New Comparison Across Two Generations of 401(k) Savers in Their Twenties Shows Contrast in Asset Allocations

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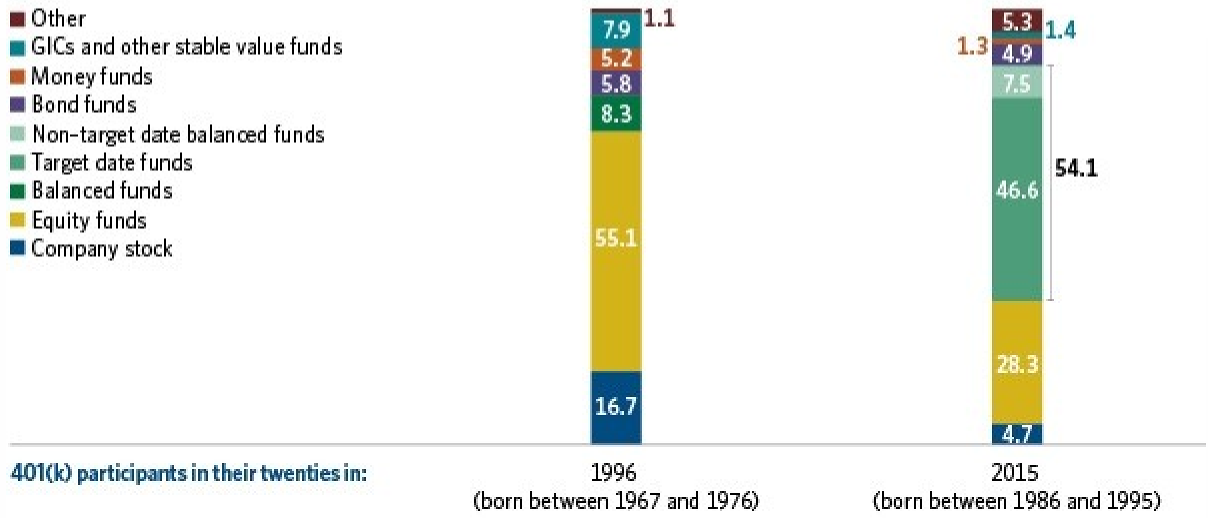
Twenty Years of Data in EBRI/ICI Database Permit Novel Analysis

Washington, DC, August 3, 2017—The asset allocations of 401(k) retirement plan savers in their twenties at the end of 2015 differed significantly from the allocations of 401(k) participants in their twenties in the mid-1990s, according to the Investment Company Institute (ICI) and the Employee Benefit Research Institute (EBRI).

Today, ICI and EBRI released "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2015," the latest update of the original 1999 joint study, which analyzed 1996 data. The new study—drawing on 20 years of data analyzed in the EBRI/ICI series of annual studies on 401(k) participants' activities—permits a cross-generational comparison of 401(k) investors in their twenties, by providing 2015 data that can be compared with the EBRI/ICI 1996 data for the same age group.

Younger Participants Have Lower Allocations to Company Stock, Higher Allocations to Balanced Funds Than Earlier Cohorts

Percentage of account balances, 401(k) participants in their twenties, 1996 and 2015



Note: For additional age groups and category definitions, see Figure 21 in "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2015" and Figure 5 in "401(k) Plan Asset Allocation, Account Balances, and Loan Activity."

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

Asset Allocation Patterns Across Generations Have Distinct Differences

Compared with their counterparts 20 years ago, the twenty-something 401(k) investors of 2015 allocated a similar share of their aggregate assets to equities—including equity funds, company stock, and the equity portion of balanced funds—but changed the mix, becoming less concentrated in equity funds and company stock and more concentrated in balanced funds (which include target date funds). These differences are consistent with both the allocation trends for all 401(k) plan participants and the evolution of plan design shown in EBRI/ICI's two decades of extensive 401(k) research.

"Two decades of EBRI/ICI data provide valuable insights into investor choices and trends," says Sarah Holden, ICI's senior director of retirement and investor research. "The data show that 401(k) plan investors in their twenties—whether the Millennials of 2015 or the Generation Xers of 1996—have invested a large portion of their accounts in equities, but the composition of these equity investments has changed. One factor influencing this trend is that today's younger investors are relying more on the automatic rebalancing feature of target date funds to keep their assets allocated in an age-appropriate way as they progress through their careers."

Equity investments: Over the years, the share of younger 401(k) participants' assets invested in equities has been high. At year-end 2015, 401(k) plan participants in their twenties held 80 percent of their aggregate assets in equities—little changed from the 77 percent share for their 1996 counterparts.

The vehicles that younger savers are using to invest in equities, however, have changed. Savers in their twenties allocated 28 percent of their aggregate assets to equity funds at year-end 2015—about half of the 55 percent share allocated by that age cohort in 1996. Similarly, the share of assets that these younger 401(k) participants have allocated to company stock has fallen, from 17 percent in 1996 to 5 percent at year-end 2015.

Instead, younger 401(k) participants have invested their assets much more heavily in balanced funds, which include target date funds. At year-end 2015, 54 percent of assets for participants in their twenties were invested in balanced funds, much of that (47 percent) in target date funds. In 1996, participants in their twenties allocated only 8 percent of their 401(k) plan assets to balanced funds (target date funds were not reported separately in the database before 2006).

These trends also are mirrored among all age groups in the database. Overall, allocations to company stock decreased from 19 percent in 1996 to 7 percent in 2015, allocations to equity funds decreased from 53 percent in 1996 to 43 percent in 2015, and balanced funds increased from 7 percent of assets in 1996 to 25 percent in 2015.

"The extensive and unique EBRI/ICI database continues to be extremely valuable, permitting in-depth examination of 401(k) plan participants' activities," says Jack VanDerhei, EBRI's director of research. "Today's update reveals that 401(k) participants in their twenties are diversifying their 401(k) investments in what many perceive to be an age-appropriate manner. In 2015, only 7 percent of these young participants had no equity allocation in their 401(k) plans. Moreover, 75 percent of this group had at least 80 percent of their 401(k) balances invested in equities in 2015, due in large part to the increased utilization of target date funds."

Target Date Funds Are Popular Investments in 401(k) Plans

The new EBRI/ICI study confirms that target date funds continued to be popular in 401(k) plans among all ages, and particularly among recently hired participants, at year-end 2015. The EBRI/ICI 401(k) database shows that investments in target date funds increased in 2015 to 20 percent of assets, up from 5 percent at year-end 2006, and that nearly half of the 401(k) participants tracked in the database held these funds. Recently hired participants are even more likely to hold target date funds, and to have allocated a larger portion of their balances to them: at year-end 2015, 60 percent of recently hired participants held target date funds, and these funds accounted for more than one-third of their assets.

Average Account Balances of Consistent Participants in 401(k) Plans Rose Slightly

Participants whose 401(k) accounts were tracked in the database in both 2014 and 2015 saw their average 401(k) plan account balance increase 3.1 percent in 2015, from $83,175 in 2014 to $85,729 in 2015.

It is important to analyze a consistent sample of participants, to avoid attributing changes in the overall sample of 401(k) participants to the experience of actual participants from year to year. For example, an increase in the number of new participants in the database could pull down the overall account balance (because they would initially have small balances), even if no individual participant's balance decreased. In addition, changes to the sample of recordkeepers and changes to the plans that they keep records for could change the composition of participants in the database without reflecting the experience of actual 401(k) participants.

The EBRI/ICI 401(k) Database

This study is based on the EBRI/ICI database of employer-sponsored 401(k) plans, the largest database of its kind, compiled through a collaborative research project undertaken by the two organizations since 1996. At year-end 2015, the EBRI/ICI database included statistical information on 26.1 million 401(k) plan participants in 101,625 employer-sponsored 401(k) plans, which held $1.9 trillion in assets and covered nearly half of all active 401(k) participants.

Full results of the annual EBRI/ICI 401(k) database update are posted here on EBRI's website and here on ICI's website.