

VIDEO

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Focus on Funds: How 401(k) Investors React to Market Ups and Downs

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The long-term saving horizon of 401(k) investors helps them weather market volatility. In the March 20, 2020, edition of *Focus on Funds*, ICI Senior Director of Retirement and Investor Research Sarah Holden details what we know about the behavior of these savers.

Transcript

Stephanie Ortbals-Tibbs, ICI director of media relations: In times of market volatility, what do retirement savers do? Well, Sarah Holden, I think you can give us insight on that based on some of these huge data sets that you and your team track.

Sarah Holden, ICI director of retirement and investor research: Because so many people are investing in the market through their retirement accounts, we have an extensive survey effort to really keep a finger on the pulse of what is going on with those accounts. First, we do a [quarterly survey](#) of the firms that are actually doing the recordkeeping for the defined contribution plans—so for the 401(k) plans. And then, annually, we do a survey of individuals where we're able to ask them their views on defined contribution plan saving.

Ortbals-Tibbs: So the recordkeeper data set is a big one; it tells us a lot. What do you see there?

Holden: What we see is as the markets go up, and the markets go down, these savers pretty much stick to it. So very few stop contributing; they keep putting money into their account; they keep investing in the market. Very few of them take withdrawals; few of them take loans. And in any given time period, fewer than one in 10 rebalance either the asset mix of their contribution or their purchase decision or their actual account balance.

And I would add that we've got more than half of 401(k) participants are invested in target date funds. And a target date fund is a fund that's diversified and automatically rebalances so that I don't have to worry about that. I, as a participant, handed over that decision to an investment professional. So they're getting some peace of mind from having a professional handle their account for them in that way.

Ortbals-Tibbs: We've talked about what people do, could we also talk about what they think? And you see that in the [American Views study](#) that you conduct.

Holden: So we conduct a survey each November and December of more than 2,000 US individuals, and we use that survey to get their views on defined contribution plans. And to the point of how they feel about market volatility, 82 percent of them agree that knowing that they're saving paycheck by paycheck makes them less worried about the short-term performance of their investments. And 90 percent of them say that they really appreciate that the 401(k) plan helps them think about the long term and not just their current needs.

So the discipline of doing this little by little, and the education around the process of saving for retirement, has really created a sense of peace of mind for these investors because they know they've got the long term, they know they're getting in little by little. And it really helps them stay the course through these volatile times.

Additional Resources

- [ICI Viewpoints: Mutual Fund Flows in the COVID-19 Crisis](#)
- [Report: American Views on Defined Contribution Plan Saving, 2019](#)
- [Report: Defined Contribution Plan Participants Activities, First Three Quarters of 2019](#)
- [Release: Combined Estimated Long-Term Fund Flows and ETF Net Issuance](#)

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