

EBRI/ICI Study Finds Account Balances in 401(k) Plans Growing, February 2001

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Washington, DC, February 7, 2001 - Americans are increasingly responsible for planning for their own retirement needs. [New research](#) released today by the Investment Company Institute (ICI) and the Employee Benefit Research Institute (EBRI) indicates that 401(k) plan participants are accumulating substantial account balances and making sensible investment decisions. The research also shows that asset allocation in 401(k) retirement plan balances varies with the age and salary of plan participants.

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, 53 percent of total plan balances are invested in equity funds, 19 percent in company stock, 10 percent in guaranteed investment contracts (GICs), 7 percent in balanced funds, 5 percent in bond funds, 4 percent in money funds, and 1 percent in other stable value funds at year-end 1999.

"More working Americans are taking advantage of opportunities to save and using 401(k) plans to build a diversified foundation for their retirement security," ICI President Matthew P. Fink said, noting that assets in 401(k) plans have grown, on average, about 17 percent per year in the 1990s. "In general, 401(k) plan participants are making informed and reasonable investment decisions regarding asset allocation as they approach retirement age."

Over the past two decades, 401(k) retirement plans, with approximately \$1.7 trillion in assets, have become an established element of the U.S. pension landscape. Today, the 401(k) plan is an important vehicle for retirement savings for millions of Americans, and represents a significant portion of their household wealth.

The updated EBRI/ICI statistical report examines the asset allocation, account balances, and loan activity of 10.3 million active participants in 32,674 401(k) plans. The EBRI/ICI 401(k) database accounts for about 35 percent of overall 401(k) plan assets (\$573.4 billion), 26 percent of all 401(k) participants, and 11 percent of all 401(k) plans. Highlights of the updated EBRI/ICI database include:

Account Balances

401(k) account balances vary with age. The average account balance, excluding plan loans, for all participants was \$55,502 at year-end 1999, or 18 percent higher than the average account balance the year before. Forty-two percent of plan participants had account balances with their current employers of less than \$10,000, while 15 percent had balances in excess of \$100,000.

Account balances are affected by participant age and job tenure. 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.

401(k) plan participants can accumulate substantial account balances. 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 \$198,595. Workers in their forties with more than 20 years of tenure at their current employer have an average 401(k) account balance of about \$96,250.

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 63 percent of their assets in equity funds, 4 percent in GICs, and 4 percent in bond funds. By comparison, individuals in their sixties invested 44 percent of their

assets in equity funds, 19 percent in GICs, and 7 percent in bond funds.

Asset allocation varies with salary. The percentage of account balance invested in equity funds rises as salary increases. For example, among participants in plans offering a range of funds, but not company stock or GICs, the percentage of account balances invested in equity funds rises from 62 percent for participants earning between \$20,000 and \$40,000 per year to 76 percent for those earning more than \$100,000 per year.

Investment options influence asset allocation. Participants in plans with company stock as an investment option tend to reduce their allocation to balanced and equity funds while those in plans with GICs lower allocations to equity, 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.

Plan Loans

Among participants eligible for loans, only 18 percent had loans outstanding at year-end 1999. For those with outstanding loans at the end of 1999, 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 82 percent of the participants, offer loans to plan participants.

ICI has developed an ongoing research program on the 401(k) marketplace, including a [recent ICI study](#) on 401(k) plan participants and their decision-making process.

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.