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New Research from EBRI:

Over a Third of 401(k) Participants Able to Invest in Target-Date Funds Are Using Them; Growth Likely

WASHINGTON—About 37 percent of 401(k) plan participants who were *offered* target-date funds had at least some fraction of their account in target-date funds in 2007, and this is expected to increase as the push for better diversification of 401(k) participants' assets intensifies from plan sponsors and policymakers, according to a study published today by the nonpartisan Employee Benefit Research Institute (EBRI).

The Pension Protection Act of 2006 made it easier for retirement plan sponsors to automatically enroll new workers in a 401(k) plan, and target-date funds were one of the types of approved funds specified for a "default" investment if the participant does not elect a choice. Target-date funds (also called "life-cycle" funds) are a type of mutual fund that automatically rebalances assets following a predetermined reallocation over time. They typically rebalance to more conservative and income-producing assets as the participant's target date of retirement approaches.

The new study, in the March 2009 *EBRI Issue Brief*, uses the data in the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, which has almost 22 million participants, to examine the choices and characteristics of participants whose plans offer target-date funds. The *Issue Brief* is available at www.ebri.org. Some key points:

- **Why they're important and growing:** Of the 401(k) plan participants from the EBRI/ICI database who were found to be in plans that *offered* target-date funds, 37 percent had at least some fraction of their account in target-date funds in 2007. Target-date funds held about 7 percent of total assets in 401(k) plans.

- **Effect of age, salary, job tenure, and account balance:** Younger workers are significantly more likely to invest in target-date funds than are older workers: Almost 44 percent of participants under age 30 had assets in a target-date fund, compared with 27 percent of those 60 or older. Target-date funds are more likely to be used by those with lower incomes, little time on the job, and with few assets. On average, target-date fund investors are about 2.5 years younger than those who do not invest in target-date funds, have about 3.5 years less tenure, make about $11,000 less in salary, have $25,000 less in their account, and are in smaller plans.

- **Equity allocations and fund families**: Participants in target-date funds were less likely to have all-or-nothing equity allocations relative to those not in the funds. The level of the equity allocation within a target-date fund relative to other target-date funds of the same year does not appear to have an effect on the percentage of participants investing all their account into that fund. Nevertheless, investors in specific fund families are more likely to invest all of their assets in a single target-date fund from that family.

The study notes that some policymakers in Congress have focused on the fact that allocations to various asset classes in the target-date funds vary widely, especially to equity investments. Consequently, there is a growing debate over what the "appropriate" allocation to equities is over the life-cycle of a worker's career—even though, in many cases, the appropriate allocation would vary for different workers, both across plans and even within a plan, the study reports.

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