



EBRI News

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New EBRI/ICI Research:

Average 401(k) Account Grew 8.7 Percent Annually Over 7-Year Period

WASHINGTON—The average account balance among American workers who consistently held 401(k) accounts from 1999 through 2006 increased at an annual rate of 8.7 percent, according to a study released today by the nonpartisan Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI). Among this group, the median, or midpoint, account balance increased at an annual rate of 15.1 percent.

The EBRI/ICI 401(k) database, the largest database of 401(k) plan participant accounts, showed that average account balances rose to \$121,202 at year-end 2006 from \$67,760 at year-end 1999 among participants who maintained accounts for the entire period. Among the same group, the median account balance increased to \$66,650 at year-end 2006 from \$24,898 at year-end 1999.

“The average 401(k) participant had a good year in 2006 because the majority of 401(k) assets are invested in equities and the stock market did very well last year,” said study co-author Jack VanDerhei, Temple University and EBRI Fellow. “But year-to-year comparisons can vary sharply, which is why it’s far more meaningful to look at how participants’ accounts have performed over time. The data show that most workers who have continued to save and invest in their 401(k) retirement plans over the past several years have done well, despite ups and downs in the stock market.”

The study notes that the averages vary widely by age and job tenure, since new contributions tend to have a greater impact on younger, shorter-tenured workers’ 401(k) accounts and market returns tend to have a greater impact on older, longer-tenured workers’ accounts. Increases reflect added contributions and the impact of equity market returns on account assets, as well as any loan or withdrawal activity.

Tracking a consistent set of participants with accounts from 1999 through 2006 allows the most meaningful analysis of changes in account balances over time. The EBRI/ICI Participant-Directed Retirement Plan Collection Project includes 3 million “consistent participants,” each of whom held a 401(k) account at the same employer at least from year-end 1999 through year-end 2006. In total, the project’s database contains a snapshot of account information at year-end 2006 for 20 million 401(k) plan participants—about 40 percent of the universe of 401(k) plan participants—in 53,931 plans with more than \$1.2 trillion in assets.

The study, “401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2006,” is published simultaneously in the August 2006 issues of *EBRI Issue Brief* and *ICI Perspective*, available at www.ebri.org and www.ici.org.

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Among the study's other findings:

- **Most 401(k) assets are in stocks:** On average, at year-end 2006, about two-thirds of 401(k) participants' assets were invested in equity securities through equity funds, the equity portion of balanced funds, and company stock, and about one-third was in bond and money market funds and stable value assets. These proportions have changed little over the past 10 years.
- **The share of 401(k) accounts invested in company stock continues to shrink:** The share of 401(k) participants' investments held in their employer's stock dropped 2 percentage points (to 11 percent) in 2006, continuing a steady decline that began in 1999.
- **New employees embrace lifecycle/lifestyle funds.** Across all age groups, more new or recent hires are investing their 401(k) assets in balanced funds, including so-called "lifestyle" or "lifecycle" funds. At year-end 2006, 24 percent of the account balances of recently hired participants in their 20s were invested in balanced funds, compared with 19 percent in 2005 and about 7 percent in 1998.
- **401(k) loans are modest.** In 2006, 18 percent of all 401(k) participants eligible for loans had taken a loan against their 401(k) account. Most loans tend to be small, amounting, on average, to 12 percent of the remaining account balance.

The average 401(k) balance of all participants at year-end 2006 was \$61,346, and the median account balance (half above, half below) was \$18,986. However, such year-to-year snapshots can be misleading, since the sample of 401(k) participants changes as older, high-balance workers leave the 401(k) system and younger workers enter and create new accounts.

The study also reported that aggregate averages can mask the wide range of rates of change in account balances of consistent participants over time. For example, the average account balances among consistent participants in their 20s rose 40.9 percent, on average, annually from 1999 through 2006. Because this group tends to start with small accounts, new contributions have a large impact on their balances.

In contrast, the average account balance for consistent participants in their 60s rose nearly 3.7 percent annually over the same period. For these savers, many of whom started the period with significant account balances, annual contributions generally provide only a minor boost. In addition, participants in their 60s are more likely to make withdrawals from their accounts.

EBRI, established in 1978, 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. Its mutual fund members serve 93.9 million individual shareholders and manage \$11.2 trillion in investor assets.

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