

ICI VIEWPOINTS

MAY 5, 2022

Running 401(k)

By Sarah Holden and Steven Bass

Have you ever thought about running 401K? I know what you're thinking—that's almost 10 marathons! The good news is you can take a full career to cover the distance. And you'll be in good company. About [60 million active participants](#) and millions of former employees and retirees are in 401(k) plans, which hold more than [\\$7.7 trillion in assets](#). To put that in perspective, that's more than six times the number of 5K participants in the United States annually, and more than 100 times the number of marathon participants.

On Your Marks!

The first step in running your 401(k) is getting to the starting line. Check with your employer to see if they offer a retirement plan and determine what steps you need to take to get enrolled. Some plans have automatic enrollment, which means some of your paycheck is automatically contributed to the plan. Nine in 10 defined contribution (DC) account holders agree that [payroll deduction makes it easier](#) for them to save.

Get Set!

Before getting into the race, you want to have the right equipment. Making sure that you are contributing enough is like making sure you have the right running shoes. Nine out of 10 401(k) plan participants are in plans that have [employer contributions](#). Often, the employer's contribution depends on how much the employee contributes, so it's important to take full advantage of the employer amount. An employer contribution boosts your performance like a better pair of running shoes. Be sure to put on those employer-offered running shoes!

An employer contribution boosts your performance like a better pair of running shoes



You also need to decide how to invest in your 401(k). Typically, there are more than 20 investment options, often including mutual funds. Mutual funds offer cost-effective, diversified, professional investment management across many more investments than you could manage on your own. 401(k) plan investments offer a range of risk and return, typically including domestic equity funds, international equity funds, and domestic bond funds.

You also need to decide how to invest in your 401(k)

Typically, there are more than 20 investment options, often including mutual funds.



Domestic equity funds



International equity funds



Domestic bond funds

Many 401(k) plans include a choice of a [target date fund](#), which offers a complete portfolio asset allocation solution for investors. A target date fund is diversified—investing in an assortment of stocks and bonds—and rebalances its asset allocation to be less focused on growth and more focused on income as it approaches and passes your expected retirement date. [More than half](#) of 401(k) plan participants hold target date funds; among this group, the vast majority (88 percent) held [one age-appropriate target date fund](#).

Choosing the right investment for you is like making sure your running clothes fit. You need to decide how comfortable you are with market fluctuations. Most 401(k) plan participants hold at least some [stock investments in their accounts](#). And, more than [eight in 10 DC-owning individuals](#) agree that “knowing that I’m saving from every paycheck makes me less worried about the short-term performance of my investments.”

Choosing the right investment for you is like making sure your running clothes fit



Balanced funds



International stock funds



Target date funds

Go!

Now that you're ready, it's time to hit your stride. Sometimes you have an early advantage and keep a steady pace (like making contributions early in your career, which benefit from compounding), and sometimes you need a jolt of energy to push you across the finish line (after age 50, you can set aside more money for retirement through "catch-up" contributions). Late-career workers are more likely to have already taken care of competing savings goals—for a home or education—and catch-up contributions allow them to contribute even more now that they can really [focus on saving for retirement](#).

Crossing the Finish Line

Retirement from your working career will move you across the finish line, and a 401(k) plan will help you keep pace from accumulation to decumulation. With a 401(k) plan, you have many choices on how to manage the cool down phase after the run. Some people leave their 401(k) balances at their employer, setting up regular withdrawals to give them spending money in retirement. Others roll over their balances to an [individual retirement account \(IRA\)](#), perhaps combining 401(k) balances from several jobs. Most continue to hold some stock investments as they manage assets and income to and through possibly many years in retirement.

With a 401(k) plan, you have many choices on how to manage the cool down phase after the run



Can You Run 401(k)?

Running a 401(k) is a paycheck-by-paycheck endeavor and you've got your whole career to do it. Millions of young Americans recognize the importance of starting early to take advantage of compounding. But it's never too late to lace up your running shoes and start toward that retirement finish line!

Sarah Holden is the Senior Director of Retirement and Investor Research at ICI.

Steven Bass is an Economist at ICI.