

## CAPITAL GAINS Jane Bryant Quinn

# Help! I'm Investing My 401(k).

**T**HE EVIDENCE IS IN. DO-IT-YOURSELFERS NEED SERIOUS HELP in managing their 401(k)s. Left alone, you don't achieve anywhere close to the market returns available.

The investment firm Charles Schwab recently compared 2006 results for two sets of workers—those who picked their own 401(k) mutual funds and those who followed simple forms of advice that were offered by their plans. The advised accounts did better than the do-it-yourselfers by roughly 3 percentage points a year. That's huge, compounded over 20 or 30 years. What made the difference? Mostly, smarter diversification.

New rules from the U.S. Department of Labor are pushing employers to help you get more from the money you put away. Advice is now offered by a majority of 401(k)s, in at least one of three forms:

■ **Free individual advice, by phone or over the Internet.**

A good choice, but unappreciated. Only 10 to 15 percent of workers use it, says Jamie Cornell, senior vice president of Fidelity Investments, "largely because of inertia and unwillingness to plan for retirement." You also have to fix your investments yourself, which is too much like work.

■ **Target-date retirement funds.** They take investing off your hands. You choose a fund named for the year when you'll be close to 65. For example, if

you're 42, you'd pick a 2030 fund. Then you put all your money there. While you're younger, your investments will be tipped heavily toward stocks. As you age, the fund will sell stocks and add more bonds. The managers adjust your mix of stocks and bonds whenever the market bubbles or slides (that's called "rebalancing"—a valuable investment tool that individuals overlook).

■ **The newest entry: managed accounts.** Professionals tailor a portfolio for you, run the money and regularly rebalance your investments. The mix of stocks and bonds you own will be based on your age, contributions, risk tolerance, eligibility for a pension and assets you hold outside the plan (including assets owned by your spouse). You pay extra for management, but it's worth it when you have

substantial or complex assets and the fee is low. In large plans, costs for smaller accounts range from 0.4 to 1 percent. In midsize and smaller plans, they run up to 1.25 percent (at that price, target funds may be a better deal).

The new federal rules also promote automatic enrollment in 401(k)s for workers who don't bother to sign up. Some 23 percent of employers now auto-enroll new hires, compared with 17 percent a year ago, according to PlanSponsor magazine. Once in, fewer than 8 percent opt out. Typically, the employer diverts 3 percent of the worker's pay into the plan, plus an employer match—a good start, but not enough. A few companies increase the savings rate by 1 percentage point a year, up to 10 percent of pay. Most automatic plans don't cover existing employees, probably because of the cost of the employer match, says Mike Swallow of CBIZ Retirement Plan Services in Cleveland. I'd expect that to change over time.

As for owning a lot of stock in the company you work for, you've all been warned. No matter how much you admire your employer, that's a high-risk bet. One 401(k) adviser, Morningstar Retirement Manager, likes to sell *all* such stock in the accounts it runs. Another firm, Financial Engines, suggests that the stock amount to no more than 5 to 10 percent of your assets. If you insist on holding more than 20 percent, FE won't even take your account. "Too risky," CEO Jeff Maggioncalda says.

Is offering investment help paternalistic? You bet, and high time, too. I predict that 10 years from now, the whole 401(k) system will have become automatic—just as pensions used to be.



**Does your retirement plan offer investing advice? Take it. You'll get better results than if you choose the investments yourself.**