

Contact: Stephen Blakely, EBRI, (202) 775-6341, blakely@ebri.org

Target-Date Fund Use Grows in 401(k) Plans

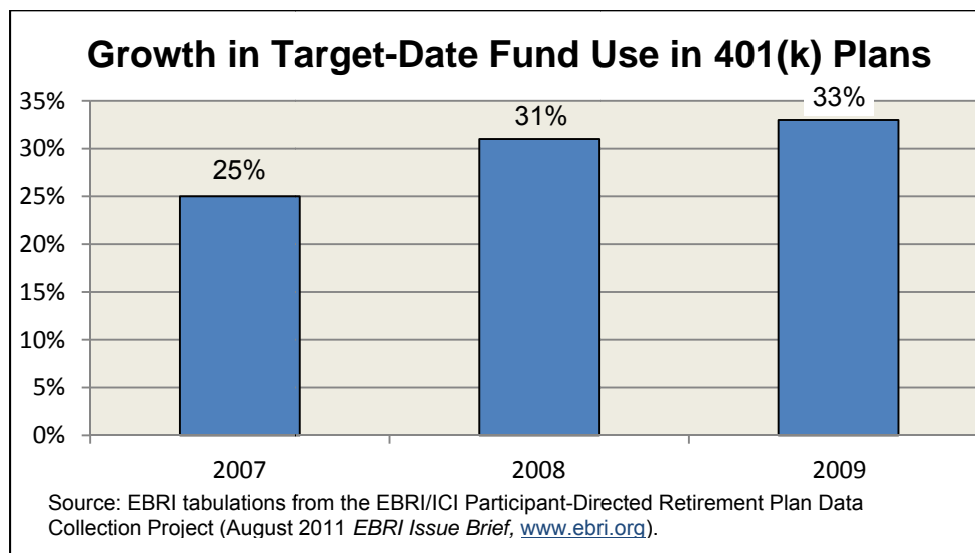
WASHINGTON—More and more participants in self-directed 401(k)-type retirement plans are investing in target-date funds (TDFs) according to a new analysis by the nonpartisan Employee Benefit Research Institute (EBRI).

Using data from the EBRI/ICI 401(k) database, the largest of its kind in the nation, EBRI finds that the use of TDFs in 401(k) plans has increased rapidly in recent years. The percentage of all 401(k) plan participants using TDFs increased from 25 percent in 2007 to 31 percent in 2008 and to 33 percent in 2009.

A TDF is an investment that automatically resets the asset mix (stocks, bonds, cash equivalents) in its portfolio according to a predetermined (but typically refined) path over a selected time frame, typically until a year at or near which it would be expected for a participant to retire. This year is typically reflected in the investment's name. For example, a TDF for an older worker about to retire (such as a "2015 Fund") would have a lower percentage of equities in its asset mix and more bonds or cash equivalents, while a TDF for a younger worker (such as a "2060 Fund") will have a higher percentage of equities and less bonds or cash equivalents.

The Pension Protection Act of 2006 contained provisions designed to encourage 401(k) plan sponsors to automatically enroll their workers in the plan, so as to boost retirement savings. Workers can opt out of the retirement plan if they choose. Target-date funds are often used as a "default" investment for workers who are auto-enrolled. While there has been rapid growth in the use of TDFs in 401(k) plans in recent years, TDFs are still relatively new for most participants.

The data come from the November 2010 *EBRI Issue Brief* and *ICI Perspectives* annual update on the EBRI/ICI 401(k) database, online at www.ebri.org/pdf/briefspdf/EBRI_IB_011-2010_No350_401k_Update-092.pdf. More data on consistent users of TDF are published in the August 2011 *EBRI Issue Brief*, "Target-Date Fund Use in 401(k) Plans and the Persistence of Their Use, 2007–2009," online at www.ebri.org



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