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FAST Facts

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

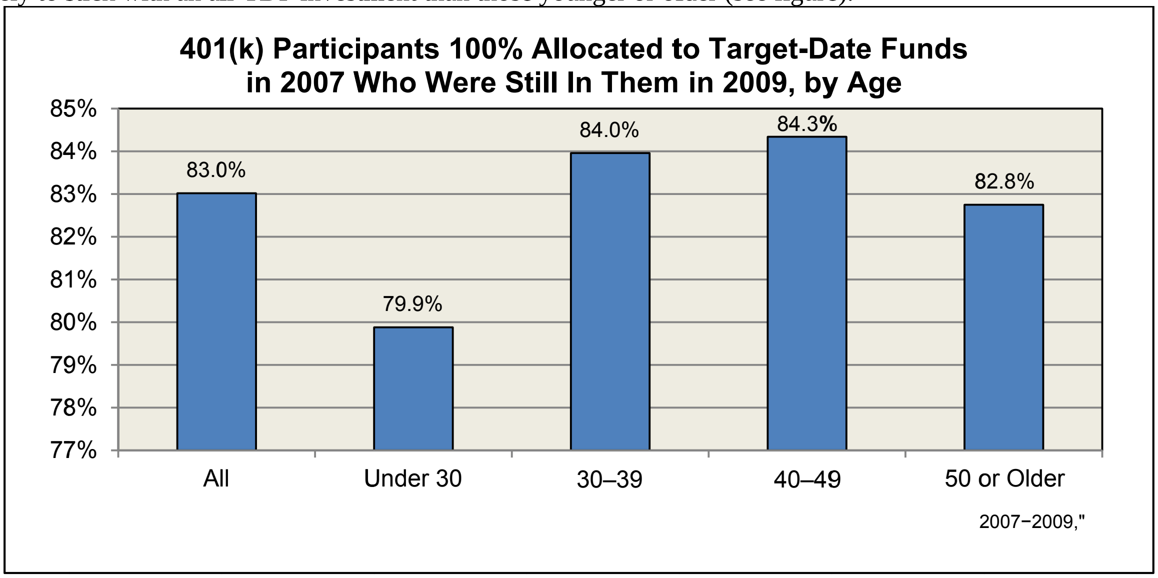
Persistence of 100-Percent Target-Date Fund Investors

WASHINGTON—People in self-directed 401(k)-type retirement plans who direct all of their money to target-date funds (TDFs) are likely to keep this allocation over time, 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 participants who allocate all of their account to TDFs (often a default investment option) are likely to stay with them:

- Among only those participants who had all of their account allocated to TDFs, a very high rate (83.0 percent) stayed at a 100-percent TDF allocation in 2009.
- Almost 13 percent of those who had a total allocation to TDFs in 2007 had an allocation lower than 100 percent (but not a zero) allocation in 2009.
- Only 4 percent of participants with a 100-percent TDF allocation in 2007 had stopped using them by 2009.

EBRI also found that participants who stayed at a 100-percent TDF allocation and were between the ages of 30–49 were more likely to stick with an all-TDF investment than those younger or older (see figure).



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.

The full report on TDFs is 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