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ICI Study: Some U.S. Households Making More Conservative Financial Decisions Since 2008 Economic Downturn

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Survey Also Shows Continued Confidence in 401(k) System, Commitment to Saving

Washington, DC, January 27, 2011 - During the past three years of stressed economic conditions and stock market volatility, American households remained committed to saving for retirement, and a significant portion of households owning financial investments appear to have become more conservative in their saving, asset allocation and choice of retirement age, according to new research released today by the Investment Company Institute (ICI). The research is based on data collected in a survey of 3,000 households in November and December 2010.

To determine households' reactions to the past three years of poor economic conditions and stock market volatility, new ICI research—Commitment to Retirement Security: Investor Attitudes and Actions—asked Americans about changes in three areas of financial planning for retirement: 1) regular saving amounts, 2) investment strategy, and 3) retirement age, and found:

- The majority of households with financial investments remained committed to saving: Three-quarters of U.S. households with financial investments have continued to save the same or greater amounts compared with three years ago—whether inside or outside retirement accounts.
- Most kept the same investment strategy: More than half of households with retirement accounts or other financial investments in the survey indicated they had not changed their investment strategies.
- Some shifted to more conservative investments: Thirty-seven percent indicated they had shifted investments to be more conservative—that is away from stocks toward bond and money market assets.
- Retirement age remains the same for a majority of households: Seventy percent of all households surveyed indicated no change in the age at which they retired or plan to retire.
- Some households delayed, while others moved up their retirement age: Sixteen

percent delayed retirement or increased their expected retirement age, while 14 percent took an early retirement or lowered their expected retirement age.

“It is understandable that the financial stresses of the last several years have prompted many households to adopt a more conservative approach to retirement planning—by saving more, making more conservative investments, or delaying retirement.” said Paul Schott Stevens, ICI president and CEO. “At the same time, our research shows for the third year in a row that Americans have continued high confidence in the 401(k) system. Overwhelmingly, they value and want to preserve its key features.”

Most DC Plan Participants Stayed the Course, But Loan Activity Edged Up

The new ICI research also provides the results of a survey of defined contribution (DC) plan recordkeepers covering nearly 24 million DC plan accounts in the first nine months of 2010. The recordkeeper survey revealed that most plan participants stayed the course through ongoing investments to their 401(k)s. Nevertheless, loan activity edged up in the wake of the economic stresses: at the end of September 2010, 18.0 percent of DC plan participants had loans outstanding, compared with 16.5 percent of participants at year-end 2009 and 15.3 percent at year-end 2008.

Households Value Tax Benefit, Other Key Features of DC Plans

The 2010 household survey demonstrated American households’ strong support for key features of DC plans, including their tax benefit, and their appreciation for the investment opportunity these plans provide:

- Overwhelming support for preserving the tax incentives for retirement saving: Eighty-eight percent of all U.S. households disagreed when asked whether the tax advantages of DC accounts should be eliminated. Eighty-two percent opposed any reduction in account contribution limits.
- Many oppose altering key features of DC plans: Nearly 90 percent of all U.S. households disagreed with the idea that individuals should not be permitted to make investment decisions in their DC accounts. More than eight in 10 disagreed with the idea of replacing all retirement accounts with a government bond.
- Investors like choice and control of investments: Ninety-six percent of all DC account-owning households agreed that it was important to have choice in, and control of, the investment options in their DC plans. Eighty-three percent said their plan offers a good lineup of investment options.
- Most households continue to have positive attitudes toward the 401(k) system: Sixty-four percent of all U.S. households had favorable impressions of 401(k) and similar plan accounts, similar to 2009. Three-quarters of households expressed confidence DC plan accounts could help participants reach their retirement savings goals.

“Our household surveys during the past three years find that even in the depths of a bear market and despite a broad economic downturn, Americans continue to be committed to saving for retirement and value the characteristics, such as the tax benefits and individual choice and control, that come with defined contribution plans,” said Sarah Holden, ICI senior director of retirement and investor research. “401(k) and other DC plans are a key component of our retirement system, along with Social Security and defined benefit plans.”

Data from 24 Million DC Plan Accounts Show Participants’ Ongoing

Commitment to Saving

The recordkeeper survey revealed that plan participants acted consistently with the views and actions they reported in the household survey. Specifically, from January through September 2010:

- Contributions continued: Only 3.4 percent of DC plan participants stopped contributions, compared with 5.0 percent of participants during the comparable period of time a year earlier.
- Asset allocations show most participants held a steady course: Fewer than one in ten DC plan participants changed the asset allocation of their account balances, and the same was true with respect to the asset allocation of their contributions.
- DC plan participants generally did not tap their accounts: Only 2.9 percent of DC plan participants took withdrawals during these months, with only 1.4 percent taking hardship withdrawals—a pace similar to the same time frame a year earlier.

The study released today updates and expands upon a similar study, Enduring Confidence in the 401(k) System: Investor Attitudes and Actions, which ICI conducted at year-end 2009.

Please visit ICI’s 401(k) resource page for more information.