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For Immediate Release: August 30, 2011

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New Research from EBRI:

401(k) Participants Who Use TDFs Overwhelmingly Stick With Them

WASHINGTON—401(k) participants who invested in target-date funds (TDFs) overwhelmingly tend to stick with these investments over time, according to new research by the nonpartisan Employee Benefit Research Institute (EBRI).

Just over 90 percent of 401(k) participants investing in TDFs in 2007 stuck with them through 2009, EBRI found. Using a proxy for the auto-enrollment status of participants, those identified as auto-enrollees were even more likely to have stayed with TDFs, at a rate over 95 percent.

EBRI's research finds that 401(k) participants who were younger and had lower account balances were more likely to use TDFs and to continue to use them. Those more likely to stop investing in TDFs were older, had longer tenure, or had higher account balances, although these participants overall stayed with TDFs at a high rate.

"Target-date funds are still very new in 401(k) plans, but these results suggest that once they are used, TDFs are very likely to continue to be used for a number of years afterward, certainly in the short term," said Craig Copeland, senior research associate at EBRI and author of the report. "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 many of these participants will have while they remain in their 401(k) plan."

The EBRI report examines the use of TDFs by a consistent group of 401(k) participants in plans that offered them in 2007 through 2009, using the unique data from the EBRI/ICI 401(k) database. Results are published in the August *EBRI Issue Brief,* "Target-Date Fund Use in 401(k) Plans and the Persistence of Their Use, 2007–2009," online at www.ebri.org

A target-date fund 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 expected 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") would have a higher percentage of equities and fewer bonds or cash equivalents.

The use of target-date funds (TDFs) in 401(k) plans has increased rapidly in recent years. The portion of 401(k) plan participants using TDFs increased from 25 percent in 2007 to 31 percent in 2008 and to 33 percent in 2009. 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.

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.

Among the key findings:

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 in 2007, 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.

The Employee Benefit Research Institute (EBRI) is a private, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions.

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