

ICI VIEWPOINTS

APRIL 26, 2012

Article in The Week Misrepresents Americans' View of 401(k)s

By Sarah Holden

Contrary to recent reporting by *The Week* ("401(k)s Are Failing Millions of Americans," April 22, 2012), American workers both value their 401(k) retirement savings plans and are confident that 401(k)s will help them meet their retirement goals. Economic research demonstrates that their confidence is justified. It's important to set the record straight.

Americans Make the Case for 401(k)s

Since the financial downturn in 2008, ICI has conducted annual research to survey Americans about their attitudes toward and actions in 401(k)s. Even through the financial downturn, savers in 401(k) plans have been consistently committed to these plans and appreciative of their key features.

Our [annual research](#) launched in 2008—with data drawn each year from more than 23 million 401(k) participant accounts and, separately, from 3,000 households—demonstrates that savers have consistently stayed the course and continued to contribute. In the 2011 household survey, nearly three-quarters of households expressed confidence that 401(k) plans can help participants meet their retirement goals. Analyzing 4.3 million 401(k) participants consistently in the EBRI/ICI 401(k) database from 2003 to 2009, our [research](#) found that the average 401(k) account balance moved up and down with stock market performance, but over the entire six-year time period increased at an average annual growth rate of 10.5 percent—factoring in the bear market, ongoing contributions, and any withdrawal and loan activity.

Saving Through 401(k)s Is Helping Boomers and Others Prepare for Retirement

Americans depend on retirement income from a variety of resources. Americans had accumulated \$4.5 trillion in 401(k) and other defined contribution plans and an additional [\\$4.9 trillion in individual retirement accounts as of the end of 2011](#). These figures do not count defined benefit plans. Nor do they include Social Security benefits, the largest component of retiree income and the predominant income source for lower-income retirees.

The Baby Boom is no exception to this patchwork pattern. Rather than being "the 401(k) generation"—which implies they spent their full career in a 401(k) world—Boomers are a transitional generation who have experienced a mix of pension coverage during their working careers. Today's 60- to 62-year-olds typically entered the workforce in the early 1970s, a decade before the introduction of 401(k) plans. For these individuals, for much of their careers, 401(k) plans represent a supplemental component of their retirement accumulations.

To evaluate the 401(k) system fairly, consider what a full career with 401(k) plans might generate for future retirees. Joint ICI [research](#) with the Employee Benefit Research Institute (EBRI) found that more than 60 percent of 401(k) participants in their late 30s to mid-40s, who will turn 65 between 2030 and 2039, will accumulate enough in their 401(k) accounts to replace more than half their salary. Other studies have come to similar conclusions: economists James Poterba of MIT, Steven Venti of Dartmouth, and David Wise of Harvard [examined](#) current and projected 401(k) accumulations and concluded, "Our projections suggest that the advent of personal account saving will increase wealth at retirement for future retirees across the lifetime earnings spectrum."

Mutual Fund Investors Tend to Concentrate Their Assets in Lower-Cost Funds

A 401(k) plan is an employee benefit that offers an array of services, for which there are fees and expenses. As is the case with any employee benefit, the employer typically determines how the costs will be shared. Research conducted by [Deloitte Consulting](#) finds that 401(k) plan fees and expenses tend to vary with plan size. Separately, [ICI research](#) finds 401(k) plan mutual fund assets are concentrated in lower-cost mutual funds. However, fees are only one component of the investment decision. It is also important to understand the investment objective, including risk, return, and diversification considerations.

We strongly believe that the 401(k) is an important component of Americans' retirement security—and one that will be increasingly central in the future. But the 401(k) system should not be judged without understanding the full retirement picture. Retirement security is a career-long race that must be won paycheck-by-paycheck—and 401(k)s will help Americans achieve their retirement goals.

Sarah Holden is the Senior Director of Retirement and Investor Research at ICI.

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