Myth and Reality about 401(k) Plans
Coming Up Short: The Challenge of 401(k) Plans
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Myth: With the popularity of 401(k) plans, many more workers will have at least some pension when they retire.
Reality: Despite the meteoric rise of 401(k) plans, less than half of workers are covered by any type of pension plan at their current employer – a figure that hasn't changed since 1979.

Myth: People signing up for 401(k)s in their 30s will have a lot built up for retirement.
Reality: While it's true that many workers contribute at relatively young ages, 45 percent cash out when they change jobs, meaning that they end up with significantly less retirement income.

Myth: A large percentage of people are taking full advantage of 401(k)s.
Reality: One in five do not participate, and only about 10 percent contribute the maximum.

Myth: 401(k)s enable employees to save significantly more than traditional pensions.
Reality: In 2004, the typical household head approaching retirement had 401(k)/IRA holdings of only $60,000. This amount would generate less than $400 per month of annuity income in retirement.

Myth: 401(k)s produce higher returns for participants than traditional pensions.
Reality: From 1990 to 2002, traditional plans earned a 7.4 percent average return compared to 6.9 percent for 401(k)-style plans.

Myth: Most employees diversify their 401(k) investments.
Reality: About 20 percent of participants have 80 percent or more of their money in stocks; another 30 percent have all of their money in money market or fixed-income funds.

Myth: Employees in large 401(k) plans have a median of over 20 investment options – up from 14 in 1995, and these added options have been a boon to participants
Reality: Research indicates that proliferation of fund options in 401(k)s leads to worse decisions.

Myth: If individuals make good choices in their 401(k)s during their careers, they don't need to worry about income in retirement.
Reality: Most retiring workers take their 401(k) distribution as a lump sum. Without an annuity, they risk either running out of money before they die or unnecessarily constraining their standard of living by clinging to this nest egg.

Myth: Some people just will refuse to save, and there's nothing you can do.
Reality: In one firm, automatic enrollment increased participation from 49 percent to 86 percent of eligible workers. For workers earning less than $20,000, participation increased from 20 percent before automatic enrollment to 80 percent afterwards.

If you use this material, please cite: Munnell, Alicia H. and Annika Sundén. 2006. "401(k) Plans Are Still Coming Up Short." *Issue in Brief* 46. Chestnut Hill, MA: Center for Retirement Research at Boston College. For further information, please contact Andrew Eschtruth at 617-552-1729 or eschtrut@bc.edu.