
TDF Demographics Revealed

By Editor Test Sun, Jul 18, 2010

The share of all 401(k) plan participants using TDFs increased from 25% in 2007 to 31% in 2008, a new study from the Employee Benefits Research Institute shows.

Participants who are younger, have lower account balances, and have shorter tenure at their current job are the most likely to use target date funds in 401(k) plans, according to a study released today by the Employee Benefit Research Institute (EBRI).

That's because new workers are the most likely to be automatically enrolled in their employer's 401(k) plan and TDFs are often the default option, says the study in the July 2010 *EBRI Notes*, available at www.ebri.org

The study looked at plan participants in 2007 to see who remained in TDFs, moved out of TDFs, or moved into TDFs if they were not already using them. The study uses the data in the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, which in 2007 had 21.8 million participants from 56,232 plans across a spectrum of plan administrators.

The share of all 401(k) plan participants using TDFs increased from 25% in 2007 to 31% in 2008, the study reports. If usage grows, as expected, the design of TDFs (especially the investment allocation "glide path"), as well as participants' understanding of these funds, will become more critical to the future success of 401(k) plans, the study said.

Additional findings include:

- Of those participants having an allocation to TDFs in 2007, 93.9% still had some of their account balance allocated to TDFs in 2008. Nearly 10% of participants who were in a plan in 2007 that offered TDFs but did not use them in 2007 were using them in 2008.
- Of those participants who were in a plan that offered a TDF in 2007 and were still in the EBRI/ICI database in 2008, 36% had at least some of their account balance in TDFs. By 2008, of this same group of participants, 39.8% had at least some of their account balance in TDFs.
- Participants with the lowest salaries were more likely to stay in TDFs and to have begun using them in 2008. However, as salaries increased, there was no significant difference in new TDF use.
- Plan size correlated with the likelihood of new TDF use in 2008, but the probability of continuing use showed very little change across plan sizes. In plans with 1–10 participants, 94.8% of those using TDFs in 2007 still had dollars allocated to them in 2008, compared with 93% of those in plans with more than 10,000 participants.
- The participants with the highest levels of tenure and the highest account balances are more likely to stop using TDFs (or not start in the first place). Of those participants in 2007 with 30 or more years of tenure and having some of their account balance allocated to TDFs, 85.8% continued to have some assets in TDFs in 2008. Of participants in 2007 with two to five years of tenure, 95.5% remained allocated to TDFs in 2008 after having done so in 2007.
- The average age of those participants using TDFs in 2007 was 43.1 and in 2008 it was 42.4,

compared with 45.6 and 46.2, respectively, for those participants not using TDFs. The average age for those using TDFs in both years was 42.9.

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