

EBRI/ICI Study Indicates 401(k) Plan Participants Allocate Assets Appropriately, January 2000

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Washington, DC, January 20, 2000 - [New research](#) released today by the Investment Company Institute (ICI) and the Employee Benefit Research Institute (EBRI) shows that asset allocation in 401(k) retirement plan balances varies with the age and salary of plan participants. The research also indicates that many 401(k) participants are accumulating substantial account balances as they approach retirement age.

Updated statistics from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, the most comprehensive database on participants in 401(k) retirement plans, found that while asset allocation varies with age, on average, 49.8 percent of total plan balances are invested in equity funds, 17.7 percent in company stock, 11.4 percent in guaranteed investment contracts (GICs), 8.4 percent in balanced funds, 6.1 percent in bond funds, 4.7 percent in money funds, and 0.3 percent in other stable value funds at yearend 1998, the most recent year for which statistics are available

"American workers increasingly are taking advantage of 401(k) plans to build a foundation for their retirement security," ICI President Matthew P. Fink said, noting that assets in 401(k) plans have grown, on average, about 18 percent per year in the past decade. "Participants in 401(k) plans also appear to be engaging in reasonable asset allocation as their retirement nears."

The updated EBRI/ICI database shows that average 401(k) account asset allocations vary with the participant's age—younger participants tend to favor equity funds while older participants are more likely to invest in GICs and bond funds. For example, on average, individuals in their twenties invested 62.1 percent of their assets in equity funds, 4.7 percent in GICs, and 4.7 percent in bond funds. By comparison, individuals in their sixties invested 39.8 percent of their assets in equity funds, 20.6 percent in GICs, and 9 percent in bond funds.

Asset allocation also varies with participant salary, the research found. The percentage of account balances invested in equity funds rises as salary rises. For example, the percentage of account balances invested in equity funds rises from 49.8 percent for participants earning between \$20,000 and \$40,000 per year to 59.6 percent for those earning more than \$100,000 per year. In contrast, the percentage of account balances invested in GICs declines as salary increases.

Investment options offered by 401(k) plan sponsors also appear to influence asset allocation. For example, participants in plans with company stock as an investment option tend to reduce their allocation to balanced and equity funds and those in plans with GICs lower allocations to bond and money funds. Moreover, participants in plans in which employer contributions are made in company stock appear to decrease allocations to equity funds and increase the allocation to company stock in self-directed balances.

The EBRI/ICI database illustrates that 401(k) plans can provide substantial retirement income for workers with long tenure at their current employer. For example, workers in their sixties with at least 30 years of job tenure at their current employer have an average 401(k) account balance of \$185,474. Workers in their fifties with 20 to 30 years of tenure at their current employer have an average 401(k) account balance of about \$135,000.

The updated database found that average 401(k) account balances vary with the participant's age. The average account balance, minus plan loans, for all participants was \$47,004 at yearend 1998, or 26 percent higher than the average account balance at yearend 1996. Almost one half of participants have account balances with their current employers of less than \$10,000, while 13 percent have balances in excess of \$100,000.

Account balances also are affected by job mobility and tenure. Individuals with balances of less than \$10,000 primarily are younger workers with short tenure with their current employer. In contrast, those with balances in excess of \$100,000 are older workers with long tenure who have accumulated larger account balances through years of contributions and the compounding of investment

returns.

The updated EBRI/ICI database shows that 56 percent of the plans, accounting for 80 percent of the participants, offer loans to plan participants. Among participants eligible for loans, only 16 percent had loans outstanding at yearend 1998. For those with outstanding loans at the end of 1998, the level of the unpaid balance was 14 percent of the net account balance.

The updated database includes information on 7.9 million active 401(k) plan participants in 30,102 plans holding \$372 billion in assets at the end of 1998. The database accounts for about 27 percent of all 401(k) plan assets, 22 percent of all 401(k) participants, and 11 percent of all 401(k) plans as of 1998.

The Investment Company Institute is the national association of the investment company industry. EBRI is a non-partisan research organization whose mission is to contribute to the development of sound employee benefit programs and sound public policy through objective research and education.

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