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Target Date Funds Continue to Be Popular Investment Among Younger 401(k) Plan Participants

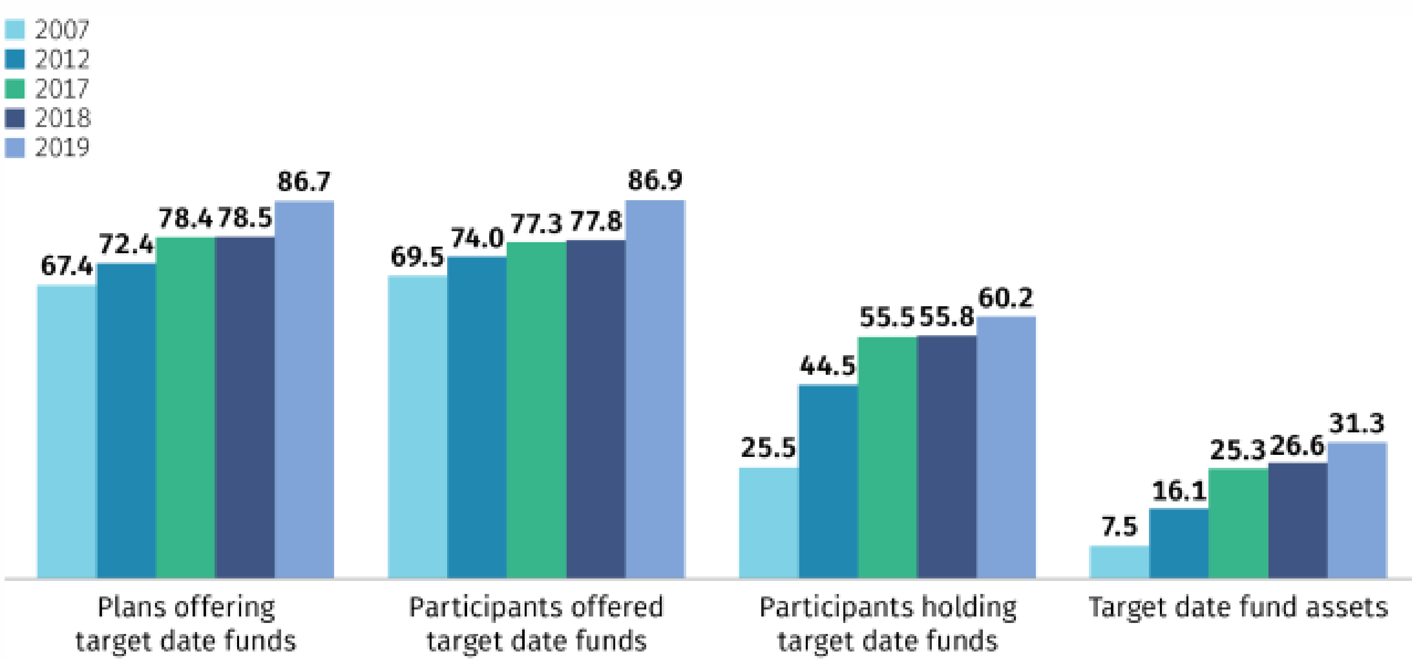
Washington, DC; May 3, 2022—Target date fund investing continues to be prevalent in 401(k) plans, particularly among younger 401(k) plan participants, according to an updated joint study released today by the Investment Company Institute (ICI) and the Employee Benefit Research Institute (EBRI). The study, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2019," found that among participants in their twenties, 54.1 percent of their 401(k) assets were invested in target date funds at year-end 2019, compared with 28.8 percent among participants in their sixties. At year-end 2019, 31.3 percent of 401(k) assets in the database overall were invested in target date funds, up from 26.6 percent at year-end 2018.

Recently hired 401(k) plan participants were more likely to be invested in target date funds at year-end 2019. Among those with two or fewer years of tenure, 65 percent held target date funds, compared with 57 percent of participants with more than 10 to 20 years of tenure, and 43 percent of participants with more than 30 years of tenure. Overall, 60 percent of 401(k) plan participants had target date fund investments at year-end 2019. Target date funds are designed to offer a diversified portfolio that focuses on growth for younger participants and automatically rebalances to focus more on fixed-income investments for workers as they approach—and enter—retirement.

"Target date funds continue to be a popular and convenient investment choice for 401(k) plan participants," said Sarah Holden, ICI senior director of retirement and investor research. "Target date funds offer both portfolio diversification at every point in time and automatic rebalancing over time, helping investors of all ages manage their asset allocations as they save for retirement."

Target Date Funds' 401(k) Market Share

Percentage of total 401(k) market, year-end



Note: A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. Funds include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated.

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

The study also shows that more 401(k) plan participants held equities at year-end 2019 than before the financial crisis of 2008. Data show that investment in equities is an especially popular choice for younger plan participants. About two-thirds of participants in their twenties had more than 80 percent of their 401(k) plan accounts invested in equities at year-end 2019, up from less than half of participants in their twenties at year-end 2007. Overall, almost 95 percent of 401(k) participants had at least some investment in equities at year-end 2019. Equities include equity funds, the equity portion of balanced funds (including target date funds), and company stock (the stock of the participant's employer).

"401(k) plan participants continue to invest heavily in equities mainly through equity funds and target date funds," said Craig Copeland, EBRI director of wealth benefits research. "Younger 401(k) plan participants who remain more focused on growth as they invest in their futures tend to have a higher emphasis on equities."

Other findings in the study include:

- **Average 401(k) account balances increase with participant age and tenure.** For example, at year-end 2019, participants in their forties with more than two years and up to five years of tenure had an average 401(k) balance of about $43,000, while participants in their sixties with more than 30 years of tenure had an average 401(k) account balance of more than $330,000.
- **401(k) participants' investment in company stock continued at historically low levels.** Only 5 percent of 401(k) plan assets were invested in company stock at year-end 2019. This share has fallen by 72 percent since 1999, when company stock accounted for 19 percent of assets.
- **A minority of 401(k) participants had loans outstanding.** At the end of 2019, 18 percent of all 401(k) participants who were eligible for loans had loans outstanding against their 401(k) accounts, down slightly from year-end 2018. US Department of Labor data indicate that outstanding loan amounts were less than 2 percent of 401(k) plan assets in 2019.

About the Study

The study is based on the EBRI/ICI database of employer-sponsored 401(k) plans, compiled through a collaborative research project undertaken by the two organizations since 1996. The project is unique because it includes data provided by a wide variety of plan recordkeepers and, therefore, represents the activity of participants in 401(k) plans of varying sizes—from very large corporations to small businesses—with a variety of investment options. The 2019 EBRI/ICI database includes statistical information on 11.1 million 401(k) plan participants in 73,312 plans, which hold $0.9 trillion in assets, and covers 18 percent of the universe of active 401(k) participants.

Full results of the annual EBRI/ICI 401(k) database update are posted on each organization's website, at www.ebri.org and www.ici.org/research/investors/ebri_ici.
