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Institute Published Two Studies Focused on Retirement Savers in the Wake of the Financial Crisis

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TO: BANK, TRUST AND RETIREMENT ADVISORY COMMITTEE No. 38-13
BROKER/DEALER ADVISORY COMMITTEE No. 50-13
OPERATIONS COMMITTEE No. 51-13
TRANSFER AGENT ADVISORY COMMITTEE No. 78-13 RE: INSTITUTE PUBLISHED TWO STUDIES FOCUSED ON RETIREMENT SAVERS IN THE WAKE OF THE FINANCIAL CRISIS

The Investment Company Institute (ICI) published two research papers providing insights into how retirement savers fared through the financial crisis. According to the studies, even with dramatic declines in stock values between October 2007 and March 2009, a recession from December 2007 to June 2009, and rising unemployment rates, consistent traditional individual retirement account (IRA) investors and ongoing 401(k) plan participants showed little reaction to financial events.

Traditional IRA Investors' Activity, 2007-2011

Analysis of 5.8 Million Consistent Traditional IRA Investors

Traditional IRAs are a key component of the U.S. retirement system. Traditional IRAs are managed by individuals, and policymakers are interested in understanding how traditional IRA investors navigated through the financial crisis. By analyzing the contribution, rollover, withdrawal, and asset allocation activity of 5.8 million "consistent" traditional IRA investors (those with accounts in every year between 2007 and 2011), it is possible to determine how these investors fared during and in the wake of the financial crisis.

The data suggest that traditional IRA investors with accounts from year-end 2007 through year-end 2011 showed little reaction to the financial events. Contribution and rollover activity declined only a bit in the wake of the financial crisis. Withdrawal rates rose slightly between 2008 and 2011, but still only a small fraction of younger traditional IRA investors took money out of their traditional IRAs.

The decline in the stock market reduced traditional IRA investors' allocation to equity

holdings, on average, although some of the change merely reflects market movement rather than investors' rebalancing. For example, among consistent traditional IRA investors younger than 60, about three-quarters of their traditional IRA assets were invested in equity holdings—which includes equities, equity funds, and the equity portion of balanced funds—at year-end 2007, and about two-thirds of their traditional IRA assets were invested in equity holdings at year-end 2011. On movement to or from equity concentration measures of zero or 100 percent of the individual investor's traditional IRA balance, there was very little activity among traditional IRA investors between year-end 2007 and year-end 2011. A significant minority of consistent traditional IRA investors had all of their traditional IRA balances invested in equity holdings, and only slight net movement away from that full concentration occurred between year-end 2007 and year-end 2011.

The movement of traditional IRA balances reflected the impact of investment returns; investors' contribution, rollover, and withdrawal activity; and the rules governing traditional IRAs. Although account balances fell considerably following the stock market decline in 2008, the average traditional IRA balance for consistent traditional IRA investors aged 25 to 69 was higher at year-end 2011 than at year-end 2007. Beginning at age 70½, individuals are no longer eligible to make contributions to traditional IRAs and typically must begin to take withdrawals, putting downward pressure on account balances among older traditional IRA investors. Increased Roth conversion activity in 2010 also may have put downward pressure on average traditional IRA balances.

Analysis of 10.2 Million Traditional IRA Investors at Year-End 2011

The report also analyzes a snapshot of 10.2 million traditional IRA investors at year-end 2011, first exploring which traditional IRA investors had contributions and how many of them contributed at the limit. Next, the report examines rollover activity by investor age and notes that the vast majority of new traditional IRAs opened in 2011 were opened with rollovers. Withdrawal activity, analyzed next, varies significantly with investor age and in reaction to rules governing withdrawals. Finally, variation in traditional IRA balances and asset allocation by investor age is explored.

This report uses data from The IRA Investor Database™. The full analysis of the traditional IRA investors can be found in the report, *The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2011*, which is available at www.ici.org/pdf/rpt_13_ira_investors.pdf. The ICI news release is available at www.ici.org/pressroom/news/13_news_ira_profile_activity.

401(k) Participants in the Wake of the Financial Crisis: Changes in Account Balances, 2007–2011

Analysis of 8.6 Million Consistent 401(k) Plan Participants

An analysis of 8.6 million consistent 401(k) plan participants in the EBRI/ICI 401(k) database in the wake of the financial crisis (over the four-year period from year-end 2007 to year-end 2011) finds that the average 401(k) account balance fell 34.8 percent in 2008, then rose from 2009 to 2011. Overall, the average account balance increased at a compound annual average growth rate of 5.4 percent over the 2007–2011 period, to \$94,482 at year-end 2011, reflecting ongoing contributions and investment gains. Younger participants or those with smaller initial balances experienced higher percentage growth in account balances compared with older participants or those with larger initial balances. Three primary factors impact account balances: contributions, investment returns, and withdrawal/loan activity. The percent change in the average account balance of participants in their twenties was

heavily influenced by the relative size of their contributions to their account balances and increased at a compound average rate of 41.0 percent per year between year-end 2007 and year-end 2011.

401(k) participants tend to concentrate their accounts in equity securities. On average, about three-fifths of the consistent 401(k) participants' assets were invested in equities, either through equity funds, the equity portion of balanced funds, or company stock. Between year-end 2007 and year-end 2011, the allocation of consistent participant balances to equities edged back from 42.9 percent of participants with more than 80 percent of their accounts in equities to 38.4 percent at year-end 2011. The percentage of consistent 401(k) participants without any allocation to equities remained unchanged at 11.8 percent.

This research uses data from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. The full analysis of the 401(k) plan participants can be found in the ICI Research Perspective, "401(k) Participants in the Wake of the Financial Crisis: Changes in Account Balances, 2007-2011," which is available at www.ici.org/pdf/per19-07.pdf. The ICI news release is available at www.ici.org/pressroom/news/13_news_ebri_ici.

The Facts on Retirement

ICI President and CEO Paul Schott Stevens highlighted these research papers in a speech, "The Facts on Retirement," delivered in Chicago the day the research was published (the speech is available at www.ici.org/pressroom/speeches/13_pss_ulc_retirement). In the speech, he also updated the audience on the role of private-sector pension income in retirees' income, from the ICI Research Perspective, "A Look at Private-Sector Retirement Plan Income After ERISA, 2012," released the same day (the paper is available at www.ici.org/pdf/per19-08.pdf, and the ICI news release is available at www.ici.org/pressroom/news/13_news_erisa). In addition, he noted the \$20.9 trillion in assets that Americans have earmarked for retirement as of June 2013, from ICI's recent update of "The Total U.S. Retirement Market, Second Quarter 2013" (the statistical report is available at www.ici.org/info/ret_13_q2_data.xls, and the ICI statistical release is available at www.ici.org/research/stats/retirement/ret_13_q2).

If you have any questions or comments concerning any of this research, please call me at (202) 326-5915 or email me at sholden@ici.org.

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