somewhat disagree**, or **strongly disagree** with each of the following statements. How about…(READ EACH ITEM and RANDOMIZE LIST)

The government should take away the tax advantages of such retirement plan accounts.

____

The government should reduce the amount that individuals can contribute to such retirement plan accounts.

____

The government should not allow individuals to make their own investment decisions in such accounts.

____

The government should replace all retirement plan accounts with a government bond.

____

#3 (IF #1 = YES, ASK:) When you think about your household's employer-sponsored retirement plan accounts, would you **strongly agree**, **somewhat agree**, **somewhat disagree**, or **strongly disagree** with the following statements? Let's start with… (READ EACH ITEM and RANDOMIZE LIST)

Payroll deduction makes it easier for me to save.

____

My employer-sponsored retirement plan account helps me think about the long term, not just my current needs.

____

I probably wouldn't save for retirement if I didn't have a retirement plan at work.

____

Knowing that I'm saving from every paycheck makes me less worried about the stock market's performance.

____

The immediate tax savings from my retirement plan are a big incentive to contribute.

____

My employer-sponsored retirement plan offers me a good lineup of investment options.

____

It is important to have choice in, and control of, the investments in my retirement plan account.

____

#4 (ASK ALL:) Please tell me which one of the following statements best describes how much investment risk versus reward you personally are usually willing to take when investing. (READ LIST. CHECK ONLY ONE RESPONSE.)

[ ] I am willing to take substantial financial risk for substantial financial gain.

[ ] I am willing to take above-average risk for above-average gain.

[ ] I am willing to take average risk for average gain.

[ ] I am willing to take below-average risk for below-average gain.

[ ] I am not willing to take any financial risk, but I understand I may not make any financial gain.

#5 (IF #1 = NO/DON'T KNOW, START WITH:) We are interested in your opinions on employer-sponsored retirement plan accounts, such as 401(k), 403(b), 457, or thrift savings plans, even if your household doesn't currently own them.

(ASK ALL:) Based on your own opinion and experience, I would like to know your impression of 401(k) and similar retirement plan accounts. Would you say you have a **very favorable**, **somewhat favorable**, **somewhat unfavorable**, or **very unfavorable** impression—or no opinion—of retirement plan accounts? (READ LIST. CHECK ONLY ONE RESPONSE.)

[ ] Very favorable

[ ] Somewhat favorable

[ ] Somewhat unfavorable

[ ] Very unfavorable

[ ] No opinion

[ ] Don't know

#6 (ASK ALL, EXCEPT IF #5 = NO OPINION/DON'T KNOW:) How important are each of the following in determining your overall opinion of retirement plan accounts? Please tell me whether each item is **very important**, **somewhat important**, **not too important**, or **not at all important**. (READ EACH ITEM and RANDOMIZE LIST.)

Friends and family

____

Media coverage about 401(k) plans

____

Performance of retirement plan account investments**

____

Recent events in financial markets

____

Your personal experience with a retirement plan**

____

Materials or seminars provided by an employer about a retirement plan**

____

The ability of retirement plan accounts to accumulate significant savings

____

** = *Accept "not applicable" for these.*

#7 (IF #1 = YES, ASK:) Based on your own personal experience, how confident are you that your 401(k) or other employer-sponsored retirement plan accounts can help you meet your retirement goals? Are you...? (READ LIST. CHECK ONLY ONE RESPONSE.)

(IF #1 = NO/DON'T KNOW, ASK:) In your opinion, how confident are you that 401(k) or other employer-sponsored retirement plan accounts can help people meet their retirement goals? Are you...? (READ LIST. CHECK ONLY ONE RESPONSE.)

[ ] Very confident

[ ] Somewhat confident

[ ] Not very confident

[ ] Not at all confident

[ ] Don't know

#8 (ASK ALL:) Some people have suggested that the rules be changed governing how retirement savers manage and spend down their retirement plan accounts.

Please indicate whether you **strongly agree**, **somewhat agree**, **somewhat disagree**, or **strongly disagree** with each of the following statements. How about...? (READ EACH ITEM and RANDOMIZE LIST.)

Retirees should be able to make their own decisions about how to manage their own retirement assets and income.

____

The government should require retirees to trade a portion of their retirement plan accounts for a fair contract that promises to pay them income for life from an insurance company. (INTERVIEWER INSTRUCTION: if asked, if necessary, such a contract is usually called an "annuity.")

____

The government should require retirees to trade a portion of their retirement plan accounts for a fair contract that promises to pay them income for life from the government. (INTERVIEWER INSTRUCTION: if asked, if necessary, such a contract is usually called an "annuity.")

____

#9 (ASK ALL:) Do you or someone else in your household have either a traditional IRA or a Roth IRA? These are retirement accounts that individuals can establish on their own. **[ ] Yes [ ] No [ ] Don't know**

Notes

[1] See Reid and Holden 2008.

[2] DC plan accounts include 401(k), 403(b), 457, and other DC plans without 401(k) features.

[3] See Investment Company Institute 2009 for the most recent estimates of total U.S. retirement market assets.

[4] About half (51 percent) of U.S. households had DC accounts, 39 percent had IRAs, and 63 percent held DC accounts or IRAs on net. These data were tabulated from ICI's Annual Mutual Fund Shareholder Tracking Survey fielded in May 2009 (sample of 4,201 U.S. households). See Holden and Schrass 2010 (forthcoming) and Bogdan, Sabelhaus, and Bass 2009 for additional details.

[5] See, for example, Stephen Gandel, "Why It's Time to Retire the 401(k)," *Time*, October 9, 2009.

[6] See Reid and Holden 2008.

[7] See Appendix I for a description of the survey methodology and demographic characteristics of the survey respondents. See Appendix II for the text of ICI's survey questions.

[8] The correlation between stock returns and risk tolerance for 2008–2009 is also consistent with observations going back to the late 1980s. See Sabelhaus, Bogdan, and Schrass 2008.

[9] See, for example, Timothy Inklebarger, "More DC Participants Stop Contributions," *Pensions & Investments*, October 21, 2009.

[10] There are two types of withdrawals possible 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 are generally required to first take a loan before they are permitted to take a hardship withdrawal.

[11] Unfortunately, ICI does not have enough information about the seasonal versus cyclical patterns of withdrawal behavior to make the adjustments required for a head-to-head comparison of 2008 and 2009. Reid and Holden 2008 covered DC participant account activity from January 2008 through October 2008. Between January 2008 and October 2008, 3.7 percent of DC plan participants took withdrawals, with 1.2 percent taking hardship withdrawals. Three percent stopped contributing in that time period. With respect to asset allocation changes, 13.5 percent changed the asset allocation of their account balances, and 9.1 percent changed the asset allocation of their contributions.

[12] The Employee Benefit Research Institute (EBRI) and ICI collaborate on an annual 401(k) data collection project. 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 2002a and 2002b.

[13] The EBRI/ICI 401(k) database update reports loan activity among 401(k) participants in plans that allow loans. Eighty-eight percent of participants in the database were in plans that offer loans; among those participants, 18 percent had loans outstanding at year-end 2008. This translates to 16 percent of all active 401(k) participants having loans outstanding. The year-end 2008 EBRI/ICI database includes statistical information about 24.0 million 401(k) participants in 54,765 plans, with $1.092 trillion in assets. See Holden, VanDerhei, and Alonso 2009.

[14] At year-end 2008, the median loan outstanding was $3,889, compared with $4,167 at year-end 2007. At year-end 2007, on average, loans outstanding represented 12 percent of the remaining account balance. Lower average account balances in 2008 pushed that average up to 16 percent of the remaining account balance, even though the loan amounts were smaller. This pattern was observed with the 2002 bear market as well. See Holden, VanDerhei, and Alonso 2009.

[15] Official data on aggregate 401(k) plan assets also indicate that loans are small. In plan-year 2007 (the latest data available), only 1.6 percent of the $3.0 trillion in 401(k) plan assets were participant loans. In addition, only $604 million flowed out of 401(k) plans as the result of converting a loan into a withdrawal/distribution ("deemed distribution of participant loans"). See U.S. Department of Labor, Employee Benefits Security Administration 2009.

[16] The EBRI/ICI 401(k) Accumulation Projection Model examines the impact of loan activity on future 401(k) accumulations. See Holden and VanDerhei 2002a.

[17] Although the EBRI/ICI 401(k) database does not have information on participant trading activity, it is possible to compare snapshots of year-end asset allocations among participants present in multiple years in the database. An analysis of changes in year-end asset allocation among a consistent group of 5.3 million 401(k) participants between year-end 1999 and year-end 2002 suggests that 71 percent of 401(k) participants did not actively change their equity fund allocation during that time period. See Holden and VanDerhei 2003. Historically, recordkeepers find that in any given year, DC plan participants generally do not rebalance in their accounts (for references to this research, see endnote 80 in Holden, Brady, and Hadley 2006). Analysis of a 2007–2008 longitudinal sample drawn from the EBRI/ICI 401(k) database also suggests that most participants did not make dramatic shifts in the asset allocation of their account balances in 2008 (see Holden, VanDerhei, and Alonso 2009).

[18] See Appendix II for the text of ICI's survey questions.

[19] The benefit of tax deferral is not the upfront tax deduction. Indeed, in many cases the benefits of tax deferral will be equivalent to the tax benefits of Roth treatment, which does not involve an upfront tax deduction. Although not immediately obvious, if tax rates are the same at the time of contribution and the time of distribution, the tax treatment of a Roth contribution—where contributions are taxed but investment earnings and distributions are untaxed—provides the same tax benefits as tax deferral. Because of this fact, tax economists often equate the benefit of tax deferral to earning investment returns—interest, dividends, and capital gains—that are free from tax.

[20] The Federal Reserve Board's Survey of Consumer Finances includes questions asking households to give their reasons for saving and ranks the most important reason for saving. Overall, 34 percent of U.S. households in 2007 reported that saving for retirement was their household's primary reason for saving (see Bucks et al. 2009). Prime working-age and middle- to upper-income households were much more likely to indicate that retirement saving was their household's primary savings goal (see Brady and Sigrist 2008).

[21] An individual's Social Security benefit (called the Primary Insurance Amount, or PIA) is derived using a formula applied to their monthly earnings, averaged over their lifetime, after adjusting for inflation and real wage growth (called the Average Indexed Monthly Earnings, or AIME). The PIA for newly eligible retirees in 2010 (those born in 1948) is equal to 90 percent of the first $761 of AIME; plus 32 percent of AIME between $761 and $4,586; and 15 percent of any AIME over $4,586. The decline in the benefit formula percentages—from 90 percent to 32 percent, and then to 15 percent—is the reason why lower earners get a higher benefit relative to their pre-retirement earnings. See U.S. Social Security Administration 2009 for more details about benefit formulas and parameters.

[22] See Brady and Sigrist 2008 and U.S. Congressional Budget Office 2009.

[23] See Reid and Holden 2008.

[24] The 2008 survey asked a more general question regarding reducing the tax advantages of such retirement accounts. The two questions are not directly comparable.

[25] U.S. Joint Committee on Taxation 2006 summarizes Pension Protection Act changes.

[26] See Figures A1 and A2 in Appendix I for the age and income composition of these households.

[27] See Brady and Sigrist 2008 and U.S. Congressional Budget Office 2009.

[28] See Mitchell et al. 1999.

[29] See Brady and Sigrist 2008.

[30] See Brown et al. 2008.

[31] The RDD sampling system is totally computer-based and provides an equal probability of selection for each and every telephone household. All completed interviews are weighted to ensure accurate and reliable representation of the total population, 18 years or older. The raw data are weighted by a custom-designed computer program, which automatically develops a weighting factor for each respondent. This procedure employs five variables: age, gender, education, race/ethnicity, and geographic region. Each interview is assigned a single weight derived from the relationship between the actual proportion of the population with its specific combination of age, gender, education, race/ethnicity, and geographic characteristics and the proportion in the sample that week.

[32] The use of sample surveys is standard practice for constructing estimates about a total population. Estimates derived through survey sampling are subject to sampling error. As sample size increases, the level of potential sampling error generally becomes smaller.

[33] For example, see Sabelhaus, Bogdan, and Schrass 2008, which reports tabulations of Survey of Consumer Finances data; Schrass and Bass 2009, which tabulates the 2008 ICI Annual Mutual Fund Shareholder Tracking Survey data; and Holden and Schrass 2010 (forthcoming), which tabulates the 2009 ICI IRA Owners Survey data.

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