



The ABCs of 401(k)s: Get the most out of your retirement plan

Minneapolis / St. Paul Business Journal - February 24, 2006 by [Richard Brown and Michael Bilotta](#)

With the future of some pensions and Social Security in jeopardy, many employees at Minnesota companies are realizing they lack the information necessary to make smart decisions about their retirement funds. Other than their home, a 401(k) plan is many people's largest single asset. And simply going along with the retirement plan their company set up may mean a tough existence when they do finally hang up their briefcase for the last time.

What can be done to increase the flow of beneficial information and advice? Businesses need to do much more to help their employees get the most out of their retirement plans. Human-resources departments can spend months researching and choosing a health insurance plan, but often they invest only a fraction of the time or effort in choosing a retirement plan. Sometimes, an overworked HR department chooses a plan to offer to employees because it appears easy to administer, but is it really the right plan for employees?

Employees can be just as confused. And rather than asking questions about their company's plan, many simply accept it as is, no matter if it's completely wrong for their current situation or future plans. Because of a lack of information, they're unable to make good decisions in regard to which investments to fund, and how much.

Congress is mulling two bills designed to improve the quality of unbiased expert advice that employees receive, which would make it easier and less stressful for them to make intelligent investment decisions. But in the meantime, what can employees do to gather the best -- and the right -- information? Here are six tips.

- Ask tough questions. Compound interest is a powerful force, and poor decisions can cost you literally hundreds of thousands of dollars in potential payout. Ask yourself some critical -- and even uncomfortable -- questions. How much do I need to live comfortably in retirement? Is my company's 401(k) plan helping me get there? Do I need to supplement my corporate plan with other investments? If so, what types of investments?
- Scrutinize the advice you're getting. Keep in mind who's providing the information you receive. Many corporate 401(k) plans are administered by commission-earning brokers, who may recommend investment opportunities offered by their companies rather than the best options for your particular situation. Learn to recognize conflicts of interest. What might be best for your broker may not be best for you. If you can, get advice from an independent financial adviser who understands the importance of a consolidated financial plan and can

legally offer you planning advice.

- Do the math. The sad truth is that many people are underfunding their retirement plans. They're also not maximizing the opportunities within them. Take care that you haven't been promised unrealistic returns by doing some homework. Run the numbers yourself based on real-life examples and rates of return, not simply the numbers your broker provides. Don't chase last year's returns.
- Explore every option. There's a myriad of investment options out there, but many 401(k) plans offer employees a cookie-cutter approach, with a limited number of opportunities. Some employees are content with the plan their company offers because they don't take the time to explore the potential universe of investment opportunities. Meet with your HR director or third-party administrator to go over your plan and make sure you're receiving -- and taking advantage of -- the best available options.
- Roll over your 401(k). Another very common mistake people make is to retire or leave an employer and more or less forget about their company retirement plan. Don't leave your 401(k) behind -- and unattended to. Instead, roll it over to someone who can offer updated options designed to fit your new lifestyle, plans and needs.
- Act. Once you feel comfortable with the level and quality of information you've gleaned, put it to work. Take a good hard look at your budget. If at all possible, try to top out your 401(k). One of the most common mistakes people make is chasing last year's returns. They also do not marry up their 401(k) investment portfolio to their overall investment portfolio. Think of it as a puzzle: All the pieces have to fit together and work together in order for you to have the best chance of achieving your overall goals.

Richard Brown is CEO and Michael Bilotta is a vice president and planner with Bloomington-based JNBA Financial Advisors.

All contents of this site © American City Business Journals Inc. All rights reserved.