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INVESTING IN FUNDS: A MONTHLY ANALYSIS

The Boss Lends a Hand

Encouraged by a new law, more employers are offering programs to help employees avoid investment blunders

By JENNIFER LEVITZ
February 4, 2008; Page R1

Like many people, 24-year-old Erin Rendina didn't know quite what to do when it came to her 401(k) retirement plan, so she contributed -- but did little else. For 14 months after she joined Standard Register Co., a Dayton, Ohio, document-management company, the marketing assistant left her money parked in a "stable value fund," typically a safe, but low-yielding investment option favored by investors nearing retirement.

But last August, Ms. Rendina's 401(k) received an extreme makeover. Suddenly, she found her account spread among a diversified collection of six mutual funds, with 93% of her assets in stocks. Ms. Rendina didn't have a hand in any of this.

OFFERING INVESTMENT GUIDANCE

1

PODCAST:[2] The Journal's Ms. Levitz discusses why more employers are offering investment guidance as part of retirement-savings programs.

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7

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Her employer automatically made the changes for her -- and increased her contribution to the plan -- as part of a new effort to build retirement savings for employees who aren't doing it for themselves. Standard Register is part of a wave of U.S. companies taking an activist role in 401(k)s and retirement planning.

Nearly every big employer offers a 401(k). But it has been up to workers to decide whether to join, how much to deduct from their pay checks, and which investment options to choose. Recent changes in federal law have limited potential liability from employers for advising employees and enrolling them in retirement plans, and companies are moving fast to take a more active role.

Some companies are sending out alerts telling employees they're investing imprudently. Some are making financial advisers available, and offering one-on-one financial counseling for workers over the age of 55.

Such hands-on help used to be considered "almost Big Brotherish," says Clare Bergquist, director of 401(k) strategies at **Charles Schwab** Corp. in San Francisco. Now it's viewed as

"almost protective," she says, adding that employers "across the country are paying more attention to the retirement-planning needs of their employees."

Why do companies do this? Many believe that workers who are financially secure are more loyal and more productive. Some are providing enhanced 401(k) plans as a recruitment tool. Also, companies benefit from scale. As plans grow, companies can generally negotiate lower fees and more features with plan administrators.

The trend has been fueled largely by the Pension Protection Act of 2006, which is prodding U.S. employees to save for their futures as a way to reduce reliance on government subsidies in retirement. The law not only encourages employers to automatically enroll employees in retirement investment plans, but also to set their contribution amounts and help them decide which funds to select. The law limits employees' ability to sue their employers and plan administrators should that advice turn out to be bad. Employees can still opt out of the plans or change their contribution amounts.

Plan administrators, for their part, have been eager to get in on the advisory act, partly to cultivate relationships with workers who may elect to put their money elsewhere when they retire. Vanguard Group Inc., the huge 401(k) administrator and mutual-fund company in Valley Forge, Pa., last year began offering the 55-and-older set in its clients' plans a free 45-minute counseling session and a written financial plan. And since 2004, Vanguard has offered its 401(k) clients managed accounts supervised by Financial Engines Inc., a retirement-plan consulting and portfolio-management firm in Palo Alto, Calif. In this type of arrangement, employees can choose -- or be automatically enrolled in -- a program that will select funds and rebalance allocations in each employee's 401(k), for a fee. In general, such programs involve broadly diversifying a participant's money in a specified asset-allocation plan.

Financial Engines says it has received a surge of calls from holders of these accounts since the recent market volatility began. "Many of these people have not had their money professionally managed or had access to investment advisers before," spokeswoman Asma Emneina wrote in an email. "We let them know that we were monitoring the situation as well as their individual portfolios and reallocating if necessary."

There is plenty of evidence that individuals aren't the best retirement investors when left to their own devices. A 2006 report by Boston College's Center for Retirement Research said a typical worker earning $58,000 annually by retirement, who consistently contributed 6% of pay to his or her 401(k) with an employer match of 3%, should have about $380,000 in the plan at retirement.

But the median household 401(k) balance when the head of the house was aged 55 to 64 was only $60,000 in 2004, according to the report, based on data from the Federal Reserve's Survey of Consumer Finances. A later survey by the Investment Company Institute found that even workers in their 60s, with longer enrollments in these programs, had balances averaging only about $157,000 in 2006, indicating they weren't taking full advantage of their plans.

The Boston College report found that most employees don't diversify their assets or rebalance their accounts over time, and about half cash out when they change jobs. The survey by ICI, a mutual-fund industry group in Washington, D.C., found that about one-third of accounts held no stocks, although most professionals believe stocks to be the best investment for long-term performance.

Bill Wiktor, a 55-year-old software developer for **International Business Machines** Corp., is among the many workers at companies phasing out traditional pension plans who now are forced to take on more responsibility for managing their money. IBM's U.S. pension plan has been closed to new hires since January 2005, and on Jan. 1 of this year, the company suspended contributions for current employees.

Mr. Wiktor, of Rochester, Minn., is now counting more heavily on his IBM 401(k) plan for retirement. Concerned about the risk level of his portfolio given his age, he recently called IBM, which referred him to an adviser.

IBM says it will spend $50 million over the next two years to provide its employees with retirement advice from **Goldman Sachs Group** Inc. or Fidelity Investments, which administers IBM's 401(k) plan. Mr. Wiktor says he didn't detect a "hint" of a sales pitch from his Fidelity adviser, who helped him move his money from stock funds to some non-Fidelity bond funds.

"Nobody likes changes," he says of the vanishing IBM pension plan. "But I was encouraged that IBM is doing this."

About 45% of large U.S. companies now offer 401(k) participants some type of advice, according to the Profit Sharing/401(k) Council of America, a Chicago trade group. The fastest-growing type of advice is associated with managed-account programs, like Financial Engines offers with Vanguard and other plan administrators, such as T. Rowe Price Group Inc., Baltimore.

Financial Engines uses software that considers investors' personal risk preferences, desired retirement age, family situation, assets held outside the 401(k) and other details to decide how to allocate their 401(k) investment among the funds in the plan. The company also rebalances allocations as it sees fit.

At the end of 2007, the program had 225,000 plan participants with more than $16 billion in assets, Financial Engines says. Vanguard says at least 100 of its largest 401(k) clients now offer these managed accounts, and adds that new business is brisk. F. William McNabb, managing director of Vanguard's Institutional Investor Group, says the managed-account program meets the needs of 401 (k) participants by providing them with low-cost portfolio-management that "requires minimal involvement on their part."

But that concerns David Wray, president of the Profit Sharing/401(k) Council. "These are generic solutions by definition," he says. For younger people who don't know about investing, such managed accounts are "a terrific idea," he says. "But as you approach retirement, you need to start making sure the plan really meets your needs, not hypothetical needs." The best practice, he says, is still "having employees actively involved in the process."

Jeff Maggioncalda, chief executive of Financial Engines, says the company engages employees partly by offering advisers who are available by phone, noting that 40% of its clients' employees do use the advisers.

Another concern critics have about these programs is the fees. Chuck Osborne, a fee-only registered investment adviser in Atlanta, says employees should consider whether they are paying for something that they could do themselves. "The funds in the plan have already been selected," he says. "Really what you're getting is someone who manages asset allocation."

Each employee in Vanguard's managed-account program pays an annual fee to Financial Engines of as much as 0.40% of assets on top of the fees for the mutual funds in the participant's portfolio. Vanguard says it also offers a less-expensive, more basic option: target-date mutual funds, which automatically reduce exposure to stocks and reallocate to bonds or cash as a designated retirement date approaches. That eliminates the managed-account fee.

Barbara Fallon-Walsh, who directs Vanguard's defined-contribution business, says that target-date funds are probably sufficient for many employees, and that Vanguard doesn't suggest the costlier managed accounts for employees with accounts below $15,000.

Boris Kulikov

Mr. Osborne, meanwhile, also says employees aren't receiving "truly independent advice" if the adviser is paid by the 401(k) plan. If a 401 (k) plan is filled with lackluster investments, he says, perhaps employees should contribute just enough to get their employers' match, and invest the rest outside the plan. He doubts a company that is paid based on money under management in the plan would advise doing that.

Financial Engines earns fees based on assets in the accounts it manages, but says it doesn't limit its advice to what is in an employee's 401(k). "Participants can get advice across their entire household portfolio, including IRAs and a spouse's retirement accounts," the company says.

Another criticism: Some financial-services companies may have an inherent conflict in offering guidance if their 401(k) plans offer their own products. **ING Groep** NV, the Dutch financial-services company, offers its U.S. employees in its own 401(k) plan online advice tools and additional guidance upon request. But 11 of the 18 choices in the ING 401(k) are ING's proprietary mutual funds. Two of four ING target-date funds offered rank in the bottom third of peers in returns over the past year and a third one ranks in the bottom half, the longest performance record available for the funds, according to Morningstar Inc. Three other ING funds in the plan have middling returns, according to three-year rankings.

ING says it "takes its fiduciary responsibilities very seriously. We perform reviews of the 401(k) investment offerings on an ongoing basis and make changes as appropriate."

Standard Register, meanwhile, offers funds from multiple fund companies in its T. Rowe Price-administered 401(k). Unless they opt out, employees are automatically enrolled in the plan at an annual contribution of 3% of their pretax salaries. Standard Register will automatically increase these contributions by one percentage point a year until the employee is contributing 12%. And unless they opt out, employees are enrolled in a managed account run by Financial Engines. Standard Register says 85% of its 4,000 employees have 401(k) accounts, up from 58% in 2006. And of those enrolled, 60% have the managed account.

Ms. Rendina, for one, likes having someone else take control. During the market's big sell-off in January, she did check her account. "Luckily, I've only taken a small hit to date," she says, adding that "as a result, I've placed my trust in Financial Engines that they will adjust my account allocations as needed."

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