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The Wealth-Building Power of 401(k) Plans

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The 401(k) plan continues to offer workers across all income levels a disciplined way to save and invest, helping them build significant assets over time. The continued success of these plans shows how policymakers, employers, financial services firms, and participants work together to help build a retirement system that is the envy of the world:

- Policymakers offer tax advantages to encourage retirement saving;
- Employers offer their employees 401(k) plans, typically making employer contributions to boost participants' accounts;
- Financial services firms offer cost-effective, diversified, investment options covering a range of risk and return; and
- 401(k) plan participants save and invest toward their long-term retirement goals.

Research finds that defined contribution (DC) plan participants appreciate the features of their plans and tend to stay the course through ups and downs. When surveyed, 79% of DC plan participants agree that "knowing that I'm saving from every paycheck makes me less worried about the short-term performance of my investments." This steady, long-term perspective is central to participants' success, though success depends on more than behavior alone.

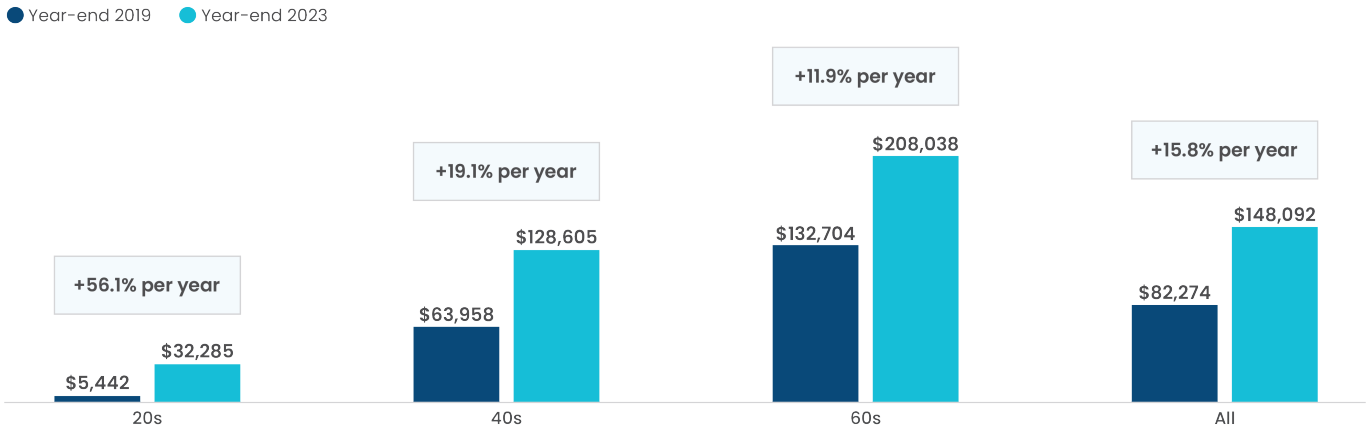
In any given year, the change in a participant's account balance is a combination of three factors:

New contributions by the participant, the employer, or both

The relative importance of contributions depends on the size of a participant's account. Younger participants typically start with smaller balances, so each new contribution represents a larger share of their total and plays a bigger role in driving growth (Figure 1). Older participants, by contrast, tend to have larger balances. At that stage, changes in

account balances are shaped more by investment performance and withdrawals, which become more common as participants prepare for or enter retirement. From year-end 2019 to year-end 2023, the average 401(k) account balance of participants in their twenties grew at a 56% compound annual average rate, while the average 401(k) account balance among participants in their sixties rose at a 12% compound annual average rate.

Figure 1
Changes in 401(k) Plan Account Balances Among Consistent 401(k) Participants
Average 401(k) plan account balance and percent change compound annual average growth rate, 2019–2023



Note: The sample is 2.7 million consistent participants in the EBRI/ICI 401(k) database over the four-year period from year-end 2019 to year-end 2023. Age group is based on participant age at year-end 2023. Account balances are participant account balances held in 401(k) plans at the participants' current employers and are net of plan loans. Retirement savings held in plans at previous employers or rolled over into IRAs are not included.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project

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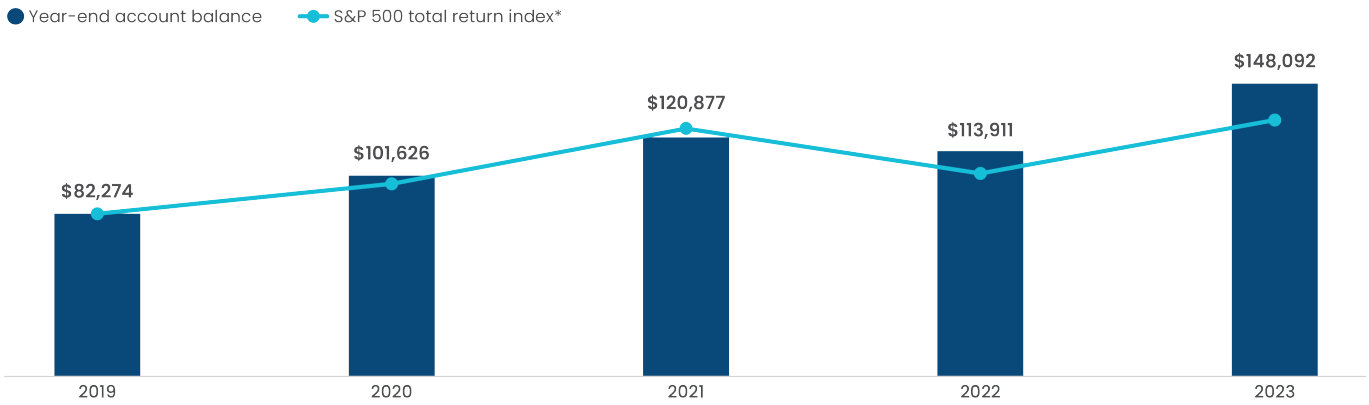
Total investment return on account balances

Investment returns are still a major driver of account balances for participants of all ages. Because most 401(k) assets are invested in equities, the performance of stock markets is particularly important. For example, among a sample of 2.7 million consistent 401(k) plan participants, the average account balance rose alongside the stock market in 2020 and 2021, dipped in 2022 as the US stock market lost value, and rebounded in 2023 (Figure 2).

Figure 2
Account Balances for Consistent 401(k) Participants Tend to Follow the Stock Market
Average 401(k) plan account balance and S&P 500 total return index, 2019–2023



*The S&P 500 total return index measures the performance of 500 stocks chosen for market size, liquidity, and industry group representation. It has been rebased to equal the average 401(k) account balance for the longitudinal sample at year-end 2019.

Note: The sample is 2.7 million consistent participants in the EBRI/ICI 401(k) database over the four-year period from year-end 2019 to year-end 2023. Age group is based on participant age at year-end 2023. Account balances are participant account balances held in 401(k) plans at the participants' current employers and are net of plan loans. Retirement savings held in plans at previous employers or rolled over into IRAs are not included.

Sources: LSEG Data & Analytics, Standard & Poor's, and tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project

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Withdrawals, borrowing, and loan repayments

Withdrawals and borrowing reduce 401(k) plan account balances in the EBRI/ICI 401(k) database, while loan repayments increase them. For the most part, these activities have modest influence as few participants engage in them. Other ICI research finds that typically fewer than 5% of active DC plan participants take any withdrawal in a given year, with fewer than 2% taking hardship withdrawals. Nevertheless, other data show that participants in their sixties tend to have a higher propensity to make withdrawals as they approach retirement. Data from the EBRI/ICI 401(k) database indicate that typically fewer than one in five 401(k) plan participants in plans offering loans had loans outstanding in any given year.

Keeping Eyes Set on the Horizon

Even though some participants may need to take loans or early withdrawals to help weather life’s storms, most DC plan participants continue making regular contributions through market ups and downs. That steady habit of contributing paycheck-by-paycheck helps to build sizeable nest eggs for retirement security.

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