New EBRI/ICI Research: Average 401(k) Account Grew 8.7 Percent Annually over Seven-Year Period, July 2007

New EBRI/ICI Research: Average 401(k) Account Grew 8.7 Percent Annually over Seven-Year Period

Washington, DC, July 31, 2007 - The average account balance among American workers who consistently held 401(k) accounts from 1999 through 2006 increased at an annual rate of 8.7 percent, according to a study released today by the nonpartisan Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI). Among the group of consistent 401(k) participants, the median, or midpoint, account balance increased at an annual rate of 15.1 percent.

The EBRI/ICI 401(k) database, the largest database of 401(k) plan participant accounts, showed that average account balances rose to $121,202 at year-end 2006 from $67,760 at year-end 1999 among participants who maintained accounts for the entire period. Among the same group, the median account balance increased to $66,650 at year-end 2006 from $24,898 at year-end 1999.

“The growth in account balances among consistent participants demonstrates the impact that a regimen of regular savings can have on an individual's ability to accumulate sizeable amounts in a 401(k) account,” said Sarah Holden, senior director of retirement and investor research at the ICI. Holden co-authored the study along with Temple University professor and EBRI Fellow Jack VanDerhei. “In addition to tracking the same participants over time, our database can also highlight the activities of recent hires, those individuals just starting out in their current employers’ plans. Focusing on those individuals, we see a trend toward diversification of asset allocation as new hires are less likely to invest in company stock and increasingly likely to invest in balanced funds, which include lifestyle and lifecycle funds.”

The study, *401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2006*, notes that growth rates in account balances vary widely by age and job tenure, since new contributions tend to have a greater impact on younger, shorter-tenured 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, as well as loan or withdrawal activity.

Tracking a consistent set of participants with accounts from 1999 through 2006 allows the most meaningful analysis of changes in account balances over time. The EBRI/ICI Participant-Directed Retirement Plan Collection Project includes 3 million “consistent participants,” each of whom held a 401(k) account at the same employer at least from year-end 1999 through year-end 2006. In total, the Project’s database contains a snapshot of account information at year-end 2006 for 20 million 401(k) plan participants—about 40 percent of the universe of 401(k) plan participants—in 53,931 plans with more than $1.2 trillion in assets.

The study is published in the August 2007 issues of EBRI Issue Brief and ICI Perspective.

Among the study’s other findings:

- Most 401(k) assets are in stocks: On average, at year-end 2006, about two-thirds of 401(k) participants’ assets were invested in equity securities through equity funds, the equity portion of balanced funds, and company stock, and about one-third was in bond and money market funds and stable value assets. These proportions have changed little over the past 10 years.
- The share of 401(k) accounts invested in company stock continues to shrink: The share of 401(k) participants’ investments held in their employer’s stock dropped 2 percentage points (to 11 percent) in 2006, continuing a steady decline that began in 1999.
- New employees embrace lifecycle/lifestyle funds. Across all age groups, more new or recent hires are investing their 401(k) assets in balanced funds, including so-called “lifestyle” or “lifecycle” funds. At year-end 2006, 24 percent of the account balances of recently hired participants in their twenties were invested in balanced funds, compared with 19 percent in 2005 and about 7 percent in 1998.
- 401(k) loans are modest. In 2006, 18 percent of all 401(k) participants eligible for loans had taken a loan against their 401(k) account. Most loans tend to be small, amounting, on average, to 12 percent of the remaining account balance.

The average 401(k) balance of all participants at year-end 2006 was $61,346, and the median account balance was $18,986. However, such year-to-year snapshots can be misleading, since the sample of 401(k) participants changes as older, high-balance workers leave the 401(k) system and younger workers enter and create new accounts.

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 twenties rose 40.9 percent, on average, annually from 1999 through 2006. 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 sixties rose nearly 3.7 percent annually 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 sixties 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 Institute, founded in 1940, is the national association of U.S. investment companies. Its mutual fund members serve 93.9 million individual shareholders and manage $11.2 trillion in investor assets.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.