

ICI RESEARCH

MARCH 2020

Ten Important Facts About 401(k) Plans

401(k) Plans

In 1981, the Internal Revenue Service (IRS) proposed regulations for 401(k) plans that allowed pretax contributions to be made from employees' ordinary wages and salary. In the first years of these rules, employers typically offered 401(k) plans as supplements to their defined benefit (DB) plans. Almost four decades later, 401(k) plans have grown to become the most common employer-sponsored defined contribution (DC) retirement plan in the United States.

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Ten Important Facts About 401(k) Plans

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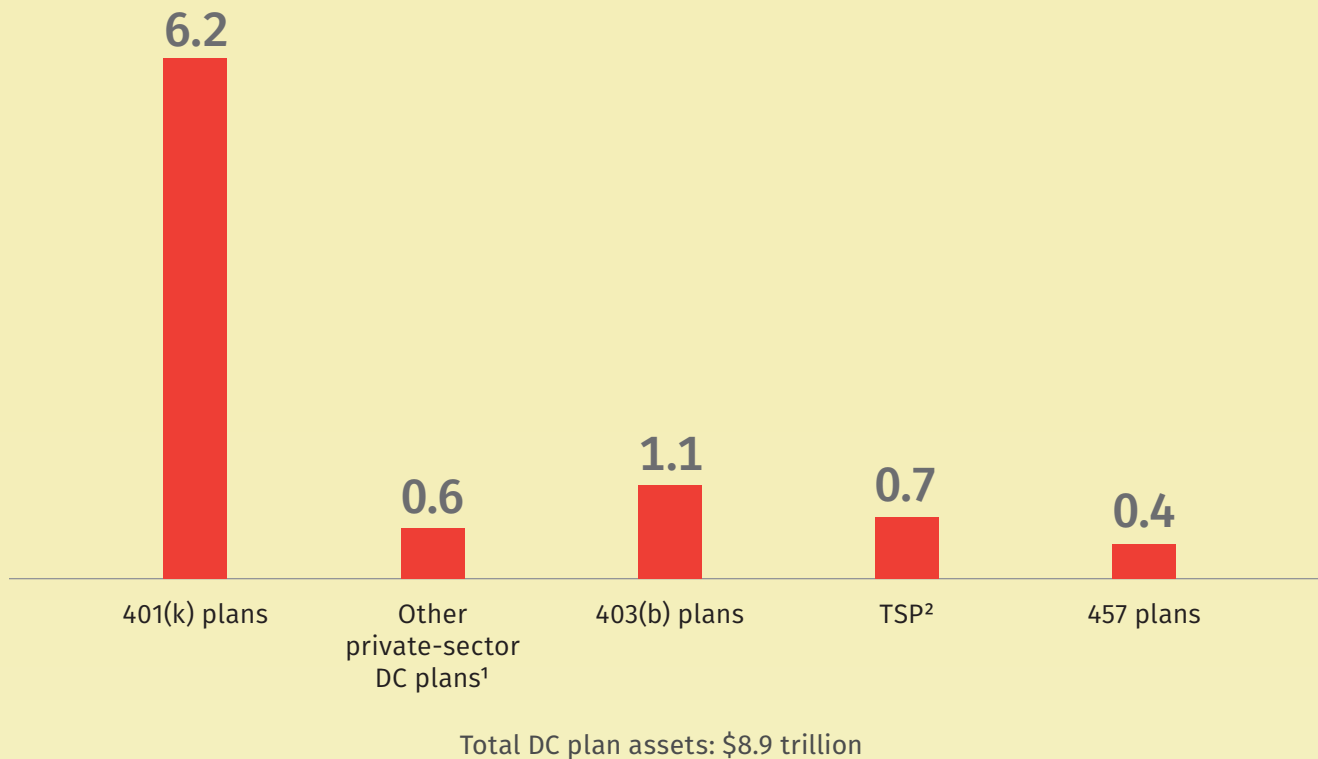
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401(k) plans are the largest share (70 percent) of DC plan assets.

Americans held \$8.9 trillion in DC plans in the fourth quarter of 2019, accounting for 27 percent of the \$32.3 trillion in retirement assets and about 9 percent of household financial assets. Seventy percent of DC plan assets, or \$6.2 trillion, were held in 401(k) plans, accounting for 19 percent of all US retirement assets.

401(k) Plans Are the Largest Share of DC Plan Assets

Trillions of dollars, fourth quarter 2019



¹ This category includes Keoghs and DC plans (profit-sharing, thrift-savings, stock bonus, and money purchase) without 401(k) features.

² This category is the Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP) as reported by the Federal Reserve Board.

Sources: Investment Company Institute and Federal Reserve Board; see Table 6 in “The US Retirement Market, Fourth Quarter 2019” (March 2020)



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More than
one-third of
401(k) plan
participants are
younger than 40.

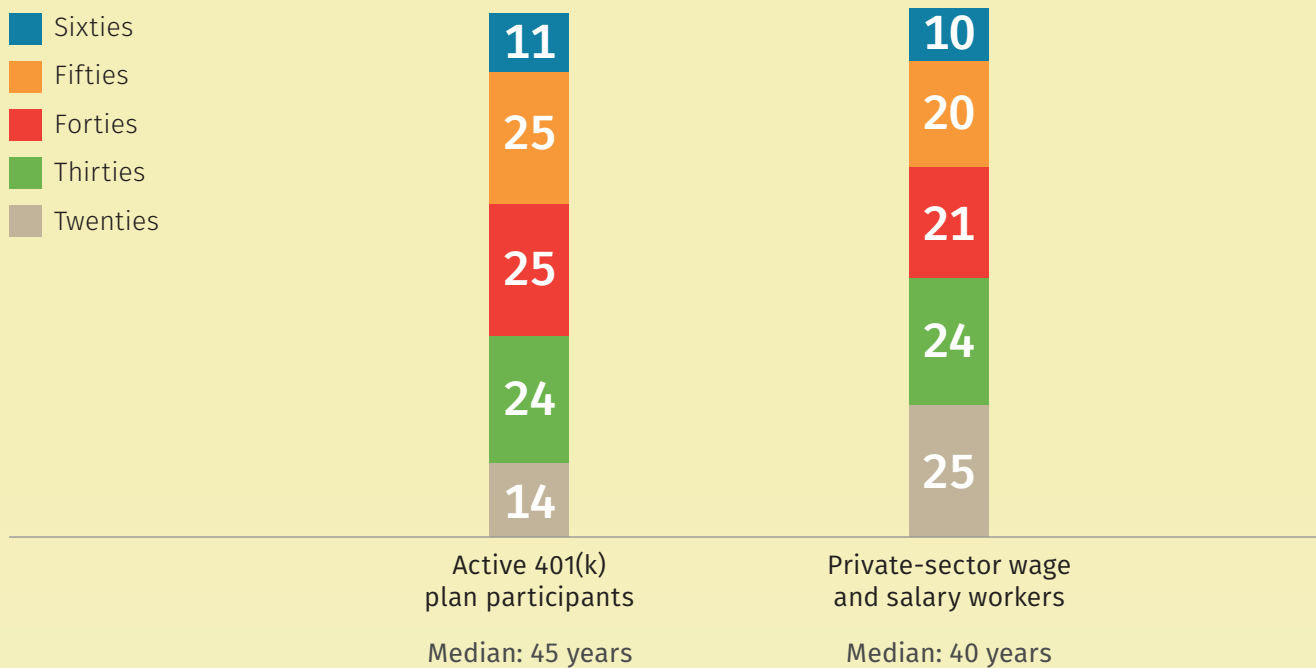
At year-end 2016, 38 percent of 401(k) participants were in their twenties or thirties, 25 percent were in their forties, 25 percent were in their fifties, and 11 percent were in their sixties. Reflecting the life cycle of retirement saving, 401(k) participants tend to be in their peak earning and saving years and are slightly older than the broad population of private-sector workers.

401(k) Participants Represent a Range of Ages

Percentage of individuals aged 20 to 69 by participant age, 2016

Age group

- Sixties
- Fifties
- Forties
- Thirties
- Twenties



Note: Components may not add to 100 percent because of rounding.

Sources: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project and Investment Company Institute tabulations of Current Population Survey data; see Figure 5 in "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016," *ICI Research Perspective* and *EBRI Issue Brief* (September 2018)



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Households from all income groups own DC plan accounts.

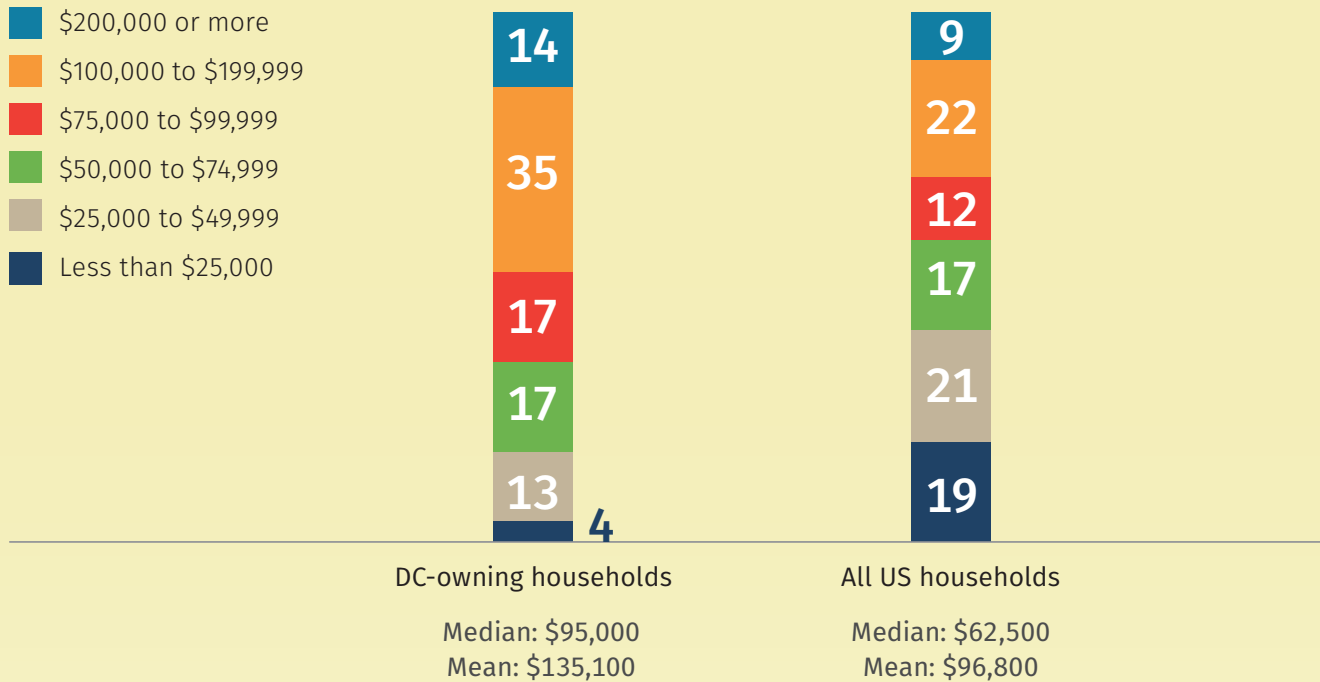
Almost half of US households with DC retirement plan accounts had moderate incomes. Forty-seven percent of households owning DC accounts in 2019 had incomes between \$25,000 and \$99,999. Forty-nine percent of households with DC assets reported incomes of \$100,000 or more and 4 percent had incomes less than \$25,000.

Households with DC Plan Accounts Cover All Income Groups

Percentage of US households with DC accounts and all US households by household income, 2019

Household income

- \$200,000 or more
- \$100,000 to \$199,999
- \$75,000 to \$99,999
- \$50,000 to \$74,999
- \$25,000 to \$49,999
- Less than \$25,000



Note: Total reported is household income before taxes in 2018.

Source: 2019 ICI Annual Mutual Fund Shareholder Tracking Survey



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Individuals appreciate the tax treatment and investment features of their DC plans.

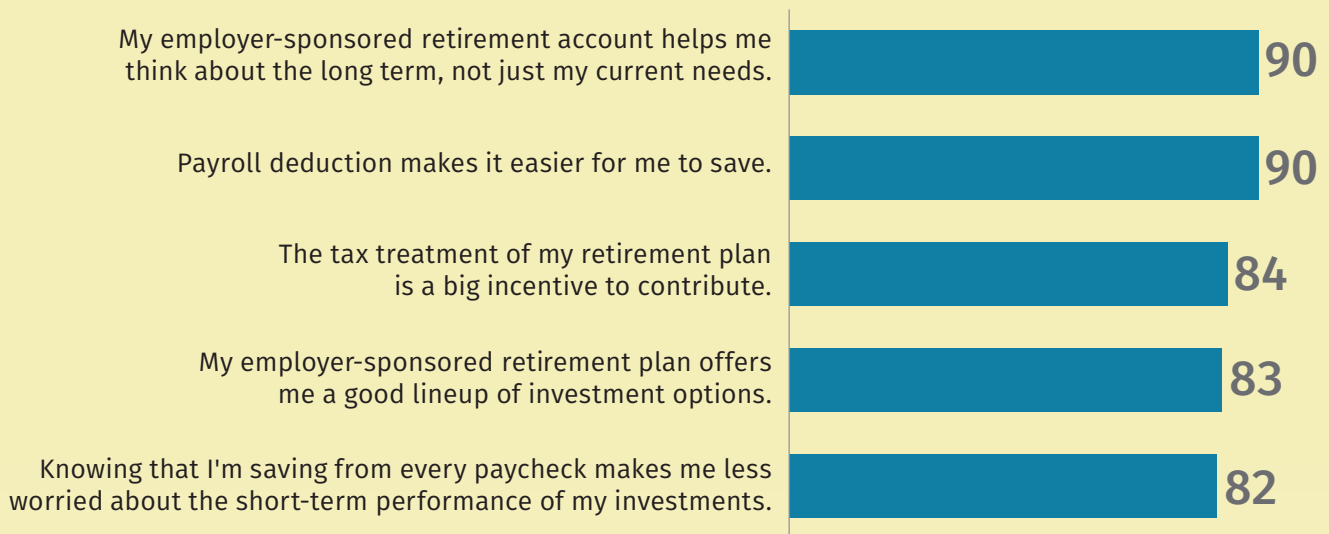
Most DC account-owning individuals agreed that employer-sponsored retirement accounts helped them “think about the long term, not just my current needs” (90 percent), and that “payroll deduction makes it easier for me to save” (90 percent).

Saving in employer-sponsored retirement plans has certain tax advantages. Typically, neither the initial contribution nor investment returns are included in taxable income. Instead, taxes are deferred until the individual withdraws money from the account. Overall, 84 percent of individuals with DC plan accounts agreed that the “tax treatment of my retirement plan is a big incentive to contribute.”

In addition, 83 percent of DC account-owning individuals agreed that their plans offer “a good lineup of investment options.” Eighty-two percent agreed that “knowing that I’m saving from every paycheck makes me less worried about the short-term performance of my investments.”

Views of Individuals Who Own DC Plan Accounts

Percentage of DC-owning individuals agreeing with each statement, fall 2019



Note: DC-owning individuals are individuals aged 18 or older whose households owned 401(k) plan accounts or other DC plan accounts at the time of the survey. The figure reports the percentage of DC-owning individuals who “strongly agreed” or “somewhat agreed” with the statement. The remaining individuals “somewhat disagreed” or “strongly disagreed.”

Source: Investment Company Institute tabulations of NORC Amerispeak® panel survey data (fall 2019); see Figure 2 in “American Views on Defined Contribution Plan Saving, 2019,” *ICI Research Report* (January 2020)



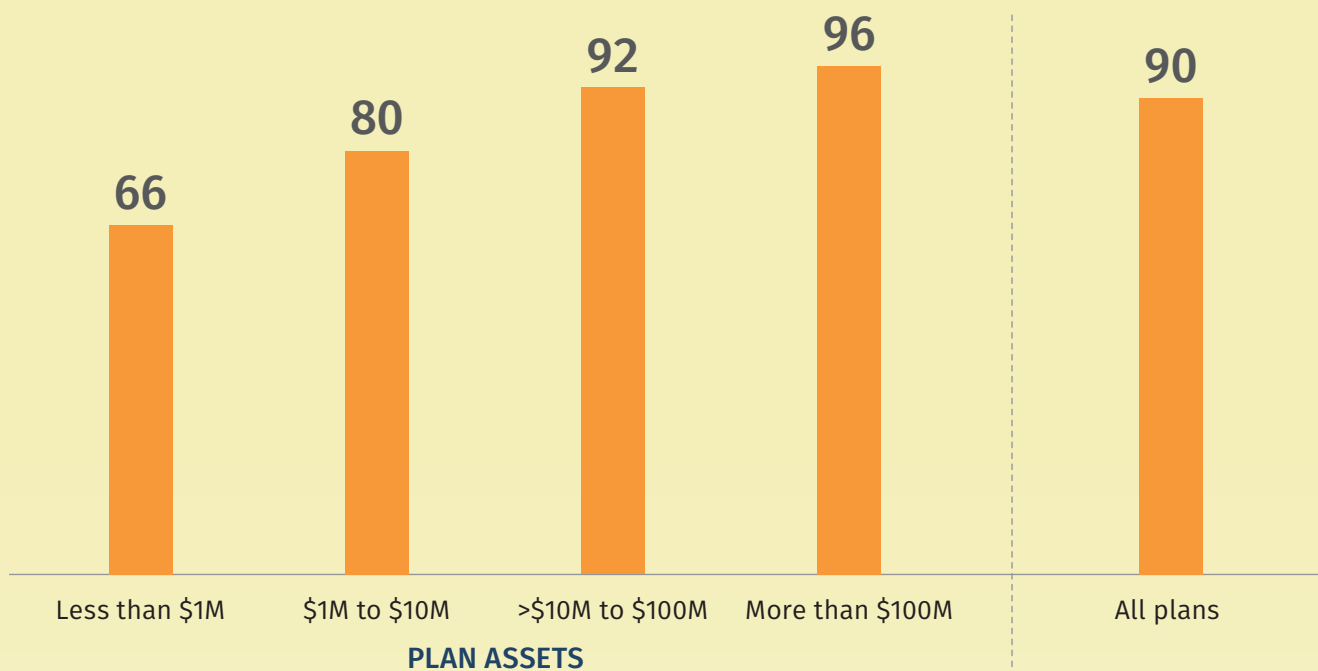
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Most 401(k)
plan participants
receive plan
contributions from
their employers.

In 2016, employers made contributions in 79 percent of 401(k) plans. Because larger 401(k) plans are more likely to have employer contributions, 90 percent of 401(k) plan participants were in plans with such contributions.

Most 401(k) Participants Receive Employer Contributions

Percentage of participants in 401(k) plans with employer contributions by plan assets, 2016



Source: Investment Company Institute tabulations of US Department of Labor Form 5500 Research File; see Exhibit A.3 in *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2016* (June 2019)



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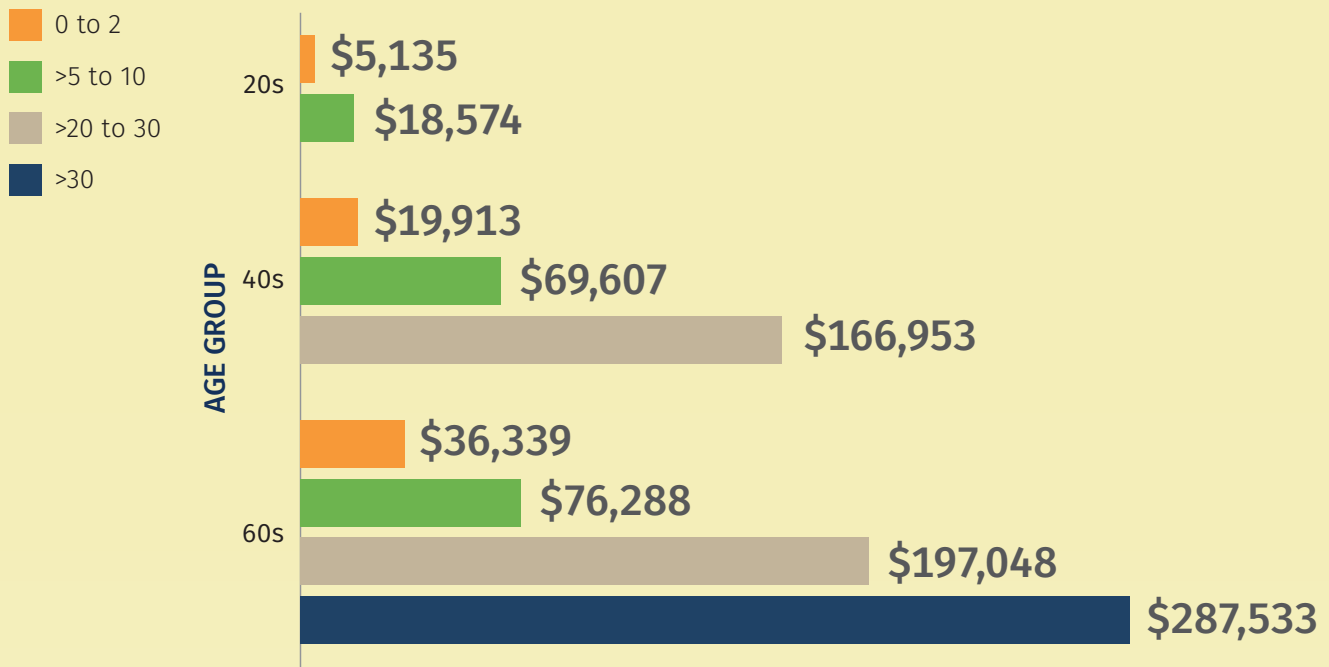
401(k) plan account balances rise with participant age and length of time on the job.

Examining the interaction of both age and tenure with 401(k) plan account balances reveals that, for a given age group, average 401(k) plan account balances tend to increase with tenure. For example, the average account balance of participants in their sixties with up to two years of tenure was \$36,339 at year-end 2016, compared with \$287,533 for participants in their sixties with more than 30 years of tenure. Similarly, the average account balance of participants in their forties with up to two years of tenure was \$19,913, compared with \$166,953 for participants in their forties with more than 20 years of tenure.

401(k) Plan Account Balances Increase with Participant Age and Tenure

Average 401(k) plan account balance by participant age and tenure, year-end 2016

Years of tenure



Note: At year-end 2016, the average account balance among all 27.1 million 401(k) plan participants was \$75,358; the median account balance was \$16,836. 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 individual retirement accounts (IRAs) are not included. The tenure variable is generally years working at current employer, and thus may overstate years of participation in the 401(k) plan.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see Figure 13 in "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016," *ICI Research Perspective* and *EBRI Issue Brief* (September 2018)



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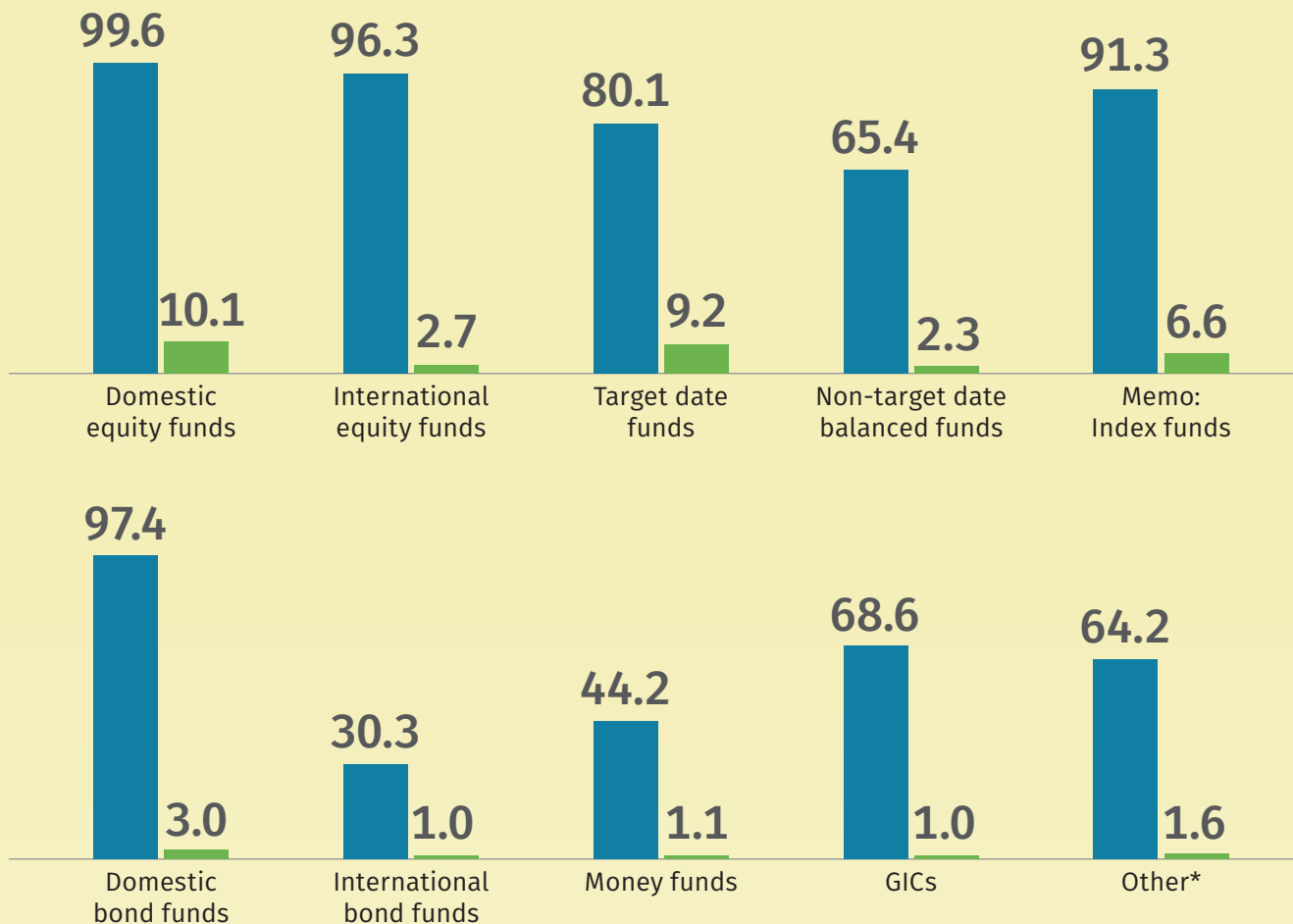
401(k) plans offer participants a wide array of investment options.

Domestic equity funds, international equity funds, and domestic bond funds were the most likely investment options to be offered in 401(k) plans in 2016. Nearly all plans offered these types of funds, which can be mutual funds, collective investment trusts, or separate accounts. Equity funds were the most common investment option, with 401(k) plans offering about 13 funds on average, of which 10 were domestic equity funds and three were international equity funds. The next most common category in 401(k) investment lineups was target date funds, with nine funds offered on average among plans including target date funds.

401(k) Plan Lineups Contain Many Investment Options

Percentage of plans offering and average number of investment options among plans offering the specified investment option, 2016

■ Percentage of plans offering
■ Average number of funds when offered



* *Other* includes commodity funds, real estate funds, and individual stocks (including company stock) and bonds, but each separate option is counted as a unique investment option.

Note: The sample is 52,659 plans with 53.5 million participants and \$3.8 trillion in assets. Participant loans are excluded. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options or more than 100 investment options are excluded from BrightScope audited 401(k) filings for this analysis.

Source: BrightScope Defined Contribution Plan Database; see Exhibit 2.6 in *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2016* (June 2019)



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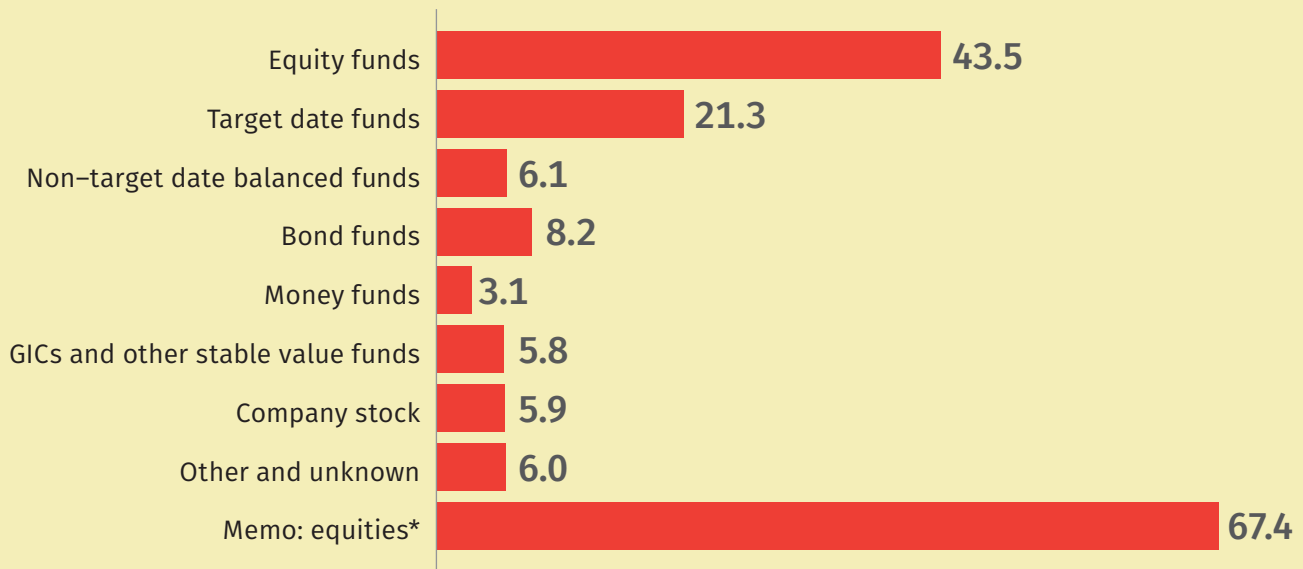
Equities figure prominently in 401(k) plans, especially among younger 401(k) investors.

At year-end 2016, 43.5 percent of 401(k) plan participants' account balances were invested in equity funds. Another 21.3 percent of 401(k) assets were invested in target date funds, and more than half of all 401(k) plan participants had invested at least some of their accounts in target date funds. Non-target date balanced funds accounted for another 6.1 percent of 401(k) plan assets. Altogether, equity securities—equity funds, the equity portion of balanced funds, and company stock—represented 67.4 percent of the assets in 401(k) plan participants' accounts.

More 401(k) plan participants held equities at year-end 2016 compared with year-end 2007, and many had higher concentrations in equities, particularly younger participants. Younger 401(k) participants were much more likely to hold equities and to hold high concentrations in equities at year-end 2016 compared with year-end 2007. For example, more than three-quarters of 401(k) plan participants in their twenties had more than 80 percent of their account balances invested in equities at year-end 2016, compared with less than half at year-end 2007. The share of these youngest participants holding no equities fell to 7 percent at year-end 2016 from 19 percent at year-end 2007.

Average Asset Allocation of 401(k) Plan Accounts

Percentage of 401(k) plan account balances, 2016



* Equities include equity funds, company stock, and the equity portion of balanced funds.

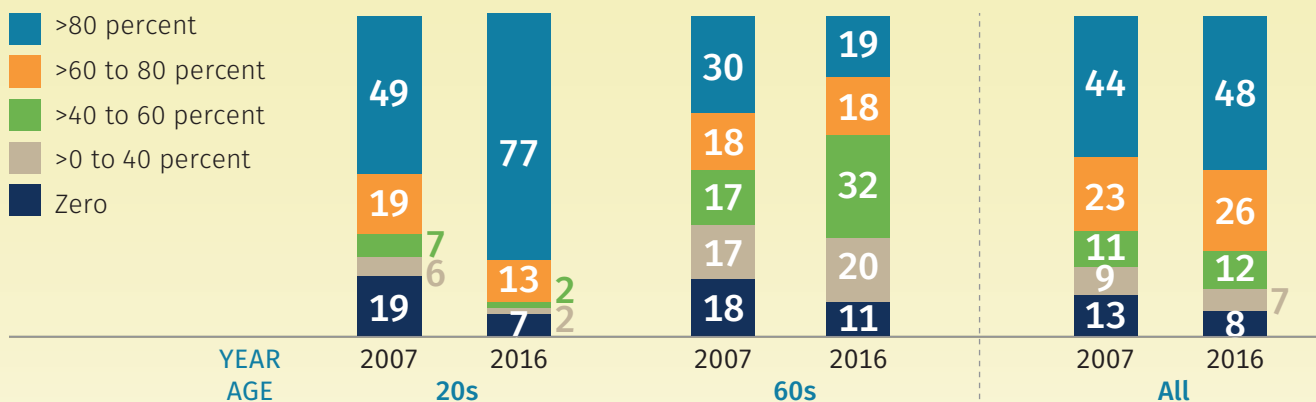
Note: Funds include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated. Percentages are dollar-weighted averages.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see Figure 21 in "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016," *ICI Research Perspective* and *EBRI Issue Brief* (September 2018)

Asset Allocation to Equities Varied Widely Among 401(k) Plan Participants

Percentage of participants by age of participant, year-end

Percentage of 401(k) plan account balance invested in equities



Note: Equities include equity funds, company stock, and the equity portion of balanced funds. Funds include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated. Components may not add to 100 percent because of rounding.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see Figure 31 in "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016," *ICI Research Perspective* and *EBRI Issue Brief* (September 2018)



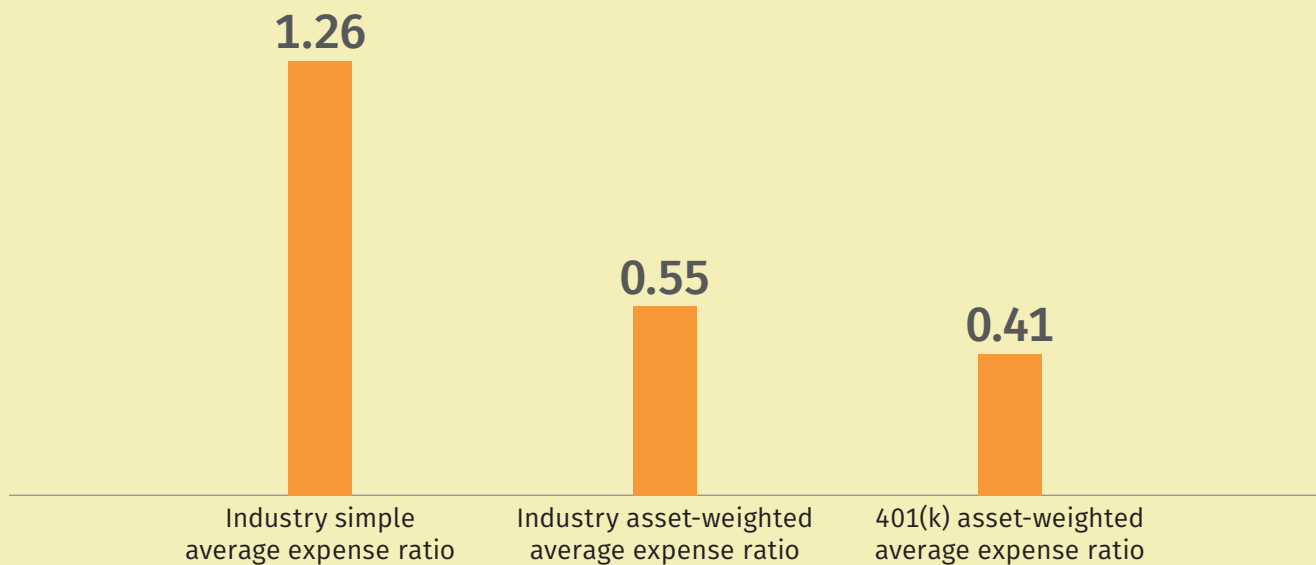
401(k) plan participants have concentrated their assets in lower-cost funds.

Employers offering 401(k) plans typically hire service providers to operate the plans, and these providers charge fees for their services. 401(k) plans have administrative services, participant-focused services, and regulatory and compliance services. Plan costs may be paid by the employer, the plan, or the plan participants, and may be assessed at a plan level or account level as a fixed charge or as a percentage of assets.

More than 60 percent of 401(k) plan assets are invested in mutual funds, mainly equity mutual funds (about 60 percent of 401(k) mutual fund assets or nearly 40 percent of all 401(k) plan assets). 401(k) plan participants investing in mutual funds tend to invest in lower-cost funds. In 2018, the simple average expense ratio for equity mutual funds offered in the United States was 1.26 percent. However, taking into account both the funds offered in 401(k) plans and the distribution of assets in those funds, 401(k) plan participants who invested in equity mutual funds paid less than half that amount, 0.41 percent on average.

401(k) Mutual Fund Investors Tend to Pay Lower-Than-Average Expense Ratios

Total expense ratio for equity mutual funds, percent, 2018



Note: *Equity mutual funds* includes both active and index investment styles; a range of equity fund types (e.g., growth, sector, alternative strategies, value, blend, international, and global); and a variety of arrangements for shareholder services, recordkeeping, or distribution charges (known as 12b-1 fees). ICI uses asset-weighted average expense ratios to measure the expense ratios that mutual fund investors actually incur for investing in mutual funds. The simple average expense ratio, which measures the average expense ratio of all funds offered for sale, can overstate what investors actually paid because it fails to reflect the fact that investors tend to concentrate their holdings in lower-cost funds. The total expense ratio includes fund operating expenses and any 12b-1 fees. Data exclude mutual funds available as investment choices in variable annuities. This material is intended to provide general information on fees incurred by investors through funds and insight into average fees across the marketplace. It is not intended for benchmarking fees and expenses incurred by a particular investor or charged by a particular fund or other investment product.

Sources: Investment Company Institute and Morningstar; see Figure 6 in “The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2018,” *ICI Research Perspective* (July 2019)



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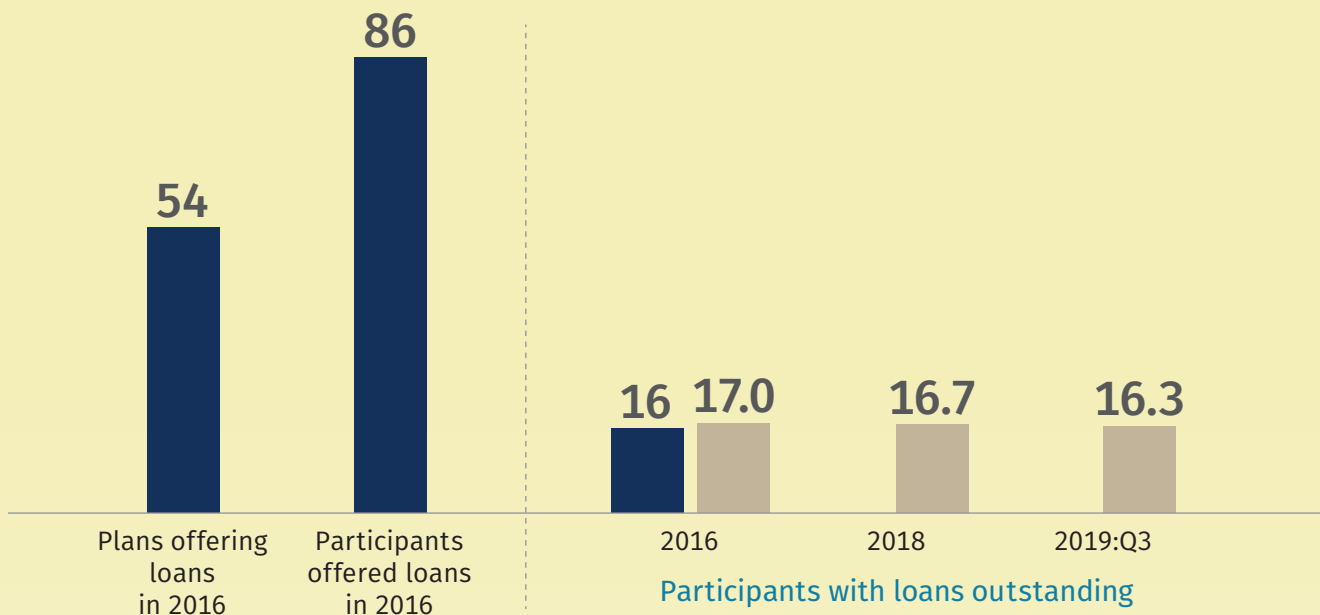
Fewer than one
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plan participants
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Data from the 2016 EBRI/ICI 401(k) database indicate that 54 percent of 401(k) plans offered a plan loan provision to participants, and 86 percent of participants were in plans offering loans. However, relatively few participants made use of this borrowing privilege. Factoring in all 401(k) participants with and without loan access in the database, only 16 percent had loans outstanding at year-end 2016. More recent data from the ICI survey of DC plan recordkeepers similarly finds 16.3 percent of DC plan participants had loans outstanding at the end of September 2019.

Fewer Than One in Five 401(k) Participants Have Loans Outstanding

Percentage of total, end of period

■ EBRI/ICI 401(k) Plan Database
■ ICI Survey of DC Plan Recordkeepers



Sources: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project and the ICI Survey of DC Plan Recordkeepers; see "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016," *ICI Research Perspective* and *EBRI Issue Brief* (September 2018) and "Defined Contribution Plan Participants' Activities, First Three Quarters of 2019," *ICI Research Report* (February 2020)

Additional Reading

- » **401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016**
www.ici.org/pdf/per24-06.pdf
- » **The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2016**
www.ici.org/pdf/19_ppr_dcplan_profile_401k.pdf
- » **The US Retirement Market, Fourth Quarter 2019**
www.ici.org/research/stats/retirement
- » **The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2018**
www.ici.org/pdf/per25-04.pdf
- » **American Views on Defined Contribution Plan Saving, 2019**
www.ici.org/pdf/20_ppr_dc_plan_saving.pdf
- » **Defined Contribution Plan participants' Activities, First Three Quarters of 2019**
www.ici.org/pdf/20_rpt_recsurveyq3.pdf