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**VIDEO**

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# Focus on Funds: How to Make the Most of 401(k) Savings

Focus on Funds

## How to Make the Most of 401(k) Savings

New data from ICI and the Employee Benefit Research Institute (EBRI) show that people who contribute consistently to their 401(k)s increase their balances significantly. In the September 16, 2016, edition of *Focus on Funds*, Sarah Holden, ICI's senior director of retirement and investor research, discusses how various factors affect younger and older workers' accounts.

### Transcript

**Stephanie Ortbals-Tibbs, ICI Director, Media Relations:** Workers who consistently save into their 401(k) plans reap significant rewards. That's one of the key takeaways from a new report out from ICI and the Employee Benefit Research Institute. Here's more.

**Sarah Holden, ICI Senior Director, Retirement and Investor Research:** Today we released our analysis of consistent participants. What this means is, we've found 8.8 million participants who had accounts at the end of 2010 and we then followed them through the next four years—through year-end 2014. It's important to do this because we want to see what ongoing participation in a 401(k) plan can generate.

**Ortbals-Tibbs:** Sarah, can you pick up on those drivers and detail for us what that looks like, particularly perhaps across certain generations of savers?

**Holden:** We're tracking their account balances over this four-year time period, and we looked to see how the different drivers influenced the account-balance growth. There are contributions going on—the participants contributing, the employer may be contributing. There may be some folks taking withdrawals or taking loans out. There are other folks who are paying loans back. Then of course, there are their asset allocations, so they're getting investment returns.

What we see is, these different drivers influence accounts at different points in your career. If you're a younger participant—you're in your twenties—contributions are really what boost the growth in your account. We saw over this time period, between year-end 2010 and year-end 2014, if I look at my participants in their twenties, their accounts grew an average annual rate of 44 percent per year. And this is in large part because of ongoing contributions. When I look at my older participants—those in their sixties—there the contributions are still going on, but they've already accumulated such a big nest egg that the investment returns are really what influence those accounts. And they grew an average of about 10 percent per year over that time period.

**Ortbals-Tibbs:** Sarah, the other important thing to note is that this particular study is different from other EBRI or ICI studies we've issued recently.

**Holden:** What's different about this is, we've focused in on those 8.8 million people who are there for several years so we could see what happens to accounts over time. And it's important to do this because when you look at our cross-sectional or our snapshot analysis, we're looking at participants who have just entered the system, we have some who some who may have just retired and taken a big account out. If a plan sponsor were to start auto-enrollment, we'd have a whole bunch of small accounts, which would be good news because we have new savers, but it would pull our average account down—it would look like bad news. So when focusing on these consistent folks, we're about to see the significant nest egg that you can accumulate in a 401(k).

## Additional Resources

- Release: EBRI/ICI Study Reveals Accumulation Potential of 401(k)s by Looking at Consistent Participants' Balances
- Video: The 35th Anniversary of the 401(k)
- ICI's 401(k) Resource Center
- Retirement research and statistics