



401(k) PARTICIPANTS USING PROFESSIONAL INVESTMENT HELP CONTINUE TO DO BETTER THAN THOSE WHO GO IT ALONE

Financial Crisis Widened Performance Gap, Aon Hewitt/Financial Engines Research Shows

PALO ALTO, Calif. September 26, 2011 – According to a new report from Aon Hewitt and Financial Engines, 401(k) participants who use employer-provided investment help outperform those who do not take advantage of help tools. The disparity between workers using help and those who do not has been magnified during volatile markets.

The report, *Help in Defined Contribution Plans: 2006 through 2010*, examined the impact of professional investment help—target-date funds, managed accounts, and online advice (“Help”)—in eight large employer-sponsored defined contribution plans, representing more than 400,000 individual participants with \$25 billion in plan assets. Aon Hewitt and Financial Engines were able to measure how participant behavior affected portfolio risk and returns between January 1, 2006 and December 31, 2010—one of the most volatile periods in the stock market’s history.¹

The study found that workers who used Help between 2006 and 2010 experienced annual returns nearly 3 percent higher (292 basis points, net of fees) than those individuals managing their 401(k)s on their own. Over time, the advantages of using Help can add up. For example, a 45-year old participant using Help and investing \$10,000 could have 70 percent more wealth (\$71,400) at age 65 compared to a similar participant managing their portfolio on their own (\$42,100), according to Aon Hewitt/Financial Engines’ projections.

“This research shows the concrete value of professional retirement Help during a variety of market conditions, and across age groups. Those 401(k) participants who get help with their portfolios outperformed those handling their accounts on their own,” explained Christopher Jones, chief investment officer at Financial Engines. “The Help that employers have made available is having the desired effect of keeping participants in diversified portfolios and avoiding costly mistakes.”

Poor portfolio diversification and inappropriate risk choices contributed to the widening performance gap between participants using professional Help and those not using Help, particularly in 2009. Additionally, some participants also reacted to the market volatility, moving to cash or bonds, and then missed out on the market rally in 2009.

Overall, 38 percent of non-Help participants have risk levels that are excessive, and 18 percent have risk levels that are too low. In contrast, participants using professional help maintained more diversified allocations with appropriate risk levels, and also employed a rebalancing strategy.

“Exacerbated by continued market volatility, workers not using Help are clearly making significant investment mistakes,” explained Jones. “Their inefficient portfolios and skewed risk taking is hurting results, and as the numbers show, the cost is very high.”

More Participants Using Employer-Sponsored Help

Aon Hewitt/Financial Engines’ report shows that the use of employer-sponsored retirement Help is on the rise. Nearly one-third (30 percent) of 401(k) participants used professional Help by the end of 2010, up from a quarter (25 percent) in 2009. Plan design—and specifically the use of automatic enrollment into qualified default investment alternatives (QDIAs)—can have a significant impact on the use of Help and overall plan health, according to the report. One plan sponsor that is highlighted in the report re-enrolled their entire plan into managed accounts and saw more than 50 percent of their participants improve their portfolio risk and diversification.

Different types of Help appeal to different types of participants. According to the report, younger participants with smaller balances were most likely to use target-date funds, while younger participants with larger account balances preferred online advice. Near-retirees are most likely to use managed accounts.

“Given the diverse demographics of employees and their needs, it is clear that multiple forms of Help are needed to reach everyone,” explained Pamela Hess, director of retirement research for Aon Hewitt. “Plan sponsors not offering multiple forms of Help could leave large portions of their employee populations on their own and at much greater risk of making mistakes that can put their retirement at risk.”

Near-Retirees Need Help the Most

While Baby Boomers used professional investment help the most (44 percent of boomers used Help), older participants not using professional Help often made investing mistakes, potentially putting their retirements at risk, according to the report. Non-Help participants of all ages had higher risk levels than those using Help. Participants over age 50 not using Help often have inappropriate risk levels, with some having risk levels well above that of the S&P 500 index (a 100 percent equity index). In addition, near-retirees not using Help showed the highest incidence of panic during the 2008 downturn, cashing out of equities during the decline, which ultimately hurt their investment performance in 2009.

“Due to their proximity to retirement and their lack of time to make up sudden losses, older participants have the most to lose during times of volatility,” explained Hess. “They clearly need additional help not only to protect their ability to retire, but to also generate reliable retirement income once they reach retirement. Professional Help can give participants the encouragement and confidence to stay on the right path.”

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