

# Trying to avoid bad news and confusion, many participants leave 401(k) statements unopened

BY KATHLEEN KOSTER



In hopes of avoiding a perceived Pandora's box, 27% of workers admitted to leaving their 401(k) statements unopened, according to a recent report from I-Pension LLC. The Massachusetts-based investment advising firm also finds that of those who did open and read their statements, almost three-fourths (72%) spent less than three minutes doing so.

Further, one-third of 401(k) investors did

not know what percentage of their account was invested in U.S. stocks, foreign stocks or fixed income.

"I think there is a lot of frustration, particularly with the down market," asserts Karl Kunkle, CPA, JD, AIFA, shareholder and co-managing partner of Schneider Downs Wealth Management. "I hear a lot of people aren't even opening their statements because they don't want to see the

bad news. With that said, people don't understand them; people aren't financially sophisticated."

And they freely admit it. Eighty-two percent of employees interviewed in the study reported that they made investment decisions on their own, but the same percentage said they would be likely to request assistance if their employer provided access to investment advice.

To compensate for employee ignorance, Kunkle recommends that employers make supplemental reference avenues accessible to employees, rather than proffer advice themselves and risk compliance infractions. Hiring flat-fee, independent advisers — as opposed to brokers — who accept fiduciary responsibility to handle employee education on 401(k)s, is advised by experts as well.

Michelle D. Rocca, senior vice president of corporate organizational development at Winter, Wyman Companies, a staffing firm headquartered in Waltham, Mass., adds that "from a company standpoint, our fiduciary responsibility is to make sure that the vendor is doing their job and hold them accountable. What are you going to do? How are you going to communicate with the employees if there is an issue? Get ahead of that; be productive rather than reactive."

## Phone, Web or paper?

In addition, Phil Fragasso, the president of I-Pension LLC recommends utilizing a telephonic helpline to answer employees' lingering questions.

"Most employers and 401(k) platforms provide participants with printed and online educational materials and leave it at that," Fragasso explains. "It's akin to teaching people to read simply by giving them access to a library. It hasn't worked in the past, and there is nothing to suggest it will work better in the future."

The telephone is a middle-of-the-road option — more personable than a Web format, yet not as invasive as in a one-on-one setting, which could put off those who are embarrassed, not too mention that it is too expensive for the mass market, Kunkle advocates.

Winter, Wyman educates employees with onsite meetings, e-mails, posters in

## Investing in a down market

As employees often make investing mistakes, experts recommend that employers monitor participants' investments to ensure they are fully diversified. This is especially necessary in a down market in which individuals tend to make reactive and inappropriate decisions.

"People get too aggressive when the market's good and too conservative when the market's bad, resulting in exactly the opposite behavior that they should be engaging in," explains I-Pension CEO Jane Mancini. "We're talking to people who are going to retire in five years who want to be all in stock because they want to make the most they can before they retire. We say 'absolutely not; it's exactly the opposite.'"

By consulting with them and explaining to them why they shouldn't do that, we save them from themselves. She continues: "In this market, people want to go all to cash because they're so fearful. We're telling people, 'Increase your contribution.' You're buying more shares at a cheaper price with the same contribution that you were making before, and if you raise it, you're going to recover much more quickly."

Verizon pioneered a new seminar specifically designed to inform their employees on investment strategies in a volatile market. Principally, they hoped to remove the fear that was crippling their employees' investment choices. They also used the sessions to place the current recession in a larger, historical context to illustrate the market's trajectory, placating employee trepidation and encouraging sound investment analysis.

the kitchen and paycheck stuffers, as well as casually broaching the subject in business meetings.

Verizon Wireless, based in Basking Ridge, N.J., hosts Ayco Money 101 seminars, which focus on 401(k) assets, how to develop an approach to investing and how to align that strategy with the company's offerings. Over the summer, 12,000-plus of the 70,000 employees participated in the seminars, which

## Whether from apathy or anxiety, investor awareness lacking

27%

27% 401(k) investors didn't open their 2008 fourth-quarter statements. Of those who did open and read their statements, 72% spent less than three minutes reading the results.

72%

1/3

One-third of investors had no idea what percentage of their account was invested in U.S. stocks, foreign stocks or fixed income.

64%

64% say their fixed-income holdings represented 0-25% of their portfolio, suggesting an extremely aggressive approach to the market, despite the huge losses of 2008.

55%

55% never rebalanced or changed their investment options in 2008, despite that rebalancing is a key component of any successful investing strategy.

Source: I-Pension LLC

encouraged the company to up the number of presentations. In January and February, they offered approximately 120 sessions (100 of which were Web seminars) and

are two ways employers can protect themselves and employees from common 401(k) selection and advising mistakes, advocates Fragasso.

“If you don’t rebalance, your allocation will get very much out of whack,” Fragasso says.

“Studies have been done that show rebalancing substantially

increases performance and return over time.” He recommends real-locating on a macro level, based on market conditions, rather than making adjustments on a timed basis.

“[Successful investing] requires hands-on, individualized profiling and asset allocation, and a vigilant march toward retirement,” affirms Mancini. —*K.K.*



Jane Mancini

continue to offer a call center and an annual benefit fair during open enrollment.

No matter what mode of communication employers use, it should supplement the traditional statements mailed to the employee’s home. This is one old-fashioned practice employers should stick with, says Kunkle, who deems it pertinent to send statements home where a spouse may be more interested in the report than the employee. Snail mail also provides an opportunity to insert other company programs among the sheets of financial information.

Including a colorful pie- or bar-chart in the statement instead of a table with hard numbers may help in generating employee engagement. On the front page of statements sent home on a quarterly basis by Schneider Downs Wealth Management is a roadmap that shows the initial status of a worker’s 401(k), its gain or loss, and the long-term goal of the investment with as little data as possible. Winter, Wyman uses the front page to teach employees how to read their statements, while Verizon inserts a message informing participants of new investment opportunities.

Historically, statements have been a snapshot of a moment in time, but in current times experts recommend reworking a fixed-time report in favor of a more results-oriented statement.

Detailing how and why assets were allocated and employing a systematic rebalancing program