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FOR IMMEDIATE RELEASE: **Oct. 6, 2009**

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New Research from EBRI/ICI:

401(k) Balances Fell in 2008 Bear Market

Despite Losses, Ongoing Contributions Pay Off in 5-Year Account Growth

WASHINGTON—American workers who held 401(k) accounts consistently from 2003 through 2008 suffered a 24.3 percent average drop in their account balance during 2008's bear market, according to a report released today by the Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI).

These consistent participants saw their average account balances increase at an annual rate of 7.2 percent over five years, even after the 2008 losses, according to the study. The account balances include ongoing worker contributions, employer contributions, and investment gains and losses.

For all participants in the EBRI/ICI 401(k) database, the average account balance at year-end 2008 was $45,519, compared with $65,454 at year-end 2007. The 30.5 percent decline in the average balance from 2007 to 2008 reflects changes in the composition of the participant and plan sample as well as worker contributions, employer contributions, and investment gains and losses. By comparison, the Standard & Poor's 500 stock index fell 37 percent during 2008, while the Russell 2000 index (measuring the small-cap segment of the U.S. equity universe) fell almost 34 percent. The Barclays Capital U.S. Aggregate Bond Index rose by 5.2 percent.

The full report, "401(k) Plan asset Allocation, Account Balances, and Loan Activity in 2008," is on both organizations' Web sites, at www.ebri.org and www.ici.org, as the October 2009 *EBRI Issue Brief* and *ICI Perspective*. It was written by Jack VanDerhei, EBRI director of research, Sarah Holden, ICI senior director of retirement and investor research, and Luis Alonso, EBRI director of information technology and research databases.

"The EBRI/ICI database provides unique detail about how different cohorts of 401(k) participants fared last year and finds that variation is largely based on age and tenure of the individual worker," said Jack VanDerhei of EBRI. "For example, mid-career workers with larger balances suffered larger percentage losses overall last year, because the share of equities in their account allocation was relatively high and their ongoing contributions were small relative to their existing balances." Among the consistent participants, those in their 20s saw their average account balance fall by 18.6 percent in 2008, while those in their 40s saw a 26.4 percent drop.

"Retirement savers, like most investors, suffered during 2008, one of the deepest bear markets in modern history," said Sarah Holden of ICI. "But the growth in account balances among consistent participants over five years highlights the benefits of a regimen of disciplined saving in work-place retirement plans.

Investors are committed to their 401(k)s, and the long-term growth shown in our database emphasizes the importance of continued contributions over time."
The EBRI/ICI study is based on the largest database of its kind, with records on 24 million participants, including 6 million consistent participants—those who have had 401(k) accounts with the same employer each year from year-end 2003 through year-end 2008. The database's unique element of tracking a consistent set of participants allows analysis of how accounts have changed over the long term, addressing the fluctuations of 401(k) balances due to market performance.

For these consistent participants, the average account balance rose to $86,513 at year-end 2008 from $61,106 at year-end 2003. Among the same group, the median account balance (or midpoint) increased to $43,700 at year-end 2008 from $25,507 at year-end 2003, an annual increase of 11.4 percent over the five-year period.

The annual update also finds that 401(k) loan activity was in line with historical experience. In 2008, 18 percent of 401(k) participants eligible for loans had a loan outstanding against their 401(k) account, the same percentage as at year-end 2007 and year-end 2006.

The study's other key findings for year-end 2008 include:

- ***Asset allocation:*** The bulk of 401(k) assets continued to be invested in stocks. On average, at year-end 2008, 56 percent of 401(k) participants' assets were invested in equity securities through equity funds, the equity portion of balanced funds, and company stock. Forty-one percent was in fixed-income securities, such as stable value investments and bond and money market funds.
- ***Company stock:*** 401(k) participants continued to seek diversification of their investments out of company stock. The share of 401(k) accounts invested in company stock continued to shrink, falling by nearly 1 percentage point to 9.7 percent in 2008. That continued a steady decline that started in 1999. Recently hired 401(k) participants contributed to this trend: they were less likely to hold employer stock.
- ***Target-date funds:*** Three-quarters of 401(k) plans included lifecycle, or target-date, funds in their investment lineup at year-end 2008. At year-end 2008, nearly 7 percent of the assets in the EBRI/ICI 401(k) database was invested in lifecycle funds and 31 percent of 401(k) participants held lifecycle funds.
- ***Balanced funds:*** New employees continued to use balanced funds, including lifecycle funds. Across all age groups, more recent hires invested their 401(k) assets in balanced funds, including lifecycle funds, with the percentage of recently hired participants holding balanced funds increasing from 53 percent in 2007 to 60 percent in 2008. At year-end 2008, 36 percent of the account balances of recently hired participants in their 20s was invested in balanced funds, compared with 28 percent in 2007, and about 7 percent in 1998. At year-end 2008, almost 23 percent of the account balances of recently hired participants in their 20s was invested in lifecycle funds, compared with almost 19 percent at year-end 2007.

EBRI, established in 1978, is an independent nonprofit organization committed exclusively to data dissemination, policy research, and education on economic security and employee benefits. ICI, founded in 1940, is the national association of U.S. investment companies, including mutual funds, closed-end funds, unit investment trusts and exchange-traded funds. At year-end 2008, 49 percent of 401(k) assets were invested in mutual funds.

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