

VIDEO

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Focus on Funds: The 35th Anniversary of the 401(k)

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The 401(k) plan, an important tool in helping Americans meet savings goals, turns 35 this year. In the July 29, 2016, edition of *Focus on Funds*, Sarah Holden, ICI's senior director of retirement and investor research, examines the latest trends in 401(k) use.

Transcript

Stephanie Ortballs-Tibbs, Director, ICI Media Relations: This year marked two significant anniversaries in the retirement savings space. It's the 35th anniversary of the 401(k) plan and the 10th anniversary of the Pension Protection Act. What have all these changes and evolutions meant for retirement savers and the 401(k)? Here's a look.

Sarah Holden, Senior Director of Retirement and Investor Research, ICI: 401(k) plans have grown to be the most common defined contribution plan. At year-end 2015, they had \$4.7 trillion in assets. Plan sponsors design these plans to really attract and retain quality workers. For example, about four in 10 401(k) plan participants are in plans that have automatic enrollment, so that gets you on the path to saving, even if you don't do anything. We have about nine in 10 participants that are in plans that have employer contributions, and that provides an immediate financial incentive to participate. And about nine in 10 [401(k) plan participants] also have loans, which gives you some flexibility if down the road you find you might need to tap those assets. All told, a third of 401(k) plan participants are in plans that have all three of those features. They have automatic enrollment and an employer contribution and the availability of loans.

Ortbals-Tibbs: Sarah, let's also talk about the investment options you see in 401(k)s. What does the data show there?

Holden: There's been a lot of change over time in the investment options—plans have added options and they've also simplified the choices at the same time. So, on average, 401(k) plans have about 27 options, but that often includes a target date fund. And if you choose the target date fund, you just picked one fund—it's diversified and it rebalances for you over time. We see that about three-quarters of plans have target date funds in their investment lineup and about nine in 10 plans have an index fund as well.

But the real test is what happens at the end of the day with participants. When we analyze participants and look at their individual accounts, we see nearly half of participants have invested in target date funds—so [they] have chosen to go with this diversified option—but we also see, when we look at younger participants, they tend to hold more equities compared with older participants.

Ortbals-Tibbs: Sarah, when we look at how successful 401(k)s are and then you look at this data, it's clear that a lot of the reason for the success of the 401(k) is that the plan design features work, the options are what people want, and the investment options really speak to people's needs.

Holden: I think we've recognized that there are some do-it-yourself investors and some really motivated savers, and they can find new things that they like in a 401(k). Then there are some folks who'd rather hand off the asset allocation to a professional and maybe need a bit of a nudge to get into the plan. And so we've got plan design to really accommodate all those different saving styles.

Ortbals-Tibbs: Something for everyone.

Holden: Yes indeed.

Additional Resources

- [ICI's 401\(k\) resource center](#)
- [Retirement research and statistics](#)

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