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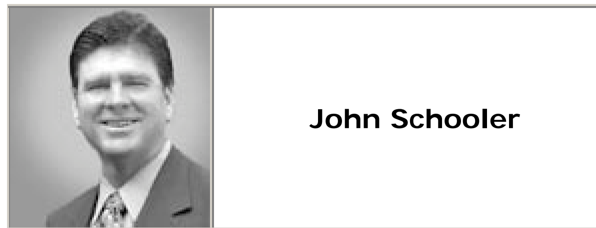
Is that 401(k) really working for your best interest?



Does that 401(k) need more care? A study by professors at New York University's Department of Finance found the types of choices offered are inadequate for 62 percent of 401(k) plans which makes a difference in accumulated wealth of more than 300 percent over a 20-year period. Also, the funds included in the plans are riskier than the general population of funds in the same categories.

Those eagerly awaiting the Roth 401(k) may need more patience. Just 13 percent of the 220 companies surveyed by the firm said they were very likely to offer the new Roth IRA-like retirement plan option in 2006, according to benefits-consulting firm Hewitt Associates.

That's just one of several findings of recent Hewitt studies providing a status report on what has become the primary retirement savings vehicle for most employees.

The news is mixed. Participation rates and average account balances grew to 70 percent and $69,000, respectively, but some counterproductive tendencies were found among savers. The survey results suggested what to do and what not to do for improving retirement outlooks.

Don't neglect your plan. While the quickest way to derail an investment plan may be to trade frequently and chase hot stocks or funds, that's not the problem for most 401(k) investors. Rather, they're taking a normally commendable buy-and-hold mentality to extremes.

Only 17 percent of plan participants made any adjustments to existing investments in 2004, according to Hewitt.

That can be a mistake if, say, stocks have a great year, gaining 25 percent, while bonds drop 10 percent. Suddenly, a 60/40 mix of stocks and bonds shifts to 67/33. If those trends continue for a few years, as they often do, one could end up with almost all the invested money in stocks just when bonds are poised to outperform equities.

Do take advantage of automatic plan options. Workers' hands-off tendencies are apparently stoking employers' worries.

In another Hewitt survey, just 6 percent of companies expressed confidence employees will take accountability for their retirement future. Chief concerns are employees will not sign up for a 401(k), will neglect to increase contributions, and will let the mix of investments get dangerously out of balance.

So, now many employers are changing the way 401(k) plans are structured, requiring a person to opt out, rather than in, for automatic enrollment, contribution hikes, and rebalancing. With other plans, you need to choose these helpful options, for example, signing up for a feature that increases contributions on a regular schedule, perhaps timed so that a percentage of an annual raise gets funneled to the 401(k).

Don't cash out. This is chiefly a problem among younger workers, so if you have adult kids, you may want to remind them of the benefits of long-term, tax-deferred compounding.

According to a Hewitt survey of 200,000 retirement plan participants, almost half had opted to withdraw 401(k) account balances when leaving a job. Among employees ages 20 to 29, two-thirds took the cash, incurring income taxes and a 10-percent IRS early-withdrawal penalty, rather than leaving the savings in place or rolling the money into a new employer's plan or an IRA.

Even a small balance may compound into a sizable sum over several decades. For example, a 25-year-old's $10,000 account, left to earn a 6-percent return for 40 years, would grow to more than $100,000.

A major trend in pension plans offered by companies is a movement from defined benefit plans to defined contribution plans.

The majority of defined contribution plans offered by companies are 401(k) plans. It is more important than ever to make sure your company is offering a plan giving the opportunity to have a comfortable retirement.

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