

Make good use of employer-sponsored savings plans

As account balances in employer-sponsored retirement plans have shriveled, calls for reform of the 401(k) and its siblings have increased.

No doubt, some level of carelessness has been displayed by sponsors, administrators and participants in these accounts. However, if people can avoid wide-ranging pitfalls, the 401(k), 403(b), or other employer-sponsored savings plan can be more of a blessing than a curse.



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Of course, the most obvious mistake is failing to participate. The second is not contributing enough to earn the potential free money of a matching contribution from your employer. Those are givens; they appear in every article you've probably ever read about 401(k) plans.

So let's assume that you are participating and earning a match if your employer offers one. Now, let's focus on the other hazards that undermine retirement savings success.

Not having a goal: It used to be that more companies offered traditional defined benefit pension plans where the responsibility for generating lifetime retirement income was accepted by the employer. In these cases, actuaries determine a specific goal for each employee, incorporating their income, age and expected retirement date. This allowed professional investment firms to manage the money in the plan with the retirement income obligations in mind.

Employees overwhelmed by the responsibility of managing their own retirement plan contributions rarely use a similar approach. You can, however, determine the level of savings needed to produce an income stream to replace your salary. When you do, you'll be better

prepared to make investment decisions aligned with that goal.

Not thinking holistically: Many people have investments outside of their employer retirement plan but fail to think about how all their investments fit together. Most common is a lack of coordination between the retirement plan investments of spouses.

You should think about all your retirement-focused investments as pieces of the same pie and understand what they represent as a whole. If you have multiple accounts (employer plans and IRAs) utilize the best options available within each to create a collectively prudent investment strategy. For example, if your spouse's 401(k) has a better bond market choice than your plan, use it instead and weight your contributions to the best investments in your plan. If there are gaps in your 401(k) choices, use an IRA or taxable account to fill them.

Unintended risk: There are many ways that people take on more risk than they are aware of.

Employer stock – Defined benefit pension plans are legally limited to investing no more than 10 percent of assets in employer stock. You should treat your holdings the same way. You already have a lot of financial risk tied to your employer because it pays your salary. Don't also add market risk of your employer's stock to the variables that determine your financial security. Even if you can buy it at a discount, it's risky to overload your portfolio with a big bet in a single company.

Investing too conservatively – Sure, the gains of a stable value or short-term investment option look great relative to all other options over the past several months. But

historically, these investments have had a hard time outpacing inflation.

Not rebalancing – Stocks and bonds advance and decline at a different pace. Over time, if you have a combination of the two that represents your ideal mix, performance will cause the weight of each to stray from your target. You should rebalance back to the target periodically.

Chasing performance – Following the recent best performers will almost surely cause you to buy high and sell low, the opposite of prudent investing.

Leaving your money in a previous employer's plan – By executing a rollover to an IRA, you gain freedom of investment selection, better ability to control costs and more flexibility in your choice of beneficiaries. If you've changed jobs more than once, you also have the opportunity to consolidate accounts into a single IRA that will be easier to manage.

Saving for retirement can be a daunting obligation. If you don't feel like you are well-informed by your employer or retirement plan provider, request more clear information or consult resources that can help you give your nest egg the attention it deserves

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