What “Average” 401(k) Balances Can Miss

While so-called “average” 401(k) balances are a widely cited benchmark of retirement savings progress, they can present a distorted picture, as illustrated in a recent report by the nonpartisan Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI).

While annual updates of the EBRI/ICI 401(k) database provide an invaluable perspective of 401(k) account balances, asset allocation, and loan activity across wide cross-sections of participants, the report explains that the cross-sectional analysis is not well-suited to addressing the question of the impact of participation in 401(k) plans over time.

In the normal course of events, individuals change jobs, employers change 401(k) providers, and so those “averages,” of necessity, include the experience of different individuals over time. Consequently, in order to accurately assess the impact of participation in 401(k) plans over time, and to understand how 401(k) plan participants have fared over an extended period, it is important to analyze a group of consistent participants—a longitudinal sample.

The EBRI/ICI report notes that, at year-end 2011, 13.0 percent of the consistent group (8.6 million 401(k) plan participants with account balances at the end of each year from 2007 through 2011) had more than $200,000 in their 401(k) accounts at their current employers, while another 15.0 percent had between $100,000 and $200,000. In contrast, in the broader EBRI/ICI 401(k) database, 7.5 percent had accounts with more than $200,000, and 9.2 percent had accounts between $100,000 and $200,000.

Reflecting their higher average age and tenure, the consistent group also had median and average account balances that were much higher than the median and average account balances of the broader EBRI/ICI 401(k) database.

It is, of course, important to remember that even in a longitudinal sample, “average” balances may include participants with widely divergent circumstances, notably age and tenure. Thus, while the average year-end 2011 balance for the entire longitudinal sample was roughly $95,000, as the accompanying chart indicates, that includes an average balance of less than $20,000 among those in their 20s, and balances in excess of $220,000 for workers in their 60s.

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