

**New Research Following 401(k) Plan Participants Over Time Finds the Likelihood of Taking a Plan Loan Increases as Younger Workers Aged and Accumulated Larger Account Balances**

- Overall, 29% of consistent loan-eligible 401(k) participants had an outstanding loan during the five-year period -

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(Washington, D.C.) – A new report from the Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI) analyzing a consistent sample of plan loan eligible 401(k) plan participants from year-end 2016 to year-end 2020 found more plan loan activity than single year snapshots. Also, the research found that as younger workers aged and accumulated larger account balances, they experienced an increased likelihood of taking a 401(k) plan loan.

The report, “How 401(k) Plan Participants Use Loans Over Time: An Analysis of Loan Activity of Consistent 401(k) Plan Participants, 2016–2020,” analyzed 401(k) plan loan usage for a sample of 2.2 million consistent loan-eligible 401(k) plan participants who maintained accounts in each year between 2016 and 2020. The study sheds important light on the management of 401(k) plan participants’ borrowing behavior by age, tenure and account balance.

“With respect to borrowing, a participant’s lifecycle of 401(k) plan loan usage must be examined, since 401(k) plan loans tend to be a multiyear process,” explained Craig Copeland, Ph.D., director, Wealth Benefits Research, EBRI. “The longitudinal look at loans reveals a higher prevalence of borrowing, including repeat behavior.”

Over the five years analyzed, the increase in loan usage was largest for younger participants or those with lower job tenure as they aged into longer tenure and higher account balances available for loans. For example, among participants in their 20s at year-end 2016, 7% had outstanding loans at year-end 2016. However, when the five years analyzed are considered altogether, 21% of participants in their 20s had taken out plan loans.

“Taking a closer look at new loan activity reveals that some 401(k) plan participants appear to be using 401(k) plan loans to meet modest short-term financing needs,” noted Sarah Holden, Ph.D., senior director, Retirement and Investor Research, ICI. “Indeed, 401(k) plan participants who were observed initiating multiple loans between year-end 2017 and year-end 2020 tended to take smaller loans.”

Additional findings in the report include:

- While the likelihood of having a plan loan in any given year is relatively low, more participants had loans at some point between year-end 2016 and year-end 2020. Overall, 29% of 401(k) participants in the sample had an outstanding loan at some point in the five years analyzed, compared with 18% at year-end 2016.
- Repeat-loan 401(k) plan participants represented 16% of the overall sample (55% of the 29% with any loans over the five years).
- Participants who were observed taking multiple loans between year-end 2017 and year-end 2020 tended to take smaller loans. Among participants with new loans at year-end 2017 who were observed taking an additional loan between year-end 2018 and year-end 2020, about three-fifths had an initial loan of \$2,500 or less.

**About the EBRI/ICI 401(k) Plan Database**

The report, “401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2020” reviewed year-end 2020 account balance, asset allocation and loan activity results for the EBRI/ICI 401(k) database, which consists of a large cross section of 11.5 million 401(k) plan participants. This paper presents a longitudinal analysis of 401(k) participants who maintained accounts each year from 2016 through 2020 and were in 401(k) plans offering plan loans. This longitudinal analysis tracks the account balances of 2.2 million 401(k) plan participants who had accounts in the year-end 2016 EBRI/ICI 401(k) database and each subsequent year through year-end 2020, and who were in 401(k) plans offering plan loans to participants.

To view a summary of the 24-page Issue Brief, “How 401(k) Plan Participants Use Loans Over Time: An Analysis of Loan Activity of Consistent 401(k) Plan Participants, 2016–2020,” visit [www.ebri.org/401k-loans](http://www.ebri.org/401k-loans) or [www.ici.org/research/investors/ebri\\_ici](http://www.ici.org/research/investors/ebri_ici).

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