

VIDEO

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Focus on Funds: 401(k) Investors Persist During Market Turbulence

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ICI's latest study of 401(k) data shows that account holders are sticking to their long-term savings habits. In the September 11, 2020, edition of *Focus on Funds*, ICI Senior Director of Retirement and Investor Research Sarah Holden discusses data from the first half of 2020.

Transcript

Stephanie Ortbals-Tibbs, ICI director of media relations: Sarah, the global pandemic has brought with it many financial consequences as well, both in the global financial markets and for individual savers who might be saving for retirement through something like a 401(k). Your team looks at 401(k) data, and you've now looked at two quarters of this year. What do you see, and what have we learned?

Sarah Holden, ICI senior director of retirement and investor research: ICI has been doing a long-standing survey of defined contribution plan recordkeepers in order to keep a finger on the pulse of what's happening in those plans with regard to three decision points: Am I going to keep contributing? Am I going to rebalance my assets in some way? Or am I going to potentially tap that account because I've hit such a rough patch?

Over the first half of this year, we see that these participants really generally stuck to their plan of saving for retirement. Only 2 percent of them stopped contributing in the first six months of this year.

Ortbals-Tibbs: And what about the market swings? How did that affect their behavior?

Holden: When COVID hit the United States in March, the stock market fell by a third in less than five weeks—so this was a big move in the market in a very short time. And it has then largely come back. But the question is: What do participants do when they see that up and down going on? And for the most part, they stay the course with their asset allocation.

There's two things I might do in reaction to the market moving. A participant might decide to rebalance their account or they could change their purchasing behavior—change the

asset allocation of their contributions. And what we saw over the first half of this year is fewer than one in 10 changed the asset allocation of their account, and only one in 20 changed the asset allocation of their contributions.

Ortbals-Tibbs: Last but not least, Sarah, you and the team look at how people might be accessing their accounts. And the data there is interesting, both in terms of whether or not they are and how they are.

Holden: ICI has been tracking the withdrawal activity and loan activity of defined contribution plan participants since the wake of the global financial crisis back in 2009. And a clear pattern emerges. People wait before they turn to that retirement account, and even then, very few of them do turn to that retirement account.

What we saw over the first half of this year was that about 3 percent of defined contribution plan participants took withdrawals, including about 1 percent who took hardship withdrawals. So for the most part, they try to not touch that account. That said, policymakers have added a new flexibility recognizing the really tough patch that we're in right now.

A participant impacted by COVID could take a coronavirus-related distribution, or a CRD, and that withdrawal is different from the others because it's going to avoid the 10 percent penalty, and policymakers have made it so that people could put the money back in over the next three years when things improve. So really, these CRDs are much more like a loan—where people can put the money back into the account and try to make themselves whole—rather than a hardship withdrawal. Interestingly, we've seen loan activity tick down, so I think people have recognized this flexibility introduced for them.

Additional Resources

- [News Release: Retirement Savers Maintain Commitment Despite COVID-19 Economic Downturn](#)
- [ICI Research Perspective: The Economics of Providing 401\(k\) Plans: Services, Fees, and Expenses, 2019](#)
- [401\(k\) Resource Center](#)
- [Defined Contribution Plan Participants' Activities, First Half 2020](#)
- [ICI Research Report: American Views on Defined Contribution Plan Saving, 2019](#)