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New Research from EBRI:

EBRI/ICI Study Reveals Accumulation Potential of 401(k)s by Looking at Consistent Participants' Balances

WASHINGTON—The average 401(k) plan account balance of workers who participated consistently in one 401(k) plan increased significantly over the four-year period ending at year-end 2014, according to new data published today by the Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI).

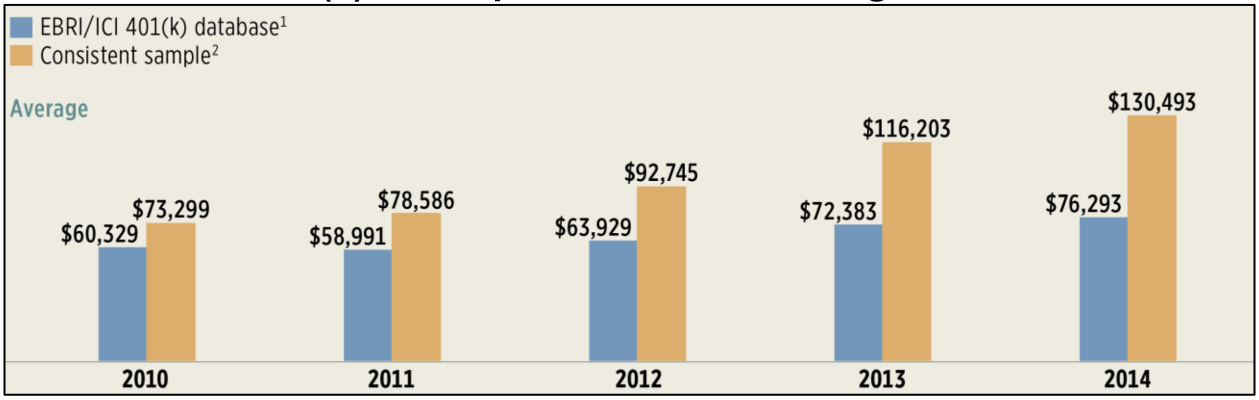
The study, "What Does Consistent Participation in 401(k) Plans Generate? Changes in 401(k) Account Balances, 2010–2014," examines the accounts of about 8.8 million "consistent participants"—those who remained active in the same 401(k) plan for the four-year period covering year-end 2010 through year-end 2014. It finds that average account balances increased during this period for consistent participants in all age cohorts. This growth reflects contributions of employers and workers, in addition to investment returns, withdrawals, and loans.

"Looking at average balances for all 401(k) accounts does not reflect the system's full potential for workers building their retirement resources," said Sarah Holden, ICI's senior director of retirement and investor research. "By studying the experience of workers who participate consistently across several years, this study shows more accurately the extent to which steady, paycheck-by-paycheck saving and compounding investment returns can help workers accumulate a sizable retirement nest egg."

Why Does This Sample Group Matter?

The new study's analysis of the millions of accounts that remained in the EBRI/ICI database for an extended period gives a truer picture of the accumulation potential of 401(k)s than an analysis focused on the average account balances of all 24.9 million participants in the database. This is because 401(k) participants enter and leave the database as they change jobs or retire, and plan sponsors enter and leave the database as they change recordkeepers. These activities may skew average balances downward. EBRI and ICI jointly publish a separate, annual update report examining large cross sections of the whole database of 24.9 million participant accounts, but caution that examination of consistent participants is needed to understand the evolution of individuals' accounts as they work through their careers.

Consistent 401(k) Participants Accumulate Significant Balances



Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.
[1] The number of 401(k) plan participants varies from year to year in the EBRI/ICI 401(k) database. The year-end 2014 EBRI/ICI 401(k) database represents 24.9 million 401(k) plan participants.
[2] The consistent sample is 8.8 million 401(k) plan participants with account balances at the end of each year from 2010 through 2014.
Note: Account balances are participant account balances held in 401(k) plans at the participants' current employers and are net of plan loans. Retirement savings held in plans at previous employers or rolled over into IRAs are not included.

"The extensive EBRI/ICI database provides us with an unparalleled opportunity to analyze how American workers saving in 401(k)s over time are faring," said Jack VanDerhei, EBRI's director of research. "The analysis used in this report controls for the impact of job changes as well as new entrants into the 401(k) system (with relatively small balances) replacing those exiting the system after years of participation."

Key findings of the EBRI/ICI analysis of 401(k) participants include:

- The average 401(k) plan account balance of the consistent participants grew at a compound annual average rate of 15.5 percent, from 2010 through year-end 2014, to $130,493. This level exceeded the average account balance among all participants in the EBRI/ICI 401(k) database, reflecting the higher age and tenure of the consistent group, and the ability to track an extended period of ongoing participation.
- The median 401(k) plan account balance for consistent participants increased at a compound annual average growth rate of 19.7 percent between 2010 and year-end 2014, to $56,653—more than three times the median balance of all participant accounts in the EBRI/ICI database.
- Nearly 1 in 5 (19.5 percent) of the consistent participants had more than $200,000 in their 401(k) plan accounts at their current employers, while another 16.1 percent had accumulated between $100,000 and $200,000.

401(k) Participants Tend to Concentrate Their Accounts in Equity Securities
The study also found in the consistent participant analysis, as in EBRI/ICI's broader cross-sectional analysis, about two-thirds of 401(k) participants' assets were invested in equities at year-end 2014—whether through equity funds, the equity portion of target-date and non–target date balanced funds, or company stock.

The full analysis is being published simultaneously in the September 2016 issues of *EBRI Issue Brief* and *ICI Research Perspective*.

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