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EBRI/ICI STUDY: 7 PERCENT OF 401(K) ASSETS IN LIFECYCLE FUNDS

Analysis Provides Data on Lifecycle Fund Utilization

WASHINGTON, DC, DECEMBER 18, 2008—More than 7 percent of 401(k) assets at year-end 2007 were invested in lifecycle funds and one-quarter of 401(k) participants held lifecycle funds, according to analysis by the nonpartisan Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI). The findings being released today are part of the annual update of the EBRI/ICI 401(k) database, the largest of its kind, and represent the two groups' first application of the database to examine investors' use of lifecycle funds.

Lifecycle funds, sometimes called "target-date" funds that often include a target retirement date in the name, are designed to simplify 401(k) investing and are increasingly being utilized by 401(k) participants. Typically, investors choose a fund with a target date close to the year they expect to retire. The mix of assets in the funds automatically becomes more conservative as the target date of the fund approaches.

The EBRI/ICI database, a joint project of the two organizations since 1996, has measured 401(k) plan asset allocation, account balances, and loan activity over time. This year, for the first time, the two organizations are reporting on lifecycle funds, which are now more than a decade old. The key findings for year-end 2007:

- Assets in lifecycle funds represent 7.4 percent of total 401(k) assets in the database.
- Of all 401(k) participants in the database, 25.1 percent were invested in lifecycle funds.

The full report, being published jointly by the two organizations, entitled "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2007," also finds that across all age groups, more new or recent hires invested their 401(k) assets in balanced funds, including lifecycle funds. At year-end 2007, 28 percent of the account balances of recently hired participants in their 20s were invested in balanced funds, compared with 24 percent in 2006, 19 percent in 2005, and about 7 percent in 1998. At year-end 2007, almost 19 percent of the account balances of recently hired participants in their 20s were invested in lifecycle funds compared with 16 percent at year-end 2006.

"The Pension Protection Act of 2006 and subsequent regulation included language that allowed employers to automatically enroll workers in their 401(k) plans and place them in an age-appropriate lifecycle fund if the employee did not make an investment choice. This provision is likely to increase the use of lifecycle funds in years to come," said Jack VanDerhei, EBRI research director and co-author of the study.

The study's other key findings:

- ***The bulk of 401(k) assets continued to be invested in stocks.*** On average, at year-end 2007, 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. About one-third was in fixed-income securities such as stable value investments and bond and money market funds. Although these relative shares have changed little over the past 12 years, the underlying fund composition has changed over time.

- ***401(k) participants continued to seek diversification of their investments.*** The share of 401(k) accounts invested in company stock continued to shrink, falling by 0.5 percentage point (to 10.6 percent) in 2007. 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.
- ***Participants' 401(k) loan activity was stable.*** In 2007, 18 percent of all 401(k) participants eligible for loans had taken a loan against their 401(k) account, the same percentage as at year-end 2006. Most loans tended to be small, amounting to 12 percent of the remaining account balance, on average, similar to year-end 2006.
- ***At year-end 2007, the average account balance in the EBRI/ICI database was $65,454, compared with $61,346 at year-end 2006.*** 401(k) account balances varied with participant age, tenure, and salary. Individuals with account balances of less than $10,000 were primarily young workers or workers with short job tenures. In contrast, those with account balances in excess of $100,000 were primarily older workers or workers with longer job tenure.
- ***The year-end 2007 average account balance in the database was 6.7 percent higher than the year before, but does not accurately reflect the experience of typical 401(k) participants in 2007.*** To examine the experience of 401(k) participants, one must control for the impact of 401(k) plans or participants joining and leaving the database year to year. As with previous EBRI/ICI updates, analysis of a consistent sample of 401(k) participants (those that have been in the same plan since 1999) is planned. EBRI and ICI will publish this additional analysis in early 2009.

The study is published in the December 2008 *Employee Benefit Research Institute Issue Brief* and *Investment Company Institute Perspective.* EBRI's VanDerhei, Sarah Holden, ICI senior director of retirement and investor relations, Craig Copeland, EBRI senior research associate; and Luis Alonso, EBRI director of information technology and research databases, wrote the study.

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.

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