

WEDNESDAY FOCUS YOUR MONEY

Congress giving 401(k) practices a fresh round of scrutiny

It seems 401(k) plans are being hauled out by Congress for a public stoning.

It's the catharsis many Americans need after losing an estimated \$600 billion in 401(k) plans in the worst bear market since the Depression.

The huge drop in the stock market has focused congressional attention on practices within some 401(k) plans—practices that can cause people to pay excessive fees and that subject workers to investment choices that are not always in their best interest.

The market downturn has highlighted the fact that many Americans are not educated adequately about investment decisions and fumble mutual fund choices.

For example, as the market was beginning its decline in 2007, 1 in 4 Americans ages 55 to 65 had 90 percent or more

in half. Financial advisers suggest a more conservative approach for preretirees: about 50 to 60 percent of 401(k)'s in stocks.

Meanwhile, target-date mutual funds failed investors badly too. Such funds employ professionals to choose investments. Yet the target-date funds designed for people planning to retire next year had about 57 percent of their money, on average, in stocks.

That left near-retirees with losses averaging 26 percent at a time when they will have trouble rebuilding savings.

Brian Graff, executive director of the [American Society of Pension Professionals and Actuaries](#), said that lawmakers and senior Securities and Exchange Commission staff were "stunned" by the heavy stock exposure target-date funds gave people on the verge of retirement.

But Congress played a major role in moving investors into such funds. Worried that Americans were investing too conservatively, Congress gave employers the go-ahead to move employee 401(k) money into target-date funds a couple of years ago, unless employees wanted a different mix.

"We need a makeover" for the 401(k) system, Graff told a Midwest conference of employers and 401(k) advisers Monday. "What has happened has given us a black mark."

Americans are so discouraged, he said, that a survey showed 58 percent think of their 401(k) plans as "gambling." Only 13 percent of those near retirement are confident they will be financially secure in retirement—the lowest level in the 19

years the Employee Benefit Research Institute has surveyed confidence.

With angst growing, some lawmakers have resurrected 401(k) proposals that have been discussed, but failed to advance, in recent years. Among the measures championed by Rep. George Miller (D-Calif.), chairman of the House and Labor Committee: a requirement that employers report clearly to 401(k) participants what they are spending on fees. The fees are usually hidden and can be so excessive in relatively small 401(k) plans that they eat up a large portion of employees' savings.

In addition, the Senate Special Committee on Aging has been conducting hearings on target-date funds. It's too early to say what may happen, but observers think lawmakers could require changes in what goes into those funds and whether they're appropriate for automatic enrollment. Others fear more a more dramatic overhaul of the 401(k) system.

Target-date funds have been criticized because fund companies sometimes dump some of their worst-performing funds into them, a way to prop up sales in the funds.

Also, critics say target-date funds have an incentive to overexpose participants to stocks because fund companies make more money in stock than bond funds.

"There's a conflict of interest," Graff said. "They are incentivized to put their dogs into the funds or to put more equities in to produce more revenue for the fund companies."

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On money

of their 401(k) money invested in stock mutual funds, according to research by Jack VanDerhei, research director at the Employee Benefit Research Institute.

That's dangerous for people near retirement—and probably cut their savings almost

