

ICI VIEWPOINTS

NOVEMBER 30, 2018

Growing Better with Age: The 401(k) Turns Forty

By Miriam Bridges and Christina Kilroy

This month marks the fortieth birthday of the most prevalent retirement plan available to workers today: the 401(k). It's a milestone, to be sure, but there are no mid-life doldrums here—401(k) plans continue to grow, and currently hold **\$5.3 trillion in assets** on behalf of more than 55 million active participants and millions of former employees and retirees.

The **401(k) plan's namesake**—perhaps the most recognizable subsection of the US tax code, Section 401, subsection (k)—lets workers contribute a portion of their pay into a tax-advantaged investment account. Participants defer taxes on their contributions until those funds are taken out of the account in retirement.

Although a small number of **cash or deferred arrangements (CODAs)** had existed since the 1950s, Congress created the modern 401(k) when it passed the Revenue Act of 1978 on November 6, 1978. After the IRS issued proposed regulations three years later, employers began to adopt the plans in earnest. Large employers typically offered 401(k) plans as a supplement to their existing defined benefit (DB) plans—commonly known as traditional pensions—rather than as a stand-alone retirement option. Over time, firms that did not already have a retirement plan, particularly start-up businesses, adopted 401(k) plans as their primary retirement plan and as funding rules for traditional pensions tightened, many employers made 401(k)s their primary plans.

The 401(k) fits the needs of American companies and workers as our **workforce** has changed. And today's private-sector retirement system—including both DB and defined contribution (DC) plans such as the 401(k)—is providing more benefits to more people than ever before. Retirees today receive more income, on average, than their counterparts in the 1970s who only had access to DB plans. **ICI research shows** that the share of retirees with private-sector retirement income has nearly doubled since 1975. More importantly, the median amount received by retirees has increased by more than 50 percent—and this is true across income groups.

Forty and Favored

The 401(k) is an increasingly important part of a retirement system that has helped retirees **maintain or increase their spendable income**—a fact that is not lost on American workers. In an ICI study on **Americans' views of DC plans**, the results were clear: more than three-quarters of households—whether they owned these accounts or not—were confident in the ability of DC plans to help people meet their retirement goals. At 84 percent, confidence was even higher among those who owned DC accounts or individual retirement accounts (IRAs).

DC plan account owners also expressed appreciation of the basic features of this form of retirement saving, including the opportunities for individual choice in investing, the tax treatment of the savings, personal control of the retirement assets, and the ability to save and invest automatically, paycheck by paycheck.

Growing Better with Age

401(k)s have evolved to become an effective building block in providing retirement security to millions of working Americans. The 401(k) can be stronger still—working together, policymakers, employers, and the financial industry can further strengthen the 401(k). **Improvements**, such as automatic enrollment, automatic increases in contributions, and **target date funds** have made saving in 401(k) plans easier for workers. Easing administrative complexities would make it easier for small employers to offer plans, building on the 40-year record of growth and innovation of **our current retirement system** and fostering its future success.

The 401(k) is set to conquer its forties and continue providing Americans with incentives to save, invest, and think long-term.

401(k) Resources

If you're one of the many millions of American workers who is focused on saving in a 401(k) plan, ICI has resources to help you learn more:

- [FactsOnRetirement.org](#), which offers facts to counter myths about the US retirement system, as well as tips for savers.
- [FAQs on the basics of 401\(k\) plans](#), which offer guidance on what exactly a 401(k) plan is and how it works, including information about employer matches, catch-up contributions, vesting, loans, withdrawals, and required minimum distributions.
- [FAQs on ICI's 401\(k\) plan research](#), which offer information about the 401(k) plan market and participant activity.
- [Ten Important Facts About 401\(k\) Plans](#), which offer a collection of interesting facts pulled from ICI's research papers and data collections.

See [ICI's 401\(k\) Resource Center](#), where we have all of the above resources and more, including videos, news releases, and policy statements. Also, follow us on social media—including [Facebook](#), [Twitter](#), and [LinkedIn](#)—to receive information about top news stories on the industry, notices of ICI releases, and stories on 401(k)s and retirement.

Miriam Bridges is vice president of ICI Education Foundation and editorial director at ICI.

Christina Kilroy is the Vice President of the ICI Education Foundation.