

VIDEO

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Focus on Funds: At 40, the 401(k) Is a Savings Success

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Four decades after the 401(k) was created, Americans have accumulated trillions of dollars in retirement savings using 401(k) accounts. In the November 16, 2018, edition of *Focus on Funds*, ICI Senior Director of Retirement and Investor Research Sarah Holden takes a look at the past, present, and future of this retirement savings vehicle.

Transcript

Stephanie Ortvals-Tibbs, ICI director of media relations: The highly successful American retirement savings tool, the 401(k) account, just celebrated a major birthday. And as the 401(k) turns 40, I talked to ICI Senior Director for Retirement and Investment Research Sarah Holden to understand how this has evolved from the 1970s to today.

Sarah Holden, ICI senior director of retirement and investment research: It's hard to believe the 401(k) is passing its 40-year mark. The Revenue Act of 1978 added Section 401(k) to the Internal Revenue Code, and then it wasn't effective until 1980. And then, finally, it really sort of got going in '81. So it kind of has a few birthdays, but we're going to say for now, 1978, passing a 40-year mark. And from this very sort of slow start, it has actually grown to be a remarkably big part of the US retirement system.

Ortvals-Tibbs: 401(k) is a household name by now, and there's quite a bit of money in these accounts.

Holden: We've got \$28.3 trillion earmarked for retirement; \$7.8 trillion of it—or more than a quarter—is in defined contribution plans. And 401(k) is the biggest part of the defined contribution market, and they've got \$5.3 trillion in them.

Ortbals-Tibbs: Thinking about the role of not just the saver, but the plan sponsor, that's a role that has evolved over time. What do those plan sponsors have to think about when they're administering a 401(k)?

Holden: So plan sponsors, in offering a 401(k), it's part of the benefit package that they're creating as they're trying to attract qualified workers to come work for the company. And they have many decisions to make, and a lot of the design has changed over time. Now, six out of 10 workers are in a plan where the decision to participate is actually automatic. So they are automatically enrolled, and they would have to opt out. So they're put on a path to saving without them having to do anything at all, which is a really powerful tool that the employer now has to use to really get people into the plan.

They then, once you're in the plan, the employer can make a decision: do I want to contribute some money towards accounts? And this again, nine out of 10 participants are in a plan that have employer contributions, which means typically if they contribute, their employer will match and put some money in as well. So that really helps the nest egg to grow. And then next they have to think about: well, what kind of investment options do we want to offer folks?

Ortbals-Tibbs: So when you think about how that has changed over time, a lot of the 401(k) holdings are in mutual funds—how do the trends play out these days in terms of investment offerings?

Holden: About 60 percent of 401(k) plan assets are invested in mutual funds, and the typical plan has 22 investment choices for people to choose among. And this gives the participants a range of options. We know a bunch of folks aren't do-it-yourself, and the target date fund is a great solution for them. Set it, and it will be rebalanced and diversified for you over the course of your investment horizon.

Ortbals-Tibbs: What do you see going forward?

Holden: Really, the key here is to make it easy for employers of all sizes to offer plans so that they can have that interaction with their workforce—design the plan that really suits their workers' needs. It's an incredibly powerful tool, and we have to be sure that the folks who are offered these plans are really taking full advantage of them. I think our next 40 years will just be getting even stronger.

Additional Resources

- [FactsOnRetirement.org](https://www.facts-on-retirement.org/)
- [Release: Americans Trust Their 401\(k\)s](#)
- [Release: Consistent 401\(k\) Participation Leads to Higher Account Balances](#)
- [Release: Mutual Fund Expense Ratios in 401\(k\) Plans Continued to Decline in 2017](#)
- [Release: BrightScope/ICI: New Data Reveal How Employers Customize Their 401\(k\) Plans to Encourage Saving](#)
- [Release: Target Date Funds Widely Used by Younger Plan Participants](#)
- [Focus on Funds: Smart Strategies Help Savers Make the Most of Their 401\(k\)](#)
- [Frequently Asked Questions About 401\(k\) Plans: The Basics](#)
- [ICI Viewpoints: Growing Better with Age: The 401\(k\) Turns 40](#)

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