Slow-but-Steady Wins: Regular 401(k) Savers Overcome Bear Market, August 2006

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Largest 401(k) Database Also Shows Workers Hold Lower Share of Assets in Employer Stock

Washington, DC, August 24, 2006 - The average account balance among American workers who consistently held 401(k) accounts from 1999 through 2005 increased 50 percent despite one of the worst bear markets since the Great Depression. Among this group, the average account balance increased 10 percent in 2005, according to a study released today by the nonpartisan Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI).

The EBRI/ICI 401(k) database, the largest database of 401(k) plan participant accounts, showed that average account balances rose to $102,014 at year-end 2005 from $67,785 at year-end 1999 among participants who maintained accounts for the entire period. "The data demonstrate the power of persistence and the impact it has on an individual's ability to accumulate sizeable gains in a 401(k) account," said ICI Senior Economist Sarah Holden, a co-author of the study.

Co-author Jack VanDerhei, Temple University and EBRI Fellow, also noted the trend away from company stock in 401(k) plans. "Recently hired 401(k) participants, who are less likely to hold company stock and maintain high concentrations of their accounts in company stock, contributed to this trend," VanDerhei said.

The study notes that the averages vary widely by age, since new contributions tend to have a greater impact on younger workers' 401(k) accounts and market returns tend to have a greater impact on older, longer-tenured workers' accounts. Increases reflect added contributions and the impact of equity market returns on account assets.

Tracking a consistent set of participants with accounts from 1999 through 2005 allows the most meaningful analysis of changes in account balances over time. In addition, the EBRI/ICI database contains a snapshot of account information for 17.6 million 401(k) plan participants—about 37 percent of the estimated 47 million U.S. workers who participated in 401(k) plans at year-end 2005.

The study, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2005," is published jointly in the August 2006 issues of EBRI *Issue Brief* and ICI *Perspective.*

Among the study's other findings:

- Company stock as a percentage of 401(k) plan assets continued to fall in 2005. Recently hired participants are less likely to own employer stock and tend to keep less of their accounts in company stock.
- Lifestyle and lifecycle mutual funds continue to gain popularity, especially among newly hired workers. Recently hired 401(k) participants in their 20s hold a larger share of their 401(k) accounts in balanced funds, including lifestyle and lifecycle funds, than did their peers in 1998.
- The bulk of 401(k) participants' assets remained in equities at year-end 2005 despite the wrenching experience of the bear market. On average, 68 percent of participants' assets were invested in equities through equity funds, the equity portion of balanced funds, and company stock.
- Most 401(k) participants approaching retirement age do not have an outstanding loan from their plan. Only 10 percent of workers in their 60s have loans, and the loans tend to be small relative to the remaining account balance.
- In 2005, 19 percent of all participants in plans that offered loans had 401(k) plan loans outstanding. On average, among

participants with loans, the loan represented 13 percent of the remaining account balance at year-end 2005.

The average 401(k) balance of all participants at year-end 2005 was $58,328. The median account balance (half of all accounts held more, and half less) was $19,398 at year-end 2005. However, such year-to-year “snapshots” can be misleading, since the sample of 401(k) participants changes as older, high-account workers leave the 401(k) system and younger, low-account workers enter.

The study also reported that aggregate averages can mask the wide range of rates of change in account balances of consistent participants over time. For example, the average account balances among consistent participants in their 20s rose 695 percent from 1999 through 2005. Because this group tends to start with small accounts, new contributions have a large impact on their balances.

In contrast, the average account balance for consistent participants in their 60s rose nearly 12 percent over the same period. For these savers, many of whom started the period with significant account balances, annual contributions generally provide only a minor boost. In addition, participants in their 60s are more likely to make withdrawals from their accounts.

EBRI, established in 1978, is an independent nonprofit organization committed exclusively to data dissemination, policy research, and education on economic security and employee benefits. EBRI does not lobby and does not take positions on policy questions. The Investment Company Institute, founded in 1940, is the national association of U.S. investment companies. Its 8,719 mutual fund company members hold $9.2 trillion in assets for 89.5 million shareholders.