



## **PARTICIPANTS USING 401(k) HELP OFFERED THROUGH THEIR EMPLOYER HAVE HIGHER RETURNS**

*Joint Research by Hewitt Associates and Financial Engines of More than 400,000 Retirement Plan Participants Shows Those Using Help Are Better Off*

**LINCOLNSHIRE, Ill. and PALO ALTO, Calif., January 25, 2010** – 401(k) plan participants using professional investment help provided by their employer—such as target date funds, managed accounts and online advice—experience better returns on their retirement investments than those who do not, according to a joint study from Hewitt Associates and Financial Engines titled *Help in Defined Contribution Plans: Is it Working and for Whom?* The study also found that a participant's age is the key predictor of the type of help used, with younger, less-tenured participants more likely to use target date funds and older, more-tenured participants more likely to use managed accounts.

Hewitt Associates, a global human resources consulting and outsourcing company, and Financial Engines, a leading independent investment advisor providing retirement help, examined the behavior and portfolio risks of more than 400,000 401(k) plan participants to determine whether participants using professional investment help experienced better financial results than those who did not.

The study's findings revealed that, on average, the median annual return for participants using investment help was almost 2 percent (186 basis points, net of fees) higher than those who did not. For example, a 45-year old who uses professional investment help will have saved 47 percent more by age 65 than if he or she had not used help, assuming the almost 2 percent higher median annual return is maintained over the 20-year period. The difference becomes even more dramatic if the initial investment is made at a younger age. A 25-year-old who uses professional investment help when investing \$10,000 could have \$105,800 by age 65 compared to just \$52,100 had he or she not used help—a 103 percent increase, again assuming the higher median annual return is maintained over the entire period.

Past Hewitt research<sup>1</sup> shows that investment help is becoming increasingly standard with 401(k) plans. Half (50 percent) of companies now offer their employees some type of 401(k) investment advice compared to just 17 percent a decade ago.

"Employers offer workers investment help like target date funds, online advice and managed accounts because they help participants make smart investment decisions with minimal effort or expertise," said Pam Hess, director of retirement research at Hewitt. "Our new research shows that these features can really pay off for participants—simply taking advantage of them can equate to thousands of dollars in additional retirement savings over time."

### **Link Between Participant Age and Type of Help Selected**

In general, the Hewitt-Financial Engines analysis found that target date funds appeal mostly to younger participants with shorter tenures and lower account balances, salary and contribution rates. The average participant enrolled in a target date fund was 38 years old with 3.8 years of tenure and a plan balance of \$6,295. Online investment advice users also tend to be younger, but have significantly higher account balances, salaries, and contribution rates, compared to target date fund users. The average age of a participant using online investment advice was 41 years old with 9.4 years of tenure and a plan balance of \$69,057. Managed account users tend to be older (average age 49 years old), with longer tenures and an average balance of \$45,816.

"These findings trended the way we expected," added Hess. "Younger workers are more likely to use target date funds, since their financial needs generally are simpler and similar to others in their age group. On the other hand, enrollment in managed accounts increases as workers near retirement because these employees have more complex and individualized needs. It's important for employers to offer a wide range of professional investment help to meet the retirement needs of their diverse workforce."

### **Participants Not Using Help Have Highest Portfolio Risk**

According to the study, participants who use professional investment help follow a more appropriate glide path, where risk starts out higher early in their careers and "glides" downward as they approach retirement<sup>2</sup>. Also, their portfolio allocations were more efficiently invested. In contrast, those not using help have higher risk levels, on average, and a minimal reduction in risk as they approach retirement. This was most apparent in near-retirees' and retirees' portfolio performance. The study found that participants 55 and older not using help had risk levels that actually increased with age, indicating that they are taking on more risk as they approach retirement.

"When left to their own devices participants are making mistakes that harm their prospects for a secure retirement," says Christopher Jones, Chief Investment Officer, Financial Engines. "Participants can't be expected to go it alone. For the 401(k) to succeed as an adequate retirement savings vehicle, different kinds of help need to be available to every participant in the plan."

### **About the *Help in Defined Contribution Plans Study***

*Help in Defined Contribution Plans: Is it Working and for Whom?* is the result of a joint collaboration between Hewitt Associates and Financial Engines. The two companies contributed complementary participant data, financial technology, and portfolio analytics. The report is based on a dataset of seven plan sponsors representing more than 400,000 individual participants and more than \$20 billion in plan assets. This report looked at participant behavior and portfolio risks and returns during the volatile period

between January 1, 2006 and December 31, 2008 for a large sample of the participants<sup>3</sup>.

Copies of the report can be downloaded at no charge at [www.hewitt.com](http://www.hewitt.com) and [www.financialengines.com](http://www.financialengines.com).

### **About Hewitt Associates**

Hewitt Associates (NYSE: HEW) provides leading organizations around the world with expert human resources consulting and outsourcing solutions to help them anticipate and solve their most complex benefits, talent, and related financial challenges. Hewitt works with companies to design, implement, communicate, and administer a wide range of human resources, retirement, investment management, health care, compensation, and talent management strategies. With a history of exceptional client service since 1940, Hewitt has offices in more than 30 countries and employs approximately 23,000 associates who are helping make the world a better place to work. For more information, please visit [www.hewitt.com](http://www.hewitt.com).

### **About Financial Engines**

Financial Engines is a leading independent investment advisor committed to providing everyone the trusted retirement help they deserve. The company helps investors with their total retirement picture by offering personalized retirement plans for saving, investment, and retirement income. To meet the needs of different investors, Financial Engines offers both online advice and professional management. Cofounded in 1996 by Nobel Prize-winning economist Bill Sharpe, Financial Engines works with America's leading employers and retirement plan providers to make retirement help available to millions of American workers. For more information, please visit [www.financialengines.com](http://www.financialengines.com).

<sup>1</sup>2009 Trends and Experience in 401(k) Plans Survey.

<sup>2</sup>All participants are assumed to retire at age 65.

<sup>3</sup>This report is provided for informational and evaluative purposes only, and does not constitute and should not be construed as legal, investment, tax advice, testimonial, or as an offer of advisory services or any specific recommendation to buy, sell, or hold any investment. Past performance is no guarantee of future results.

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