Participant Direction

in Defined Contribution Plans

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Abstract

During the 1990s, many pension plans shifted the responsibility for directing the investment of pension plan assets to the employee. This study examines the rapid growth of the participant directed pension plans using data from the Survey of Consumer Finances, the Survey of Income and Program Participation, and IRS Form 5500. Several relevant questions are addressed. First, what types of workers are most likely to be in a participant directed plan and what types of employers are most likely to offer such plans? Second, how does participant direction affect the allocation of assets and the risk/return performance of the pension? The study has two important findings. First, participant direction has a significant effect on asset allocation in pension plans, shifting pensions away from employer stock and towards other types of stock. Second, based on risk-adjusted rates of return, participant directed plans actually outperform employer directed plans.