

Study: Boomers Making More 401(k) Investing Mistakes Than Younger Folks

By Janet Novack, Forbes Staff

A new study of how workers have invested their 401(k)s finds that those approaching retirement have been more likely to mismanage their accounts than their younger coworkers. One indication: a small but still significant percentage of baby boomers panicked during the 2008 market crash and dumped their stocks at the bottom, missing out on the market's 2009 rebound.

The study, being released today, was conducted jointly by Aon Hewitt and Financial Engines Inc. and covers the investment returns of 425,000 workers, with \$25 billion in 401(k) assets, at eight unnamed companies from 2006 through 2010. Its main purpose is to quantify the advantage of investment advice for workers—not too surprising since Financial Engines' business is selling such advice and Aon Hewitt, the big benefits consulting and administration arm of insurer Aon Corp., has a 401(k) investment advice subsidiary that uses Financial Engines as a subadvisor.

So let's stipulate that those conducting the study would like to convince workers they need investment advice. That said, the study's results are still pretty disturbing, particularly since baby boomers haven't

got much time to recover from their mistakes and are now facing yet another challenge, with the market edging into bear territory.

While the median annual return was 2.92 percentage points higher (net of all fees) for those getting advice during the five years studied, it was only 2.19 percentage points higher if the stock market rebound year of 2009 is excluded. A large part of that 2009 effect was created by boomers who abandoned stocks at the bottom. "Reverse market timing," is the way Pamela Hess, director of retirement research at Aon Hewitt described it in a phone interview last week. "The near retirement cohort has become very loss adverse. They're gun shy. They get out after the market has digested a lot bad news," echoed Chris Jones, chief investment officer of Financial Engines, who was also on the call. The share of 55 to 60-year-old workers with less than 5% of their money in stocks rose from 9% at the end of 2007 to 14% at the end of 2008. Meanwhile, for those 60 plus, the percentage rose from 13% to 18% and for the 50 to 55 age cohort, it climbed from 7% to 11%.

Not surprisingly, the majority of do-it-yourselfers did nothing as stocks plummeted. "A common response to higher

uncertainty is paralysis. It absolutely works better than panic," noted Jones. Those who remained paralyzed (or cool-headed, depending on your spin) during and after the big 2008 drop, missed out on the benefits of rebalancing—a discipline that forces you to buy more stocks when they're down and sell them when they're up. But they didn't fare nearly as poorly as those who panicked. While the study doesn't cover this year, Jones said that as volatility has spiked and the market has headed down, a small percentage of workers have fled stocks, while the rest seem to have "gotten numb" to the swings, meaning the reaction is smaller each time. "Fewer and fewer people are trading each year. Only about 15% of people made a trade last year," observed Hess.

But it's not just some boomers' awful market timing that worries Jones and Hess. The percentage of investors who have either way too much or too little in equities for their age also increases with worker age, the study found. Indeed, while some older workers fled stocks, even more have too much risk in their portfolios, or at least too much based on what the pros think they should own. Hess and Jones conceded that since 55-year-olds have very different time horizons—some

are looking at retiring at 62 while others are planning on never hanging it up—it may be appropriate that they have different investing profiles. But still, they said, older do-it-yourselfers are taking way too much risk, with one common mistake being holding too much of their own company's stock. "Quite a few employees don't view their own employer's stock as overly risky. When the stock goes down, some see it as a buying opportunity. That the only influx we've seen into stock," marveled Hess. (Not only is putting more than

10% of your money in a single stock considered risky, but holding your own company's stock means you could lose your job and your savings at the same time—just ask the ex-employees of Enron or Lehman Brothers about that one.)

So is there any good news in the study? As Financial Engines and Aon see it, yes. Baby boomers seem to know they need help—44% of those studied were using professional help, compared to 30% of all workers in the study. In the study, using professional help was defined as investing

95% of one's balance in age-based target date retirement funds; consulting an online asset allocation tool; or investing through a professionally managed account. The companies in the study were picked specifically because they made all three types of advice available. That's becoming more common, but is still not the norm; according to another recent Aon Hewitt study of 500 large employers, 81% of employers offer target-date funds, 37% offer online advice and 29% offer managed accounts. **F**

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