

401(k) Plans Give Millions of Workers a Valuable Way to Save for Retirement

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On National 401(k) Day, ICI Reminds Workers to Get the Most from Plans

Washington, DC, September 7, 2017—The Investment Company Institute (ICI) is celebrating National 401(k) Day—Friday, September 8—by spotlighting the strength of 401(k) plans and the savings and investing behavior of the millions of workers who are using them to build nest eggs for income during retirement.

“Savers value the hallmark features of 401(k) plans and express confidence that 401(k)s and similar employer-sponsored plans will help them achieve their retirement goals,” said Sarah Holden, ICI’s senior director of retirement and investor research. “Our research shows that 401(k) plans’ popularity and tremendous growth are attributable to their key features—investment choice and control, tax advantages, and the savings discipline of paycheck deductions. Employer contributions to participants’ accounts also increase the attraction of this vital savings vehicle in most plans, boosting the share of 401(k) assets to nearly one-fifth of the record **\$26 trillion** in assets earmarked for retirement.

“National 401(k) Day serves as a natural reminder for savers to reexamine their accounts and adjust them, as necessary, to ensure they are aligned with their financial goals,” Holden said.

401(k) Plans Are Helping Millions of Americans Save for Retirement

About 55 million Americans participate in 401(k) plans, which now hold more than \$5 trillion in assets. Investors with 401(k)s and similar defined contribution (DC) plan accounts **value the control and choice** of investment options offered in their plans. 401(k) plans feature a diverse array of investment options (**more than 20 on average**), which help investors create a diversified portfolio for their age and investing horizon. In addition, 401(k)s provide a cost-effective savings vehicle, not only because of their tax advantages, but also because 401(k) mutual fund investors tend to concentrate their assets in **lower-cost funds**.

Americans Are Confident 401(k)s Will Help Them Meet Retirement Goals

In an **ICI household survey** conducted in fall 2016, 75 percent of all US households surveyed indicated that they were either “somewhat” or “very” confident in the ability of 401(k)s and similar retirement plans to help individuals meet their retirement goals. For households owning at least one DC account or individual retirement account (IRA) in fall 2016, that confidence was higher, at 82 percent. Even among households not currently owning retirement plan accounts, a 63 percent share expressed confidence in the savings power of these plans.

Key Steps to Making the Most of a 401(k) Plan

For eligible savers not yet enrolled in their employers’ plan, enrollment is the first step to taking advantage of a 401(k) plan. Other key steps include:

1. To the extent possible, max out the employer match to avoid leaving money on the table. Employers contribute to **three out of four 401(k) plans**, often in an amount tied to how much the employee contributes.
2. Next—decide on an investment approach. Some investors want to build their own portfolios and manage their holdings. Others prefer to invest in target date funds, which hold a diversified mix of stocks and bonds and automatically rebalance to become less focused on growth and more focused on income, as savers approach and move into retirement. Nearly two-thirds of **401(k) plans offer target date funds**, and nearly half of 401(k) investors use this increasingly popular option.
3. Finally, preserve your nest egg. When you change jobs, it is tempting to cash out of your 401(k), but the downside is that you may incur a major tax bill, including an additional tax penalty of 10 percent of the taxable amount withdrawn. Though individual circumstances vary, a financially sound choice to preserve retirement assets often is to **roll your account balance into an IRA**.

Other sound choices, if allowable, are to roll your account balance into a new employer's plan or remain in your old employer's plan.

For more information about 401(k) plans, see ICI's [401\(k\) Resource Center](#), which includes "[Ten Important Facts About 401\(k\) Plans](#)," and frequently asked questions (FAQs) covering the [basics of 401\(k\) plans](#) and [401\(k\) plan research](#).

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