

TAKING A FRESH LOOK AT YOUR 401(k) ALLOCATIONS

A May survey by Hewitt Associates noted that despite record losses in their 401(k) savings in 2008, individuals stuck with their 401(k) plans. However, more people dealt with their worry about investment conditions by shifting money into more conservative investments. In addition, a significant number of companies either eliminated or cut back significantly on matching employee 401(k) contributions.

Hewitt's annual Universe Benchmarks study, which examines the saving and investment behaviors of more than 2.7 million employees eligible for 401(k) plans, showed that the average 401(k) balance dropped from \$79,600 in 2007 to \$57,200 at the end of 2008. 44 percent of employees lost 30 percent or more of their savings. Only 11 percent of employees were able to break even or see a gain in their 401(k) portfolios. Even still, 74 percent of employees participated in their 401(k) plans in 2008, about the same as in 2007.

However, the Hewitt survey stated that some workers are reacting to the market downfall by moving 401(k) assets into less risky investment funds to try and blunt their losses. In 2008, 19.6 percent of investors made trades in their 401(k) plans versus 18.7 percent in 2007. And the volume of money they transferred in 2008 was much higher. Nine of the 10 most active trading days were the day after a large downturn in the market, or days with an average return of negative 4 percent. Employees' average equity exposure dropped to just 59 percent in 2008—which is an all-time low since Hewitt began tracking it in 1997. Stable-value funds, which are considered less risky investments, experienced an 11 percent increase in asset allocation in 2008.

That's why it might be wise for investors to get a fresh start with 401(k) advice as the economy improves. For existing investors or those who have never begun to save or invest for retirement, it might be time to consult both financial and tax experts such as a CERTIFIED FINANCIAL PLANNER™ professional to make sure both personal and work-related retirement savings complement each other.

Some recommendations to keep in mind:

Save even if your company fails to match: This is not the easiest thing to do, but even if your company cuts back on matching, it's important to try and put additional money into personal retirement investments outside of work. You will still realize the benefit of pre-tax contributions made to your traditional 401(k). And, when you have money automatically taken from your paycheck you are "dollar cost averaging". That means the fixed dollar amount that comes from your paycheck buys more shares when prices are low, and fewer when prices are high. Thus your average cost per share is lower than the average price per share.

Make sure you contribute to a plan: According to 2006 data from the Profit Sharing/401(k) Council of America, more than 22 percent of eligible workers don't participate in available 401(k) plans. For the companies that are still matching, that's like giving up free money.

Continue to save while you wait to join a plan: A significant number of companies don't let you join the 401(k) until you've been working there a year. If that's the case, get in the habit of putting money away for retirement anyway. Start an individual IRA with the funds you would put in the company plan, or set aside money in a savings account so you can supplement your cash flow and put the maximum amount into your 401(k) once you're allowed to join.

Contribute the maximum: Not every employee can afford to contribute the maximum allowed by the plan, but try. In 2009, the maximum 401(k) contribution will be \$16,500, and those 50 and older can make an additional catch-up contribution of \$5,500.

Don't let your company do all the work: More companies are automatically enrolling their workers in their 401(k) plans, but some workers fail to take charge afterward. They don't know how much they're allowed to contribute and they don't discuss or review the types of investments they have in relation to their age or retirement plans. It might make sense to bring an outside investment advisor such as a CFP® professional to review those choices with you.

Avoid poor diversification over time: It's necessary to do a yearly checkup on all your retirement savings – 401(k) s, individual IRAs and other investments fueling your retirement goals to make sure you're on track.

Don't rely on the 401(k) alone: Particularly if matching lags for awhile, 401(k) plans can't be relied upon as a single source of retirement dollars. You must invest outside your company plans.

Don't over-invest in company stock: Most financial planners advise that you put no more than 15 to 20 percent of your whole 401(k) portfolio in company stock.

Don't borrow from the 401(k): The Employee Benefit Research Institute® reports that employees contribute more to plans that let them borrow. Don't be fooled. A 401(k) shouldn't be a house fund or a source of emergency cash. You're taking money out of the account that otherwise would grow tax-deferred, and if you fail to pay back the money, you could face income taxes and penalties. Instead, build an outside emergency fund of three to six months of living expenses you can draw from.

Don't cash out: Some workers think it's a great idea to treat a 401(k) as a windfall for when they quit a job. Don't do it. You'll pay huge penalties and lose your retirement savings momentum.

Don't "lose" your old 401(k) accounts: Maybe you've changed jobs several times and never got around to moving older, smaller 401(k) accounts from past employers to current ones or into a self-directed retirement account. Always get advice about 401(k) funds when you leave an employer.