

Target-Date Fund Use in 401(k) Plans and the Persistence of Their Use, 2007–2009

By Craig Copeland, Employee Benefit Research Institute

CONSISTENT TDF PARTICIPANTS: This study examines the use of target-date funds (TDFs) by a consistent group of 401(k) participants in plans that offered them in 2007 through 2009. The consistent group of participants were those who were in a plan that offered a TDF in 2007, were in plans that were still offering TDFs in 2008 and 2009, and were still in the data source in 2008 and 2009.

DATA SOURCE: This study uses the unique richness of the data in the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, which for each year from 2007–2009 had more than 20 million 401(k) plan participants from more than 50,000 plans across a spectrum of plan administrators. In this database in 2007, 67.3 percent of the plans offered target-date funds as an investment option. This study follows those 401(k) participants identified as being in plans that *offered* target-date funds in 2007 and remained in the database, if they continued to be in a plan offering target-date funds in 2008 and 2009.

USE OF TDFS IN EACH YEAR: In 2007, of those participants in this database, 38.9 percent had at least some of their account balance in TDFs. By 2008, 42.6 percent had at least some of their account balance in TDFs, reaching 43.2 percent in 2009. Furthermore, 36.6 percent of this consistent group of 401(k) plan participants had some of their account balance allocated to TDFs in 2007 and 2008. Just over 35 percent of these participants had at least some assets allocated to TDFs in 2007, 2008, and 2009.

AUTO-ENROLLMENT AND PERSISTENCE OF TDF USE: Among participants who were identified as auto-enrollees in 2007, 97.2 percent were still using TDFs in 2008, and 95.7 percent used them in 2008 and 2009. While those *not* identified as auto-enrollees continued to invest in TDFs at a lower rate than those identified as auto-enrollees, there was a very high overall persistence rate in TDF use from 2007–2009: just over 90 percent.

ALL-ACCOUNT USE VS. PARTIAL-ACCOUNT USE: Of the consistent group of participants using TDFs in 2007, 36.9 percent had all of their account allocated to TDFs. The remaining 63.1 percent of those using a TDF had less than 100 percent of their allocation in TDFs. In 2009, slightly more participants (67.2 percent) had less than 100 percent of their allocation in TDFs.

PERSISTENCE OF USE FOR 100 PERCENT TDF PARTICIPANTS: Among only those participants who had all of their account allocated to TDFs, a very high rate (83.0 percent) stayed at a 100 percent TDF allocation in 2009. Almost 13 percent of those who had a total allocation to TDFs in 2007 had an allocation lower than 100 percent (but not a zero) allocation in 2009. Only 4 percent of participants with a 100 percent TDF allocation in 2007 had stopped using them by 2009.

ALLOCATION WHEN NOT INVESTING IN ALL-TDFS AFTER DOING SO: While a very small percentage of those investing all of their account in TDFs in 2007 stopped using them by 2009, the average participant-weighted allocation for this group to equity funds/company stock/balanced funds in 2009 was 31.1 percent and approximately 65 percent to bond funds, money funds, guaranteed investment contracts (GICs), and/or stable value funds in 2009.

Craig Copeland is a senior research associate at the Employee Benefit Research Institute. This *Issue Brief* was written with assistance from the Institute’s research and editorial staffs. Any views expressed in this report are those of the author, and should not be ascribed to the officers, trustees, or other sponsors of EBRI, EBRI-ERF, or their staffs. Neither EBRI nor EBRI-ERF lobbies or takes positions on specific policy proposals. EBRI invites comment on this research.

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Definitions

Target-date fund (TDF): A TDF is an investment that automatically resets the asset mix (stocks, bonds, cash equivalents) in its portfolio according to a predetermined path over a selected time frame, typically until a year at or near which it would be appropriate for a participant to retire. This year is typically reflected in the investment’s name. For example, a TDF for an older worker about to retire (such as a “2015 Fund”) would have a lower percentage of equities in its asset mix and more bonds or cash equivalents, while a TDF for a younger worker (such as a “2060 Fund”) will have a higher percentage of equities and less bonds or cash equivalents.

Auto-enrollment: A feature in some 401(k) retirement savings plans, where the plan sponsor automatically enrolls newly eligible and in some cases existing non-participating eligible workers into the plan, unless the worker specifically opts out.

Default investment: The investment option (such as target-date funds) that 401(k) plan sponsors select in which a participant is invested, if the participant does not choose another allocation for their assets.

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Introduction

The use of target-date funds (TDFs) in 401(k) plans has increased rapidly in recent years. The percentage of all 401(k) plan participants using TDFs increased from 25 percent in 2007 to 31 percent in 2008 and to 33 percent in 2009.¹ One of the reasons for this growth is that TDFs have been a popular choice for the default fund when 401(k) plans have an auto-enrollment feature. Consequently, younger participants, participants with lower account balances, and participants with shorter tenure at their current job have been found to be more likely to use them.²

While the growth of TDF use has been rapid in 401(k) plans in recent years, TDFs are still relatively new for most participants. Therefore, there has been a limited amount of research on how participants use these funds over time, especially among those who were auto-enrolled in these funds.³

This study examines the use of TDFs by a consistent group of 401(k) participants in plans that offered them in 2007 through 2009. Furthermore, it looks at the persistence of use of TDFs among these participants, beginning with those using these funds in 2007. The consistent group of participants were those who were in a plan that offered TDFs in 2007, were in plans that were still offering TDFs in 2008 and 2009, and were still in the data source in 2008 and 2009. The percentage of participants who used TDFs in each year of the study was determined, as well as the percentage who either stayed or moved into or out of TDFs during the next two years.

While approximately 90 percent of the participants who used TDFs in 2007 continued to use them through 2009, the characteristics of the participants who stopped using are presented in the study because of the interest in the topic. Moreover, a proxy for participants who were likely enrolled under an auto-enrollment feature is developed to see if the participants who were enrolled through the default option show different behavior from those who enrolled under a traditional voluntary arrangement.

Data

This study uses the unique richness of the data in the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, which for each year from 2007–2009 had more than 20 million 401(k) plan participants from more than 50,000 plans across a spectrum of plan administrators.⁴ In this database in 2007, 67.3 percent of the plans offered target-date funds as an investment option. This study focuses on only those 401(k) participants identified as being in plans that *offered* target-date funds in 2007–2009, as the goal is to examine participants' choices when target-date funds are offered.

In addition to the 2007 data from this database, all participants who were still in the database in 2008 and 2009 who were in the plans that were identified as offering TDFs in 2007 and were still offering TDFs in 2008 and 2009 were included to create a longitudinal database of a consistent group of participants who were in plans offering TDFs in 2007–2009.⁵

Use of TDFs in Each Year^{6, 7}

Of those participants who were in a plan that offered a TDF in 2007–2009 and were still in the database in 2008 and 2009, 38.9 percent had at least some of their account balance in TDFs in 2007 (Figure 1).⁸ By 2008, of this same group of participants, 42.6 percent had at least some of their account balance in TDFs, before reaching to 43.2 percent in 2009.⁹ Furthermore, 36.6 percent of this consistent group of 401(k) plan participants had some of their account balance allocated to TDFs in 2007 and 2008. Just over 35 percent of these participants had at least some assets allocated to TDFs in 2007, 2008, and 2009.

Figure 1
Percentage of a Consistent Set of 401(k) Plan Participants Who Were in a Plan That Offered Target-Date Funds in 2007, 2008, and 2009, and Who Used Them in 2007, 2008, and/or 2009, by Various Factors

	Percentage Using Target-Date Funds, 2007	Percentage Using Target-Date Funds, 2008	Percentage Using Target-Date Funds, 2009	Percentage Using Target-Date Funds, 2007 and 2008	Percentage Using Target-Date Funds, 2007, 2008, and 2009
Age					
All	38.9%	42.6%	43.2%	36.6%	35.3%
Under 30	46.5	59.3	59.4	45.0	44.0
30–39	43.3	46.7	47.3	41.3	40.0
40–49	38.2	40.9	41.7	35.9	34.7
50–59	35.8	38.0	38.6	33.0	31.5
60 or Older	29.8	31.1	31.1	26.9	25.4
Tenure					
Unknown	59.6	60.6	60.2	57.0	55.3
Less than 2 years	51.5	57.6	57.7	49.3	48.0
2 to less than 5 years	45.0	50.8	51.1	43.1	41.8
5 to less than 10 years	38.1	41.5	42.2	35.9	34.6
10 to less than 20 years	32.3	35.2	36.1	30.0	28.7
20 to less than 30 years	29.4	31.2	32.1	26.3	25.0
30 or more years	22.8	24.0	24.5	19.5	18.3
Account Balance					
<\$5,000	47.3	54.8	55.0	46.0	45.0
\$5,000–\$9,999	44.8	48.5	48.8	42.7	41.3
\$10,000–\$19,999	39.8	42.7	43.3	37.6	36.3
\$20,000–\$39,999	36.1	38.5	39.2	33.6	32.2
\$40,000–\$59,999	34.0	36.2	37.1	31.4	30.0
\$60,000–\$99,999	32.8	34.9	35.7	29.9	28.5
\$100,000–\$199,999	31.7	33.3	34.2	28.5	26.9
\$200,000 or more	28.9	29.7	30.4	24.9	23.3
Plan Size (number of participants)					
1–10	46.3	46.7	46.7	43.9	42.4
11–25	39.3	40.2	40.8	37.2	36.0
26–50	38.0	39.5	40.2	35.8	34.7
51–100	37.3	38.9	39.2	35.3	34.0
101–250	39.5	41.3	41.9	37.4	36.1
251–500	38.6	40.9	41.4	36.5	35.3
501–1,000	39.3	41.5	42.6	37.0	35.6
1,001–2,500	37.9	40.6	41.3	35.8	34.4
2,501–5,000	39.8	43.6	44.3	37.6	35.6
5,001–10,000	37.4	40.9	41.8	34.5	33.4
> 10,000	39.6	45.4	45.6	37.2	36.1

Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Note: All categories are based on the participant's status in 2007. The data contain a consistent set of participants who were in 401(k) plans that offered target-date funds in 2007, were still in plans that offered them in 2008 and 2009, and were still in the database in 2008 and 2009.

"Funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated.

Participants who were younger, had shorter tenure, or had lower account balances were more likely to invest in TDFs (Figure 1). For example, of participants under age 30, 46.5 percent were in TDFs in 2007, compared with 29.8 percent of those age 60 or older. This pattern continued through 2009, as 59.4 percent of those under age 30 and 31.1 percent of those age 60 or over were in TDFs. By tenure, the percentage of participants in 2009 using TDFs ranged from 57.7 percent for those with less than two years of tenure to 24.5 percent of those with 30 or more years of tenure. By account size, 55.0 percent with an account balance less than \$5,000 were in TDFs in 2009, compared with 30.4 percent of those with a balance of \$200,000 or more.

Across plan size, the rate of use in each year did not significantly differ, except for those in the smallest (1–10 participants) and largest (more than 10,000 participants) plans, which had slightly higher rates of participant use. Among participants in the smallest plans (with 1–10 participants), 46.7 percent had assets in TDFs in 2009, compared with 42.6 percent for those in plans with 501–1,000 participants and 45.6 percent of those with more than 10,000 participants.

In each age, tenure, account balance, and plan size category, the percentage of TDF use increased among these participants in 2008 and increased again (but at a slower rate) or stayed at the same level in 2009. Consequently, in each category for each year, at least as many people added TDFs to their account as those who stopped using them. However, the overwhelming majority of the 401(k) participants who used TDFs in 2007 were still using them in 2009.

In general, the participants who used TDFs continued to use them. The overall trend in TDF use was slightly increasing. Given this high percentage of continuous use and the slight upward trend in use, the changes in use from year to year were relatively small and the percentage of participants moving assets into or out of TDFs was also small:

- The overall increase in TDF use from 2007 to 2008 was 3.7 percentage points, and the increase from 2008 to 2009 was 0.6 percentage points (Figure 1).
- Participants who moved out of TDFs in 2008 and back into them in 2009 amounted to 0.3 percent (Figure 2).
- Those who used TDFs in 2007 and 2008 but not in 2009 amounted to 1.3 percent.
- Participants who had not used TDFs until 2009 amounted to 1.8 percent.

Furthermore, 41.0 percent of participants invested in TDFs in 2008 and 2009 (regardless of 2007 use) (Figure 2), and 35.3 percent used them all three years (Figure 1). However, there was also a significant group (53.2 percent) of these participants who did not use TDFs in any year from 2007–2009 (Figure 2).

Those least likely to have used a TDF were participants who were older, had longer tenure, and had higher account balances. Plan size did not appear to have a significant impact among these participants not using TDFs.

Distribution of Those Using TDFs in Each Year Across Various Characteristics

This section compares the overall distribution of the consistent group of participants with the distribution of those within this group who used TDFs in the various years by their status in 2007. Furthermore, the average in each factor group for each year is based on the participant's status in 2007. This allows for a clean comparison among the groups, instead of trying to determine whether the mix of tenure, the relative market adjustments to account balances, etc., changed across the years.

As noted earlier, participants who use TDFs were younger on average than those who do not (Figure 3). The average age of those using TDFs remained near 43; by comparison, those not using TDFs were just over 46 years old, on average. Those who moved in and out of TDFs or didn't invest in them until 2009 were older on average (about age 46) than those who remained in them all three years (almost age 43) (Figure 4).¹⁰

A similar result held for tenure: Those with less time on the job were more likely to invest in TDFs than those with longer tenures. The average tenure for those using TDFs was just under nine years, compared with just over 12 years for those not using TDFs from 2007–2009 (Figure 3). Furthermore, those with longer tenures were more likely to have moved out and into TDFs or to have not invested in them until 2009. Those moving were on average over age 45, compared with approximately age 43 for those staying (Figure 4).

Figure 2
Percentage of a Consistent Set of 401(k) Plan Participants Who Were in a Plan That Offered Target-Date Funds in 2007, 2008, and 2009, and Who Used Them or Did NOT Use Them in 2007, 2008, and/or 2009, by Various Factors

	Participants Using Target-Date Funds, 2007, Not 2008, and 2009	Participants Using Target-Date Funds, 2008 and 2009	Percentage Using Target-Date Funds, 2007 and 2008, Not 2009	Percentage Using Target-Date Funds, Only 2009	Percentage NOT Using Target-Date Funds, 2007, 2008, and 2009
Age					
All	0.3%	41.0%	1.3%	1.8%	53.2%
Under 30	0.3	58.0	1.0	1.3	37.8
30–39	0.3	45.3	1.2	1.7	49.5
40–49	0.4	39.3	1.3	2.0	54.9
50–59	0.4	36.2	1.5	2.1	57.1
60 or Older	0.3	29.2	1.5	1.6	64.4
Tenure					
Unknown	0.3	58.8	1.7	1.1	35.7
Less than 2 years	0.3	55.9	1.3	1.5	38.8
2 to less than 5 years	0.3	49.2	1.3	1.5	45.8
5 to less than 10 years	0.3	40.0	1.3	1.9	54.4
10 to less than 20 years	0.4	33.6	1.3	2.2	60.3
20 to less than 30 years	0.4	29.5	1.3	2.2	63.6
30 or more years	0.3	22.4	1.2	1.8	70.9
Account Balance					
<\$5,000	0.2	53.6	1.0	1.2	42.7
\$5,000–\$9,999	0.4	46.9	1.3	1.6	47.9
\$10,000–\$19,999	0.4	41.1	1.3	1.8	53.3
\$20,000–\$39,999	0.4	36.9	1.4	2.0	57.1
\$40,000–\$59,999	0.4	34.5	1.4	2.2	59.0
\$60,000–\$99,999	0.4	33.1	1.5	2.3	60.0
\$100,000–\$199,999	0.4	31.3	1.6	2.4	61.0
\$200,000 or more	0.5	27.6	1.6	2.4	63.9
Plan Size (number of participants)					
1–10	0.3	45.0	1.5	1.3	49.5
11–25	0.3	38.9	1.2	1.6	56.1
26–50	0.4	38.2	1.1	1.6	56.7
51–100	0.3	37.4	1.3	1.5	57.6
101–250	0.3	39.9	1.2	1.7	54.9
251–500	0.3	39.3	1.2	1.8	55.2
501–1,000	0.3	39.9	1.4	2.3	53.8
1,001–2,500	0.3	39.0	1.4	2.0	55.3
2,501–5,000	0.3	41.3	2.0	2.7	51.6
5,001–10,000	0.3	39.5	1.1	2.1	54.2
> 10,000	0.4	44.0	1.0	1.2	51.0

Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Note: All categories are based on the participant's status in 2007. The data contain a consistent set of participants who were in 401(k) plans that offered target-date funds in 2007, were still in plans that offered them in 2008 and 2009, and were still in the database in 2008 and 2009.

"Funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated.

Figure 3

Distribution of a Consistent Set of 401(k) Plan Participants Who Were in a Plan That Offered Target-Date Funds in 2007, 2008, and 2009, and Who Used Them or Did NOT Use Them in 2007, 2008, and/or 2009, by Various Factors, Including the Average Overall Amount of Each Factor Group

	Distribution of the Participants	Distribution of the Participants Using Target-Date Funds, 2007	Distribution of the Participants Using Target-Date Funds, 2008	Distribution of the Participants Using Target-Date Funds, 2009	Distribution of the Participants NOT Using Target-Date Funds in 2007, 2008, and 2009
	<i>Average/Percentage</i>				
Age	44.7	43.2	42.7	42.7	46.2
All	100%	100%	100%	100%	100%
Under 30	10.8	13.0	15.1	14.9	7.7
30–39	23.7	26.4	26.0	26.0	22.1
40–49	30.6	30.0	29.4	29.5	31.6
50–59	25.7	23.6	22.9	22.9	27.5
60 or Older	9.1	7.0	6.7	6.6	11.1
Tenure ^a	10.6	8.7	8.5	8.6	12.1
Unknown	4.2%	6.5%	6.0%	5.9%	2.8%
Less than 2 years	10.0	13.2	13.4	13.3	7.3
2 to less than 5 years	22.8	26.4	27.2	27.0	19.6
5 to less than 10 years	24.9	24.4	24.3	24.4	25.5
10 to less than 20 years	22.6	18.8	18.6	18.9	25.6
20 to less than 30 years	10.2	7.7	7.5	7.6	12.2
30 or more years	5.3	3.1	3.0	3.0	7.0
Account Balance	\$65,095	\$50,784	\$48,638	\$49,087	\$76,472
<\$5,000	26.8%	32.5%	34.4%	34.1%	21.5%
\$5,000–\$9,999	10.1	11.6	11.5	11.4	9.1
\$10,000–\$19,999	12.8	13.1	12.8	12.8	12.8
\$20,000–\$39,999	14.0	12.9	12.6	12.7	15.0
\$40,000–\$59,999	8.2	7.2	7.0	7.1	9.1
\$60,000–\$99,999	9.7	8.2	8.0	8.0	11.0
\$100,000–\$199,999	10.5	8.6	8.2	8.3	12.1
\$200,000 or more	7.9	5.9	5.5	5.6	9.5
Plan Size (number of participants)	11,487	9,787	10,935	10,902	12,075
1–10	0.3%	0.4%	0.4%	0.4%	0.3%
11–25	1.2	1.2	1.2	1.2	1.3
26–50	2.0	2.0	1.9	1.9	2.2
51–100	3.1	3.0	2.9	2.9	3.4
101–250	6.0	6.1	5.9	5.9	6.2
251–500	6.7	6.6	6.4	6.4	6.9
501–1,000	8.4	8.5	8.1	8.2	8.5
1,001–2,500	14.4	14.0	13.7	13.8	15.0
2,501–5,000	14.6	15.0	15.0	15.0	14.2
5,001–10,000	12.3	11.8	11.8	11.9	12.6
> 10,000	30.9	31.4	32.9	32.6	29.6

Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

^a The average amount for this factor group is calculated only using those observations with a known tenure.

Note: All categories are based on the participant's status in 2007. The data contain a consistent set of participants who were in 401(k) plans that offered target-date funds in 2007, were still in plans that offered them in 2008 and 2009, and were still in the database in 2008 and 2009.

"Funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated. The factor group average in each column is calculated using the participant's 2007 value.

Figure 4

Distribution of a Consistent Set of 401(k) Plan Participants Who Were in a Plan That Offered Target-Date Funds in 2007, 2008, and 2009, and Who Used Them or Did NOT Use Them in 2007, 2008, and/or 2009, by Various Factors, Including the Average Overall Amount of Each Factor Group

	Distribution of the Participants Using Target-Date Funds, 2007, Not 2008, and 2009			Distribution of the Participants Using Target-Date Funds, 2007 and 2008, Not 2009			Distribution of the Participants Using Target-Date Funds, 2008 and 2009		Distribution of the Participants Using Target-Date Funds, 2009 Only
	Average/Percentage	Average/Percentage	Average/Percentage	Average/Percentage	Average/Percentage	Average/Percentage	Average/Percentage	Average/Percentage	
Age	43.0	45.6	42.9	45.8	42.6	45.6			
All	100%	100%	100%	100%	100%	100%			
Under 30	13.3	7.8	13.5	8.5	15.3	7.6			
30–39	26.8	23.2	26.9	22.4	26.2	22.1			
40–49	30.1	31.3	30.1	29.4	29.4	33.0			
50–59	23.1	29.3	22.9	29.4	22.6	29.2			
60 or Older	6.7	8.5	6.6	10.4	6.5	8.2			
Tenure ^a	8.5	11.2	8.4	10.2	8.4	11.5			
Unknown	6.6%	3.2%	6.6%	5.3%	6.1%	2.6%			
Less than 2 years	13.4	8.1	13.5	10.1	13.6	8.2			
2 to less than 5 years	26.9	22.6	27.0	22.3	27.4	18.8			
5 to less than 10 years	24.4	24.7	24.4	24.3	24.3	25.8			
10 to less than 20 years	18.5	24.8	18.4	23.2	18.5	27.0			
20 to less than 30 years	7.4	11.7	7.3	10.0	7.4	12.3			
30 or more years	2.8	4.9	2.7	4.8	2.9	5.2			
Account Balance	\$48,078	\$77,040	\$47,046	\$75,999	\$47,395	\$81,817			
<\$5,000	33.6%	16.4%	34.2%	19.6%	35.0%	17.5%			
\$5,000–\$9,999	11.8	11.2	11.9	10.4	11.6	8.6			
\$10,000–\$19,999	13.1	13.8	13.1	12.8	12.8	12.6			
\$20,000–\$39,999	12.8	15.1	12.8	14.8	12.5	15.0			
\$40,000–\$59,999	7.1	8.8	7.0	8.9	6.9	9.9			
\$60,000–\$99,999	8.0	11.6	7.8	11.1	7.8	12.0			
\$100,000–\$199,999	8.2	12.9	8.0	12.7	8.1	14.0			
\$200,000 or more	5.4	10.3	5.2	9.8	5.3	10.5			
Plan Size (number of participants)	9,760	11,412	9,812	8,344	10,987	8,891			
1–10	0.4%	0.3%	0.4%	0.4%	0.4%	0.2%			
11–25	1.2	1.1	1.3	1.1	1.2	1.1			
26–50	2.0	2.1	2.0	1.7	1.9	1.8			
51–100	3.0	3.0	3.0	3.1	2.9	2.6			
101–250	6.2	5.5	6.2	5.7	5.9	5.6			
251–500	6.7	5.4	6.7	6.3	6.4	6.5			
501–1,000	8.5	7.6	8.5	8.7	8.1	10.7			
1,001–2,500	14.1	12.6	14.0	15.6	13.7	15.6			
2,501–5,000	15.1	13.8	14.8	22.6	14.7	21.3			
5,001–10,000	11.6	9.8	11.7	10.4	11.9	13.9			
> 10,000	31.3	38.9	31.6	24.5	33.1	20.7			

Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

^a The average amount for this factor group is calculated only using those observations with a known tenure.

Note: All categories are based on the participant's status in 2007. The data contain a consistent set of participants who were in 401(k) plans that offered target-date funds in 2007, were still in plans that offered them in 2008 and 2009, and were still in the database in 2008 and 2009.

"Funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated.

The factor group average in each column is calculated using the participant's 2007 value.

Since the participants using TDFs were younger and had shorter tenures, they were also more likely to have lower account balances. Those using TDFs from 2007–2009 had an average balance around \$50,000, compared with approximately \$76,000 for those who did not use them (Figure 3). Again, those moving in or out of TDFs had higher account balances on average (Figure 4).

While the average plan size was smaller for those using TDFs, the distribution among participants in different plan sizes did not change significantly for those using them, versus those not using them (Figure 3). Participants who moved in or out of TDFs in 2009 had a lower average plan size than for those who remained in TDFs from 2007–2009, but those who moved out in 2008 then back in in 2009 had a higher average plan size (Figure 4).

Auto-enrollment and Persistence of TDF Use

Automatic enrollment in 401(k) plans that use target-date funds as the default investment option¹¹ has been one driver of the increased use of target-date funds. Consequently, determining if these participants remain in these funds is important. The EBRI/ICI database does not contain specific information on whether a plan had automatic enrollment. However, given the importance of the effects of automatic enrollment on the use of target-date funds, this analysis undertook an algorithm to create a proxy for those who were highly likely to have been automatically enrolled.

Auto-enrollees in this study were determined by identifying those participants who had less than two years of tenure (newly eligible participants), had 90 percent or more of their account balance in target-date funds or target-date funds plus company stock, and were in a plan where at least 60 percent of the participants who had less than two years of tenure were 90 percent or more invested in a target-date fund.¹² While these criteria are likely to miss some of those who were automatically enrolled (especially those who changed their allocations significantly after enrollment, those with two or more years of tenure who were auto-enrolled, or those who were automatically enrolled with a different default investment than a target-date fund), they are the most likely to identify those who were automatically enrolled into target-date funds and had made no changes in their investments during the year. For this study, this definition is defensible, as the focus is on the participants who used target-date funds in 2007 when offered them.¹³ Therefore, only those identified in 2007 are considered as auto-enrollees, and only the continuous participants in all three years of the study are analyzed. Thus, the continuous use of those identified as auto-enrolled in 2007 can be studied in 2008 and 2009.

Of those participants identified as auto-enrollees in 2007, 97.2 percent were still using TDFs in 2008, and 95.7 percent used them in 2008 and 2009 (Figure 5). In 2009, of those using them in 2008, 1.5 percent had stopped using them. This is a higher rate of persistence than among those who were not identified as auto-enrollees, where 90.5 percent of those who used TDFs in 2007 and 2008 were still using them in 2009. The decline from 2008 to 2009 of those not identified as auto-enrollees was 3.4 percent. Regardless of the auto-enrollment status, there was a very high overall persistence rate in TDF use from 2007–2009: just over 90 percent.

Older participants were slightly more likely to stop using TDFs among both auto-enrollees and nonauto-enrollees. For example, of those identified as auto-enrollees and under age 30, 97.2 percent were still in TDFs in 2009, compared with 94.4 percent for those ages 50 or older. Tenure showed a similar pattern for those not auto-enrolled, as those with longer tenures had lower persistence rates (auto-enrollees by the proxy definition could only have less than two years of tenure). Participants with higher account balances had lower persistence rates for all TDF users, while participants in plans of different sizes did not have not significant differences in the persistence of TDF use.

Percentage of TDF Allocation and Impact on Future TDF Use

Of the consistent group of participants using TDFs in 2007, 36.9 percent had all of their account allocated to TDFs (Figure 6).¹⁴ The remaining 63.1 percent of those using TDFs had less than 100 percent of their allocation in TDFs. In 2008, the distribution between 100 percent and less than 100 percent in TDFs was almost exactly the same as 2007. In 2009, slightly more participants (67.2 percent) had less than 100 percent of their allocation in TDFs.

Those most likely to use TDFs as only a portion of their 401(k) balance had longer tenures, higher account balances, and were in larger plans. No clear pattern is evident after age 30. Participants under age 30 clearly had the lowest

Figure 5
Percentage of 401(k) Plan Participants Who Were in a Plan That Offered Target-Date Funds and Used Them in 2007 and Who Were Still Offered Them in 2008 and 2009, by 2008 and 2009 Use, Auto-enrollment Status and Various Factors

	Percentage Using Target-Date Funds, 2008			Percentage Using Target-Date Funds, 2008 and 2009			Percentage Using Target-Date Funds, 2008 and Not 2009		
	All	Auto-enrollment		All	Auto-enrollment		All	Auto-enrollment	
		Yes	No		Yes	No		Yes	No
Age									
All	94.0%	97.2%	93.9%	90.6%	95.7%	90.5%	3.4%	1.5%	3.4%
Under 30	96.7	98.3	96.5	94.5	97.2	94.2	2.2	1.1	2.3
30–39	95.2	96.9	95.2	92.4	95.4	92.3	2.8	1.6	2.9
40–49	94.1	96.5	94.0	90.8	94.9	90.7	3.3	1.7	3.3
50 or Older	91.7	96.3	91.6	87.3	94.4	87.2	4.4	1.9	4.4
Tenure^a									
Unknown	95.6		95.6	92.9		92.9	2.8		2.8
Less than 2 years	95.8	97.2	95.3	93.2	95.7	92.4	2.6	1.5	2.9
2 to less than 5 years	95.7		95.7	92.8		92.8	2.8		2.8
5 to less than 10 years	94.2		94.2	90.8		90.8	3.3		3.3
10 to less than 20 years	92.9		92.9	88.7		88.7	4.1		4.1
20 to less than 30 years	89.6		89.6	85.2		85.2	4.3		4.3
30 or more years	85.4		85.4	80.3		80.3	5.2		5.2
Account Balance									
<\$5,000	97.2	97.6	97.2	95.2	96.3	95.1	2.0	1.2	2.1
\$5,000–\$9,999	95.4	96.0	95.4	92.4	94.1	92.3	3.0	2.0	3.0
\$10,000–\$19,999	94.5	95.7	94.5	91.2	92.8	91.2	3.3	2.9	3.3
\$20,000–\$39,999	93.2	95.3	93.2	89.4	92.8	89.4	3.8	2.5	3.8
\$40,000 or more	90.4	93.7	90.0	85.3	90.8	85.3	4.8	2.8	4.8
Plan Size (number of participants)									
1–25	94.7	97.2	94.6	91.7	95.3	91.4	3.0	1.8	3.1
26–100	94.5	97.1	94.4	91.3	95.3	91.1	3.2	1.8	3.3
101–500	94.5	98.0	94.4	91.4	96.4	91.2	3.2	1.6	3.2
501–1,000	94.0	96.6	93.9	90.6	94.8	90.4	3.4	1.8	3.5
1,001–2,500	94.4	98.4	94.3	90.7	97.2	90.5	3.7	1.2	3.8
2,501–5,000	94.5	98.6	94.3	89.4	97.6	89.1	5.1	0.9	5.2
> 5,000	93.5	96.1	93.4	90.7	94.5	90.6	2.7	1.6	2.8

Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

^a Those identified as autoenrollees can by the proxy definition only have tenure of less than two years.

Note: All categories are based on the participant's status in 2007. The data contain a consistent set of participants who were in 401(k) plans that offered target-date funds in 2007, used them in 2007, were still in plans that offered them in 2008 and 2009, and were still in the database in 2008 and 2009. "Funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated.

Figure 6
Distribution of Target-Date Fund Allocation by 401(k) Participants
Among Those Participants Using Them, by Various Factors, 2007, 2008, and 2009

	Level of Target- Date Fund Use, 2007		Level of Target- Date Fund Use, 2008		Level of Target- Date Fund Use, 2009	
	Less than 100%	100%	Less than 100%	100%	Less than 100%	100%
	Age					
All	63.1%	36.9%	63.8%	36.2%	67.2%	32.8%
Under 30	49.9	50.1	48.0	52.0	54.1	45.9
30–39	61.4	38.7	63.3	36.7	66.5	33.5
40–49	65.9	34.1	67.7	32.3	70.5	29.5
50–59	67.9	32.1	69.1	30.9	71.8	28.2
60 or Older	66.0	34.0	66.4	33.6	68.2	31.8
Tenure						
Unknown	34.0	66.0	37.6	62.4	41.9	58.1
Less than 2 years	45.7	54.3	49.7	50.3	54.5	45.5
2 to less than 5 years	55.8	44.2	56.2	43.8	60.6	39.4
5 to less than 10 years	69.2	30.9	68.8	31.2	71.8	28.2
10 to less than 20 years	77.9	22.1	77.6	22.4	79.1	20.9
20 to less than 30 years	80.6	19.4	81.0	19.0	82.4	17.6
30 or more years	79.5	20.5	79.8	20.2	80.8	19.2
Account Balance						
<\$5,000	36.1	63.9	39.9	60.1	45.0	55.1
\$5,000–\$9,999	61.7	38.3	63.0	37.0	66.8	33.2
\$10,000–\$19,999	69.9	30.1	70.3	29.7	73.4	26.6
\$20,000–\$39,999	76.4	23.6	76.6	23.4	78.9	21.1
\$40,000–\$59,999	80.4	19.6	80.4	19.6	82.3	17.8
\$60,000–\$99,999	83.2	16.8	83.2	16.8	84.5	15.5
\$100,000–\$199,999	85.7	14.3	85.7	14.3	86.7	13.3
\$200,000 or more	89.2	10.8	89.0	11.0	89.9	10.1
Plan Size (number of participants)						
1–10	52.0	48.0	52.2	47.8	55.9	44.1
11–25	54.4	45.6	54.1	45.9	57.9	42.1
26–50	56.6	43.4	56.7	43.4	59.8	40.2
51–100	59.5	40.5	59.5	40.5	62.7	37.3
101–250	60.2	39.8	59.3	40.7	62.7	37.3
251–500	60.1	39.9	60.1	39.9	63.3	36.7
501–1,000	59.3	40.7	58.6	41.4	62.5	37.5
1,001–2,500	63.7	36.3	64.4	35.6	67.7	32.3
2,501–5,000	62.0	38.1	61.8	38.2	67.1	32.9
5,001–10,000	62.4	37.6	63.0	37.0	66.2	33.8
> 10,000	67.2	32.8	68.9	31.1	71.3	28.7

Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

NOTE: All categories are based on the participant's status in 2007. The data contain a consistent set of participants who were in 401(k) plans that offered target-date funds in 2007, were still in plans that offered them in 2008 and 2009, and were still in the database in 2008 and 2009.

"Funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated.

likelihood of using TDFs with other investment options, while those older than age 30 had similar distributions between all and some in TDFs (the older ages had a higher level of using less than 100 percent TDFs). This held true for each of the three years of the analysis.

The participants who had *less than* 100 percent of assets in TDFs in 2007 were the participants more likely to have stopped using them by 2009. However, regardless of allocation in 2007, overall, at least 89 percent of those using TDFs in 2007 were still using them in 2009 (Figure 7). Of those with less than 100 percent of their assets in TDFs in 2007, 89.0 percent were still using them in 2009, compared with 95.9 percent of those who had 100 percent of their assets in TDFs in 2007. This higher level of persistence for those with a 100 percent allocation to TDFs resulted across all participant characteristic breaks.

A participant's allocation to TDFs in 2007 was highly likely to also be their allocation to TDFs in 2008 and 2009 if they were still using them (Figure 8). Almost 97 percent of those using TDFs in 2007 but having a less-than-100 percent allocation to them still had a less-than-100 percent allocation in 2009, given that the participants were still using TDFs (Figure 8). The percentage with a 100 percent allocation in TDFs in 2007 still having that allocation in 2009 was still high (at 86.6 percent), but not as high as the less-than-100 percent allocation. Consequently, a participant with a 100 percent allocation to TDFs in 2007 was more likely to have an allocation less than 100 percent in 2009, than a less-than-100 percent TDF participant in 2007 having a 100 percent allocation in 2009.

Participants' allocation to TDFs did not show any significant differences by age, tenure, or account balance in the likelihood of remaining with that same allocation in 2008 and 2009. However, participants in the largest plans were more likely than those in smaller plans to switch from a 100 percent TDF allocation to a less-than-100 percent TDF allocation.

While the previous figures examined only those who stayed in TDFs from 2007 to 2009, participants could have also completely stopped using TDFs. Those participants who had 100 percent of their allocation to TDFs in 2007 are the focus in Figure 9 to see if they stopped using TDFs altogether, reduced their allocation to TDFs, or remained at a 100 percent allocation.¹⁵ This group would not be affected by market changes resulting in the asset allocation reduction, as the participant would have needed to change their allocation to get a less-than-100 percent allocation.

Again, this shows an overall very high rate (83.0 percent) of staying at 100 percent TDF allocation if the participant was already at that allocation. Almost 13 percent of those who had a 100 percent allocation to TDFs in 2007, had an allocation lower than 100 percent (but not a zero) allocation in 2009. Only 4.1 percent of participants with a 100 percent TDF allocation in 2007 had stopped using them by 2009. Not less than 79 percent of the 100 percent TDF-allocated participants in 2007 were found to have reduced their allocation from 100 percent by 2009 in each of the factor categories examined.

Asset Allocation of Those Who Stopped Using TDFs

While a very small percentage of those investing in TDFs in 2007 stopped using them by 2009, there is interest in knowing where the assets that were in TDFs are allocated once they are moved out of TDFs—particularly equity fund/company stock/balanced fund investments. For those participants who had 100 percent of their assets in TDFs in 2007 and none in 2009, the average participant-weighted allocation was 31.1 percent to equity funds/company stock/balanced funds (Figure 10). This is the average allocation across all of these participants regardless of the level of assets they held. On average, approximately 65 percent of the assets were in bond funds, money funds, guaranteed investment contracts (GICs), and/or stable value funds in 2009. The average allocation to these same fund types was higher for older and longer tenured participants. For example, among participants under age 30 in 2007, 42.2 percent of their assets on average were in these categories in 2009, compared with 79.3 percent among those age 50 or older.

After the decrease in the average equity investment above the lowest asset balance category, the level of equity investment is similar (Figure 10). Furthermore, the average equity investment is relatively similar across plan sizes, with a somewhat higher average for participants in the largest plans.

The average allocation does not tell the whole story of how these former TDF investors are investing their assets. In Figure 11, the distribution of the equity fund/company stock/balanced fund allocation is presented. While a majority (58.2 percent) of former TDF participants have no investment in these asset types, almost 25 percent had more than 75 percent of their assets in these asset types. The percentage of participants with these high equity investment allocations is higher for those younger, with shorter tenures, and with lower account balances.

Average TDF Allocation of Those Who Reduced Allocation From 100 Percent

Nearly 13 percent of participants who had all of their assets in TDFs reduced the amount allocated to TDFs but still continued to use them in 2009 (Figure 9). Nearly three-quarters (72.4 percent) of the assets, on average (based on participants) of those who had all of their assets in TDFs in 2007 and reduced their allocation to TDFs by 2009 were still in TDFs by 2009. More than half (55.8 percent) of those who reduced their TDF allocation still had 80 percent or more of their assets in TDFs in 2009 (Figure 12). Of those reducing their all-TDF investment, the average allocation to TDFs decreased with the participant's age, from 78.7 percent for those under age 30 to 71.1 percent for those age 60 or older.

The average TDF allocations across tenure and account balance did not have clear pattern and were very similar in each category. Furthermore, the distribution of the assets that remained in TDFs were very close across the known tenure and account balance categories, with 50 percent to 60 percent of the participants still having 80 percent or more of their assets in TDFs.

Those in the smallest plans had the smallest average allocation still in TDFs, while those in the largest plans had the largest average TDF allocation. Analogously, those in the smallest plans had the lowest percentage with an allocation of 80 percent or more in TDFs.

Conclusion

Among a consistent group of 401(k) participants who were in plans that offered TDFs from 2007–2009, about 40 percent used them. Once participants began using these types of funds, they were extremely likely (over 90 percent) to continue to use them over this time period. This is especially true of those who could be identified as being auto-enrolled in TDFs: More than 95 percent of those identified as auto-enrollees in 2007 continued to use them two years later (2009). Furthermore, among participants investing 100 percent of their assets in TDFs in 2007, 83 percent were still 100 percent invested in TDFs by 2009, and another 12.9 percent still had an average TDF investment allocation of 72.4 percent.

Participants most likely to stop investing in TDFs were older, had longer tenure, or had higher account balances. In addition, participants who had less than all of their assets allocated to TDFs were most likely to stop using them in later years. When participants reduced but did not eliminate their 100 percent allocation to TDFs, they typically kept a large percentage of their assets in TDFs—on average, more than 70 percent.

For the very few participants who went from all-TDFs in 2007 to no TDFs in 2009, 58 percent had nothing allocated to equities either through equity funds, company stock, or balanced funds; but nearly 25 percent had 75 percent or more of their assets in these asset types. On a participant-weighted average basis among these participants who completely stopped investing in TDFs, over 60 percent of their assets were in bond funds, money funds, GICs, or stable value funds. Those older or with longer tenure were especially more likely to have their assets in these categories, while younger participants were more likely to have their assets in some type of equity investment. However, the majority of assets ended up in funds that are interest bearing—bond, money, GICs, and stable value.

The implication of these results based on the first two years of experience is that once TDFs are used, they are very likely to continue to be used for a number of years afterward, certainly in the short term. Consequently, the auto-enrollment of participants into TDFs appears likely to stick, which means that the asset allocation within the TDFs is likely to be the asset allocation these participants will have while they remain in their 401(k) plan.¹⁶

Figure 7
Percentage of 401(k) Participants Using Target-Date Funds Among Those Participants Using Them in 2007, by Level of Use in 2007 and Various Factors, 2008 and 2009

	Level of Target-Date Fund (TDF) Use, 2007			
	Less than 100%		100%	
	Use TDFs, 2008	Use TDFs, 2009	Use TDFs, 2008	Use TDFs, 2009
Age				
All	92.1%	89.0%	97.2%	95.9%
Under 30	94.8	92.4	98.5	97.6
30–39	93.6	90.9	97.9	96.9
40–49	92.4	89.5	97.3	96.0
50–59	90.2	86.6	96.1	94.3
60 or Older	88.2	83.4	94.3	92.1
Tenure				
Unknown	92.0	88.2	97.5	95.9
Less than 2 years	93.7	90.7	97.6	96.3
2 to less than 5 years	93.9	91.0	97.9	96.8
5 to less than 10 years	92.8	89.8	97.3	96.0
10 to less than 20 years	91.9	88.6	96.1	94.6
20 to less than 30 years	88.3	85.1	94.6	92.5
30 or more years	83.6	79.4	92.6	90.5
Account Balance				
<\$5,000	95.3	92.8	98.3	97.3
\$5,000–\$9,999	94.3	91.6	97.2	95.8
\$10,000–\$19,999	93.6	91.0	96.5	94.9
\$20,000–\$39,999	92.5	89.4	95.4	93.6
\$40,000–\$59,999	91.6	88.3	94.8	92.6
\$60,000–\$99,999	90.5	86.9	94.7	92.8
\$100,000–\$199,999	89.1	85.2	93.5	91.6
\$200,000 or more	85.4	81.2	93.2	90.7
Plan Size (number of participants)				
1–10	92.8	89.3	97.0	95.5
11–25	92.8	89.9	97.0	95.6
26–50	92.7	90.0	96.3	95.3
51–100	93.3	90.2	96.7	95.1
101–250	93.2	90.2	96.5	95.3
251–500	93.1	89.9	96.7	95.3
501–1,000	92.2	88.8	96.6	95.0
1,001–2,500	93.0	89.4	96.9	95.1
2,501–5,000	92.7	86.7	97.3	96.0
5,001–10,000	89.0	86.3	97.5	96.2
> 10,000	91.9	90.2	98.0	97.0

Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

NOTE: All categories are based on the participant's status in 2007. The data contain a consistent set of participants who were in 401(k) plans that offered target-date funds in 2007, used them in 2007, were still in plans that offered them in 2008 and 2009, and were still in the database in 2008 and 2009. "Funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated.

Figure 8
Distribution of Target-Date Fund Allocation by 401(k) Participants Who Used Them in 2007,
by Distribution of the Allocation in 2007 and Various Factors, 2008 and 2009

	Level of Target-Date Fund Use, 2007							
	2008				2009			
	Less than 100%	100%	Less than 100%	100%	Less than 100%	100%	Less than 100%	100%
Age								
All	95.1%	4.9%	97.3%	2.8%	8.1%	91.9%	13.5%	86.6%
Under 30	89.7	10.3	96.6	3.4	11.2	88.8	18.2	81.9
30-39	95.6	4.4	97.5	2.5	8.0	92.0	13.3	86.7
40-49	96.1	4.0	97.6	2.4	7.4	92.6	12.2	87.8
50-59	95.7	4.3	97.2	2.8	7.2	92.8	12.2	87.8
60 or Older	94.7	5.3	95.6	4.4	6.2	93.8	10.4	89.7
Tenure								
Unknown	91.9	8.1	96.4	3.6	7.7	92.3	12.8	87.2
Less than 2 years	93.5	6.5	96.0	4.0	11.7	88.3	18.9	81.1
2 to less than 5 years	93.0	7.1	96.9	3.1	7.7	92.3	12.8	87.2
5 to less than 10 years	95.2	4.8	97.4	2.6	6.1	93.9	11.2	88.8
10 to less than 20 years	97.1	2.9	97.8	2.2	6.9	93.1	11.0	89.0
20 to less than 30 years	97.3	2.7	97.8	2.2	8.3	91.8	13.1	86.9
30 or more years	97.4	2.6	97.6	2.4	8.1	91.9	12.3	87.7
Account Balance								
<\$5,000	90.5	9.5	95.6	4.4	8.2	91.8	13.7	86.3
\$5,000-\$9,999	93.6	6.4	97.0	3.1	7.8	92.3	12.7	87.3
\$10,000-\$19,999	95.2	4.8	97.4	2.6	7.2	92.8	11.9	88.1
\$20,000-\$39,999	96.3	3.7	97.8	2.2	7.3	92.7	12.3	87.7
\$40,000-\$59,999	96.7	3.3	97.7	2.3	7.8	92.2	13.0	87.0
\$60,000-\$99,999	97.1	2.9	97.8	2.2	9.0	91.0	14.4	85.6
\$100,000-\$199,999	97.5	2.5	97.9	2.1	10.1	89.9	16.0	84.0
\$200,000 or more	98.0	2.1	98.2	1.8	11.7	88.3	19.1	80.9
Plan Size (number of participants)								
1-10	93.0	7.0	98.5	1.5	6.2	93.8	9.4	90.6
11-25	93.2	6.8	97.9	2.1	5.6	94.4	9.2	90.9
26-50	93.7	6.4	97.5	2.5	4.9	95.1	8.3	91.7
51-100	93.9	6.1	97.6	2.5	6.1	93.9	9.2	90.8
101-250	93.6	6.4	97.3	2.7	5.1	95.0	8.5	91.5
251-500	94.3	5.7	97.5	2.5	5.9	94.1	9.1	90.9
501-1,000	93.8	6.2	96.9	3.2	5.9	94.1	9.7	90.3
1,001-2,500	94.6	5.5	96.5	3.5	7.2	92.9	11.9	88.1
2,501-5,000	93.9	6.1	97.5	2.5	5.8	94.2	12.9	87.1
5,001-10,000	94.3	5.7	95.9	4.1	7.3	92.7	11.7	88.3
> 10,000	97.1	2.9	97.9	2.1	12.9	87.1	19.9	80.1

Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.
NOTE: All categories are based on the participant's status in 2007. The data contain a consistent set of participants who were in 401(k) plans that offered target-date funds in 2007, were still in plans that offered them in 2008 and 2009, and were still in the database in 2008 and 2009.
Funds include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated.

Figure 9
Percentage of 401(k) Plan Participants Who Were 100 Percent Allocated to Target-Date Funds (TDFs) in 2007 and Were Still Offered Them in 2009 Who Had a Zero TDF Allocation, a Reduced But Positive TDF Allocation, or a 100 Percent Allocation in 2009, by Various Factors

	All		
	TDF Allocation 2009		
	Zero	Reduced	100%
Age			
All	4.1%	12.9%	83.0%
Under 30	2.4	17.7	79.9
30–39	3.1	12.9	84.0
40–49	4.0	11.7	84.3
50 or Older	6.3	11.0	82.8
Tenure			
Unknown	4.1	12.3	83.6
Less than 2 years	3.7	18.2	78.2
2 to less than 5 years	3.2	12.4	84.4
5 to less than 10 years	4.0	10.8	85.3
10 to less than 20 years	5.4	10.4	84.2
20 to less than 30 years	7.5	12.1	80.4
30 or more years	9.5	11.1	79.4
Account Balance			
<\$5,000	2.7	13.4	84.0
\$5,000–\$9,999	4.2	12.2	83.6
\$10,000–\$19,999	5.1	11.3	83.6
\$20,000–\$39,999	6.4	11.5	82.1
\$40,000 or more	7.8	13.8	78.3
Plan Size (number of participants)			
1–25	4.4	8.8	86.8
26–100	4.8	8.4	86.8
101–500	4.7	8.4	86.9
501–1,000	5.0	9.2	85.8
1,001–2,500	4.9	11.3	83.8
2,501–5,000	4.1	12.4	83.6
> 5,000	3.3	16.9	79.8

Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Note: All categories are based on the participant's status in 2007. The data contain a consistent set of participants who were in 401(k) plans that offered target-date funds in 2007, used them in 2007, were still in plans that offered them in 2008 and 2009, and were still in the database in 2008 and 2009. "Funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated. The distribution is participant-weighted.

Figure 10

Asset Allocation in 2009 of the 401(k) Participants Who Had All Their Assets in Target-Date Funds in 2007 But Did NOT Have Any of Their Assets in Target-Date Funds in 2009, by Various Factors

	Equity Funds and Company Stock	Balanced Funds	Bond Funds	Money Funds	GICs and Stable Value Funds	Other/ Unknown
Age						
All	26.8%	4.3%	22.1%	21.1%	22.3%	3.4%
Under 30	47.3	5.3	13.3	9.9	19.0	5.0
30–39	37.2	5.4	20.1	15.6	17.4	4.3
40–49	28.3	5.2	21.2	20.6	21.3	3.4
50 or Older	15.4	2.8	26.1	27.0	26.2	2.5
Tenure						
Unknown	35.0	3.2	11.4	15.4	33.1	2.1
Less than 2 years	35.5	6.3	16.9	14.8	21.7	4.7
2 to less than 5 years	30.0	5.0	24.3	18.7	18.6	3.4
5 to less than 10 years	23.0	4.6	25.4	24.2	19.2	3.6
10 to less than 20 years	19.2	2.9	25.2	28.4	20.9	3.3
20 to less than 30 years	16.4	2.6	28.3	28.3	21.6	2.7
30 or more years	12.1	1.3	23.6	23.2	37.0	2.7
Account Balance						
<\$5,000	33.7	5.4	19.6	15.8	21.7	3.7
\$5,000–\$9,999	25.9	5.1	22.2	21.3	22.0	3.5
\$10,000–\$19,999	22.5	4.2	22.8	24.9	22.2	3.3
\$20,000–\$39,999	21.2	2.6	24.0	27.9	21.2	3.1
\$40,000 or more	22.1	3.1	24.6	23.2	23.8	3.1
Plan Size (number of participants)						
1–25	21.2	1.5	14.1	35.8	27.0	0.4
26–100	21.9	2.1	17.7	36.1	21.4	0.9
101–500	23.3	2.1	25.5	28.6	18.7	1.9
501–1,000	24.3	2.8	29.1	22.1	19.8	2.0
1,001–2,500	28.7	9.4	18.9	18.0	20.8	4.2
2,501–5,000	26.5	7.7	20.3	19.2	21.7	4.6
> 5,000	30.1	2.3	22.1	15.4	25.8	4.4

Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

NOTE: All categories are based on the participant's status in 2007. The data contain a consistent set of participants who were in 401(k) plans that offered target-date funds in 2007, used them in 2007, were still in plans that offered them in 2008 and 2009, and were still in the database in 2008 and 2009. "Funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated. GICs are guaranteed investment contracts. All asset allocations are participant-weighted.

Figure 11
Distribution of Equity Fund/Company Stock/Balanced Fund Allocation
of 401(k) Plan Participants Who Were 100 Percent Allocated to
Target-Date Funds (TDFs) in 2007, and Were Still Offered Them in 2009
But Had a Zero TDF Allocation in 2009, by Various Factors

	Equity Fund/Company Stock/Balanced Fund Allocation 2009			
	Zero	Up to 50%	>50%–75%	>75%
Age				
All	58.2%	8.5%	8.6%	24.7%
Under 30	34.3	8.6	11.4	45.7
30–39	44.7	9.5	10.4	35.4
40–49	55.6	8.1	9.8	26.5
50 or Older	72.9	8.2	6.3	12.6
Tenure				
Unknown	51.1	8.0	8.5	32.4
Less than 2 years	45.0	10.3	10.3	34.5
2 to less than 5 years	53.6	9.1	9.7	27.6
5 to less than 10 years	62.7	7.9	7.5	21.9
10 to less than 20 years	68.5	7.2	8.2	16.0
20 to less than 30 years	71.6	8.0	7.7	12.7
30 or more years	78.9	7.7	3.8	9.6
Account Balance				
<\$5,000	49.6	8.6	9.3	32.5
\$5,000–\$9,999	58.6	8.7	7.8	24.9
\$10,000–\$19,999	63.9	7.4	7.4	21.4
\$20,000–\$39,999	66.9	7.8	7.0	18.4
\$40,000 or more	63.5	9.2	9.6	17.7
Plan Size (number of participants)				
1–25	67.6	7.8	6.7	18.0
26–100	65.9	8.4	6.7	19.1
101–500	64.7	7.5	9.4	18.5
501–1,000	61.8	8.8	9.5	19.9
1,001–2,500	51.2	8.5	9.2	31.1
2,501–5,000	56.5	7.1	7.6	28.8
> 5,000	55.9	9.6	8.7	25.8

Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Note: All categories are based on the participant's status in 2007. The data contain a consistent set of participants who were in 401(k) plans that offered target-date funds in 2007, used them in 2007, were still in plans that offered them in 2008 and 2009, and were still in the database in 2008 and 2009.

"Funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated.

The distribution is participant-weighted.

Figure 12

Average and Distribution of the Allocation of 401(k) Participants to Target-Date Funds (TDFs) in 2009 of Those Who Had All Their Assets in Target-Date Funds in 2007 But Reduced Their Allocation But Still Maintained an Allocation to TDFs in 2009, by Various Factors

	Average TDF Allocation	Percentage of TDF Allocation				
		Less than 20%	20%–39.99%	40%–59.99%	60%–79.99%	80% or more
Age						
All	72.4%	7.6%	7.8%	10.3%	18.5%	55.8%
Under 30	78.7	5.0	5.9	8.7	19.4	61.1
30–39	74.4	7.1	7.9	10.9	20.1	54.1
40–49	73.4	7.8	9.0	11.1	18.4	53.7
50–59	72.6	10.3	8.4	10.5	16.1	54.7
60 or Older	71.1	12.9	8.4	9.9	14.4	54.3
Tenure						
Unknown	68.3	10.1	10.0	13.3	24.4	42.2
Less than 2 years	74.2	6.8	8.2	10.4	20.0	54.6
2 to less than 5 years	78.4	5.3	6.6	9.6	17.6	60.9
5 to less than 10 years	76.3	7.4	7.6	9.5	16.1	59.4
10 to less than 20 years	70.7	12.0	8.4	10.1	15.9	53.6
20 to less than 30 years	71.2	12.5	7.8	10.3	15.6	53.8
30 or more years	69.5	15.0	7.8	9.7	14.6	52.8
Account Balance						
<\$5,000	75.5	6.3	7.5	10.6	20.1	55.5
\$5,000–\$9,999	75.6	6.0	8.2	10.4	18.1	57.3
\$10,000–\$19,999	72.9	8.0	8.8	11.5	18.4	53.4
\$20,000–\$39,999	74.0	9.2	8.0	8.9	18.1	55.8
\$40,000–\$59,999	72.2	12.3	7.8	8.1	15.7	56.1
\$60,000–\$99,999	72.5	12.7	8.1	8.6	12.5	58.1
\$100,000–\$199,999	71.1	14.6	8.6	8.5	11.0	57.3
\$200,000 or more	71.5	15.1	7.6	9.5	7.7	60.1
Plan Size (number of participants)						
1–10	58.8	17.2	13.0	17.0	19.0	33.8
11–25	63.8	16.0	10.2	14.5	19.2	40.2
26–50	63.3	15.6	12.4	12.9	16.3	42.8
51–100	64.3	13.8	12.9	14.6	15.3	43.5
101–250	67.3	13.4	9.5	14.1	17.3	45.7
251–500	69.1	11.0	10.4	12.7	16.1	49.8
501–1,000	69.3	11.3	9.3	12.6	17.9	48.9
1,001–2,500	71.5	9.0	8.7	11.0	21.3	50.1
2,501–5,000	77.6	7.3	7.8	9.5	13.2	62.1
5,001–10,000	70.2	8.7	9.7	12.3	20.1	49.1
> 10,000	79.3	4.6	5.8	8.3	19.9	61.4

Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

NOTE: All categories are based on the participant's status in 2007. The data contain a consistent set of participants who were in 401(k) plans that offered target-date funds in 2007, were still in plans that offered them in 2008 and 2009, and were still in the database in 2008 and 2009.

"Funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated. All values are participant-weighted.

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Endnotes

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- ¹ See VanDerhei, Holden, and Alonso (2010), VanDerhei, Holden, and Alonso (2009), and VanDerhei, Holden, Alonso, and Copeland (2008) for more detail on the overall asset allocation in 401(k) plans in 2007–2009.
- ² See Copeland (2009) for an extensive examination of TDF use in 2007, including asset allocation in the funds as well as asset allocation of participants who use TDFs along with other investment options in their 401(k) plan.
- ³ See Copeland (2010) for the use of TDFs in 2008 by participants who used them in 2007. Also see Mottola and Utkus (2009) for an examination of TDF asset movement in 2008 among plans administered by Vanguard.
- ⁴ The EBRI/ICI Participant-Directed Retirement Plan Data Collection Project is the largest, most representative repository of information about individual 401(k) plan participant accounts. The EBRI/ICI project is unique because of its inclusion of data provided by a wide variety of plan record keepers and, therefore, portrays the activity of participants in 401(k) plans of varying sizes—from very large corporations to small businesses—with a variety of investment options. See VanDerhei, Holden,

and Alonso (2010) for more information on the database including its size, the overall asset allocation in the database for 2009, and references to earlier publications from the database that detail prior years' data from the database.

⁵ The consistent group of participants amounted to 7.96 million who meet the criteria of being in a plan that offered TDFs in 2007, being in a plan that offered TDFs in 2008 and 2009 as well, and being in the database all three years of the study.

⁶ All the participant characteristics are based on their initial 2007 levels. The participant remains grouped by that level for each of the three years, so that a consistent comparison can be made among each cohort. The participant's account balance is the balance in 2007 and only includes the assets in their current employer's plan net of any plan loans.

⁷ This section examines the same group of participants—those who were in a plan that offered TDFs in 2007, 2008, and 2009, and were in the database in each of those years. This does not report persistent rates, as that is in Figure 5 later in the report. The 2007 number shows the percentage of these participants in TDFs in that year, while the 2009 number shows the percentage using them in 2009 regardless of use in 2007 or 2008. The overall persistence rate can be calculated from Figure 1 by taking the number in column 5 (the percentage in TDFs in 2007, 2008, and 2009) and dividing it by the number in column 1 (the percentage in a TDF in 2007). The overall persistence rate from 2007 to 2009 is 90.6 percent.

⁸ See Vanguard (2011) for results on use of target-date funds (TDFs) in plans they administer. Also see Mottola and Utkus (2009) on the movement out of or into TDFs from 2007 to 2008 among the plans that Vanguard administers.

⁹ The results for these numbers are different from the ones in Copeland (2010), because the database changed from the one with just the 2007 and 2008 data used in that study. Some plans stopped offering TDFs in 2009, and some participants were no longer in the database in 2009 who were in it 2008 because of retirement and/or job changes of the participants or plans changing record keepers/plan administrators.

¹⁰ The average ages, tenures, plan sizes, and account balances in this section are not for the entire universe of plans and participants but only for those in this specific longitudinal database of consistent set of participants in plans that offer target-date funds. Consequently, they are not comparable with those of the entire database presented in VanDerhei, Holden, and Alonso (2009 and 2010). See that publication for a description of the entire 401(k) plan participant universe.

¹¹ Fidelity Investments found that the percentage of plans that they administer that offered automatic enrollment increased from 2 percent in 2006 to 16 percent in 2008. The percentage of plans that have life-cycle or target-date funds as the default investment option increased from 14 percent in 2006 to 60 percent in 2008 (Fidelity Investments, 2009). Hewitt Associates (2010) annual survey of large employers found that 52 percent of their defined contribution matched savings plans offer automatic enrollment.

¹² Only those participants with a known tenure level are included in the automatic enrollment participant group.

¹³ See Copeland (2009) for more information on the auto-enrollees identified in 2007. These criteria may also include some participants into the auto-enrolled group that weren't auto-enrolled. However, given the importance of the topic, this study is undertaken given these caveats.

¹⁴ For both those with 100 percent allocated to TDFs and those with less than 100 percent, the allocation could include only one TDF, or it could include more than one TDF. Only the total TDF allocation is examined.

¹⁵ The number of category breaks were reduced in Figures 9, 10, and 11, as the number of those reducing their allocation is very small in some of the categories. Therefore, the categories were combined, where that wasn't sufficient data to support a statistically significant finding.

¹⁶ An issue that has been discussed extensively in the industry is the use of glide paths that are "through" retirement versus "to" retirement. See Target Date Analytics (2011) and AllianceBernstein L.P. (2009) for discussions on the pros and cons of "to" and "through" target-date funds. Furthermore, see the testimony from the joint DOL/SEC hearing on target-date funds, www.dol.gov/ebsa/regs/cmt-targetdatefundshearing.html, for further discussion on TDF issues. Also, see Lucas (2010) for a discussion on target-date fund benchmarking and additional glide path considerations. Morningstar (2011) closely examined the asset allocations between those funds considered "to" and "through" in their industry survey of TDFs.

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