How Many Participants Take Loans From 401(k) Plans?
What Are 401(k) Plan Loan Balances?

WASHINGTON—Most 401(k) participants are in plans that offer borrowing privileges. How many participants have taken out loans, according to the latest data? What are average loan balances?

Research shows that relatively few 401(k) participants make use of their borrowing privileges. Overall, 19 percent of those eligible for loans had loans outstanding at year-end 2005. Among those with outstanding loans, the average unpaid balance was $6,821.

The data are from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, the world’s largest repository of information about individual 401(k) plan participant accounts. A full report on the year-end 2005 data appeared in the August 2006 EBRI Issue Brief, available at www.ebri.org, the Web site of the nonpartisan Employee Benefit Research Institute (EBRI), and at www.ici.org, the Web site of the Investment Company Institute, the trade association of the mutual fund industry.

The Issue Brief makes the point that research indicates that the presence of the loan feature increases participation and contribution rates in 401(k) plans. Yet, this loan feature also raises concerns that some participants might save and accumulate assets only to then access them prior to retirement. Here are other selected details:

- Loan activity varies with age, tenure, salary, account balance, and plan size.
- Among 401(k) participants nearing retirement age, only 10 percent had a loan outstanding at year-end 2005.
- Participants’ loan activity in 2005 matches the trends in previous years: Loan balances as a percentage of account balances (net of unpaid loan balances) for participants with loans hovered around 13 percent, consistent with previous years.
- In addition, also consistent with previous years, there is variation around the 13 percent average. Older participants, longer-tenured participants, and participants with higher account balances tend to have lower loan ratios. For example, for half of the participants in their 60s who have a loan outstanding, the loan amount is less than 10 percent of the remaining account balance.

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