

401(k) Plans Add More Personalized Advice

Few retirement savers take advantage of the professional advice offered in their 401(k) plans. Advice providers are trying to change that.

By Kelly Greene

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Investment help is available for the taking in many 401(k) retirement-savings plans, yet few employees actually take it.

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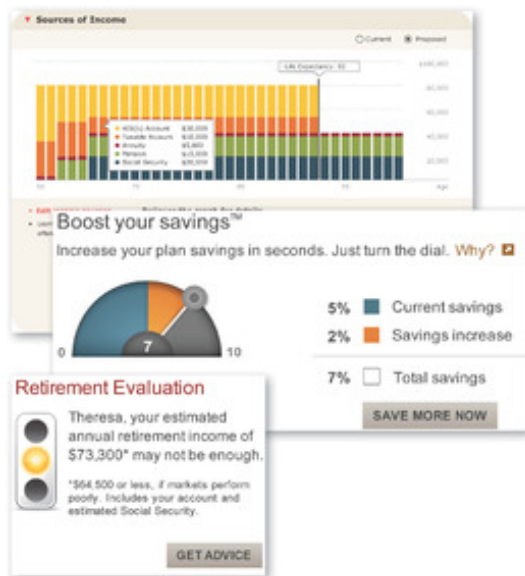
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In an effort to change that and win more business, big advice providers such as Morningstar Inc. and Financial Engines Inc. are trying a new tack: They are adding more personalized, low-cost advice, much of it aimed at investors nearing retirement.

Morningstar, for instance, now offers guidance on how to create an income stream in retirement, a task many near-retirees fear. Financial Engines, meanwhile, has expanded into managing individual retirement accounts since many workers roll their savings into IRAs once they stop working.

While it can be tough persuading workers to pay closer attention to their workplace savings plans, research suggests a little hand-holding would do

some of them a lot of good. Indeed, studies have shown that retirement savers who embrace professional help typically end up saving more.



Morningstar Inc. (top image) and Vanguard Group (bottom two) are among the companies offering expanded advice, including online tools, for 401(k) investors.

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A few years ago, a survey by Charles Schwab Corp. found that 70% of 401(k) account holders doubled their savings rate—to an average of 10% of their pay annually—after getting investment help. Even something as simple as using an online calculator reduces the probability that a lower-income investor will run out of money in retirement by 14 to 18 percentage points, a survey this year by the nonprofit Employee Benefit Research Institute

found.

Yet the nonprofit Plan Sponsor Council of America found in its own survey that fewer than one in five workers with access to investment advice via a workplace savings plan was tapping it in 2011.

"The underlying reason for those who didn't take it was without a doubt that they didn't want to pay the cost," says Jack VanDerhei, research director of the Employee Benefit Research Institute.

A Difficult Task

Morningstar is betting it can win more business by focusing on workers who will soon face the mind-blowing task of piecing together a paycheck from fragmented retirement accounts, Social Security payments, annuities, pensions and other savings.

In May, the company revamped its Retirement Manager service, which provides advice and account management to more than 800,000 participants in defined-contribution plans, including a piece called Income Secure. Income Secure now looks at all of the worker's holdings in taxable and tax-deferred accounts, along with Social Security retirement benefits, and outlines how much the worker should pull from each account each year, keeping in mind taxes and the Internal Revenue Service's distribution requirements for tax-deferred accounts.

"The goal is getting the best after-tax return," says David Blanchett, Morningstar's head of retirement research. "It's very personalized."

As part of the overhaul, Morningstar also switched to what it calls a "liability-driven" investment method, meaning it considers investors near or in retirement as having different risks—mainly keeping up with expenses—than younger workers who are still earning a salary. The method also places a higher importance on the risk of inflation, says Jim Smith, Morningstar's vice president for client services.

Within 401(k)s, companies such as Morningstar typically run managed accounts using a computer program that factors in the saver's age, pay, expected retirement date and contributions. Rebalancing and adjustments are done automatically. The cost of Morningstar's managed accounts ranges from 0.2% to 0.9% of assets annually, though some IRA administrators and employers offer it at no cost to savers.

Tools of Engagement

Financial Engines and GuidedChoice Inc., another provider of investment advice, also have added IRA investment advice and account management with the aim of keeping as customers the people who roll their 401(k) balances into IRAs upon retirement. Financial Engines' fees for managing IRA accounts range from 0.45% to 0.75% of assets annually, slightly more than it charges for 401(k)s.

The 401(k)-plan administrators, meanwhile, also are adding services for plan sponsors who are seeking to encourage their workers to pay closer attention to workplace savings accounts.

Last year, Schwab automatically enrolled participants in its low-cost 401(k) product, which features a menu of index mutual funds and costs an average 0.15% annually, in an investment-advisory service provided by GuidedChoice. Though the advice component adds a 0.45% fee, almost 90% of participants in Schwab's product opted to keep it.

Vanguard Group Inc. is trying to get 401(k) investors to save more with tools like a speedometer-like "Boost your savings" dial that shows the person's savings rate and suggests a range of increases. Plan participants can turn the dial to the number they want, and then submit a request to boost their savings rate. From December through May, those who used the dial boosted their savings rate by an average of two percentage points, Vanguard says.

Vanguard also added "retirement-analysis alerts" to prod savers to use one of the two investment-advice services offered in their 401(k) plans. From January through May, 12% of those who responded tried Vanguard's Personal Online Advisor service, which provides a personalized forecast and fund recommendations through Financial Engines. And 6% enrolled in Vanguard's managed-accounts program.

Elsewhere, Guardian Retirement Solutions, a unit of Guardian Life Insurance Co. of America, created a new website in June, 401k.guardianlife.com, with retirement-planning tutorials, calculators and videos. The site also has a questionnaire that helps account holders decide whether they are "do-it-for-me" or "do-it-myself" investors—and points the former toward target-date funds or managed accounts.

And Pensionmark Retirement Group, which works with 750 corporate retirement plans, in May rolled out a Financial Wellness program designed to help workers in those plans make more informed decisions about their future finances. A Personal Financial Portal gives them one place to track spending, create budgets and access workshops to assess whether they're on track to meet their financial goals.

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