

Updated EBRI/ICI Study Finds 401(k) Investors Maintain Long-Term Focus, February 2003

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Washington, DC, February 25, 2003 - New [research released](#) today by the Investment Company Institute (ICI) and the [Employee Benefit Research Institute](#) (EBRI) indicates that 401(k) plan participants continued to take a long-term approach to 401(k) investing through 2001.

The EBRI/ICI Participant-Directed Retirement Plan Data Collection Project is the most comprehensive database on participants in 401(k) plans. The updated research found that the average asset allocation of 401(k) participants was essentially unchanged from year-end 2000. While broad equity market indexes fell 12 percent in 2001, the average account balance of 401(k) investors who held accounts at least since 1999 fell about 4 percent. Continuing contributions into 401(k) plans, as well as diversified asset allocation, generally partly offset the fall in stock prices.

About two-thirds, or 6.9 million, of the database's participants with accounts at year-end 1999 had accounts at year-end 2001. The average 401(k) account balance of this group was \$58,785 at year-end 2001, down about 4 percent from the year before. The change in a participant's balance is the result of three factors: new contributions by the participant and/or the employer; total investment return on account balances, which depends on the performance of financial markets and on the allocation of assets in the individual's account; and withdrawals, borrowing, and loan repayments.

Overall, the database shows that, while asset allocation varies with age, on average, 48 percent of total plan balances at the end of 2001 were invested in equity funds, 17 percent in company stock, 14 percent in guaranteed investment contracts (GICs) and other stable value funds, 8 percent in balanced funds, 8 percent in bond funds, and 5 percent in money funds. Seventy percent of plan balances held by participants in the EBRI/ICI database were invested directly or indirectly in equity securities through equity funds, company stock, and the equity portion of balanced funds.

The updated EBRI/ICI database contains 14.6 million active 401(k) plan participants in 48,786 plans with \$632.7 billion in assets. The 2001 database accounts for 12 percent of all 401(k) plans, 33 percent of all 401(k) participants, and about 36 percent of the assets held in 401(k) plans.

Highlights of the Updated EBRI/ICI Database

Account Balances

- The average 401(k) account balance declined about 4 percent for 401(k) investors with account balances in 1999, 2000, and 2001. 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/or the employer, total investment return, withdrawals, borrowing, and loan repayments.
- Account balances vary with age and job tenure. At year-end 2001, 45 percent of 401(k) investors had account balances with their current employers of less than \$10,000, while 11 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 tend to be older workers with long tenures who have accumulated larger balances through years of contributions and the compounding of investment returns.

Asset Allocation

- Account asset allocations vary with age. Younger 401(k) investors tend to favor equity funds while older 401(k) investors are more likely to invest in fixed-income assets. For example, on average, individuals in their twenties invested 59 percent of their assets in equity funds and 12 percent in bond funds, GICs and other stable value funds combined. By comparison, individuals in

their sixties invested 36 percent of their assets in equity funds and 35 percent in bond funds, GICs and other stable value 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 as an investment option. In plans that offer both company stock and stable value products, company stock appears to displace equity and balanced fund holdings, and GICs and other stable value funds appear to displace other fixed-income investments.

Plan Loans

- A small percentage of eligible individuals borrows from 401(k) plans. Among participants in plans offering loans, only 16 percent had loans outstanding at year-end 2001. For those with outstanding loans at the end of 2001, the level of the unpaid balance was 14 percent of the net account balance. The updated database shows that 80 percent of participants are in plans offering loans.

The Investment Company Institute is the national association of the mutual fund 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.