ICI Research Series

401(k) Plan Participants:

Characteristics, Contributions, and Account Activity

INVESTMENT COMPANY INSTITUTE®

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Introduction

Over the past two decades, the 401(k) plan has become a firmly established part of the private pension system in the United States. First authorized by federal legislation in 1978, 401(k) plans have grown to account for almost one out of every three dollars held in employer-sponsored, private pension funds.[1] More than two-fifths of all active participants in private pension plans were enrolled in 401(k) plans in 1996, the latest year for which information is available.[2]

During the 1990s, mutual funds became an important investment option offered to 401(k) plan participants. Of the $1.5 trillion dollars in 401(k) plan assets at yearend 1999, more than 40 percent was held in mutual funds. By comparison, mutual funds accounted for less than 10 percent of 401(k) plan assets at the end of 1990.[3]

In response to the increasing importance of 401(k) plans to retirement security and the significance of mutual funds in these plans, the Investment Company Institute (ICI)[4] has developed an ongoing research program on the 401(k) plan marketplace. One objective of the research is to provide a better understanding of plan participants' decisionmaking. Another objective is to assess the role and contribution of 401(k) plans in providing for retirement security.

As part of the research program, ICI randomly surveyed 1,181 households in which the primary financial decisionmaker was a 401(k) plan participant.[5]

[1] "Mutual Funds and the Retirement Market," *Fundamentals*, Vol. 9, No. 2 (Investment Company Institute, May 2000), p. 7 and "Flow of Funds Accounts of the United States: Flows and Outstandings, Fourth Quarter 1999," Board of Governors of the Federal Reserve System, Washington, D.C. (March 10, 2000), p. 111.

[2] *Private Pension Plan Bulletin: Abstract of 1996, Form 5500 Annual Reports,* U. S. Department of Labor, Washington, D.C. (Winter 1999-2000), tables B7 and D3 at http://www.dol.gov/dol/pwba/public/programs/opr/bullet1996. Active participants include any worker currently in employment covered by a plan and earning service credit. Active participants also include non-vested former employees who have not incurred a break in service. The number of participants double-counts active participants in more than one plan.

[3] "Mutual Funds and the Retirement Market," p. 7.

[4] The Investment Company Institute is the national association of the American investment company industry. As of April 2000, its membership included 8,034 open-end investment companies ("mutual funds"), 496 closed-end investment companies, and 8 sponsors of unit investment trusts. Its mutual fund members have assets of about $7.024 trillion, accounting for approximately 95% of total industry assets, and 82.8 million individual shareholders.

[5] The survey was conducted by telephone between July and September 1998. The screening process for the survey limited respondents to the primary decisionmaker because in-depth knowledge of the household's entire investment ownership and activity was required to answer survey questions. Questions were included in the survey to verify participation in a 401(k) plan. Respondents whose plans were not 401(k) plans were eliminated at the outset. Respondents who provided answers that indicated they were referring at times to plans other than 401(k) plans were allowed to complete the survey. However, these respondents' employers were crossed-checked with employer plan listings in the *Standard Directory of 401(k) Plans* (Judy Diamond Associates, Inc., 1996-97 edition). Respondents whose employers were not listed in the directory were not included in the analysis presented in the report.

The overall sampling error for the survey is ±3 percent at the 95 percent confidence level. Percentages reported in the text may not add to 100 percent because of weighting or rounding. In those cases in which respondents may have multiple responses, percentages may add to greater than 100 percent. Subgroups of respondents for which percentage responses are reported exclude those respondents who were unable or unwilling to answer questions. Thus, in some cases, the sum of the number of survey participants across subgroups may not add to the total base answering the question. See Appendix A for further discussion of the survey methodology.

Conducted in the summer and fall of 1998, the survey was designed to study a wide range of decisions and the decisionmaking process of participants. It examined the decision to participate, asset allocation of account balances and plan contributions, the relationship between investment decisions made within 401(k) plans and those made outside such plans, and transaction activity within 401(k) plans. The survey also studied participant loan activity and hardship withdrawals. To examine reasons for not participating in 401(k) plans, the survey interviewed 185 primary decisionmakers who were eligible to participate in a 401(k) plan but had chosen not to.

The survey was designed to complement a more detailed analysis of participant asset allocation in 401(k) plans undertaken in collaboration with the Employee Benefit Research Institute (EBRI).[6] The EBRI/ICI Participant-Directed Retirement Plan Data Collection Project includes administrative records for nearly 8 million 401(k) plan participants.[7] The EBRI/ICI database includes information on the salary, age, length of employment, and 401(k) account balances and investments of each participant. The database, however, does not have information on assets held outside 401(k) plans or information on financial and demographic characteristics of other members in the participants' households. In contrast, ICI's 401(k) survey, though covering a smaller but nationally representative sample of plan participants, contains a broad range of financial information about each survey participant's investments held outside 401(k) plans and investigates the interaction between investment decisions made inside and outside 401(k) plans. As a result, the survey provides further insight to the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

[6] The Employee Benefit Research Institute is a nonprofit, nonpartisan, public policy research organization that does not lobby or take positions on proposed legislation.

[7] For an analysis of participants' asset allocation, account balances, and loan activity in 1996 and 1998, see Jack VanDerhei, Russell Galer, Carol Quick, and John Rea, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity," *Perspective,* Vol. 5, No.1 (Investment Company Institute, January 1999), pp. 1-19; and Jack VanDerhei, Sarah Holden, and Carol Quick, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 1998," *Perspective,* Vol. 6, No.1 (Investment Company Institute, January 2000), pp. 1-23.

Executive Summary

The Participation Decision

- The vast majority of 401(k) plan participants enrolled in their current plans to save for retirement (Figure 1). In addition, the vast majority indicated that participation in the 401(k) plan led them to save more for retirement than they would have otherwise. A large number of participants expected their 401(k) plan assets to be their main source of income in retirement.
- Company match, tax deferral, and payroll deduction features also were important in the decision to participate.
- Workers choosing not to join their employers' 401(k) plans primarily cited financial constraints as the reason for nonparticipation (Figure 1). Many of these workers said they did not have the extra money to save and expected to rely upon other resources, including employment, for income in retirement. The vast majority of nonparticipants said they would be likely to join the 401(k) plan if the employer matching contribution were increased or if they had higher salaries.

FIGURE 1

Most Frequently Mentioned Reasons for Participating and Not Participating in 401(k) Plans

(based upon percent of respondents citing reason, in descending order)

Reasons for Participating	Reasons for Not Participating
1. Concern about funding retirement	1. No extra money to save
2. Company match	2. Saving for retirement in some other way
3. Tax-deferred status of contributions	3. Dislike plan features
4. Payroll deduction feature	4. Confused about plan features

FIGURE 2

Characteristics of Participants and Nonparticipants in 401(k) Plans

	Participants	Nonparticipants
Median		
Age	41 years	36 years
Number of individuals contributing to household income	2	1
Household income	$50,000	$30,500
Household financial assets outside employer-sponsored retirement plans[1]	$15,000	$2,800
Household financial assets inside employer-sponsored retirement plans	$30,000	$13,800
Percent		
Male	61	52[a]
Married	66	48[a]
College or postgraduate degree	45	29[a]
Consult a professional financial adviser	27	15[a]
Covered by a defined benefit pension plan	39	19
Understanding of investing:		
Comprehensive	23	13[a]
Basic	56	50
Limited or none	21	37[a]
Have:		
No assets outside employer plans	11	25
Assets only in bank or thrift deposits outside employer plans	50	48
Assets in investments outside employer-sponsored plans[2]	39	27
Household has an IRA	33	20

[a]Responses of 401(k) plan nonparticipants are statistically different at the 95 percent confidence level from those of 401(k) plan participants.

[1]Excludes primary residence.

[2]Investments include stocks, bonds, annuities, mutual funds, and real estate other than a primary residence.

Note: Number of respondents varies.

Characteristics of Participants and Nonparticipants in 401(k) Plans

- The typical plan participant was middle-aged, college-educated, and of moderate financial means (Figure 2). Median household income was $50,000; median household assets held in 401(k) plans and other employer-sponsored retirement plans were $30,000; and median assets outside retirement plans were $15,000.[8]
- About three-fifths of 401(k) plan participants had no investments in stocks, bonds, annuities, or mutual funds other than those in employer plans: Over 10 percent held no financial assets at all outside the plan, while roughly half had bank or thrift deposits but no outside investments in stocks, bonds, or mutual funds.

[8] Employer-sponsored retirement plans will be referred to as “employer plans” throughout the text and tables of this report.

- Most 401(k) participants were the only members of their households participating in 401(k) plans. Only one-third held Individual Retirement Accounts.
- The typical worker declining to participate in his or her employer's 401(k) plan was younger, had lower household income, and had lower financial assets than the typical participant.

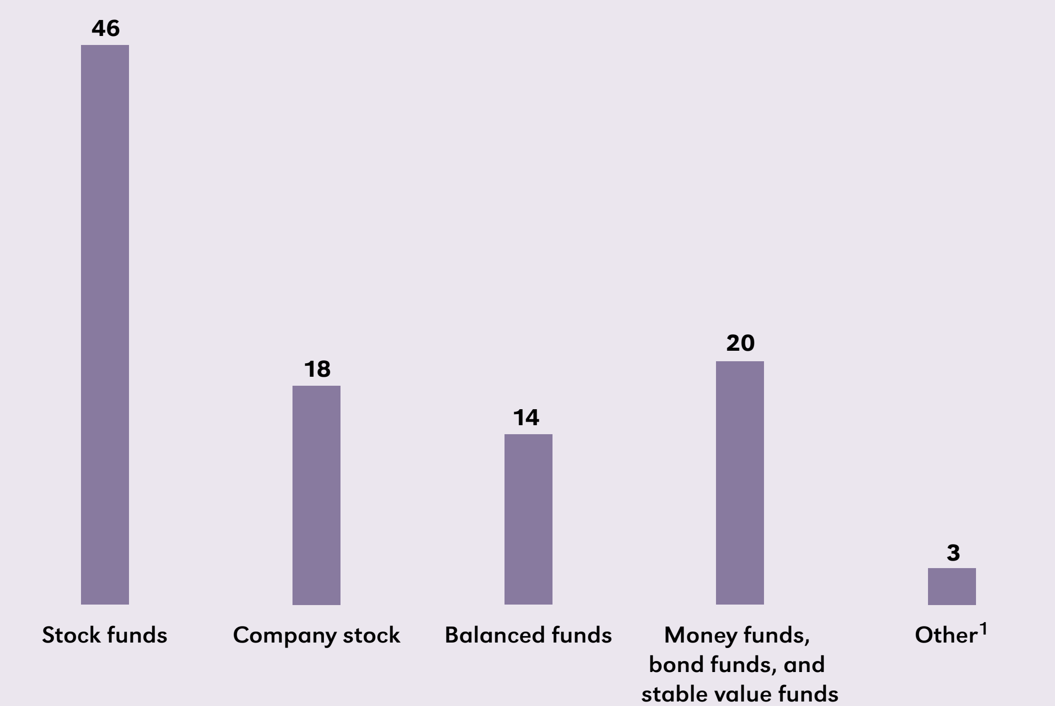
Account Balances, Contributions, and Asset Allocation of Participants in 401(k) Plans

- The account balance of the typical participant was modest, because most only had been in their 401(k) plans for a short time. The median balance was $14,000 and the median tenure in 401(k) plans was four years.
- The typical participant contributed 7 percent of his or her salary to the plan. Most participants invested their contributions and the employer matching contribution in the same way.
- Plan participants allocated the largest percentage of plan assets to equity investments (Figure 3). The average allocation to stock funds was 46 percent, and 18 percent was allotted to company stock. Money funds, bond funds, and stable value funds combined to account for 20 percent, while balanced funds accounted for 14 percent of plan assets.

Investment Decisionmaking in 401(k) Plans

- Participants principally relied upon employer-provided materials and meetings for information on how to invest contributions and account assets. Nearly half who received employer-provided information said the information influenced them to contribute more, allocate assets to higher-risk investments, or spread plan assets across a greater number of investment options (Figure 4).

FIGURE 3
Allocation of 401(k) Plan Balance
(mean percent)



[1]*Includes lifestyle funds, and individual stock (not including company stock) and bonds.*

Note: Number of respondents varies.

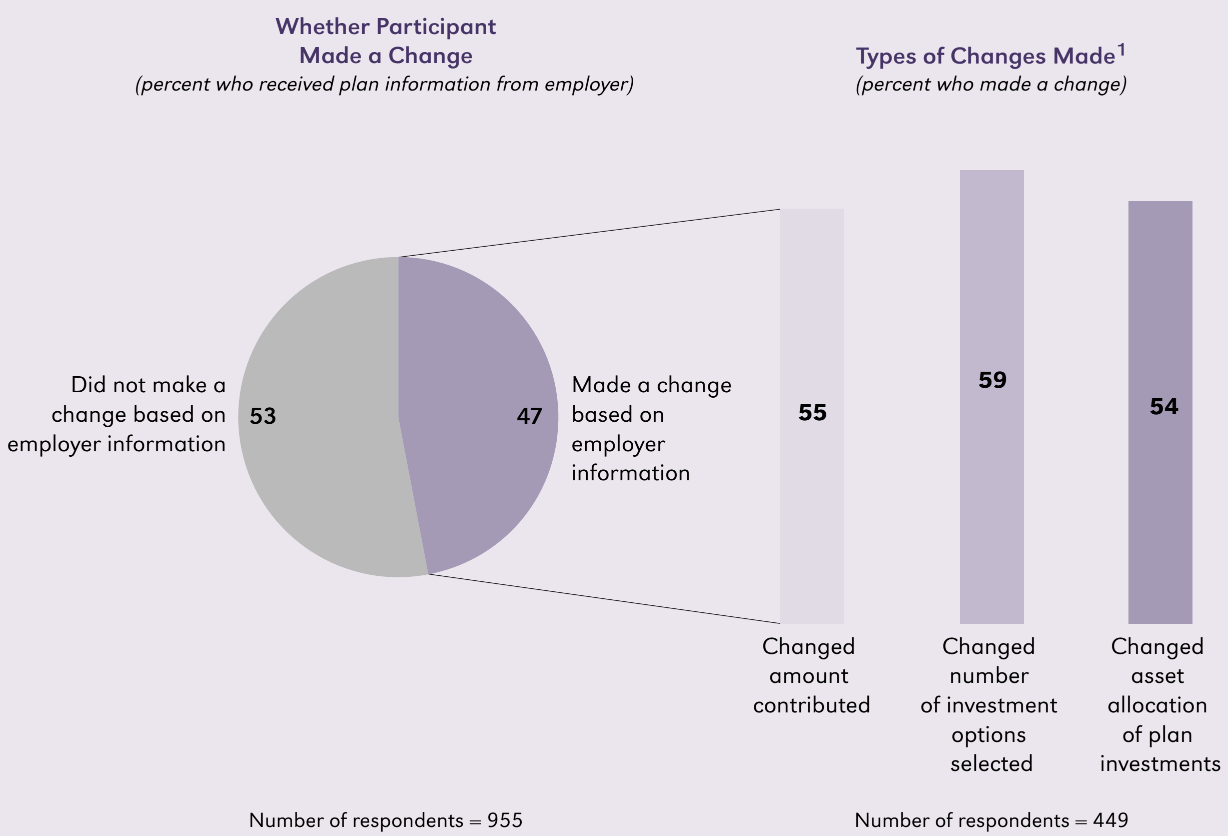
- Plan participants holding assets outside employer plans typically made decisions about 401(k) plan investments within the context of their overall financial assets. That is, 401(k) plan investment decisions are not typically made independently from outside investment decisions.
- Most participants were willing to take average or above-average financial risk with their 401(k) plan assets in the hope of achieving average or above-average investment returns.

Transaction Activity in 401(k) Plans

- Most plan participants did not actively manage their plan assets after making initial investment decisions. Three-fifths had not reallocated their contribution or plan assets since joining the current plan (Figure 5). Those who had changed the allocation of their contributions since joining the plan had done so a median of two times. Similarly, those who had reallocated account balances since joining the plan typically did so twice.

FIGURE 4

Effect of Employer Education on 401(k) Plan Participant Decisionmaking

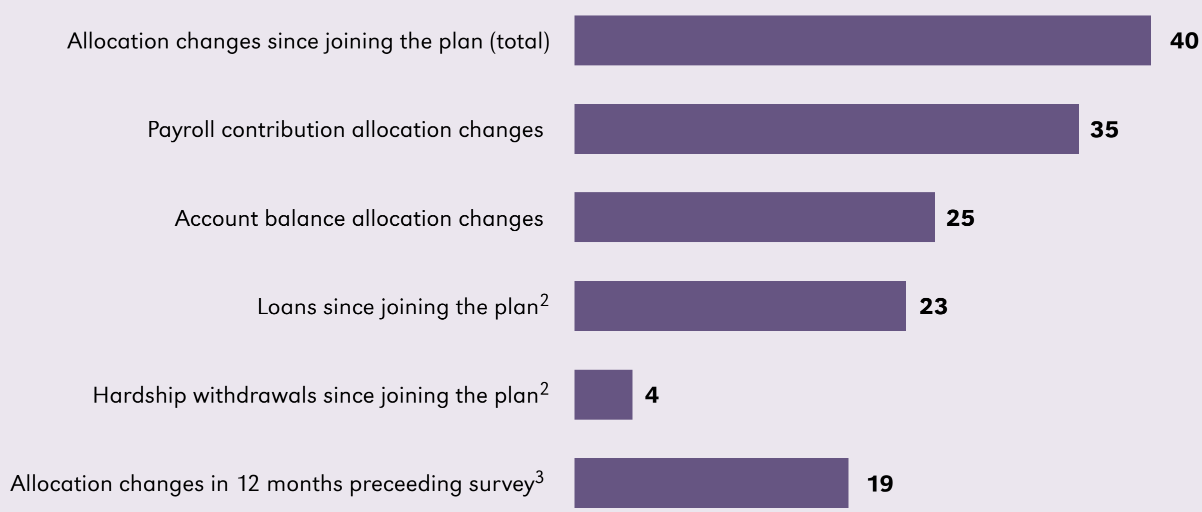


[1]Multiple responses included.

FIGURE 5

Account Activity Undertaken in Current 401(k) Plan[1]

(percent of 401(k) plan participants)



Number of respondents = 1,181

[1]*Multiple responses included.*

[2]*Of those participants offered the feature.*

[3]*September 1997 through August 1998.*

- Only one in five participants changed the allocation of his or her payroll contribution or account balance in the 12 months preceding the survey. These participants typically had made three allocation changes and primarily shifted assets into stock funds to achieve higher investment performance. This group tended to have greater income, higher account balances, and larger investment portfolios outside employer plans than participants who did not make allocation changes in the 12 months preceding the survey.

Plan Loans and Hardship Withdrawals

- Less than one-quarter of participants whose current plans offer loans had taken one (Figure 5). Proceeds from loans were typically used to pay current expenses, purchase large-ticket items, or make a down payment on a home. Borrowers typically had larger account balances and longer plan tenure than non-borrowers.
- Only 4 percent of participants whose current plans offer hardship withdrawals had taken such a withdrawal (Figure 5).

CHAPTER 1

The Participation Decision

Summary

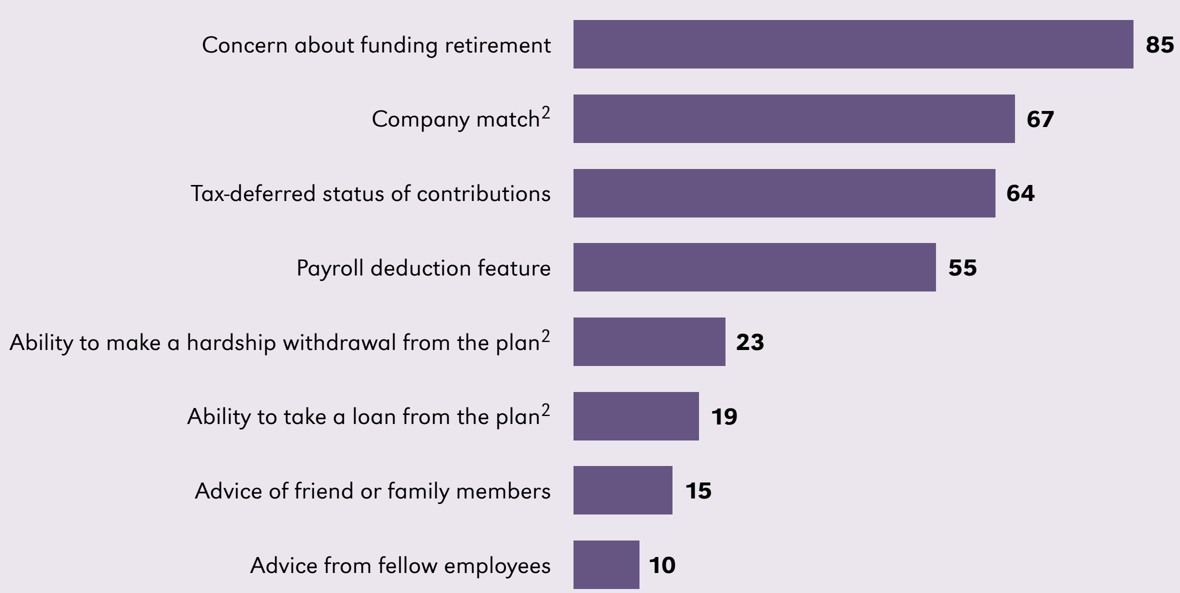
Employees participate in 401(k) plans primarily to save for retirement (Figure 6). Most participants said they would not be saving as much for retirement if their employers did not offer 401(k) plans. Nearly half expected the 401(k) plan to be their primary source of income in retirement.

Nonparticipants of 401(k) plans primarily did not enroll in the plan for financial reasons. Nonparticipants tended to have fewer wage earners in their households and therefore typically had lower household income than participants. Most said they would be likely to enroll in their company's plan if the employer match were increased. Nonparticipants were typically younger and fewer were college graduates than participants.

FIGURE 6

Reasons for Participating in the 401(k) Plan[1]

(percent of 401(k) plan participants indicating reason was "very important")



[1]*Multiple responses included.*

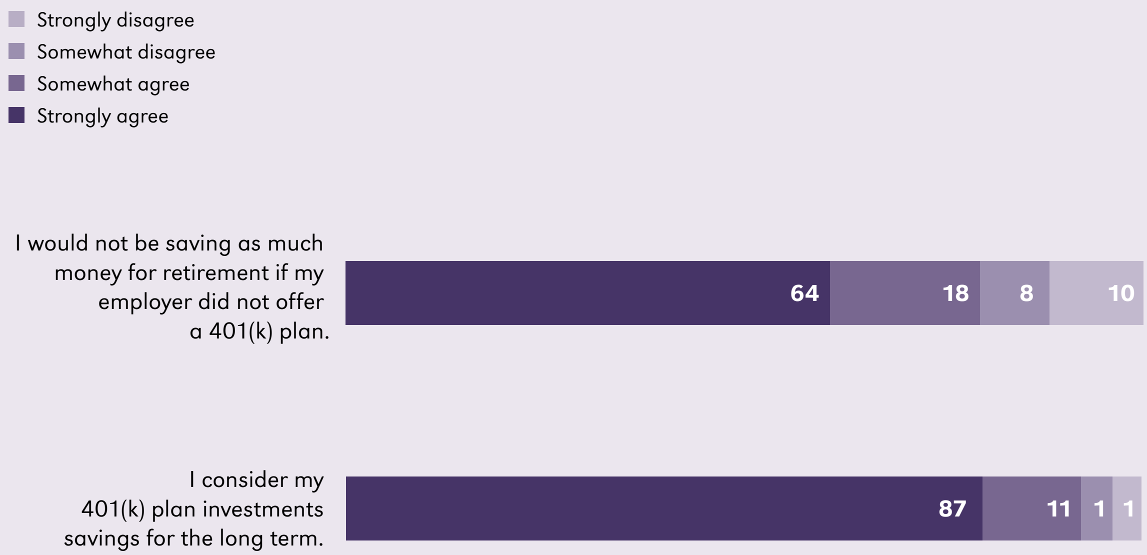
[2]*Asked of those offered the feature.*

Note: Number of respondents varies.

FIGURE 7

Views on Investing in 401(k) Plans

(percent of 401(k) plan participants)



Note: Number of respondents varies.

Reasons for Participating

The most important reason employees join 401(k) plans is to save for retirement.[9] Eighty-five percent of plan participants cited this reason as very important (see Figure 6). Other considerations also influenced the decision to participate. Among those provided with a company match, two-thirds indicated that the match was a very important reason for participating. More than half of all plan participants said the tax-deferral and payroll deduction features of 401(k) plans were very important reasons for participating.

In contrast, the availability of loans or hardship withdrawals less frequently influenced participants to enroll in their plans. Less than one-quarter of participants offered these features said they were a very important factor in their decisions to participate. Advice from co-workers and friends and family also played minor roles in participants' decisions to join the 401(k) plan—fewer than one-fifth cited either of these two reasons.

For most U.S. workers, 401(k) plans are an important vehicle for saving for retirement. Four-fifths of plan participants either strongly agreed or somewhat agreed that they would not be saving as much money for retirement if their employers did not offer 401(k) plans (Figure 7). Furthermore, virtually all plan participants strongly agreed or somewhat agreed that their 401(k) plan investments were savings for the long term. In fact, 44 percent said they expected their 401(k) plan assets to be their primary source of income in retirement (Figure 8). In contrast, only 3 percent expected salary from work in retirement to be their primary source of retirement income. Participants who anticipated relying on working in retirement typically had lower household income, fewer household financial assets, and smaller 401(k) plan balances than participants who expected to rely on 401(k) plan assets (see Figure 56 in Appendix B).

[9] Plan participants were presented with a list of reasons for enrolling in a company 401(k) plan and were asked to indicate the importance of each in the decision to join. The reasons were: 1) the payroll deduction feature, 2) concern about funding retirement, 3) advice from fellow employees, 4) advice from friends or family members, 5) the tax-deferred status of contributions, and, if offered by the plan, 6) the company match, 7) the ability to take a loan from the plan, and 8) the ability to make a hardship withdrawal from the plan.

Reasons for Not Participating

Two-thirds of 401(k) plan nonparticipants stated that not having extra money to save was very important or somewhat important in the decision not to join the plan (Figure 9).[10] Of the nonparticipants indicating that financial constraints precluded them from enrolling in a 401(k) plan, 73 percent said they had other monetary obligations and 68 percent indicated they could not afford to save regularly (see Figure 57 in Appendix B).

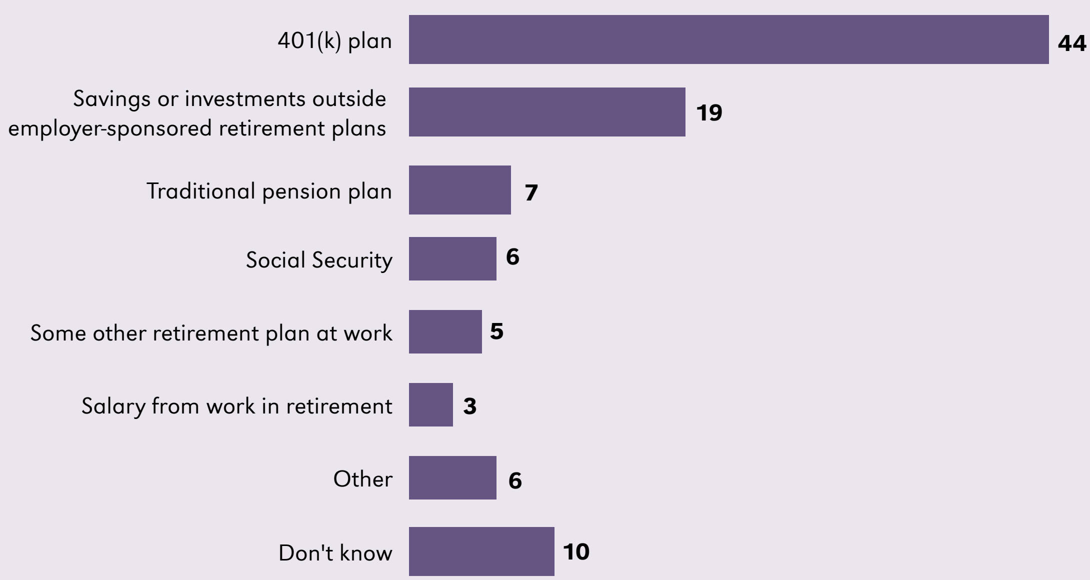
Almost three-fifths cited saving for retirement using non-401(k) plan alternatives as a reason for not participating. Of these, nearly two-thirds anticipated funding their retirement by working in retirement (Figure 58 in Appendix B). In addition, almost half predicted investments held outside employer-sponsored retirement plans would be a source of retirement income, and more than one-third expected to rely on holdings in IRAs.[11] Slightly more than one-quarter anticipated funding their retirement with assets held in a previous employer's plan, and a similar percentage expected to rely on an employer plan other than a 401(k) plan. Roughly one-fifth or fewer predicted using money from an inheritance, a spouse or partner's retirement savings, or the sale of a primary residence.

Thirty-six percent of nonparticipants said the 401(k) plan had features they did not like, and slightly more than 30 percent listed confusion about plan features and advice from trusted individuals as reasons for deciding not to participate. Of those who expressed confusion with plan features, the most perplexing feature was making investment selection decisions, cited by 53 percent (see Figure 59 in Appendix B). Between one-third and one-half of these nonparticipants were

FIGURE 8

Expected Primary Source of Income in Retirement

(percent of 401(k) plan participants)



Number of respondents = 1,170

[10] Respondents eligible to participate in a 401(k) plan but decided not to were presented with five reasons for not participating and were asked to indicate how important each was in the decision not to join. The five reasons were: 1) advice from a family member, friend, or professional financial adviser, 2) the household is saving for retirement in some other way, 3) the 401(k) plan's features are confusing, 4) the 401(k) plan has features that the respondent does not like, and 5) the respondent does not have extra money to save.

[11] At the time of the survey, only 20 percent of nonparticipants indicated that their households had IRAs (see Figure 2 in the Executive Summary).

puzzled by loan rules, vesting rules, hardship withdrawal rules, and the tax-deferred features of the plan.

Strategies to Improve 401(k) Plan Participation

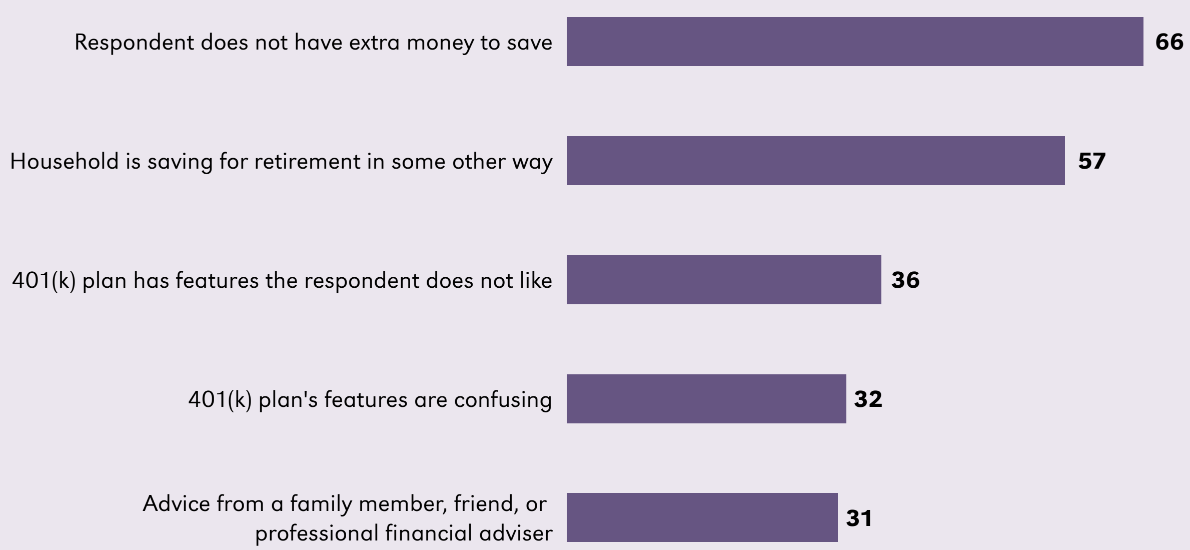
The strategy most likely to lead to increased 401(k) plan participation is providing or increasing the company match.[12] Eighty percent of nonparticipants indicated they would be very likely or somewhat likely to enroll in the plan if their employers were to provide or increase the company match (Figure 10).

More than seventy percent of nonparticipants said they would be very likely or somewhat likely to enroll in the plan if they received a raise. More than one-half said they would be likely to participate in the plan if the number of investment options in the plan were increased, if one-on-one investment advice were provided, if more information on the plan and its features were made available, or if general investment information were provided. Of the nonparticipants who said confusion about plan features was a very or somewhat important reason for not enrolling in the plan, 55 percent indicated they would be very likely or somewhat likely to join the plan if they were provided with more information about the plan and its features.

FIGURE 9

Reasons for Not Participating in 401(k) Plan[1]

(percent of 401(k) plan nonparticipants indicating reason was "very" or "somewhat" important)



[1]Multiple responses included.

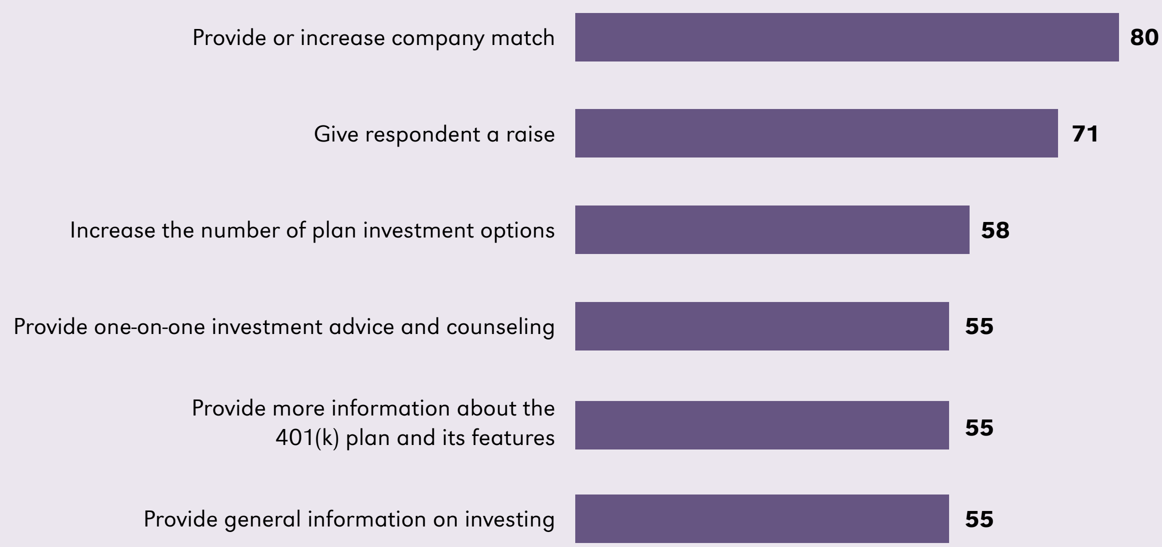
Note: Number of respondents varies.

[12] Nonparticipants were presented with six actions and were asked to indicate how likely they would be to join the plan if their employers undertook each. The six actions were to: 1) give the respondent a raise, 2) provide or increase the company match, 3) increase the number of plan investment options, 4) provide one-on-one investment advice and counseling, 5) provide more information about the 401(k) plan and its features, and 6) provide general information about investing.

FIGURE 10

Employer Changes that Could Improve Plan Participation[1]

(percent of 401(k) plan nonparticipants "very" or "somewhat" likely to enroll if each change is made)



[1]Multiple responses included.

Note: Number of respondents varies.

CHAPTER 2

Characteristics of 401(k) Plan Participants and Plan Features

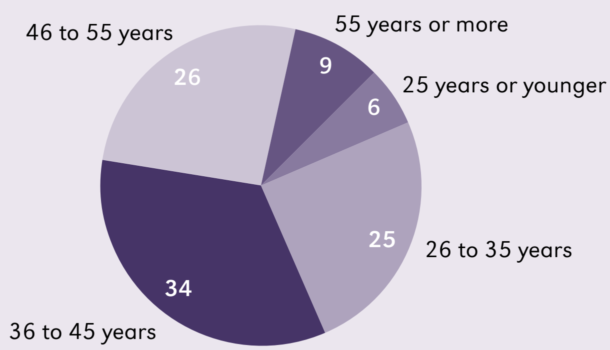
Summary

Participants of 401(k) plans had a median age of 41 years (Figure 11). Median household income was $50,000, and household financial assets were $45,000, most of which was held in employer-sponsored retirement plans.[13] The typical plan participant had worked for his or her current employer for seven years and had been a member of the 401(k) plan for four years. More than three-fifths were very satisfied with their 401(k) plans and more than four-fifths believed the plans offered the appropriate number and type of investment options. The majority said their 401(k) plans provide stock funds, bond funds, balanced funds, and money market funds. Slightly more than two-fifths indicated their plans include company stock.

FIGURE 11

Age of 401(k) Plan Participants

(percent of 401(k) plan participants)



Median = 41 years

Number of respondents = 1,171

[13] Because 401(k) plan participants in this survey were the main decisionmakers for household savings and investments, their characteristics may differ slightly from those of 401(k) plan participants nationwide.

FIGURE 12

Characteristics of 401(k) Plan Participants

Median	
Age	41 years
Household income	$50,000
Number of individuals contributing to household income	2
Household financial assets outside employer-sponsored retirement plans[1]	$15,000
Household financial assets inside employer-sponsored retirement plans	$30,000
Years with current employer	7 years
Size of employer's work force	1,200
Years in current employer's 401(k) plan	4 years
Number of full-time positions held since age 21	3
Number of retirement plans participated in over career	1
Percent	
Male	61
Married	66
Living with a partner	4
College or postgraduate degree	45
Occupation:	
White collar, professional	51
White collar, support	16
Blue collar	32
Other	2
Covered by defined benefit plan	39
Have a spouse or partner with employer-sponsored retirement plan (total)[2]	28
Covered by defined benefit plan	11
Participates in defined contribution plan	24
Consult a professional financial adviser	27
Own an IRA	33
Expect to retire comfortably	71
Understanding of investing:	
Comprehensive	23
Basic	56
Limited or none	21

[1]Excludes primary residence.

[2]Multiple responses included.

Note: Number of respondents varies.

Characteristics of 401(k) Plan Participants

The median age of 401(k) plan participants was 41 years (Figure 12). Forty-five percent of plan participants had a college or postgraduate degree, and more than half were white-collar professionals. Nearly one-third were in blue-collar occupations. Plan participants had held a median of three jobs since adulthood and had worked for their current employers for a median of seven years. Their median length of participation in the plan was four years. Thirty-nine percent were covered by defined benefit plans. Twenty-eight percent of participants had a working spouse or partner covered by an employer plan, usually a defined contribution plan.

Reflecting the characteristics of most U.S. wage earners, 401(k) plan participants tended to have moderate incomes and modest financial portfolios. The median household income of plan participants was $50,000. Median household financial assets in employer plans was $30,000, and the amount held outside such plans was $15,000.

Characteristics by Ownership of Household Financial Assets Outside Employer Plans

Roughly three-fifths of 401(k) plan participants had no investments other than those in employer plans: 11 percent of 401(k) plan participants had no household financial assets outside employer plans, and half had bank or thrift deposits but no investments outside employer plans (Figure 13).[14] Thirty-nine percent owned investments outside employer-sponsored retirement plans.[15]

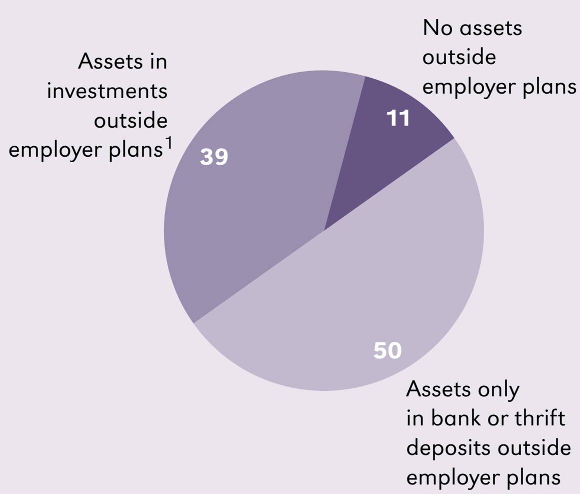
401(k) Plan Participants with No Household Financial Assets Outside Employer Plans

Only one-fifth of plan participants with no household financial assets outside employer plans had college or postgraduate degrees (Figure 14). Members of this group tended to be in their late thirties and married. Unlike other participants, they typically were the only wage-earner in their households. Hence, the median household income of this group was relatively low in contrast to those of other 401(k) plan participants. The median level of household financial assets inside employer plans was $7,800. Compared with other plan participants, fewer members of this group expected to retire comfortably.

FIGURE 13

Ownership of Household Financial Assets Outside Employer Plans

(percent of 401(k) plan participants)



Number of respondents = 1,171

[1]Investments include stocks, bonds, annuities, mutual funds, and real estate other than a primary residence.

[14] Investments include stocks, bonds, annuities, mutual funds, and real estate other than a primary residence.

[15] Referred to as "employer plans."

FIGURE 14

Characteristics of 401(k) Plan Participants by Ownership of Household Financial Assets Outside Employer Plans

	No Assets Outside Employer Plans	Assets Only in Bank or Thrift Deposits Outside Employer Plans	Assets in Investments Outside Employer Plans[2]
Median			
Age	39 years	41 years	41 years
Household income	$34,500	$47,500	$70,000
Number of individuals contributing to household income	1	2	2
Household financial assets outside employer-sponsored retirement plans[1]	NA	$10,000	$50,000
Household financial assets inside employer-sponsored retirement plans	$7,800	$25,000	$50,000
Percent			
Male	61	58	65
Married	59	65	69
College or postgraduate degree	20	37	62[a]
Consult a professional financial adviser	11	20	40[a]
Own an IRA	0	24	52[a]
Expect to retire comfortably	53	68	79[a]
Understanding of investing:			
Comprehensive	8	15	37[a]
Basic	51	59	54
Limited or none	41	26	9[a]

[a]Responses of 401(k) plan participants with assets in investments outside employer plans are statistically different at the 95 percent confidence level from those of participants with no assets in investments outside employer plans.

[1]Excludes primary residence.

[2]Includes stocks, bonds, annuities, mutual funds, and real estate other than a primary residence.

NA=Not applicable.

Note: Number of respondents varies.

401(k) Plan Participants with Bank or Thrift Deposits but No Investments Outside Employer Plans

Most members of this group were not college graduates (Figure 14). They typically were from two-income households, and their median household income was $47,500. The median level of household financial assets inside employer plans was $25,000, and outside such plans it was $10,000. Sixty-eight percent expected to retire comfortably.

401(k) Plan Participants with Investments Outside Employer Plans

More than three-fifths of participants with investments outside employer plans had college degrees (Figure 14). The median household income of this group was $70,000, considerably greater than the median incomes of the two other participant groups. Those with investments outside employer plans also had the greatest household financial assets: a median of $50,000 inside employer plans and a median of $50,000 outside

FIGURE 15

Investments Held Outside Employer-sponsored Retirement Plans

(for 401(k) plan participants with investments outside employer-sponsored retirement plans)

Types of Investments Owned[1]	
(percent)	
Mutual funds (total)	69
Stock mutual funds	58
Bond mutual funds	15
Hybrid mutual funds	35
Money market mutual funds	29
Individual stock	61
Real estate other than primary residence	33
Individual bonds	18
Variable annuities	17
Fixed annuities	9
Asset Allocation	
(weighted mean percent of plan assets)	
Individual stock	33
Mutual funds (total)	25
Stock mutual funds	16
Bond mutual funds	1
Hybrid mutual funds	6
Money market mutual funds	2
Bank or thrift deposits	18
Real estate other than primary residence	17
Individual or government bonds	3
Variable annuities	3
Fixed annuities	1

[1]Multiple responses included.

Note: Number of respondents varies.

employer plans. Nearly 80 percent expected to retire comfortably.

Nearly 70 percent of this group owned mutual funds—usually stock mutual funds—outside employer plans (Figure 15). More than 60 percent held individual stock. About one-third owned investment real estate, and less than one-fifth owned individual bonds or variable annuities. On average, nearly one-half of this group's assets held outside employer plans was invested in equities, with 33 percent allocated to individual stock and 16 percent to stock mutual funds.

Characteristics of Nonparticipants

Nonparticipants had a median age of 36 years, 5 years younger than the median age of 401(k) plan participants (see Figure 2 in the Executive Summary). Twenty-nine percent of nonparticipants had college or postgraduate degrees, compared with 45 percent of participants. Most nonparticipants were single, whereas most participants were married. Fifty-two percent of nonparticipants were male, compared with 61 percent of participants.

Nonparticipants typically had fewer wage earners in their households than did plan participants. As a result,

FIGURE 16
401(k) Plan Features

Median	
Number of investment options	6
Years to become 100 percent vested[1]	5 years
Size of company matching contribution[2]	3.0%
Size of company nonmatching contribution[3]	4.0%
Percent	
Receive a company contribution to the plan (total)	85
Company match	81
Fixed percentage	4
Plan allows:	
Loans	
Yes	75
No	16
Don't know	9
Hardship withdrawals	
Yes	66
No	14
Don't know	20
Very satisfied with plan options	61
Number of plan options is the right number	83

[1]Responses of those receiving a company match or nonmatching contribution from employer.

[2]Responses of those receiving a company match.

[3]Responses of those receiving a fixed percentage contribution from employer, regardless of employee contribution.

Note: Number of respondents varies.

nonparticipants tended to have lower household income. The median income of nonparticipants was $30,500, compared with $50,000 for plan participants. Nonparticipants had fewer investment assets. Fewer nonparticipants than participants had relationships with professional financial advisers. Compared with plan participants, more nonparticipants described themselves as having little understanding of investing.

401(k) Plan Features

The median number of investment options offered by participants' 401(k) plans was six (Figure 16).[16] More than four-fifths of participants said their plans provided the appropriate number of investment options. More than three-fifths were very satisfied with the types of investments offered.

Eighty-five percent of participants said their employers contribute to the plan, in most instances by providing a company match.[17] The median tenure to become 100 percent vested in company contributions was five years.

Three-quarters of participants said they can take loans from their plans; 16 percent reported that their

[16] According to a Hewitt Associates survey of 491 401(k) plan sponsors, the median number of investment options offered by 401(k) plans was nine in 1999. See *Trends and Experience in 401(k) Plans, 1999* (Hewitt Associates), p. 27.

[17] The 1999 Hewitt Associates survey reported that 97 percent of 401(k) plan sponsors provide a company contribution. Buck Consultant's 1998 survey of 401(k) plan sponsors found that 89 percent of plan sponsors offer a company match. See *Trends and Experience in 401(k) Plans, 1999* (Hewitt Associates), p. 19 and *401(k) Plans: Survey Report on Plan Design, 1998 Plan Year* (Buck Consultants), p. 16.

FIGURE 17

Frequency of Ability to Make Changes in Contribution Rate and Allocation of Contribution or Account Balance

(percent of 401(k) plan participants)

Contribution Rate	
Every day	28
Every pay period	3
Once a month	9
Once every three months (quarterly)	19
Once every four months	1
Twice a year (biannually)	15
Once a year	13
Don't know	12
Number of respondents	1,180
Allocation of Account Balance or Payroll Contribution	
Every day	44
Every pay period	1
Once a month	8
Once every three months (quarterly)	16
Once every four months	1
Twice a year (biannually)	8
Once a year	9
Don't know	13
Number of respondents	1,166

plans do not offer this feature. Less than 10 percent did not know whether their plans permit loans.[18]

Two-thirds of participants indicated their plans allow hardship withdrawals and 14 percent said their plans do not offer them. Twenty percent were unsure whether their plans permit hardship withdrawals.[19]

The largest proportion of participants, 44 percent, said they can make account balance or payroll contribution allocation changes daily, and 16 percent said they can make such changes quarterly (Figure 17). Thirteen percent did not know how often they were permitted to make such allocation changes. The remaining 27 percent of participants cited other frequencies, usually either monthly, yearly, or biannually.[20]

Twenty-eight percent of plan participants said they can change their payroll contribution rate daily; 19 percent, quarterly; 15 percent, biannually; and 13 percent, yearly. Twelve percent of participants did not

[18] Ninety-two percent of the 401(k) plan sponsors surveyed by Hewitt Associates permit loans, and 87 percent of those surveyed by Buck Consultants offer loans. See *Trends and Experience in 401(k) Plans, 1999* (Hewitt Associates), p. 46 and *401(k) Plans: Survey Report on Plan Design, 1998 Plan Year* (Buck Consultants), p. 27.

[19] Ninety-two percent of the 401(k) plan sponsors participating in the 1998 Buck Consultants survey allow hardship withdrawals. The vast majority of these plan sponsors limit hardship withdrawals to payment of medical expenses not covered by insurance, purchase of a principal residence, payment of post-secondary education, and prevention of eviction or foreclosure on a mortgage of an employee's principal residence. See *401(k) Plans: Survey Report on Plan Design, 1998 Plan Year* (Buck Consultants), p. 32.

[20] Of the 401(k) plan sponsors that responded to the 1999 Hewitt Associates survey, 71 percent allow daily transfers; 6 percent, monthly transfers; 4 percent, quarterly transfers; and 1 percent, some other frequency. In Hewitt Associates' 1997 401(k) plan sponsor survey, 71 percent had daily valuation. Seventy-one percent of the plan sponsors participating in the1998 Buck Consultants survey permitted daily transfers for existing account balances. See *Trends and Experience in 401(k) Plans, 1999* (Hewitt Associates), p. 36; and *401(k) Plans: Survey Report on Plan Design, 1998 Plan Year* (Buck Consultants), p. 24.

know how often they can change the level of their payroll contributions.[21]

The majority of participants indicated that their 401(k) plans offer stock funds, bond funds, balanced funds, and money market funds (Figure 18).[22, 23] Slightly more than two-fifths of participants said their plan investments include company stock.[24] Twenty-three percent indicated their plans offer a stable value investment option.[25] Fewer participants, 14 percent, said their plans provide lifestyle funds, which are funds with an asset allocation considered appropriate for a particular group of investors.[26]

FIGURE 18

Investments Offered by 401(k) Plan

(percent of 401(k) plan participants)

Stock funds	
Yes	71
No	20
Don't know	9
Bond funds	
Yes	61
No	26
Don't know	13
Balanced funds	
Yes	67
No	18
Don't know	15
Company stock	
Yes	43
No	53
Don't know	5
Lifestyle funds	
Yes	14
No	62
Don't know	25
Money market funds	
Yes	65
No	24
Don't know	11
Stable value investments	
Yes	23
No	54
Don't know	23
Number of respondents	1,181

[21] Seventy percent of respondents to the 1998 Buck Consultants survey of 401(k) plan sponsors permit changes to payroll contributions every pay period; 13 percent, monthly; and 13 percent, quarterly. See *401(k) Plans: Survey Report on Plan Design, 1998 Plan Year* (Buck Consultants), p. 24.

[22] Plan participants were asked whether their 401(k) plans included seven different types of investments: 1) company stock, 2) stock funds, 3) bond funds, 4) balanced funds, 5) lifestyle funds, 6) money market funds, and 7) stable value investments.

[23] Both the 1999 Hewitt Associates and the 1998 Buck Consultants surveys indicated that most 401(k) plans include stock funds, bond funds, balanced funds, and stable value or money market funds. See *Trends and Experience in 401(k) Plans, 1999* (Hewitt Associates), p. 28 and *401(k) Plans: Survey Report on Plan Design, 1998 Plan Year* (Buck Consultants), pp. 22-23.

[24] Fifty-two percent of the 401(k) plan sponsors surveyed by Hewitt Associates offer company stock, and 34 percent of those surveyed by Buck Consultants offer company stock. See *Trends and Experience in 401(k) Plans, 1999* (Hewitt Associates), p. 29 and *401(k) Plans: Survey Report on Plan Design, 1998 Plan Year* (Buck Consultants), p. 23.

[25] Of the 401(k) plan sponsors in the 1999 Hewitt Associates survey, 68 percent provide a stable value investment option. Fifty-five percent of those answering the 1998 Buck Consultants survey offer a stable value investment option. See *Trends and Experience in 401(k) Plans, 1999* (Hewitt Associates), p. 29 and *401(k) Plans: Survey Report on Plan Design, 1998 Plan Year* (Buck Consultants), p. 23.

[26] According to both the 1999 Hewitt Associates and 1998 Buck Consultants surveys, less than one-third of 401(k) plans offer lifestyle funds. See *Trends and Experience in 401(k) Plans, 1999* (Hewitt Associates), p. 29 and *401(k) Plans: Survey Report on Plan Design, 1998 Plan Year* (Buck Consultants), p. 23.

CHAPTER 3

Contributions, Account Balances, and Asset Allocation

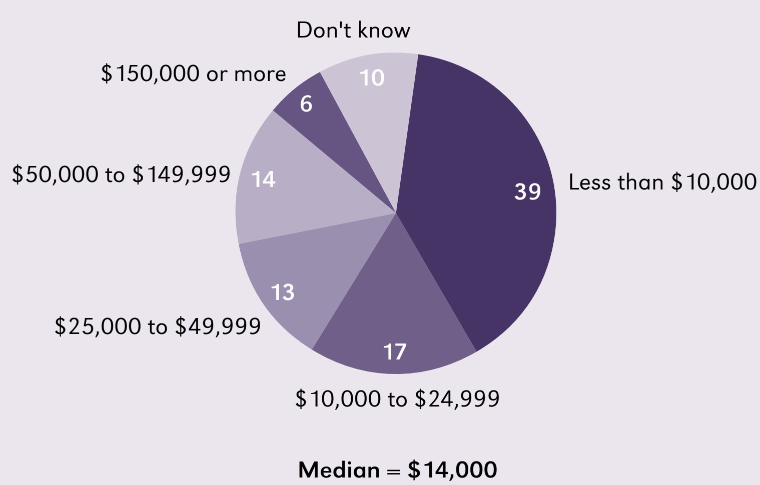
Summary

Plan participants had a median account balance of $14,000 in 1997 (Figure 19). The median amount they contributed to the plan in 1997 equaled 7 percent of salary. Most plan participants had received information from their employers about investing in 401(k) plans, which typically included the performance, investment goals, risk level, and management fees of each investment option. Nearly half of plan participants had made contribution or asset allocation changes based on employer-provided information. Shareholders with financial assets outside retirement plans typically took these assets into account when deciding on the appropriate level of risk to take with plan assets. On average, 46 percent of participants' plan balances was in stock funds. Participants said they typically invest 30 percent of 401(k) plan assets conservatively; 30 percent, moderately; and 40 percent, aggressively.

FIGURE 19

Size of 401(k) Plan Balance

(percent of 401(k) plan participants)



Number of respondents = 1,010

FIGURE 20

Participants' Contributions to the Plan[1]

(percent of 401(k) plan participants)

	All 401(k) Plan Participants	Household Income				
		Less than $30,000	$30,000 to $49,999	$50,000 to $74,999	$75,000 to $99,999	$100,000 or more
Percentage of Wages						
1 to 5 percent	28	45	40	28	19	12
6 to 9 percent	28	18	26	32	35	29
10 percent	16	15	14	14	15	24
11 to 14 percent	6	2	3	8	11	8
15 percent	9	5	6	6	12	15
More than 15 percent	6	5	5	6	7	6
Don't know	7	11	7	7	2	6
Mean	8.8%	7.2%	7.6%	8.4%	9.1%	9.7%
Median	7.0%	5.0%	6.0%	6.0%	8.5%	10.0%
Number of respondents	1,061	130	235	244	116	123
Dollar Amount						
Less than $2,500	14	18	24	16	7	5
$2,500 to $4,999	11	7	10	13	19	13
$5,000 or more	15	2	4	16	26	51
Don't know	59	73	62	55	48	31
Mean	$4,700	$1,800	$2,400	$4,100	$6,000	$8,000
Median	$3,500	$1,200	$2,000	$3,200	$5,000	$7,800
Number of respondents	923	131	228	227	106	117

[1]Contributions are for 1997, the year preceding the survey.

401(k) Plan Contributions

The median contribution in 1997 by participants in 401(k) plans was 7 percent of eligible wages (Figure 20).[27, 28] The median amount contributed was $3,500.[29] Both the median percentage contributed and the dollar amount contributed rose with income.

Twenty-seven percent of participants reported contributing the maximum amount allowed. Nearly three-fifths of these individuals said they would be very likely to contribute more to their plans if permitted (Figure 21). Participants most inclined to contribute more were those with household incomes of $50,000 or more.

Of plan participants receiving employer contributions, 56 percent indicated the contributions were in cash; 17 percent, in company stock; and 19 percent, in a combination of cash and company stock (Figure 22). More than three-quarters of those receiving cash contributions said they invested the employer cash contribution in the same way they invested their own contributions.

[27] The median is only for participants able to report a percentage contribution rate. Those reporting represented 93 percent of all respondents.

[28] The 1999 Hewitt Associates survey reported a median contribution rate for 401(k) plan participants of 6.6 percent, and a mean rate of 6.7 percent. See *Trends and Experience in 401(k) Plans, 1999* (Hewitt Associates), p. 15.

[29] The median is only for participants able to report the dollar amount contributed. Those reporting represented 41 percent of all respondents.

FIGURE 21

Likelihood of Contributing More to 401(k) Plan If Permitted

(percent of 401(k) plan participants contributing the maximum)

	All 401(k) Plan Participants	Household Income: Less than $50,000	Household Income: $50,000 or more
Very likely	59	51	60[a]
Somewhat likely	18	17	20
Somewhat unlikely	9	8	10
Very unlikely	13	24	9[a]
Number of respondents	320	71	172

[a]Responses of 401(k) plan participants with household income of $50,000 or more are statistically different at the 95 percent confidence level from those of participants with household income below $50,000.

FIGURE 22

Employer Contributions to 401(k) Plans

Form of Contribution	
(percent of 401(k) plan participants receiving an employer contribution)	
Cash	56
Company stock	17
Both cash and company stock	19
Don't know	7
Number of respondents	995
Investment of Employer Cash Contributions in Same Manner as Personal Contributions	
(percent of 401(k) plan participants receiving a cash contribution from employer)	
Always	76
Sometimes	14
Never	10
Number of respondents	714

401(k) Plan Account Balances

Nearly 40 percent of plan participants indicated the balance in their current 401(k) plans was below $10,000, and 17 percent said it was between $10,000 and $24,999 (Figure 23). One-third reported having a plan balance of $25,000 or more. Ten percent of plan participants were unaware of the size of their account balance.

Of those who were aware of their plan balance, the median 401(k) plan account balance was $14,000.[30] Plan account balances typically increased with participants' tenure in the plan. For example, the median account balance of participants with six or more years in the plan was $50,000, whereas the median balance for those with one year or less in the plan was $1,600.

[30] The mean account balance for participants in this study was $45,900. The median account balance in 1998 for participants in the EBRI/ICI 401(k) plan database of participant-directed retirement plan data was $13,038, and the mean account balance was $47,004. See "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 1998," *Perspective*, Vol. 6, No. 1 (Investment Company Institute, January 2000), p. 12.

FIGURE 23

401(k) Plan Account Balance

(percent of 401(k) plan participants)

	All 401(k) Plan Participants	Years in the Plan: One Year or Less	Years in the Plan: Two to Five Years	Years in the Plan: Six or More Years
Less than $10,000	39	71[a]	46	8
$10,000 to $24,999	17	8[a]	26	20
$25,000 to $49,999	13	3[a]	18	20
$50,000 to $149,999	14	2	7	36[b]
$150,000 or more	6	1	1	13[b]
Don't know	10	15	2	2
Mean	$45,900	$9,700	$27,200	$85,900
Median	$14,000	$1,600	$10,000	$50,000
Number of respondents	1,010	296	335	309

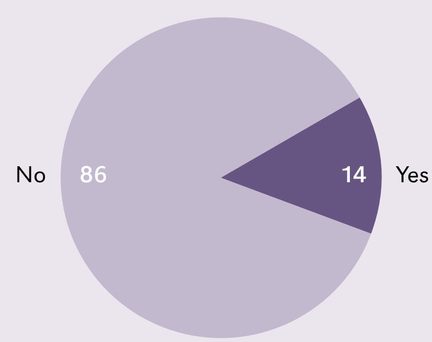
[a]*Responses of 401(k) plan participants who have belonged to their current plans for one year or less are statistically different at the 95 percent confidence level from those of participants with two or more years in their current plans.*

[b]*Responses of 401(k) plan participants who have belonged to their current plans for six or more years are statistically different at the 95 percent confidence level from those of participants with five or fewer years in their current plans.*

FIGURE 24

Whether Balance Includes Rollover from a Previous Plan

(percent of 401(k) plan participants)



Number of respondents = 1,177

Fourteen percent of participants had rolled over assets from previous plans into their current plans (Figure 24). The median plan account balance for this group was $26,000; the mean was $58,140. The median balance for these participants increased with tenure in the current plan (Figure 25).

Investment Decisionmaking in 401(k) Plans

Sources of Information for Making 401(k) Plan Investments

Most participants obtain information about plan investments from their plan sponsor or employer (Figure 26). Altogether, more than four-fifths received information from their employers, which was most frequently provided through brochures, videos, and group meetings. One-on-one discussions with financial advisers provided by the sponsor and employer websites were used with lesser frequency.[31] The information provided by the employer most frequently related to investment performance, risk, and investment objective (Figure 27).[32]

Outside the employer, participants obtained information for making plan investments from fellow workers, the media, non-employer-provided materials, friends and family members, financial advisers, and websites.

Influence of Employer-provided Investment Information

Information provided by the employer is an important influence on the investment decisions of 401(k) plan

FIGURE 25

401(k) Plan Account Balance for Participants Whose Balance Includes a Rollover from a Previous Plan

(percent of 401(k) plan participants whose plan balance includes a rollover from a previous plan)

	All 401(k) Plan Participants Whose Plan Balance Includes a Rollover from a Previous Plan	Years in the Plan		
		One Year or Less	Two to Five Years	Six or More Years
Less than $10,000	25	44	20	9
$10,000 to $24,999	21	28	26	9
$25,000 to $49,999	20	13	24	20
$50,000 to $149,999	21	7	22	37
$150,000 or more	14	9	8	26
Mean	$58,140	$36,390	$55,510	$87,820
Median	$26,000	$12,000	$25,500	$75,000
Number of respondents	132	45	50	35

[31] According to Hewitt Associates, 86 percent of employers offering 401(k) plans provided investment education in 1999, up from 59 percent in 1997. The percentage of plan sponsors using the Internet for employee investment education increased from 20 percent in 1997 to 62 percent in 1999. Eighty-seven percent of plan sponsors used seminars in their education efforts in 1999. See *Trends & Experience in 401(k) Plans, 1999* (Hewitt Associates), pp. 37 and 39.

[32] Participants who received investment information from their employers were asked about six types of information that the employer may have provided: 1) performance of each investment option in the plan, 2) background information on the companies offering investments, 3) an explanation of investment management fees charged, 4) the risk level of the investment options, 5) what the options invest in, and 6) the investment goals of the options.

FIGURE 26

Sources of Information on How to Invest 401(k) Plan Contributions and Account Balances[1]
(percent of 401(k) plan participants)

Employer-provided information (total)	81
Brochures, newsletters, computer programs, or videos provided by employer	61
Employer group meeting	51
One-on-one discussions with a professional financial adviser arranged by employer	23
Employer website	9
Newspapers, magazines, radio, or television	35
Colleagues at work	30
Brochures, newsletters, computer programs, or videos *not* provided by employer	27
Friends or other family members	23
Spouse or partner	20
One-on-one discussions with a professional financial adviser *not* arranged by employer	16
Non-employer website	11

[1]Multiple responses included.

Note: Number of respondents varies.

FIGURE 27

Items Included in Employer-provided 401(k) Plan Information[1]
(percent of 401(k) plan participants who received plan information from employer)

Risk level of the investment options	89
Performance of each investment offered by the plan	88
Types of securities in investment option	84
Background information on the companies offering the investments	77
Investment goals of the options	71
Explanation of investment management fees charged by the companies offering investment options	61

[1]Multiple responses included.

Note: Number of respondents varies.

FIGURE 28

Whether Plan Participants Made a Change Based on Employer-provided Plan Information

(percent of 401(k) plan participants who received plan information from employer)

	Made a Change	Did Not Make a Change
All 401(k) plan participants	47	53
Age		
35 or younger	51	49
36 to 50	46	54
51 or older	44	56
Household Income		
Less than $30,000	37	63
$30,000 to $49,999	46	54
$50,000 to $74,999	45	55
$75,000 to $99,999	67	33
$100,000 or more	54	46

Note: Number of respondents varies.

participants.[33] Nearly half of plan participants indicated that, subsequent to their initial enrollment, information from their employer led them to make changes in their contributions or investment allocations (Figure 28). Of those making such changes, 53 percent increased their contribution rate, 49 percent added investment options, and 45 percent shifted into investments with greater risk (Figure 29). Very few reduced the contribution rate or number of investments, or shifted to more conservative investments as a result of information provided by their employers. After receiving employer-provided information, participants with household income below $30,000 were significantly more likely to increase their contribution amount than were participants with income of $100,000 (Figure 30).

Tolerance for Risk Among 401(k) Participants

The vast majority of 401(k) participants are willing to accept at least an average degree of risk in their plan investments (Figure 31). Only 10 percent indicated that they were unwilling to take either any risk at all or were only willing to take below-average risk. In contrast, 59 percent would accept above-average or substantial risk commensurate with above-average or substantial expected returns.

The tolerance for risk varied with age and gender. A higher percentage of younger participants reported a willingness to accept substantial risk than older participants. Men expressed a greater tolerance for risk than women.

In line with these indications of risk preference, on average, plan participants reported that they had invested 30 percent of their plan assets conservatively; 30 percent, moderately; and 40 percent, aggressively.[34] Furthermore, virtually all participants felt that their investments were consistent with their degree of tolerance for risk. The vast majority also indicated that they were willing to accept short-term fluctuations in plan

[33] Other survey research supports this finding. A survey conducted by Employee Benefit Research Institute (EBRI) and Matt Greenwald and Associates found that more than four-fifths of workers indicated that employer-provided retirement information had caused them to alter the asset allocation of their retirement plans. The majority of plan sponsors in the 1999 Hewitt Associates survey that were measuring the success of their investment education efforts said the retirement information increased participants' portfolio diversification. Similarly, in Buck Consultant's 1998 survey of 765 401(k) plan sponsors, 58 percent of plan sponsors that had taken steps to educate plan participants reported that participants were less conservative in their investment decisions after the education program was initiated. See Employee Benefit Research Institute and Matt Greenwald and Associates, *Retirement Confidence Survey,* 1998; *Trends & Experience in 401(k) Plans, 1999* (Hewitt Associates) at page 41; and *401(k)Plans: Survey Report on Plan Design, 1998 Plan Year* (Buck Consultants), p. 38.

[34] Plan participants were asked to indicate what percentage of their 401(k) plan investments are invested in conservative, moderate, and aggressive investments. The data presented in the report are means of those percentages.

FIGURE 29

Types of Decisionmaking Changes by Age

(percent of 401(k) plan participants who received plan information from employer and made a change)

	All Participants Who Made a Change Based on Employer-provided Plan Information	Age		
		35 Years or Younger	36 to 50 Years	51 Years or More
Caused change in amount contributed to 401(k) plan (total)	55	57	56	52
Increased amount contributed	53	54	53	50
Decreased amount contributed	2	3	3	2
Caused change in number of investment options selected (total)	59	56	60	60
Increased number of investment options invested in	49	46	49	53
Decreased number of investment options invested in	10	10	11	7
Caused change in asset allocation of plan investments (total)	54	44	60	54
Shifted investments into lower-risk investments	9	6	8	15
Shifted investments into higher-risk investments	45	38	52	39

Note: Number of respondents varies.

FIGURE 30

Types of Decisionmaking Changes by Household Income

(percent of 401(k) plan participants who received plan information from employer and made a change)

	All Participants Who Made a Change Based on Employer-provided Plan Information	Household Income				
		Less than $30,000	$30,000 to $49,999	$50,000 to $74,999	$75,000 to $99,999	$100,000 or More
Caused change in amount contributed to 401(k) plan (total)	55	57	61	54	59	42[a]
Increased amount contributed	53	57	59	50	55	39[a]
Decreased amount contributed	2	0	2	4	4	3
Caused change in number of investment options selected (total)	59	49	58	56	53	68[a]
Increased number of investment options invested in	49	37	53	42	48	53[a]
Decreased number of investment options invested in	10	12	5	14	5	15
Caused change in asset allocation of plan investments (total)	54	50	50	58	57	60[a]
Shifted investments into lower-risk investments	9	14	10	4	4	9
Shifted investments into higher-risk investments	45	36	40	54	53	51[a]

[a]Responses of 401(k) plan participants who made a change and had household income of $100,000 or more are statistically different at the 95 percent confidence level from those of participants who made a change and had household income below $30,000.

Note: Number of respondents varies.

FIGURE 31

Views About Risk

	All 401(k) Plan Participants	Age			Gender	
		35 Years or Younger	36 Years to 50 Years	51 Years or Older	Male	Female
Self-assessed Willingness to Take Risk with 401(k) Plan Investments						
(percent of 401(k) plan participants)						
Willing to take substantial risk for substantial gain	18	25[a]	16	13	21	13
Willing to take above-average risk for above-average gain	41	40	43	37	43	38
Willing to take average risk for average gain	31	27	31	35	27[c]	36
Willing to take below-average risk for below-average gain	4	2	5	5	4	4
Unwilling to take any risk	6	6	5	10[b]	5[c]	9
Allocation of 401(k) Plan Balance by Risk Level of Investments						
(weighted mean percent of plan assets)						
Conservative	30	25[a]	31	35	27[c]	34
Moderate	30	26[a]	32	33	30	32
Aggressive	40	49[a]	37	32	43[c]	34

[a]Responses of 401(k) plan participants age 35 or younger are statistically different at the 95 percent confidence level from those of participants age 36 or older.

[b]Responses of 401(k) plan participants age 51 or older are statistically different at the 95 percent confidence level from those of participants age 50 or younger.

[c]Responses of male 401(k) plan participants are statistically different at the 95 percent confidence level from those of female participants.

Note: Number of respondents varies.

returns, suggesting that they examined risk within the context of a long investment horizon (Figure 32).[35]

Other Considerations in Allocating 401(k) Plan Assets

Participants holding financial assets outside 401(k) plans, who represented 89 percent of all participants, typically take their overall financial position into account when making savings and investment decisions. In fact, 76 percent of those with outside financial assets indicated that they had an investment strategy that encompassed both outside assets and 401(k) plan assets. Use of an overall strategy correlated strongly with the level of financial assets (Figure 33). For example, 52 percent of those with assets below $25,000 had an investment strategy for all assets, whereas 88 percent of those with assets of $200,000 or more had such an investment strategy. The majority of those without an overall investment strategy for inside and outside assets had low levels of financial assets. In addition, their outside assets typically were held in bank deposits rather than stocks, bonds, annuities, or mutual funds.

The tendency to consider overall financial assets in allocating 401(k) plan assets also was revealed in the

[35] A 1997 ICI survey found that most mutual fund shareholders assess the risk of a prospective fund investment using an intermediate-term to long-term time horizon. The estimated median horizon for all shareholders was 3.6 years; the mean was 4.3 years. See *Shareholder Assessment of Bond Fund Risk Ratings* (Investment Company Institute, October 1997), p. 22.

FIGURE 32

Views About Investing in 401(k) Plans[1]

(percent of 401(k) plan participants who "strongly agree" with each statement)

I am confident that I am investing my 401(k) plan investments to get the best return given my tolerance for risk	93
I can accept short-term fluctuations in my 401(k) plan investments	92
I prefer only 401(k) plan investments from well-known investment companies	83
I closely follow the value of my 401(k) plan investments	77

[1]Multiple responses included.

Note: Number of respondents varies.

FIGURE 33

Use of an Investment Strategy for Plan Participants with Household Financial Assets Inside and Outside Employer Plans

(percent of 401(k) plan participants with household financial assets inside and outside employer plans)

	All 401(k) Plan Participants with Household Financial Assets Inside and Outside Employer Plans	Household Financial Assets[1] Less than $25,000	$25,000 $49,999	$50,000 to $199,999	$200,000 or More
Have an investment strategy	76	52[a]	75	81	88
Have no investment strategy	24	48[a]	25	19	12
Number of respondents	1,024	184	103	227	145

[a]Responses of 401(k) plan participants with household financial assets below $25,000 are statistically different at the 95 percent confidence level from from those of participants with household financial assets of $25,000 or more.

[1]Excludes primary residence.

degree of risk that participants took with plan assets. For example, of those participants holding assets outside their 401(k) plans, 69 percent considered the risk of those outside assets at least to some extent when determining the appropriate risk level of their 401(k) plan investments (Figure 34). Similarly, those participants who had a spouse or partner participating in an employer-sponsored retirement plan typically took the risk of those investments into account in deciding on the risk level of their plan investments. In contrast, the possibility of borrowing from the plan generally did not enter into participants' investment decisions.

Allocation of Plan Investments

A total of 710 respondents, or 60 percent of the sample, identified the types of investments they owned through their plans and the amount allocated to each. Nearly three-quarters of these participants had investments in stock funds, while roughly one-third had assets allocated to each of company stock, bond funds, or balanced funds (Figure 35).

On average, these plan participants reported allocating 46 percent of their plan balances to stock funds, 18 percent to company stock, and 14 percent to balanced funds (Figure 36).[36] Money market funds and stable

[36] Nearly half of 401(k) plan participants' assets in the 1998 EBRI/ICI database was invested in stock funds. See "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 1998," *Perspective*, Vol. 6, No. 1(Investment Company Institute, January 2000), p. 6.

FIGURE 34

Other Factors Considered When Determining 401(k) Plan Investment Risk Level

	All 401(k) Plan Participants	Household Financial Assets[1]		
		Less than $50,000	$50,000 to $199,999	$200,000 or More
Allocation of Assets Outside Retirement Plans at Work				
(percent of 401(k) plan participants with assets outside work)				
To a great extent	19	12	20	34[a]
To some extent	50	51	52	39[a]
To very little extent	19	23	18	14
To no extent	12	14	10	12
Number of respondents	1,029	287	228	148
Allocation of Spouse or Partner's Retirement Plan Assets				
(percent of 401(k) plan participants with a spouse or partner who participates in a plan at work)				
To a great extent	21	14	19	31[a]
To some extent	41	43	48	39
To very little extent	18	23	18	11
To no extent	19	20	16	19
Number of respondents	333	35	80	62
Possibility of Taking a Loan				
(percent of 401(k) plan participants whose plan permits loans)				
To a great extent	5	4	4	8
To some extent	20	23	19	11[a]
To very little extent	30	30	35	25
To no extent	46	43	42	56[a]
Number of respondents	876	230	193	122

[a]Responses of 401(k) plan participants with household financial assets of $200,000 or more are statistically different at the 95 percent confidence level from those of participants with household financial assets below $200,000.

[1]Excludes primary residence.

value investments together accounted for an average of 12 percent of participants' assets; and bond funds, for 8 percent.[37] On average, 3 percent of participants' assets were invested in other options, such as lifestyle funds or individual stocks and bonds.

Combining participants' allocation to stock funds with their allocation to company stock and the equity share of balanced funds puts participants' average equity allocation at 72 percent (Figure 37).[38] Participants' allocation to equities typically rose with household income. On average, participants with defined benefit plan coverage allocated 75 percent to equities, whereas participants without such coverage typically allocated 70 percent. This difference is primarily because

[37] Respondents were asked to indicate the percentage of their plan assets allocated to the various types of investment options offered by their plans. These percentages were averaged across all respondents to obtain a mean percent.

[38] At the end of 1998, approximately 60 percent of balanced mutual fund assets were invested in equity securities. See "Quarterly Supplemental Data," Investment Company Institute.

FIGURE 35

Types of Investments Held in 401(k) Plans[1]

(percent of 401(k) plan participants)

Stock funds	72
Company stock	36
Balanced funds	34
Bond funds	31
Money market funds	22
Stable value funds	8
Lifestyle funds	2
Number of respondents	710

[1]Multiple responses included.

FIGURE 36

Allocation of 401(k) Plan Balance

(weighted mean percent of plan assets)

Stock funds	46
Company stock	18
Balanced funds	14
Money market funds	9
Bond funds	8
Stable value funds	3
Lifestyle funds	1
Individual stocks and bonds	1
Other	1

participants with defined benefit plan coverage on average allocated more 401(k) plan assets to company stock than did participants with no defined benefit plan coverage.

Of the plan participants with assets allocated to company stock, nearly two-thirds indicated that they invested some of their own contributions in company stock (Figure 38). These individuals chose to invest in company stock for a variety of reasons, but the most frequently mentioned included performance-related reasons, such as strong past performance or high growth potential. Very few participants cited company loyalty as a reason.

FIGURE 37

Percentage of Plan Assets Invested in Equities

(weighted mean percent of plan assets)

	Stock Funds	Company Stock	Percentage of Balanced Funds Invested in Equities (60 percent)	Total Percentage in Equities
All 401(k) Plan Participants	46	18	8	72
Age				
35 years or younger	45	19	9	73
36 to 50 years	45	17	9	71
51 years or older	47	19	7	73
Household Income				
Less than $30,000	36	21	9	66
$30,000 to $49,999	43	16	11	70
$50,000 to $74,999	44	22	7	73
$75,000 to $99,999	52	13	8	73
$100,000 or more	55[a]	14	8	77[a]
Participant Has a Defined Benefit Plan				
Yes	43	24[b]	8	75
No	48	13	9	70

[a]*Responses of 401(k) plan participants with household income of $100,000 or more are statistically different at the 95 percent confidence level from those of participants with household income below $100,000.*

[b]*Responses of 401(k) plan participants with defined benefit plan coverage are statistically different at the 95 percent confidence level from those of participants without such coverage.*

Note: Number of respondents varies.

FIGURE 38

Personal Investments in Company Stock

Have Personal Contributions in Company Stock	
(percent of 401(k) plan participants with plan assets in company stock)	
Yes	65
No	32
Don't know	3
Number of respondents	269
Reasons for Investing in Company Stock	
(percent of 401(k) plan participants with personal contributions in company stock)	
The stock has been performing well	34
The stock has a great deal of growth potential	16
The stock is a good long-term investment opportunity	13
I wanted to show loyalty to the company	10
I am required to invest in company stock	9
No particular reason	8
The stock is a low-risk investment option	4
Number of respondents	173

Note: Of the respondents with plan assets invested in company stock, 79 percent received all or some of their company match in the form of company stock, and 21 percent did not. Of the respondents with no plan assets in company stock, 87 percent received all or some of their company match in the form of cash. On average, respondents who received all or some of their company match in the form of company stock allocated 40 percent of plan assets to company stock. In contrast, respondents who received all or some of their company match in the form of cash on average allocated only 6 percent of plan assets to company stock.

CHAPTER 4

Account Activity in 401(k) Plans

Summary

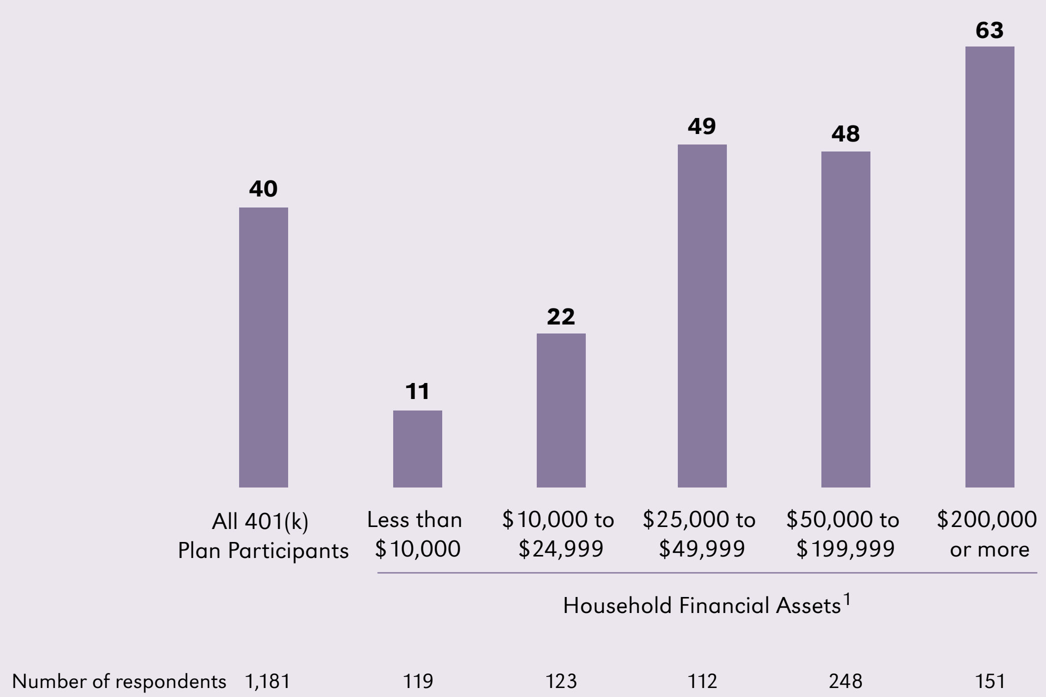
Plan participants tend to be buy-and-hold investors. Only 40 percent had ever made allocation changes either to their payroll contribution or account balance since joining their current plans (Figure 39). Changes were typically made to shift allocations to more aggressive investments. Plan participants with greater household financial assets were more likely to make allocation changes than were participants with lower household financial assets.

One-fifth of participants had conducted at least one payroll contribution or account balance change between August 1997 and September 1998—the 12-month period preceding the survey.

FIGURE 39

Allocation Changes Since Joining Current 401(k) Plan by Household Financial Assets

(percent of 401(k) plan participants who have made allocation changes since joining their plans)



[1]Excludes primary residence.

FIGURE 40

Allocation Changes Since Joining Current 401(k) Plan

(percent of 401(k) plan participants indicating "yes")

Any allocation changes since joining the plan	40
Payroll contribution change only	15
Account balance change only	5
Both payroll contribution and account balance change	20
Payroll contribution change (total)	35
Account balance change (total)	25
Number of respondents	1,181

FIGURE 41

Number of Allocation Changes Made to Payroll Contribution or Account Balance Since Joining Current 401(k) Plan

(percent of 401(k) plan participants who made allocation changes to payroll contribution or account balance since joining current plan)

	Made Allocation Changes to:	
	Payroll Contribution	**Account Balance**
One	29	35
Two	26	24
Three	15	13
Four or five	16	12
Six or more	14	16
Mean	3.7	4.4
Median	2.0	2.0
Number of respondents	408	288

401(k) Plan Asset Allocation Changes Since Enrolling in the Plan

Forty percent of 401(k) plan participants had made asset allocation changes since joining their current plans—35 percent had reallocated payroll contributions and 25 percent had reallocated account balances (Figure 40).

Allocation Changes to Payroll Contributions Since Enrolling in the Plan

Twenty-nine percent of plan participants who had changed the asset allocation of their payroll contributions since joining their current plans had made one such change (see Figure 41). Another 26 percent made payroll contribution allocation changes two times; 31 percent, three to five times, and 14 percent, more than six times. The median number of asset allocation changes to payroll contributions since joining the plan was two; the mean was 3.7.

Among participants who had changed the asset allocation of their payroll contributions since joining their current plans, 37 percent made the most recent change in 1998; 34 percent made their change in 1997 (Figure 42). The remaining 29 percent initiated the most recent change in 1996 or earlier.

One-half of participants who had changed the asset allocation of their payroll contributions since joining

FIGURE 42

Most Recent Allocation Change to Payroll Contribution or Account Balance

(percent of 401(k) plan participants who made allocation changes to payroll contribution or account balance since joining current plan)

	Made Allocation Changes to:	
	Payroll Contribution	Account Balance
Year of Most Recent Change		
1998	37	44
1997	34	30
1996	16	15
1995 or earlier	13	11
Effect of Most Recent Change		
Shifted to lower-risk investments	13	16
Shifted to higher-risk investments	50	57
No effect on risk level of investments	35	27
Don't know	1	0
Reasons for Most Recent Change[1]		
Better investment returns	87	88
Reacting to or anticipating stock market changes	36	47
Advised to	25	23

[1]Multiple responses included.

Note: Number of respondents varies.

their plans said the most recent change shifted their contributions into higher-risk investments. Thirteen percent moved into lower-risk investments, and 35 percent said the change had no effect on the risk level of their contributions. Nearly 90 percent stated that they had made their most recent change to achieve better investment returns. Slightly more than one-third were anticipating or reacting to market changes, and one-quarter were advised to make the change.

Allocation Changes to Account Balances Since Enrolling in the Plan

Of the participants who had reallocated their account balances since joining their current plans, 35 percent had reallocated their account balances once; 24 percent, two times; 25 percent, three to five times, and 16 percent, six or more times (Figure 41). The median number of account balance changes since joining the plan was two; the mean was 4.4.

Among participants who had conducted account balance changes since joining their plans, 44 percent had made the most recent change in 1998; 30 percent made theirs in 1997 (see Figure 42). Twenty-six percent had conducted the most recent change in 1996 or earlier.

Fifty-seven percent of participants who had changed their account balances since joining their plans said the most recent change shifted their balances into higher-risk investments. Sixteen percent moved to lower-risk investments, and 27 percent said the change had no effect on the risk level of their balances.

Eighty-eight percent of those who had reallocated their account balances since joining the plan stated that they had made the most recent reallocation to obtain greater investment returns. Nearly one-half were

FIGURE 43

Characteristics of Participants Who Made Allocation Changes to Payroll Contribution or Account Balance Since Joining Current 401(k) Plan

	Since Joining Current Plan:	
	Made Allocation Changes to Payroll Contribution or Account Balance	**Did Not Make Allocation Changes to Payroll Contribution or Account Balance**
Median		
Age	42 years	40 years
Household income	$60,000	$45,000
Number of individuals contributing to household income	2	2
Household financial assets outside employer-sponsored retirement plans[1]	$20,000	$8,000
Household financial assets inside employer-sponsored retirement plans	$50,000	$12,500
Years in the 401(k) plan	7 years	2 years
401(k) plan account balance	$37,500	$6,000
Percentage of salary contributed to the plan	8%	6%
Percent		
Male	64	59
Married	72	63[a]
College or postgraduate degree	54	40[a]
Consult a professional financial adviser	29	26
Own bank or thrift deposits outside employer-sponsored retirement plans[2]	90	81[a]
Own investments outside employer-sponsored retirement plans[3]	43	35
Expect to retire comfortably	75	69
Closely follow value of 401(k) plan investments	84	72[a]
Understanding of investing:		
Comprehensive	27	20
Basic	59	54
Limited or none	14	26[a]
Willing to take		
Substantial or above-average financial risk	69	52[a]
Average risk	27	34
Below-average or no risk	4	14

[1]Excludes primary residence.

[2]Includes bank savings accounts, money market deposit accounts, and certificates of deposit.

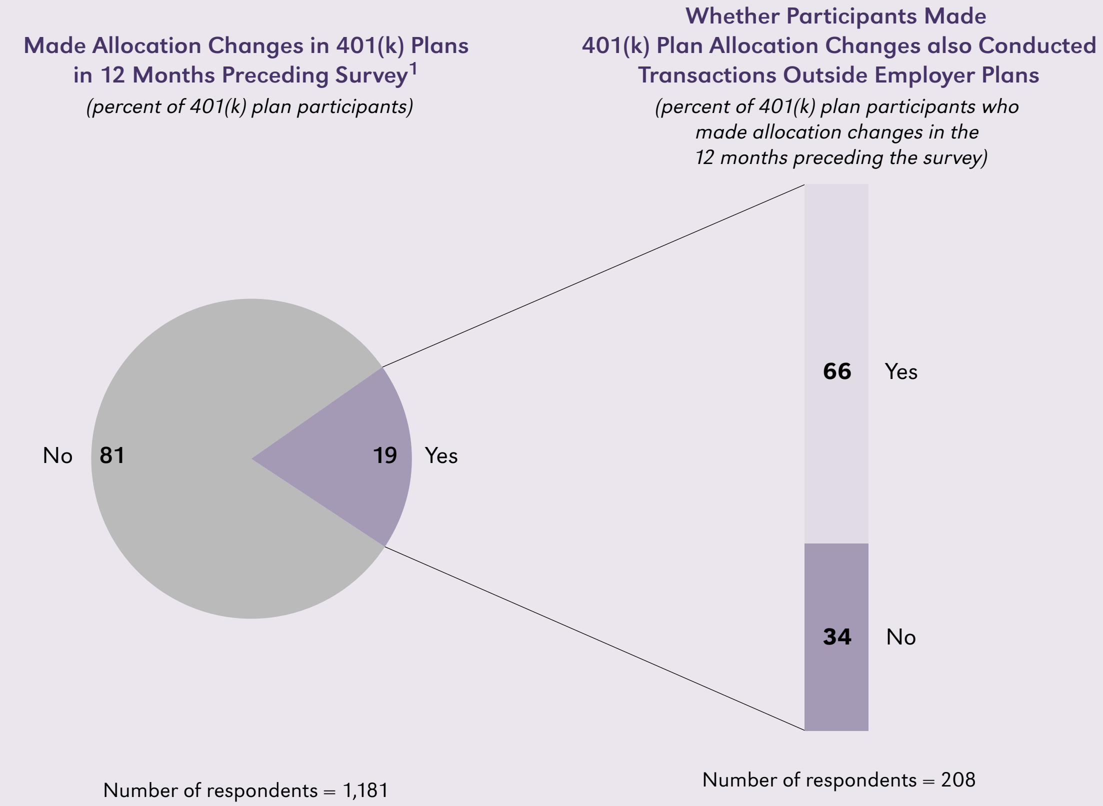
[3]Includes stocks, bonds, annuities, mutual funds, and real estate other than a primary residence.

[a]Responses of 401(k) plan participants who made allocation changes to either their payroll contribution or account balance since joining their plans are statistically different at the 95 percent confidence level from those participants who did not make such changes.

Note: Number of respondents varies.

FIGURE 44

Relationship Between 401(k) Plan Allocation Changes and Transaction Activity Outside Employer Plans



[1]August 1997 through September 1998. Includes payroll contribution and asset allocation changes.

anticipating or reacting to market changes. Less than one-quarter had been advised to reallocate.

Characteristics of 401(k) Plan Participants Who Made Allocation Changes Since Enrolling in Their Plans

Plan participants who made allocation changes since joining their plans had a median age of 42, median household income of $60,000, and median financial assets of $20,000 outside employer plans and $50,000 inside such plans (Figure 43). Most were college-educated and married. They typically had participated in their current 401(k) plans for seven years and had a median plan account balance of $37,500. On average, members of this group contributed 8 percent of salary to the plan. More than four-fifths said they closely follow the value of their 401(k) plan investments, and three-quarters expected to retire comfortably. Forty-three percent owned investments outside employer plans.

The median age of plan participants who did not make allocation changes since joining the plan was 40 years, and most members of this group did not have college degrees. Their median household income and household financial assets were considerably lower than those of participants who made allocation changes. Shareholders who did not make allocation changes tended to be more risk averse, and have shorter tenure in the 401(k) plan, as well as smaller plan balances.

401(k) Plan Asset Allocation Changes in 1997-1998[39]

Nearly one-fifth of 401(k) plan participants made asset allocation changes within their plans in the 12 months preceding the survey; that is, between August 1997

[39] Includes payroll contribution and account balance changes.

FIGURE 45

Number of Allocation Changes Conducted in 401(k) Plans in 12 Months Preceding Survey[1]
(mean percent)

One	18
Two	28
Three or four	31
Five or six	12
Seven or more	10
Mean	4.0
Median	3.0
Number of respondents	218

[1]August 1997 through September 1998. Includes payroll contribution and asset allocation changes.

FIGURE 46

Types of Allocation Changes Made in 401(k) Plans in 12 Months Preceding Survey[1]
(percent of 401(k) plan participants who made allocation changes in 12 months preceding the survey)

Transferred:	
Into stock funds	55
Out of stock funds	33
Into balanced funds	25
Out of balanced funds	21
Into company stock	19
Out of company stock	15
Into bond funds	12
Out of bond funds	15
Into stable value investments	12
Out of stable value investments	10
Into individual stock other than company stock	6
Out of individual stock other than company stock	3
Into lifestyle funds	2
Out of lifestyle funds	0
Number of respondents	236

[1]August 1997 through September 1998. Includes payroll contribution and asset allocation changes.

and September 1998 (Figure 44). Two-thirds of these participants also conducted transactions outside employer plans during the 12-month period.

Eighteen percent of 401(k) plan participants who made asset allocation changes in their plans between August 1997 and September 1998 undertook one transaction; 28 percent, two; 31 percent, three or four; 12 percent, five or six; and 10 percent seven or more. The median number of transactions conducted by this group was three; the mean was four (Figure 45).

Most of the 401(k) plan allocation changes during the 12-month period was related to stock funds. More than one-half of plan participants making allocation changes had transferred into stock funds and one-third had transferred out of them (Figure 46). Transfers into and out of other types of investments occurred with far less frequency.

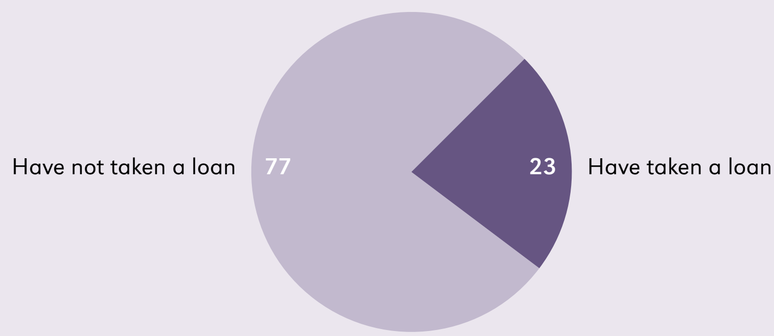
Characteristics of 401(k) Plan Participants Who Made Allocation Changes in 1997–1998

The typical participant who made 401(k) plan allocation changes in the 12 months preceding the survey was 42 years old, had a household income of $70,000, and had assets of $56,500 inside employer plans and $25,000 outside such plans (see Figure 60 in Appendix B). Although similar in age, the typical plan participant who did not make 401(k) plan allocation changes during the 12-month period had lower household income and fewer financial assets—both

FIGURE 47

Use of the 401(k) Plan Loan Feature Since Joining Current Plan

(percent of plan participants whose current 401(k) plans offer loans)



Number of respondents = 880

FIGURE 48

Number of Loans Taken Since Joining Current 401(k) Plan

(percent of 401(k) plan participants who have taken a loan from current plan)

One	62
Two	26
Three or more	12
Don't know	1
Mean	1.6
Median	1.0
Number of respondents	198

FIGURE 49

Characteristics of Most Recent 401(k) Plan Loan

(percent of 401(k) plan participants who have taken a loan from current plan)

Year of Most Recent 401(k) Plan Loan	
1998	18
1997	26
1996	24
1995 or earlier	32
Current Status of 401(k) Plan Loan	
Repaid	40
Not repaid	60
Reasons for Taking Most Recent 401(k) Plan Loan[1]	
Pay everyday expenses or bills	28
Buy a car or other expensive item	23
Make a downpayment on a home	16
Pay education expenses	6
Pay for an emergency expense	4
Something else	34
Amount of Most Recent 401(k) Plan Loan	
Less than $2,500	24
$2,500 to $4,999	17
$5,000 to $9,999	25
$10,000 to $14,999	14
$15,000 or more	13
Don't know	7
Mean	$8,200
Median	$5,000
401(k) Plan Account Balance at Time of Loan	
Less than $10,000	12
$10,000 to $19,999	13
$20,000 to $49,999	20
$50,000 to $99,999	7
$100,000 or more	9
Don't know	40
Mean	$45,600
Median	$22,000

Note: Number of respondents varies.

[1]Multiple responses included.

inside and outside employer plans. Participants who made such changes in the 12 months preceding the survey had larger 401(k) plan account balances, were more likely to own investments outside employer plans, and were more willing to take financial risk with plan investments than those who did not.

In addition to their varying financial profiles, the demographic characteristics of participants who made 401(k) plan allocation changes between August 1997 and September 1998 differed significantly from those who had not. More plan participants making allocation changes were male and college-educated. Compared with those who had not made allocation changes,

FIGURE 50

Characteristics of 401(k) Plan Participants Who Have Taken a Loan Since Joining Current Plan

	Have Taken a Loan	Have Not Taken a Loan
Median		
Age	42 years	40 years
Household income	$59,500	$52,000
Number of individuals contributing to household income	2	2
Household financial assets outside employer-sponsored retirement plans[1]	$20,000	$20,000
Household financial assets inside employer-sponsored retirement plans	$60,000	$25,000
Years with current employer	12 years	6 years
Years in 401(k) plan	9 years	3 years
401(k) plan account balance	$37,500	$13,000
Percent		
Male	63	61
Married	71	66[a]
College or postgraduate degree	43	47
Consult a professional financial adviser	27	27
Own investments outside employer-sponsored retirement plans[2]	38	39
Expect to retire comfortably	73	73

[a]Responses of participants who have taken a loan are since joining their plans are statistically different at the 95 percent confidence level from those of participants who have not.

[1]Excludes primary residence.

[2]Includes stocks, bonds, annuities, mutual funds, and real estate other than a primary residence.

Note: Number of respondents varies.

more of those who had said they closely follow the value of their 401(k) plan investments, have a comprehensive knowledge of investing, and expect to retire comfortably.

Loans from the Plan

Twenty-three percent of participants whose current plans offer loans had taken a loan since joining the plan (Figure 47).[40] Of those who had taken a loan, 62 percent had taken one; 26 percent, two; and 12 percent, 3 or more (Figure 48).

The majority of those who had taken a loan secured the most recent loan several years prior to the survey—24 percent in 1996 and 32 percent in 1995 or earlier (Figure 49). Twenty-six percent obtained the most recent loan in 1997 and 18 percent in 1998.

The median amount of the most recent loan was $5,000, equivalent to roughly 25 percent of the median plan balance at the time of the loan.[41] Sixty percent reported that the most recent loan from the plan had not been repaid completely at the time of the survey. Paying everyday bills, buying a car or other large purchase, or making a down payment on a home were

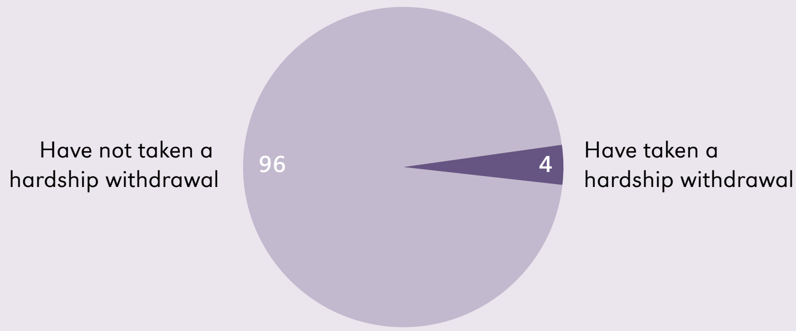
[40] According to the EBRI/ICI database of participant-directed retirement plan data, 16 percent of 401(k) plan participants eligible for loans had loans outstanding at yearend 1998. See "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 1998," *Perspective,* Vol. 6, No. 1 (Investment Company Institute, January 2000), p. 20.

[41] According to the EBRI/ICI database, the average level of the unpaid balance as a percentage of account balances was 14 percent in 1998. See "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 1998," *Perspective*, Vol. 6, No. 1 (Investment Company Institute, January 2000), p. 20.

FIGURE 51

Use of the 401(k) Plan Hardship Withdrawal Feature Since Joining Current Plan

(percent of 401(k) plan participants whose current plans offer hardship withdrawals)

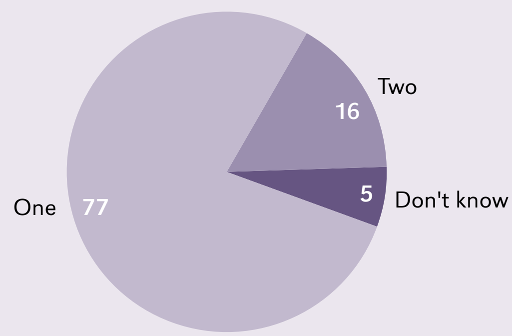


Number of respondents = 776

FIGURE 52

Number of Hardship Withdrawals Taken Since Joining Current 401(k) Plan

(percent of 401(k) plan participants who have taken a hardship withdrawal from current plan)



Median = 1.0

Number of respondents = 31

the three most frequently mentioned reasons for taking a loan from a 401(k) plan.

Characteristics of Participants Taking Loans

Demographically, 401(k) plan participants who had taken a 401(k) plan loan from their current plans were similar to those who had not. Members of both groups tended to be in their early forties, married, and had similar educational backgrounds (Figure 50). Each had a median household income between $50,000 and $60,000.

What distinguishes participants who had taken a loan from those who had not was their tenure with their current employer; their tenure in the 401(k) plan; and, consequently, the size of their plan balances. Participants who had secured a loan had a median account balance of $37,500 at the time of the survey, compared with $13,000 for those who had not. Length of time in the plan for those who had taken a loan was

FIGURE 53

Characteristics of Most Recent 401(k) Plan Hardship Withdrawal

(percent of 401(k) plan participants who have taken a hardship withdrawal from current plan)

Year of Most Recent 401(k) Plan Hardship Withdrawal	
1998	31
1997	10
1996	7
1995 or earlier	52
Reason for Taking Most Recent 401(k) Plan Hardship Withdrawal[1]	
Pay for a home	45
Pay for a medical emergency	28
Pay bills or daily expenses	21
Pay education expenses	7
Amount of Most Recent 401(k) Plan Hardship Withdrawal	
Less than $2,500	19
$2,500 to $4,999	19
$5,000 to $9,999	23
$10,000 to $19,999	15
$20,000 or more	12
Don't know	12
Mean	$9,300
Median	$5,100
401(k) Plan Account Balance at Time of Hardship Withdrawal	
Less than $10,000	22
$10,000 to $19,999	15
$20,000 or more	15
Don't know	48
Mean	$15,900
Median	$13,500

[1]Multiple responses included.

Note: Number of respondents varies.

three times greater than that of those who had not taken a loan—nine years, compared with three years.

Hardship Withdrawals from the Plan

Just 4 percent of participants whose current 401(k) plans offer hardship withdrawals had taken such a withdrawal since joining the plan (Figure 51). Of those who had taken a hardship withdrawal, 77 percent had taken one, 16 percent had taken two, and 5 percent did not know how many they had taken (see Figure 52).

One-half of participants who had taken a hardship withdrawal obtained the most recent hardship withdrawal in 1995 or earlier (Figure 53). Of those who took the most recent hardship withdrawal after 1995, most did so in 1998.

The median amount of the most recent hardship withdrawal was $5,100, equivalent to nearly two-fifths of the median plan balance at the time of the hardship withdrawal.[42] Forty-five percent made the most recent hardship withdrawal to purchase a home; 28 percent, to pay for a medical emergency; 21 percent, to pay bills or daily expenses; and 7 percent, to pay college tuition.

[42] Nearly one-half of those who had taken a hardship withdrawal did not know the dollar value of their account balances at the time they secured their most recent hardship withdrawal.

FIGURE 54

Characteristics of 401(k) Plan Participants Who Have Taken a Hardship Withdrawal Since Joining Current Plan

	Have Taken a Hardship Withdrawal	Have Not Taken a Hardship Withdrawal
Median		
Age	43 years	41 years
Household income	$45,000	$58,000
Number of individuals contributing to household income	2	2
Household financial assets outside employer-sponsored retirement plans[1]	$8,800	$22,500
Household financial assets inside employer-sponsored retirement plans	$71,300	$37,500
Years with current employer	16 years	7 years
Years in 401(k) plan	12 years	4 years
401(k) plan account balance	$25,000	$18,000
Percent		
Male	68	61
Married	68	69
College or postgraduate degree	27	47[a]
Consult a professional financial adviser	23	29
Own investments outside employer-sponsored retirement plans[2]	17	41[a]
Expect to retire comfortably	77	74

[a]Responses of participants who have not taken a hardship withdrawal are statistically different at the 95 percent confidence level from those of participants who have.

[1]Excludes primary residence.

[2]Includes stocks, bonds, annuities, mutual funds, and real estate other than a primary residence.

Note: Number of respondents varies.

Characteristics of Participants Who Took a Hardship Withdrawal

The demographic characteristics of plan participants who had taken a hardship withdrawal were similar to those who had not, but the two groups' financial characteristics varied considerably (Figure 54). Those who had taken a hardship withdrawal generally had lower household income and fewer financial assets outside employer plans than those who had not. However, participants who had taken a hardship withdrawal had greater assets inside employer plans than those who had not—a median of $71,300, compared with $37,500. Participants who had taken a hardship withdrawal also had been employed by their companies and had been members of their 401(k) plans longer than those who had not taken a hardship withdrawal.

APPENDIX A

Research Methodology

This research was undertaken by the Investment Company Institute to identify the characteristics of 401(k) plan participants, their awareness of plan features, the types of activities they have undertaken since joining their current plans, and their asset allocation in the plan.

Sample Design

The study used a national random digit dialing (RDD) sample based on existing U.S. telephone exchanges. Because the calls were made randomly, without quotas, it was not necessary to weight the data presented in this report. A total of 1,366 interviews were included in the study—1,181 with plan participants and 185 with nonparticipants. The interviews were conducted from July 1998 through September 1998.

All respondents to the study were household investment decisionmakers.[43] The sample was focused this way to ensure high-quality information about the household's investments outside employer plans.

Screening Protocols

The screening process for this study was designed to limit the respondents to individuals who participated or were eligible to participate in a 401(k) plan. A verification process was established to determine whether respondents' answers were referring to a 401(k) plan or a similar type of plan, such as a university or hospital 403(b) plan, a state or local 457 plan, or the federal government's Thrift Savings Plan.

First, respondents were asked if they participated in a retirement plan that involved having contributions deducted from their paychecks. Those who answered "yes" were then asked three questions:

1) Do you contribute a specific amount of money from every paycheck to the plan?
2) Are you personally allowed to decide how your contributions to the plan are invested?
3) Do you work for: local, state, or federal government; college, university, or public school; or a nonprofit organization, such as a hospital, foundation, or charity?

Respondents who answered "yes" to the first two questions and "no" to the third were included in the study without verification. Those who answered "yes" to the third question were eliminated from the study. The remaining respondents were asked to provide the names of their employers to determine whether the plans in which they participated were indeed 401(k) plans. Members of this group who refused to provide the employer name were terminated.

Respondents who indicated they had declined to participate in their employer's retirement plan were asked whether the plan was a 401(k) plan. Those who stated the plan was a 401(k) plan were included in the study without verification. Those who indicated the plan was offered by a school, government, or a nonprofit organization were terminated. Those who did not know the name of the plan, or worked for a

[43] A household consists of all persons who occupy a housing unit. A house, an apartment or other group of rooms, or a single room is regarded as a housing unit when it is occupied or intended for occupancy as separate living quarters. A household includes related family members and all unrelated persons, if any, such as lodgers, foster children, wards, or employees who share a housing unit. A person living alone in a housing unit, or a group of unrelated persons sharing a housing unit as partners, is also counted as a household.

FIGURE 55

Sampling Error at the 95 Percent Confidence Level for Selected Percentages of Responses, by Sample Size

	Percent of Responses				
Sample Size	10 percent or 90 percent	20 percent or 80 percent	30 percent or 70 percent	40 percent or 60 percent	50 percent
1,200	2	2	3	3	3
500	3	4	4	4	4
200	4	6	7	7	7
100	6	8	9	10	10

This table shows, for example, that if the sample size is 1,200 and if 10 percent of the respondents provide the same answer to a question and 90 percent provide the other answer, then, using the same procedures, these responses can be expected to be replicated for the entire population within a range of + or - 2 percent 95 percent of the time.

nonprofit organization, were asked to provide the name of their employer to determine whether the plan in which they were not participating was a 401(k) plan. Individuals in this group who refused to provide their employer's name were terminated.

Altogether, 1,260 respondents—1,084 participants and 176 nonparticipants—qualified for the study without verification. A total of 291 respondents—252 participants and 39 nonparticipants—required verification. The employers of these respondents were checked against the Judy Diamond and Associates 1996-1997 database of 401(k) plan providers.

Of the 252 participants verified, 97 qualified to remain in the study and 155 were disqualified because their employers were not listed in the database. Of the 39 nonparticipants whose employers were verified against the database, 9 qualified to remain in the study and 30 were disqualified. Overall, 12 percent of individuals interviewed as plan participants and 14 percent of those interviewed as nonparticipants were disqualified from the study.

Sampling Tolerances

The use of sample surveys is standard practice for deriving estimates about a population. Estimates derived through sample surveys are subject to sampling error, which is the deviation of the sample estimate from the true value in the population. As the sample size increases, the level of potential sampling error generally becomes smaller. In addition, the sample error depends upon the percentage of responses that fall within a category. For a sample size of 1,200, the sample error ranges between 2 percent and 3 percent at the 95 percent confidence level. A sample error of 2 percent means that the method used in this survey, if repeated a number of times, would produce sample estimates of the characteristics of the entire population that fall within 2 percent of the population values roughly 95 percent of the time. Figure 55 shows the approximate sampling error for estimates of proportions computed for the sample as a whole and for various subsamples.

Questionnaire Design

The questionnaire for this study was designed by the Investment Company Institute and the Boston Research Group. The questionnaire was rigorously pretested to ensure that the questions asked were understandable to 401(k) plan participants. More than one dozen in-person pretests were conducted. In-person pretests enabled the project team to personally debrief a respondent and discuss with him or her whether any of the questions in the survey were confusing or too difficult to answer. The questionnaire was then tested over the telephone to determine whether any final adjustments were needed.

Analysis

Descriptive analysis was done using cross-tabulations of the data. The data was significance-tested using either a z-test or t-test, depending on the sample sizes for each question. All significance testing was done at a 95 percent confidence level. Significant differences between key groups have been noted in the report.

APPENDIX B

Additional Tabulations

FIGURE 56

Characteristics of Plan Participants Who Expect to Rely Primarily on 401(k) Plan Assets or Salary from Employment for Income in Retirement

	Primarily Expect to Rely On:	
	401(k) Plan Assets	**Salary from Employment**
Median		
Age	39 years	43 years
Household income	$50,000	$40,000
Number of individuals contributing to household income	2	2
Household financial assets outside employer-sponsored retirement plans[1]	$12,000	$6,000
Household financial assets inside employer-sponsored retirement plans	$30,000	$18,000
Years in the 401(k) plan	4 years	3 years
401(k) plan account balance	$16,000	$7,500
Percentage of salary contributed to the plan	6%	6%
Percent		
Male	62	59
Married	67	62
College or postgraduate degree	45	35
Consult a professional financial adviser	25	24
Own bank or thrift deposits outside employer-sponsored retirement plans[2]	85	82
Own investments outside employer-sponsored retirement plans[3]	33	29
Expect to retire comfortably	73	31
Closely follow value of 401(k) plan investments	80	56
Understanding of investing:		
Comprehensive	20	15
Basic	60	53
Limited or none	20	32
Willing to take		
Substantial or above-average financial risk	62	58
Average risk	30	27
Below-average or no risk	8	15

[1]Excludes primary residence.

[2]Includes bank savings accounts, money market deposit accounts, and certificates of deposit.

[3]Includes stocks, bonds, annuities, mutual funds, and real estate other than a primary residence.

Note: Number of respondents varies.

FIGURE 57

Reasons for Not Having Extra Money to Invest in the 401(k) Plan[1]

(percent of 401(k) plan nonparticipants indicating not having extra money as a "very" or "somewhat" important reason for not joining the plan and agree with statement)

Have other financial obligations right now	73
Can't afford to save regularly now	68
Currently saving for goals other than retirement	38

[1]Multiple responses included.

Note: Number of respondents varies.

FIGURE 58

Expected Sources of Retirement Income[1]

(percent of 401(k) plan nonparticipants indicating saving for retirement other than through 401(k) plans as a "very" or "somewhat" important reason for not joining the plan)

Salary from work in retirement	65
Savings and investments held outside employer-sponsored retirement plans	47
IRA(s)	36
Money in a retirement plan from a previous employer	26
Employer-sponsored retirement plan other than 401(k) plan	26
Money from an inheritance	21
Spouse or partner's retirement savings	20
Sale of primary residence	18
Some other source	24

[1]Multiple responses included.

Note: Number of respondents varies.

FIGURE 59

Confusing Aspects of the 401(k) Plan[1]

(percent of 401(k) plan nonparticipants indicating the plan was confusing as a "very" or "somewhat" important reason for not joining the plan)

Selecting from among the investment choices offered by the plan	53
Loan rules	49
Vesting rules	44
Tax-deferred feature of the plan	37
Hardship withdrawal rules	35
Contribution limits	22
Payroll deduction feature	13

[1]Multiple responses included.

Note: Number of respondents varies.

FIGURE 60

Characteristics of Participants Who Made Allocation Changes in 12 Months Preceding Survey[1]

	In 12 Months Preceding Survey: Made Allocation Changes	In 12 Months Preceding Survey: Did Not Make Allocation Changes
Median		
Age	42 years	41 years
Household income	$70,000	$50,000
Number of individuals contributing to household income	2	2
Household financial assets outside employer-sponsored retirement plans[2]	$25,000	$15,000
Household financial assets inside employer-sponsored retirement plans	$56,500	$20,000
Years in the 401(k) plan	7 years	3 years
401(k) plan account balance	$37,500	$10,000
Percentage of salary contributed to the plan	9%	6%
Percent		
Male	69	59[a]
Married	71	65
College or postgraduate degree	55	43[a]
Consult a professional financial adviser	26	27
Own bank or thrift deposits outside employer-sponsored retirement plans[3]	88	84
Own investments outside employer-sponsored retirement plans[4]	48	36[a]
Expect to retire comfortably	77	70[a]
Closely follow value of 401(k) plan investments	88	74[a]
Understanding of investing:		
Comprehensive	33	20[a]
Basic	56	56
Limited or none	11	24[a]
Willing to take		
Substantial or above-average financial risk	72	45[a]
Average risk	24	32[a]
Below-average or no risk	3	13[a]

[a]Responses of 401(k) plan participants who made allocation changes in the 12 months preceding the survey are statistically different at the 95 percent confidence level from those who did not.

[1]August 1997 through September 1998. Includes payroll contribution and account balance asset allocation changes.

[2]Excludes primary residence.

[3]Includes bank savings accounts, money market deposit accounts, and certificates of deposit.

[4]Includes stocks, bonds, annuities, mutual funds, and real estate other than a primary residence.

Note: Number of respondents varies.

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