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EBRI-ICI Study Shows Workers Favor Equity Funds for 401(k) Plans

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Washington, DC, January 21, 1999 - American workers investing for retirement through employer-sponsored 401(k) plans favor equity funds (including pooled investments offered by banks, insurance companies, and mutual funds). These plans can provide substantial retirement income for workers with long participation in the plan. For example, workers in their sixties with 30 years of job tenure have an average account balance in excess of $150,000, according to a new study by the Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI).

"401(k) plans play an ever increasing role in the retirement security of many American workers," Institute President Matthew P. Fink said. "Since they were authorized by Congress in 1978, 401(k) plans have accounted for more than three-quarters of the increase in all private pension plans."

The EBRI-ICI 401(k) Plan Participant-Directed Retirement Plan Data Collection Project has produced the most comprehensive database to date on participants in 401(k) retirement plans. Previously, information about 401(k) plan participation had been limited. The collaborative EBRI-ICI database project seeks to fill this void and enhance the understanding of the contribution of 401(k) plans to retirement security. The database includes information on 6.6 million active participants in 27,762 plans holding nearly $246 billion in assets. The database accounts for 31 percent of all 401(k) plan assets, 18 percent of all participants, and 9 percent of all plans as of 1996.

Asset Allocation

The study found that while asset allocation varies with age, more than two-thirds of plan balances are invested directly or indirectly in equity securities. For all participants, 44 percent of the total plan balance is invested in equity funds; 19.1 percent in employer stock; 15.1 percent in guaranteed investment contracts (GICs); 7.8 percent in balanced funds; 6.8 percent in bond funds; 5.4 percent in money funds; 0.8 percent in other stable value funds; and 1 percent in other or unidentified investments.

The study found that average 401(k) account asset allocations vary with the participant’s age. For example, on average, individuals in their 20s invested 76.8 percent of assets in equities and only 22.1 percent in fixed-income investments. By comparison, individuals in their 60s invested 53.2 percent of their assets in equities and 45.9 percent in fixed-income investments.

Investment options offered by 401(k) plans appear to influence asset allocation. For example, the addition of company stock substantially reduces the allocation to equity funds, while the addition of GICs lowers allocations to 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 of company stock in self-directed balances.

Account Balances

The study found that average 401(k) account balances also vary with the participant's age. The average account balance, minus plan loans, for all participants is $37,323. Nearly one half of the participants have account balances with their current employers of less than $10,000, while nearly 10 percent have balances in excess of $100,000.

Account balances, however, are affected by job mobility and tenure. Individuals with balances of less than $10,000 primarily are younger workers with short tenure with their current employer. In contrast, those with balances in excess of $100,000 are older workers with long tenure. For example, individuals in their 60s with at least 30 years of tenure have average account balances in excess of $156,000; those in their 50s have balances in excess of $117,000.

Plan Loans

The study found that 52 percent of the plans, accounting for 70 percent of the participants, offered loans to plan participants. Among participants eligible for loans, only 18 percent had loans outstanding at year-end 1996. For those with outstanding loans at the end of 1996, the level of the unpaid balance was 16 percent of the net account balance.

The Investment Company Institute is the national association of the investment company industry. EBRI is a non-partisan research organization whose mission is to contribute to the development of sound employee benefit programs and sound public policy through objective research and education.