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Tips for Automatic 401(k) Plan Participants: Let the Professionals Do It For You, But Stay Engaged in Your Retirement Future

PALO ALTO, Calif., August 20, 2008 – Two years ago, President Bush signed the Pension Protection Act into law, ushering in a new era for self-directed retirement plans by encouraging companies to implement the automatic 401(k). In the years following, a growing number of employers have begun automatically enrolling new and existing employees, escalating savings rates over time, and automatically investing employee contributions, unless the employee decides to opt out of the plan. So now employees can kick back and relax when it comes to retirement planning, right? Not so fast.

The automatic 401(k) goes a long way toward helping participants get on track for a more secure retirement but changes the role of employees who are automatically-enrolled. The good news is that with the automatic 401(k), most of the difficult decisions are made for employees, who still need to stay engaged in the planning process to ensure they are on the path to a secure retirement.

"Automatic 401(k) plans will help more Americans get started and get prepared for retirement and early results show that employees stick to 401(k) investing when it's automatic," explained Christopher Jones, chief investment officer of Financial Engines, an investment advisory and management firm based in Palo Alto, Calif. "Most of the automatic decisions are good for employees, but employees still need to stay engaged in the retirement planning process, making sure that the decisions being made for them are in line with their retirement goals."

Financial Engines has developed the following tips for people who find themselves enrolled in automatic 401(k) plans:

1. **Stay in the plan.** If your employer automatically enrolls you in a 401(k) plan, DO NOT opt out of it. The combination of the tax benefits and employer match are a great deal. If you'd prefer to choose your own investments, fine, but chances are good that your 401(k)

plan will serve as your primary source of income in retirement and the sooner you're in the plan, the more time you will have to accumulate assets.

2. **Save at least enough to get the match.** If you are automatically enrolled in a plan, your employer will start you saving at a specific rate. If you can afford to save more, make sure you save at least enough to get the company match. Not doing so is like giving up free money.

3. **Commit today to save more tomorrow.** Many 401(k) plans now include an automatic savings component that increases the savings rate over time. If yours does, this is a great way to set your savings increases on automatic pilot and steadily increase your savings over the years. If your plan doesn't have this feature, make the commitment to save more when you can. You may not be able to afford to contribute more today, but start saving more when you receive your next pay increase.

4. **Make sure the default investment of the plan is appropriate for you.** Pay attention to where your money is automatically invested. The Department of Labor has identified appropriate default investments for 401(k) plans as managed accounts, lifecycle funds and balanced funds. Check that the default investment option takes your personal circumstances into account, is at the appropriate risk level for you and is providing value greater than the fees charged. Some options, such as managed accounts, provide access to an adviser, allowing you to talk with someone about your financial goals and questions.

5. **Keep and eye on company stock.** The temptation to load up on company stock can be strong, but remember that familiarity does not necessarily mean safety. While Enron is the extreme example, employees need to be particularly vigilant to make sure that their 401(k) accounts are well diversified. If you are enrolled in a lifecycle fund, you will need to monitor company stock levels yourself. If your 401(k) account is under professional management in managed accounts, your company stock allocation is likely to be reduced to an appropriate level.

6. **Monitor your progress.** Watching your nest egg grow can be a rewarding experience. Review your progress each quarter to make sure that you are on track to reach your retirement goals, but don't make the mistake of jumping out of the market at the first sign of trouble – invest for the long-term.

“Ten years from now, we’ll look back and wonder why we expected employees to manage retirement investments on their own,” said Jones. “Having professionals manage 401(k) plans automatically for new and existing participants puts employees on the right track. Employees can now focus on monitoring their progress.

About Financial Engines

Financial Engines is a leading provider of independent investment advice and managed accounts to participants in defined contribution plans. Founded by Nobel Prize-winning economist, William F. Sharpe, Financial Engines serves millions of employees at many of America's largest corporations. Patented advice technology and institutional-quality investment methodology allow Financial Engines to offer an array of advisory services to meet the needs of a wide range of investors. For more information, please visit www.financialengines.com.

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