When Will My 401(k) Balance Get Back on Track Again?

ICI Explains

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As the COVID-19 pandemic hit financial markets in the first quarter of 2020, many of America's 401(k) savers are asking: when will my balance get back on track again? To answer this question, the following video examines the experience of "consistent participants"—workers enrolled in the same 401(k) every year for several years—during two previous economic downturns to see how they fared.

Transcript

The S&P 500 dropped 20 percent in the first quarter of 2020 in response to the global pandemic. Now, many of America's more than 58 million 401(k) savers are asking: when will my balance get back on track again?

We can't predict the future. But we can look at the past—at the bursting of the tech bubble and the global financial crisis. To get a good picture, we'll examine the experience of "consistent participants"—workers enrolled in the same 401(k) every year for several years.

When the tech bubble burst, the S&P 500 lost nearly 50 percent. What happened to consistent participants' 401(k)s?

- In 2000, their average balance was nearly $67,000.
- In the next two years, it fell.
- But by the end of 2003, it had moved above the 2000 level.

How about the global financial crisis, when the S&P 500 declined by more than 50 percent?

- From 2007 to 2008, the average balance of all consistent participants fell by 26 percent.
- In 2009, it rose sharply above the 2007 level.

Keep in mind that 401(k) balances include worker and employer contributions, not just market gains and losses. 401(k) participants also benefit from investment diversification.

For younger workers, contributions have a bigger impact on 401(k) balances. But even for older, long-time workers—whose contributions are smaller compared to their total balances—the rebound followed the same pattern.

- In the tech downturn, their average balance fell more than 12 percent from 1999 to 2002—but then rose past the previous high by the end of 2003.
- During the global financial crisis, their average balance fell nearly 30 percent from 2007 to 2008. But in 2009, it rose. And by year-end 2010, it was above the 2007 level.

We don't know if history will repeat itself. But it shows how 401(k) participants' nest eggs benefit from steady contributions and diversification.

For more information, see ICI's Facts on Retirement.

Note: 401(k) participant account information is from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.
