

FACTS **from EBRI**

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EBRI Background on Company Stock in Retirement Plans

From the EBRI book, *Fundamentals of Employee Benefit Programs*:

Profit-sharing plans may be invested in a wide variety of vehicles including corporate stocks, bonds, real estate, insurance products, and mutual funds. In general, retirement plans may not hold more than 10 percent of their assets in employer securities. However, an exception exists for profit-sharing plans (many of which have a 401(k) feature), stock bonus plans, thrift plans, and employee stock ownership plans, as well as money purchase plans that were in existence before the enactment of the Employee Retirement Income Security Act (ERISA) in 1974 and invested primarily in employer securities at that time. Therefore, contributions are frequently invested in employer securities among large plan sponsors with publicly traded stock. This practice may give participants an increased interest in the firm's success.

Source: "Fundamentals of Employee Benefit Programs," *Fifth Edition*, Employee Benefit Research Institute, 1997, p. 84.

From the EBRI/ICI 401(k) Database (2000 update):

Asset Allocation of Employee and Employer Contributions

Typically, in a 401(k) plan, an employee contributes a portion of his or her salary to a plan account and determines how the assets in the account are invested, choosing among investment options made available by the plan sponsor (employer). In many plans, the employer also makes a contribution to the participant's account, generally matching a portion of the employee's contribution. Some employers require that the employer contribution be invested in company stock rather than as directed by the participant. Participants in these plans tend to invest a higher percentage of their self-directed balances in company stock than participants in plans without an employer-directed contribution. Company stock represents 33 percent of the participant-directed account balances in plans with employer-directed contributions, compared with 22 percent of account balances in plans offering company stock as an investment option but not requiring that employer contributions be invested in company stock.

Overall exposure to equity securities broadly defined is similar between the two groups, suggesting that higher allocations to company stock are offset by lower shares of assets in equity funds and balanced funds. Participants in plans with employer-directed contributions have 76 percent of their participant-directed balances invested in equity securities (defined as company stock, equity funds, and the equity portion of balanced funds). Similarly, participants in plans without employer-directed contributions have 74 percent of their assets invested in equity

securities. However, the diversification in these equity security investments varies significantly between the two groups of plans.

When total account balances are considered, the overall exposure to equity securities through company stock and pooled investments is significantly higher for participants in plans with employer-directed contributions. For example, investments in company stock, equity funds, and the equity portion of balanced funds represent 82 percent of the total account balances for participants in plans with employer-directed contributions, compared with 74 percent of the total account balances for participants in plans without employer-directed contributions. This higher allocation to equity securities holds across all age groups (see chart, next page; *Source: "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2000," EBRI Issue Brief no. 239, November 2001*).

Note: Source of contribution (employer versus employee) can be matched to fund information for a subset of the data providers in our sample. Of those plans in the 2000 EBRI/ICI database for which the appropriate data are available, less than 0.5 percent require employer contributions to be invested in company stock. However, most of the plans with this feature are large, covering 6 percent of participants and 10 percent of plan assets in the subset.

Average Asset Allocation by Age and Investment Options, 2000
(percentage of account balances)

Investment Options/Age	Equity Funds	Balanced Funds	Bond Funds	Money Funds	Guaranteed Investment Contracts	Company Stock
ALL AGES COMBINED						
Equity, Bond, Money, &/or Balanced Funds	70.4%	10.1%	8.8%	7.5%		
Equity, Bond, Money, &/or Balanced Funds, & GICs	56.7	14.3	3.5	3.5	19.4%	
Equity, Bond, Money, &/or Balanced Funds, & Company Stock	44.6	5.8	7.9	5.8		31.8%
Equity, Bond, Money, &/or Balanced Funds, GICs, & Company Stock	43.4	5.6	2.0	1.7	18.9	27.7
PLANS WITHOUT COMPANY STOCK OR GICs						
20s	77.7	8.0	7.1	5.8		
30s	78.7	8.6	6.4	4.7		
40s	74.1	9.7	7.7	6.1		
50s	67.4	10.8	9.3	8.4		
60s	55.8	12.5	13.8	12.4		
PLANS WITH GICs						
20s	64.5	15.7	3.5	4.0	9.2	
30s	65.1	15.2	3.2	2.9	10.8	
40s	60.5	14.7	3.3	3.2	15.5	
50s	55.1	13.9	3.6	3.6	21.2	
60s	42.4	13.2	3.9	4.4	33.8	
PLANS WITH COMPANY STOCK						
20s	50.9	5.4	4.1	5.4		32.8
30s	50.7	5.3	4.1	4.4		33.5
40s	46.6	5.7	5.4	5.4		34.0
50s	43.4	6.1	8.4	6.3		31.3
60s	37.2	6.4	15.5	7.1		26.1
PLANS WITH COMPANY STOCK AND GICs						
20s	49.0	6.0	2.1	2.0	7.3	31.4
30s	50.5	5.6	1.8	1.5	8.4	31.1
40s	47.0	5.7	1.9	1.6	13.5	29.4
50s	42.4	5.6	2.1	1.8	19.9	27.6
60s	34.1	5.3	2.2	2.1	32.8	22.9

Note: Minor investment options are not shown; therefore, row percentages will not add to 100 percent.

Source: Tabulations From EBRI/ICI Participant-Directed Retirement Plan Data Collection Project, *EBRI Issue Brief* no. 239, November 2001, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2000."

Other Surveys/Sources of Information on Company Stock

- For a thorough background of employer stock issues, including arguments for and against employer stock in retirement plans and citations to other sources of information, see the Nov. 13, 1997 final report of the U.S. Department Of Labor Advisory Council on Employee Welfare And Pension Benefits Plans, *Report of The Working Group on Employer Assets In Erisa Employer-Sponsored Plans*, at this location on the Internet: www.dol.gov/dol/pwba/public/adccoun/acemer.htm
- For an analysis of company stock performance in 219 retirement plans, see the Dec. 11, 2001 issue of *IOMA's DC Plan Investing* (the Institute of Management & Administration). Contact Louis Berney or Janna Gjesdal, (410) 889-2402.
- Another analysis of the issue appeared in the October 2001 issue of *The Journal of Finance*, "Excessive Extrapolation and the Allocation of 401(k) Accounts to Company Stock," by Shlomo Bernartzi, published by the American Finance Association.

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