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Plan Features Help Participants Stay on Course

Washington, DC, December 21, 2011 - After a decade marked by two severe bear markets, 401(k) plan participants have adopted a more balanced approach to their portfolios, according to a report released today by the Investment Company Institute (ICI) and the Employee Benefit Research Institute (EBRI). Fears that younger participants in 401(k) plans would abandon stock investing are not borne out by the data, which suggest that greater use of target date funds is helping workers keep their investing on track.

The shares of 401(k) participants who had either no equities at all or high concentrations of equities were lower in 2010 than in 2000 for almost every age group, according to the EBRI/ICI report, *401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2010*. Among all 401(k) plan participants in 2000, 12.7 percent held no equity investments (either in equity funds, the equity portion of balanced funds, or company stock), while 54.1 percent had more than 80 percent of their plan accounts allocated to equities. In the current study's sample of more than 23 million participants, 401(k) participants had moderated their account allocations to equities: 11.8 percent of account holders had no allocation to stocks, while the share of participants with more than 80 percent of their balances invested in stocks dropped to 40.0 percent.

Allocation to Equities Among 401(k) Participants

Percentage of 401(k) plan participants by age, 2000 and 2010

***Equities include equity funds, company stock, and the equity portion of balanced funds.**
Source: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (Figure 30)

The only age group where this moderating trend didn't fully hold was workers in their twenties. In 2010, these young participants were somewhat more likely to have more than 80 percent of their account in equities—60.4 percent in 2010 versus 55.3 percent for their counterparts in 2000. That finding runs counter to the notion that younger participants, whose investing experience might be framed by the bear markets of 2000 and 2008, would become a "lost generation" avoiding all stock market investments.

Other data in the EBRI/ICI study indicate that growing use of target date funds—balanced funds that typically rebalance their portfolios to become less focused on growth and more focused on income as they approach and pass the target date—may play a role in keeping younger participants invested in equities. The study found that seven out of 10 plans included target date funds in their investment lineup at year-end 2010, and that recently hired participants in their twenties had 35 percent of their account balances in target date funds, up from 31 percent in 2009 and 16 percent in 2006.

"Growing use of target date funds appears to be helping to keep younger 401(k) participants invested in balanced portfolios, with equity exposure to help their assets grow over the long term," said Sarah Holden, ICI senior director of retirement and investor research. "While our surveys and others have shown that investors are less willing to take on stock market risk, 401(k) plan features are countering that trend for plan participants. That's particularly valuable to provide younger participants diversified portfolios that include growth-oriented investments."

The study also found that, after controlling for tenure, the ratio of participant account balance to salary was relatively flat across salary categories. "The notion that 401(k) plans provide an 'upside down' incentive for more highly compensated individuals is not supported by the data," noted Jack VanDerhei, EBRI research director. "Regulatory limits on both the amount of contributions by more highly compensated workers and the so-called 'nondiscrimination tests,' have doubtless played a role in maintaining this balance."

The study also shows the share of 401(k) accounts invested in company stock fell to 8 percent in 2010, continuing a steady decline that began in 1999. Recently hired 401(k) participants generally were less likely to hold employer stock.

The EBRI/ICI study also found:

- The percentage of participants with 401(k) loans outstanding remained unchanged. In 2010, 21 percent of all 401(k) participants eligible for loans had loans outstanding against their 401(k) accounts, unchanged from year-end 2009, and up from 18 percent at year-end 2008.
- Participants' 401(k) loan balances declined slightly. Loans outstanding amounted to 14 percent of the remaining account balance, on average, at year-end 2010, compared with 15 percent at year-end 2009. Loan amounts declined slightly from those in the past few years in terms of typical dollar amounts.

The average balance for accounts in the database was 3.4 percent higher at year-end 2010 than the average for accounts in 2009. However, this measure may not accurately reflect the experience of typical 401(k) participants in 2010, because the participants in the 2010 database are not all the same as the 2009 participants. In 2012, EBRI and ICI will publish an analysis of accounts of consistent participants who have been in the same plan from 2003 through 2010.

The full report is being published simultaneously by EBRI and ICI on www.ebri.org and www.ici.org.

EBRI, established in 1978, is an independent nonprofit organization committed exclusively to data dissemination, policy research, and education on economic security and employee benefits. EBRI does not take policy positions and does not lobby.

ICI, founded in 1940, is the national association of U.S. investment companies, including mutual funds, closed-end funds, unit investment trusts and exchange-traded funds.
