

Q&A: Put 401(k)s on a Balanced Diet

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The collapse of stock prices left 401(k) plan participants—particularly those nearing retirement—shocked by the shrinkage of their retirement nest eggs. Some of the loss could have been avoided, says Wall Street expert Saul Nirenberg, if participants had determined their tolerance for risk early on and had kept their accounts properly balanced for the purpose of income in retirement. “Most important,” he says, “their portfolios would be in far better shape to recover when the financial markets improve.”

Nirenberg was a broker, sales manager and partner at a major brokerage house from 1966 to 1990. Since then, he has served as an expert witness in more than 600 arbitration and court cases, “representing customers who were suing brokerage houses for improper, self-serving advice that pauperized many of them.” He also serves as an arbitrator and mediator for the New York Stock Exchange. He has no affiliation with any brokerage firm or organization advising individuals on investments.

What are the most serious errors that 401(k) participants make?

Not deciding how much risk they are willing and able to take. Instead of a 401(k) being an important financial foundation for retirement, it becomes a hit-or-miss proposition that the investor never understands—or never sees a need to understand. An investor who knows his risk tolerance can evaluate financial recommendations, and the broker or advisor can then construct a portfolio aligned with the stated risk tolerance.

Other mistakes include improper or inadequate balancing of investments, failing to observe important investment criteria, and making less than the maximum allowable contributions to 401(k) accounts.

What are the most important aspects of balancing and rebalancing portfolios?

The primary factors are the participant's age, years until retirement, annual contributions, other savings and expected need to withdraw funds after retirement.

Balancing and rebalancing come into play at least every five years. As you get closer to retirement, you should have less money in stocks and more in bonds. For instance, until age 30 you should have 30 percent of your portfolio in bonds; by 35, it should be 35 percent; by 60, it should be 60 percent. Naturally, special circumstances change those figures.

What criteria should be observed for 401(k) investing?

A 401(k) is set up to fund retirement, so it should not be invested speculatively. Investments should only be in companies that have been growing for at least five years, preferably 10; have made money in at least seven of the past 10 years; pay dividends; have become important in their field; and have a promising

outlook, both short- and long-term. Such information is available from competent advisors and brokers.

Also: no concentration in any one industry or stock, including company stock.

What is HR's role in the process?

HR's role is to be a source of reliable information and education. HR should not implement rebalancing or take on responsibility for the performance of employees' portfolios.

Make it clear to employees that they alone are responsible for the results, and help them understand what steps they can and should be taking.

How can HR help employees with investing principles?

By providing information through vetted speakers and internal publications, and alerting employees to potential scams. Even if the intended speakers are from reputable firms, HR should first evaluate their materials and scripted remarks before approving their appearance.

Also, HR should have its own person introduce the speaker and remain in the room. This can help ensure the meetings do not become sales pitches.

The interviewer is associate editor of HR Magazine.

Notes of Caution

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By and large, says Wall Street veteran Saul Nirenberg, financial firms' employees, stock brokers or advisers, are honest and hard-working, "but a small and possibly growing percentage are interested only in themselves. They are the ones most aggressively pursuing inexperienced investors," including employees a few years away from retirement.

Human resource professionals who oversee retirement benefits such as 401(k) plans, Nirenberg says, should caution employees about excessive trading in their accounts and about investment advisors who lure customers in by offering seminars with free lunches.

Excessive trading, as Nirenberg defines it, is when in any two consecutive months more than 30 percent of the value of the account is sold and reinvested. This, he says, is a warning sign that the account is being managed poorly.

Most free lunch seminars, he says, are "considered by professionals to be sales pitches that are not appropriate."