

# Workers fight uphill battle on 401(k) retirement savings.



By Keith Simmons, USA TODAY

When employers first rolled out 401(k) savings plans, the message was clear: Take control of your own retirement destiny. Invest your money as you see fit. Choose from among many different options.

Now, more than a year after the worst bear market since the Depression, 401(k) accounts are close to being where they were at the peak of the market in 2007 — thanks in large part to workers' own contributions. But the bear market and recession have also realized some of the shortcomings of a 401(k) plan. The markets can slash even a conservative portfolio in half. Companies can stop or reduce their matches. And a plan with a low participation rate can put tough limits on how much you can save.

Already, employers are tinkering with 401(k) plans to keep workers from making bad investment decisions and to make them start saving early. Call it the new paternalism. You can take charge of your own destiny, employers are saying, but we'd like to save you from yourself. While results are far from certain, early indications show that they are working.

A 401(k) plan has an intrinsic problem. It tries to reach a specific goal — the amount you need to retire — by investing in stocks, bonds and money market funds, none of which offer specific returns. In essence, a 401(k) takes the task of a highly paid pension manager and gives it to each worker.

Investors learned about the job's difficulties the hard way from 2007 to 2009, when the Standard & Poor's 500 index fell 57%, the biggest bear market since the Depression. About 60% of all mutual fund assets in retirement plans is invested in U.S. and international stocks, according to the Investment Company Institute, the funds' trade group.

Consider a worker who made \$75,000 a year and invested 7% of his income a year in a 401(k) plan. He invested in a conservative mix of 40% bonds and 60% stocks. If he had started with \$250,000 in September 2007 and retired in February 2009, his retirement nest egg would have dropped to \$168,000. If he held on until March 31 of this year, he'd have \$248,000. Of course, \$13,000 of that increase would have come from his own contributions.

Many real-life investors are closing in on full recovery, thanks to a roaring bull market and their own contributions. "I'm off about 4.5% from September 2008," says Aaron Wendel, 38, a software solution specialist in Wake Forest, N.C. Wendel is doing somewhat better than average: U.S. defined-contribution plans had \$3.6 trillion in assets in 2009, vs. \$4.5 trillion in 2007, according to the ICI.

## The bear market revealed some of the other drawbacks of 401(k) plans:

•**Company stock.** Despite repeated warnings after Enron's collapse, nearly 7% of 401(k) participants who were offered company stock in their 401(k) plan had more than 80% of their accounts concentrated in that company stock, according to the Employee Benefit Research Institute. Many stocks of the nation's largest companies fell sharply during the bear market: General Electric fell 60%, Ford tumbled 79%, and Citigroup plunged 98%.

•**Company match.** About two-thirds of all companies make a matching contribution to their 401(k) plans. Among those that had offered a match, 16% cut or eliminated the match, according to T. Rowe Price, a Baltimore fund company. Of those, about a third have restarted contributions. Among the cutters: Morningstar, the Chicago investment trackers, suspended the company's 401(k) contributions in January 2009 and reinstated a partial match in January 2010. It now pays 50 cents on the dollar, up to 7% of employee contributions; Morningstar had previously matched contributions dollar for dollar.

•**Layoffs.** You can't save for retirement if you don't have a job. And if you lose your job and have an outstanding 401(k) loan, it's even worse. For the nation's 21.5 million unemployed, retirement saving isn't an option. Steven Matejcek, 39,

was saving 10% of his salary and making 14 mortgage payments a year until he was laid off as a financial analyst in Jacksonville. His goal: Retire early without a house payment. "Being unemployed may put a crimp in that," he says, "but, so far, I've been able to maintain the extra mortgage repayments."

•**Contribution rates.** In the broad workforce, 401(k) participation is meager, especially among the young. Low overall participation often limits the amount that older, better-paid workers can save. And many savers don't put in as much as they will need for retirement. T. Rowe Price — a company that sells 401(k) plans, it should be noted — has estimated that workers need to save about 15% of their salaries annually to have enough to retire. The average contribution rate is 7.6%, says the ICI.

T. Rowe figures that retirees will give themselves an annual inflation adjustment, which is one reason the figure is so high. Nevertheless, most experts figure you can only start taking 4% to 6% of your savings each year to avoid running out of money. To get \$50,000 a year, you'd need \$833,000 to \$1.25 million when you retire.

•**Longevity.** People may think they're saving enough, but not if they live longer than they expect. The average 65-year-old male can expect to live to 84½; the average female, 87, according to the American Academy of Actuaries. The average 65-year-old male has a 30% chance of living beyond 90; the average female, 40%.

•**Fees.** Every dollar you pay to your 401(k) administrator is a dollar that doesn't go to retirement. Companies have steadily been passing on administrative fees to workers, and small company plans can sometimes cost workers more than 2% a year.

Despite the pounding that investors have taken the past three years, they remain remarkably fond of their 401(k)s. At the end of 2009, 63% of investors polled by the ICI said they were somewhat confident or very confident that their retirement plan accounts will meet their retirement goals.

"I'm a firm believer in the fact that I at least control my own destiny," Wendel says. "I've had eight jobs in the last 15 years. If I had to rely on a traditional pension, I would not have had the flexibility that I currently enjoy."

## Low participation rates

Like Wendel, few seem nostalgic for a traditional pension. "A pension seems to offer more security, but with the pension cutbacks you see, you have to wonder if even that is secure," says Mike Longwell, a 35-year-old landscape architect from McKees Rocks, Pa.

Nevertheless, the numbers seem to belie investors' confidence in a comfortable retirement. Overall participation rates in 401(k) plans fell from 65% in 2009 to 60% this year, says Jack VanDerhei, EBRI's research director. And 57% of plan participants contribute 5% or less of their pay, according to T. Rowe Price.

The low participation rates have sponsors wondering how to get people to save more for retirement, and how to keep them from getting hurt when they do. A few solutions:

•**"Opt-out" plans.** With most plans, you have to actively enroll. And many potential 401(k) participants don't sign up. An opt-out plan automatically enrolls employees — and, thanks to inertia, they generally stay enrolled. Just 25% of all plans use the auto-enroll feature, says T. Rowe Price. When a company switches to an opt-out plan, 90% of participants stay enrolled after one year.

•**Auto-increase plans.** These plans start you at a relatively low level and bump up your contribution rate each year until you reach the maximum. About 62% of those with the auto-increase feature stick with it over time.

•**Target-date funds.** These funds gear investments to the date an employee wants to retire and changes the mix to more conservative, income-producing investments as the retirement date approaches. While not a perfect solution — many target-date funds lost 40% or more in the bear market — they can prevent people close to retirement from choosing an asset mix that's too risky for them.

Many 401(k) plans are starting to put an employee's contributions into a target-date fund rather than a money market fund if the employee doesn't specify an investment, says Ed Bernard, vice chairman of the board of directors at T. Rowe Price.

Even though traditional pension plans are declining, the new 401(k) plan may start to look a lot more like a pension, with corporations helping out with the management.