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Study: Retirement Savers Make Costly 401(k) Mistakes

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NEW YORK — Despite extensive efforts to educate workers about saving for retirement, many employees are not doing a good job of managing their company-sponsored 401(k) accounts, a new study indicates.

The analysis of nearly 1 million retirement portfolios found that 69 percent have inappropriate risk or diversification of holdings and 36 percent have worrisome concentrations of company stock. In addition, one-third of savers aren't putting enough aside to qualify for the full company matching contribution.

The problems are especially pronounced among young and low-paid workers, according to the study by Financial Engines, a Palo Alto, Calif.-based firm that provides investment advice and managed accounts for defined contribution plans like 401(k)s.

"Unfortunately, our study found that those who need their 401(k) the most look to be benefiting the least," Jeff Maggioncalda, Financial Engines' president and chief executive, said in an interview.

Maggioncalda said that some of the performance problems will dissipate as companies adopt automatic enrollment programs for workers, as authorized by the Pension Protection Act two years ago.

Still, he said, the data should help plan sponsors and other industry professionals "figure out who needs help and how to get it to them."

The study released Monday found that when looking at risk and diversification of investments, 38 percent of the portfolios had very inefficient or very inappropriate investments. That could range from a young participant with a portfolio that's too conservative to an older worker with one that's too aggressive. An additional 31 percent had somewhat inefficient or risk-inappropriate holdings. The remaining 32 percent had good balance in their portfolios.

Financial Engines said that investing mistakes could be costly. It calculated that a well-balanced portfolio of $30,000 would grow to $74,315 over the next 20 years, even if there were no further contributions, while a poorly constructed portfolio would yield $57,857.

Some of the diversification problems stemmed from concentrated holdings of company stock. Experts urge savers to hold no more than 10 percent to 15 percent of their accounts in company stock, pointing out that they could sustain significant losses if the company runs into trouble or goes bankrupt.

The Financial Engines study found that among savers eligible to receive company stock, more than one-third had more than 20 percent of their holdings in the company's shares. Some older workers had more than half their holdings in company stock, and workers with salaries under $25,000 also held a disproportionate amount of company stock, the study found.

On the level of savings, the study found that just 7 percent of 401(k) participants were saving the maximum allowed.

Nearly two-thirds of those earning less than $25,000 a year don't contribute enough to get the full company match, the study found. But 24 percent of those earning $50,000 to $75,000 a year and 12 percent of those earning more than $100,000 a year didn't get the full match, either.