

VIDEO

December 1, 2017

Focus on Funds: Latest Data Underscore Importance of 401(k)

Focus on Funds

Latest Data Underscore Importance of 401(k)

The latest analysis from the EBRI/ICI database shows how 401(k) accounts help American retirement savers meet their goals. In the December 1, 2017, edition of *Focus on Funds*, ICI Senior Director of Retirement and Investor Research Sarah Holden explains some of the findings.

Transcript

Stephanie Ortobals-Tibbs, director, ICI media relations: What are the latest trends in 401(k) plans? Every year ICI takes a look with the Employee Benefit Research Institute [EBRI], and I learned from Sarah Holden what the latest findings show.

Sarah Holden, senior director of retirement and investor research, ICI: We have been doing this collaborative data-collection effort with the Employee Benefit Research Institute for about two decades now. We started the first collection for 1996 data, and there were only 6.6 million participants in that collection—and that seemed like a lot at the time.

Most recently, we published the year-end 2015 results, and we're up to 26.1 million participants that we're analyzing their account balances and their asset allocation and their loan activity. They're in more than 100,000 plans and they've got 1.9 trillion in assets, so they really provide a key insight into a big piece of the 401(k) plan market.

Ortbals-Tibbs: That is really a nice-sized data set to draw a picture from. When you look at it, what are some of the key trend lines you're seeing?

Holden: Given the amount of time that we've been doing this, we took a look this time at, what were participants in their twenties doing in 2015—so, recently—versus back in 1996—so, nearly 20 years ago. And interestingly, we found that they do tend to concentrate in equities, but the way that they're doing it has changed.

Back in 1996, typically a participant in their twenties had 77 percent of their assets in some kind of equity investment, and it was largely through equity funds. Fast forward to today, it's about 80 percent of their assets are in equities of some sort, but they're getting to the equities in a totally different way—and it's through target date funds.

Ortbals-Tibbs: Could we also dig a bit deeper into the target date fund data, because it's of such interest to people?

Holden: Target date funds are available in two-thirds of plans. About half of participants have some of their account, or most of their account, invested in target date funds, and they represent about 20 percent of the assets in the 401(k) database.

A trend that has happened there is that they've been increasingly offered over time—in part because they are often used when there is automatic enrollment. So, when the employer automatically signs you up for the plan and they have to choose an investment for you, the default will often be a target date fund. But then, there's also just recognition that it's a nice investment for folks who would like to have an investment professional take care of the diversification and the rebalancing over time for them.

Ortbals-Tibbs: And of course, the EBRI/ICI database also looks at a lot more than plan design and asset allocation. What else do you learn from the database?

Holden: So, we are able to look at participants' account balances to see how much they've accumulated in their 401(k) account. And typically, the older you are and the longer you've been there, the bigger your balance. We're also able to track the same people over time, to get a sense of how being an ongoing participant really builds a nest egg for folks.

And then, finally, we look at loan activity. A loan feature is an important flexibility that 401(k) plans offer. Eighty-seven percent of participants are in plans that offer a loan, but we see few people take the plan up on that offer—only 16 percent had a loan outstanding at year-end 2015. So it's an important flexibility, but not one that many people take advantage of.

Ortbals-Tibbs: Thinking about this data, it's up on our website and you can really dig back through many years of information between what EBRI and ICI collect, and get a great picture of what's going on with 401(k)s.

Holden: All of the research out of the EBRI/ICI database is at [one link on our website](#), and you can look back for every single year starting in 1996.

Additional Resources

- [Focus on Funds: Smart Strategies Help Savers Make the Most of Their 401\(k\)](#)
- [Frequently Asked Questions About 401\(k\) Plans: The Basics](#)
- [Release: Mutual Fund Fees in 401\(k\) Plans Continue Downward Trend in 2016](#)
- [Release: Americans Support Retaining DC Participants' Investment Control](#)
- [Release: Most Employers Make Contributions to Their 401\(k\) Plans, In-Depth BrightScope/ICI Study Finds](#)