EBRI/ICI Study Finds 401(k) Plan Participants' Asset Allocation Basically Unchanged in 2000, November 2001

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Despite Market Volatility, 401(k) Plan Investors Continue to Favor Equities

Washington, DC, November 19, 2001 - New research released today by the Investment Company Institute (ICI) and the Employee Benefit Research Institute (EBRI) indicates that 401(k) plan participants generally did not make significant changes to their 401(k) accounts despite substantial volatility and declines in the equity markets in 2000.

The EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, the most comprehensive database on participants in 401(k) plans, found that the average asset allocation of 401(k) participants was essentially unchanged from year-end 1999, despite a year in which many equity owners earned negative investment returns as broad market indexes saw their largest annual declines in nearly 20 years.

"This suggests that 401(k) plan participants focus on long-term investment goals and are not swayed by short-term market fluctuations," Institute President Matthew P. Fink said. "The 401(k) plan continues to be an important way for millions of working Americans to save long-term for their retirement."

Overall, the database shows that while asset allocation varies with age, on average, 51 percent of total plan balances at the end of 2000 were invested in equity funds, 19 percent in company stock, 10 percent in guaranteed investment contracts (GICs), 8 percent in balanced funds, 5 percent in bond funds, 4 percent in money funds, and 1 percent in other stable value funds. Three-quarters of plan balances held by participants in the EBRI/ICI database were invested directly or indirectly in equity securities through equity and balanced funds and company stock. The average account balance at year-end 2000 was $49,024, 12 percent lower than the average at year-end 1999.

The decline in the average account balance, in aggregate, was significantly less for those who remained in their 401(k) plans in both 1999 and 2000. About 80 percent, or 8.3 million, of the database's participants with accounts at year-end 1999 had accounts at year-end 2000. The average 401(k) account balance of this group was $58,774 at year-end 2000, down 0.1 percent from the year before. The change in a participant's balance is the result of three factors: new contributions by the participant and the employer; total investment return on account balances, which depends on the performance of financial markets and the allocation of assets in the individual's account; and withdrawals, borrowing, and loan repayments.

The updated EBRI/ICI database contains 11.8 million active 401(k) plan participants in 35,367 plans with $579.8 billion in assets. The 2000 database accounts for 11 percent of all 401(k) plans, 28 percent of all 401(k) participants, and about 33 percent of the assets held in 401(k) plans. The following are highlights from the updated database:

Asset Allocation

Account asset allocations vary with participant 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 61 percent of their assets in equity funds and 8 percent in GICs and bond funds combined. By comparison, individuals in their sixties invested 40 percent of their assets in equity funds and 27 percent in GICs and bond funds combined.

Investment options offered by the 401(k) plan influence asset allocation. For example, participants tend to hold a lower share of their accounts in equity funds when the plan offers company stock and/or GICs as investment options.

Account Balances

Average 401(k) account balances declined slightly for participants with account balances in both 1999 and 2000. For participants present in 1999 and 2000, the average account balance was $58,774 at year-end 2000, down 0.1 percent from the average of the year before. (The reported account balance represents retirement assets in the 401(k) plan at the participant's current employer and is net of plan loans.) Changes in a participant's account balance are the result of new contributions by the participant and the employer, total investment return, withdrawals, borrowing, and loan repayments.

Changes in account balances vary with age. The average account balance for participants in their twenties who held accounts in both 1999 and 2000 rose 27 percent, while the average account balance for participants in their sixties who held accounts in 1999 and 2000 fell about six percent. For younger participants, contributions are of greater importance in percentage terms because their account balances tend to be small compared with typical contributions. In contrast, for older participants, investment return is of greater importance because their account balances tend to be large compared to their annual contributions. In addition, some participants in their sixties may be making withdrawals.

Account balances are affected by participant age and job tenure. At year-end 2000, 44 percent of plan participants had account balances with their current employers of less than $10,000, while 13 percent had balances greater than $100,000. Individuals with balances of less than $10,000 primarily are younger workers with short tenures. In contrast, those with balances in excess of $100,000 are older workers with long tenures who have accumulated larger balances through years of contributions and the compounding of investment returns. 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 $177,289.

Plan Loans

Small percentage of eligible individuals borrows from plans. Among participants eligible for loans, only 18 percent had loans outstanding at year-end 2000. For those with outstanding loans at the end of 2000, the level of the unpaid balance was 14 percent of the net account balance. The updated database shows that 58 percent of the plans, accounting for 83 percent of the participants, offer loans to plan participants. Furthermore, despite the volatility in financial markets, there was virtually no change in the loan behavior of 401(k) plan participants in 2000.

The Institute has developed an ongoing research program on the 401(k) marketplace. A recent ICI study on 401(k) plan participants and their decision-making process is also available.

The Investment Company Institute is the national association of the American investment company industry. The Employee Benefit Research Institute is a nonpartisan research organization committed to the development of sound employee benefit programs and sound public policy through objective research and education.