

MEMO# 10663

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PUBLISHED PERSPECTIVE

[10663] January 21, 1999 TO: DIRECT MARKETING COMMITTEE No. 3-99 INDUSTRY STATISTICS COMMITTEE No. 1-99 PENSION COMMITTEE No. 3-99 PENSION OPERATIONS ADVISORY COMMITTEE No. 5-99 RESEARCH COMMITTEE No. 2-99 SALES FORCE MARKETING COMMITTEE No. 3-99 SHAREHOLDER COMMUNICATIONS COMMITTEE No. 1-99 RE: PUBLISHED PERSPECTIVE

The enclosed copy of Perspective, entitled "401(k) Plan Asset Allocation, Account Balances, and Loan Activity," is the first research report from the Institute's collaborative data collection project with the Employee Benefit Research Institute (EBRI). EBRI also has published the paper in its Issue Brief series. The purpose of the collaboration is to build a database of participants in 401(k) plans that will enable the Institute to address public policy issues about 401(k) plans and their contribution to retirement security. The EBRI/ICI 401(k) database is by far the most comprehensive source of participant data and consequently is the best source of information for policy analysis. The research report uses data for 1996 that includes an estimated 31 percent of all assets in 401(k) plans, 18 percent of all participants, and 9 percent of all plans. The 1996 data are representative of the universe of 401(k) plans and participants. Data for 1997 are currently being collected and processed, and data for 1998 will eventually be included in the database. A significantly larger number of plans and participants will be in the 1997 and 1998 database. The source of the data is ICI members and EBRI sponsors serving as plan administrators and recordkeepers. The first report contains a number of important and positive findings about asset allocation, plan balances, and plan loans. On average, participants have invested about two-thirds of plan balances in equity-related investments. The bulk of equity investment is in equity funds (mutual funds, collective trusts, and separate accounts), but a significant proportion is in company stock. Asset allocation varies with age, with younger workers holding a higher share of equity investments than older workers. Older participants with substantial service with their current employers have accumulated significant account balances. For example, those participants in their sixties and with over thirty years of service had an average balance of \$156,000. The average balance for all participants was \$37,300; its lower level reflects a high proportion of young workers or workers with low years of service. Of those participants in 401(k) plans in which loans are available, only 18 percent had a loan outstanding at the end of 1996. For those with a loan, the level of the unpaid balance was 16 percent of the account balance (net of the loan). The report also reveals two concerns. Approximately 15 percent of all participants had no exposure at all to equity-related investments. In addition, company stock accounted for 19 percent of holdings of all participants. In plans in which the employer made contributions in company stock, the total allocation was 55 percent.

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