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Retirement: Key Facts and Positions
Asset Allocation and Managing Risk in 401(k)s

Asset allocation is an investment strategy that allows diversification of investment risk by allocating an account balance across different classes of assets, including equities (e.g., stocks and stock funds), fixed income (e.g., bonds and bond funds) and cash (e.g., certificates of deposit, money market funds, and stable value funds). Given that different classes of assets have different levels of risk and react differently to market fluctuations, asset allocation is an important tool for managing an investment portfolio, including a retirement account, such as a 401(k).

Facts show that 401(k) savers seek diversification.

- Sixty-one percent of 401(k) participants' assets on average were invested in equity securities—through equity funds, the equity portion of balanced funds, and company stock—according to "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2011," published by the Employee Benefit Research Institute and the Investment Company Institute (EBRI/ICI 401(k) study).

- The data also show that 34 percent of 401(k) participants' assets on average were in fixed-income securities and cash, such as stable value investments, bond funds, money market funds, and the fixed-income and cash portion of balanced funds.

- Younger 401(k) participants tended to have a higher allocation to equities, on average (74 percent of 401(k) assets held by participants in their twenties), compared with older 401(k) participants (48 percent of 401(k) assets held by participants in their sixties).

Target date funds play a growing role in helping 401(k) savers diversify.

- When planning their retirement savings strategy, participants increasingly use tools such as target date funds, which are designed to offer a mixed investment portfolio of equity and fixed-income securities. Such funds automatically rebalance to be more focused on income over time, offering investors a way to diversify and manage risk.

- Use of target date funds is rising.

  - The EBRI/ICI 401(k) study finds that 72 percent of 401(k) plans offered target date funds in their investment lineup at year-end 2011, compared with 70 percent at year-end 2010 and 57 percent at year-end 2006.

  - In addition, 39 percent of 401(k) participants held target date funds at year-end 2011, compared with 36 percent in 2010 and 19 percent in 2006. According to the EBRI/ICI 401(k) study, such funds accounted for 13 percent of 401(k) assets in 2011, up from 11 percent in 2010 and 5 percent in 2006.

Younger participants and recently hired participants are more likely to hold target date funds.

- Younger participants increasingly invest in target date funds.
    - At year-end 2011, 51 percent of participants in their twenties held target date funds, according to the EBR/ICI 401(k) study, compared with 27 percent of participants in their twenties in 2006.
- Recently hired participants are more likely to hold target date funds than those with more years on the job.
    - In 2011, more than half of participants with two or fewer years at a job held target date funds, compared with 37 percent of participants with more than five to 10 years at a job and 22 percent of participants with more than 30 years at a job, according to the EBRI/ICI 401(k) study.

For more key facts and positions on retirement, please see http://www.ici.org/retirement.