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CONTACTS:**

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Jack VanDerhei, Temple University and EBRI Fellow,

(202) 775-6327 jack@vanderhei.com

John MacDonald, EBRI (202) 775-6349 macdonald@ebri.org

Edward Giltenan, ICI, (202) 326-5891 egiltenan@ici.org

James Doyle, ICI, (202) 326-8317 jdoyle@ici.org

New EBRI/ICI Research:

Study Tracks Shifts in 401(k) Balances Over Five-Year Period *Average Balance Rose 36 Percent From 1999–2004*

WASHINGTON—Americans who continuously maintained 401(k) accounts from 1999–2004 saw their balances increase by an average of 36 percent over the five-year period despite enduring one of the worst bear markets since the Great Depression. Among this group, the average account balance increased 15 percent in 2004, according to a study released today by the nonpartisan Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI). But the study noted that the averages varied widely by age; increases reflected added contributions and the impact of equity market changes on account assets.

The EBRI/ICI 401(k) database, the largest of its kind, showed that average account balances rose to \$91,042 at year-end 2004 from \$67,016 at year-end 1999 for those who maintained accounts for the entire period. “Consistent participation has had a significant impact on individuals’ ability to accumulate sizeable gains in 401(k) account balances since 1999,” the study said.

The EBRI/ICI database contains account information for nearly 40 percent of the estimated 43 million U.S. workers who participated in 401(k) plans at year-end 2004. The inclusion of a consistent set of participants with accounts from 1999 through 2004 allows the most meaningful analysis of changes in account balances over time, the study said.

Entitled “**401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2004**,” the study is coauthored by Sarah Holden, senior economist at ICI, and Jack VanDerhei, Temple University and research director of the EBRI fellows program, and published in the September 2005 *EBRI Issue Brief* and in *ICI Perspective*, available on both organizations’ Web sites at www.ebri.org and www.ici.org.

The study reported that aggregate averages do not reveal the wide range of rates of change in 401(k) participants’ account balances over time. For example, average account balances for participants in their 20s rose 206 percent from 1999 through 2004, the study said, reflecting the strong impact of contributions on account balances for this age group. Because their account balances tended to be small, contributions (as opposed to investment gains) produced significant growth.

In contrast, average account balances for participants in their 60s were down nearly 5 percent over the same period, the study said. This decline reflected the impact of the bear market on account assets, while

annual contributions were able to provide only a minor boost to these large account balances. In addition, participants in their 60s are more likely to make withdrawals from their accounts.

Among the study's other findings:

- Lifestyle and lifecycle funds have increased in popularity in recent years due to concern that many participants require investment guidance or simpler investment choices. Recently hired 401(k) participants in their 20s currently hold a higher percentage of their 401(k) accounts in balanced funds, including lifestyle and lifecycle funds, than did their peers in 1998.
- Contrary to widespread perception, loan activity among 401(k) plan participants continued to be limited. In 2004, 19 percent of participants in plans that offered loans had loans outstanding. On average, among participants with loans, the loan represented 13 percent of the remaining account at year-end 2004. In fact, EBRI/ICI research suggests that the availability of loans serves more as an inducement to contribute more to plans rather than as a drain on participant assets.
- The bulk of 401(k) participants' assets remained in equities at year-end 2004 despite the wrenching experience of the bear market. On average, 67 percent of participants' assets were invested in equities through equity funds, the equity portion of balanced funds, and company stock. But these averages also do not reflect the wide range of individual investment choice among all 401(k) plan participants.

The average 401(k) balance of all participants at year-end 2004 was \$56,878, up from the year-end 2003 level of \$51,569. The median account balance (half above and half below) was \$19,926 at year-end 2004, compared with \$17,909 a year earlier. However, year-to-year "snapshots" can be deceptive, the study said, since the sample of 401(k) participants changes as older, high-account workers leave the 401(k) system and younger, low-account workers enter.

Established in 1978, EBRI is an independent nonprofit organization committed exclusively to data dissemination, policy research, and education on economic security and employee benefits. EBRI does not lobby and does not take positions on policy questions. The Investment Company Institute, founded in 1940, is the national association of U.S. investment companies, with a membership of more than 9,300 mutual funds, closed-end funds, and exchange-traded funds.

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