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New Research from EBRI:

Study Examines Plan Demographics, Saving Behavior Of Participants, and Target-Date Fund Investments

WASHINGTON—The nonpartisan Employee Benefit Research Institute (EBRI) today published a study of target-date fund investments, exploring whether plan demographic characteristics would affect individual participant contribution rates and target-date fund investments for participants in relation to plan demographics by considering target replacement income and its success rate.

The U.S. Department of Labor's Employee Benefits Security Administration (EBSA) and the Securities and Exchange Commission (SEC) will hold a joint public hearing on June 18, 2009, to hear testimony on the investment of 401(k) and other retirement plans in target date-type plans. The hearing will begin at 9:00 a.m. in the department's auditorium, 200 Constitution Avenue, NW, in Washington, DC (www.dol.gov/ebsa/newsroom/2009/ebsa052209.html). For a full copy, see the May 2009 *EBRI Issue Brief*, available at www.ebri.org/publications/ib/index.cfm?fa=main&doc_type=1

- **Plan Demographic Characteristics in Participant Contribution Rates:** This study finds empirical evidence that 401(k) plan participants' contribution rates differ by plan demographics based on participants' income and/or tenure. In particular, participants in 401(k) plans dominated by those with low income and short tenure tend to contribute less than those in plans dominated by participants with high income and long tenure.

- **Plan Demographic Characteristics in Target-Date Fund Investments:** The study also finds empirical evidence that participants' investments in target-date funds with different equity allocations differ by plan demographics based on participants' income and/or tenure. In particular, target-date fund users with 90 percent or more of their account balances in target-date funds who are in 401(k) plans dominated by low-income and short-tenure participants, tend to hold target-date funds with lower equity allocations compared with their counterparts in plans dominated by high-income and long-tenure participants.

- **Equity Glide Paths:** Several stylized equity glide paths as well as alternative asset allocations are compared for participants at various starting ages to demonstrate the interaction between plan demographics and equity glide paths/asset allocations in terms of success rates in meeting various replacement income targets. The equity glide path/asset allocation providing the highest success rate at a particular replacement rate target will vary with the assumed starting date of the participant. Given the highly stylized nature of the simulations in this *Issue Brief*, it is important to note that the results are not intended to provide a single equity glide path solution in relation to plan demographics. Instead, they serve as a framework to be considered when plan sponsors make a selection concerning which target-date funds to include in their plan.

- **Importance of Participant Contribution Rates:** This analysis finds that although target-date funds with different equity glide paths affect the retirement income replacement success rate, participant contribution rates corresponding to different plan demographic characteristics have a stronger impact.

- **Auto Features of the PPA:** This *Issue Brief* provides a stylized study using observed contribution rates as of the 2007 plan year. However, with the passage of the Pension Protection Act of 2006 and its likely impact on plan design in the future (increased utilization of automatic enrollment and automatic contribution escalations), it is likely that contribution rates among the participants will become more homogenous. In such a scenario, it may be more likely that a single equity glide path would meet a wide range of demographic profiles.

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