

Take advantage of your 401k

More workers are putting money into their 401k's, but nearly half don't know what their best investment options are, and one-third stress out about it. This is according to a study released this week by Charles Schwab.

The study finds that 57% of 401k participants wish there was an easier way to figure out how to choose the right investments. "The big risk is that they end up with a nest egg that's far short of where it needs to be to fund their retirement," says Jack VanDerhei, a research director at the Employee Benefit Research Institute. That's troubling, considering that 61% of those surveyed by Schwab report that their 401k is their only or their largest source of retirement savings.

The 401k account is one of the best ways for employees to save for retirement. You can't beat the tax breaks, and if your company offers employee matching, that's free money. This year, workers can stash up to \$17,500 in the accounts, and those over age 50 can put away an additional \$5,500.

Employees are largely responsible for determining how to invest that money. That's where the potential problems lie, not having an asset allocation appropriate for their age, and putting too much of their 401k into company stock.

Employers are also aware that their workers are overwhelmed by their 401k choices. A Towers Watson study released last year found that only one in five large companies believe their employees generally make informed decisions about retirement savings, and only 26% believe their workers have realistic expectations about what defined contribution plans can provide.

"We all know that there's a problem [with employee confusion about 401ks] but fixing the problem is an issue," says Robyn Credico, a senior retirement consultant at Towers Watson. "Most employers feel that they're giving people the tools, but the employees aren't using them."

Two-thirds of companies offer some sort of investment advice along with their 401k plan, according to a study by the Society for Human Resource Management. The organization found that 55% of employers offered online advice, 44% provided one-on-one advice, and 41% offered group sessions. Another 39% of companies gave advice specifically about retirement.

If your employer offers such a benefit, take advantage of it. The Schwab survey found that investment confidence nearly doubles, when workers have the help of a financial professional.

VanDerhei recommends that investors overwhelmed by choices and unsure of how to appropriately invest should consider putting their money into a target-date fund (offered by about two-thirds of plans), which corresponds to the year in which an investor plans to retire and shifts assets from stocks to bonds as that year approaches

If you're selecting funds on your own, look for funds in each category such as growth, growth and income, balanced, and bonds. Use the investor profile tool offered by your benefit provider to get a suggested asset allocation based on your risk profile and goals.

When it comes to meeting your retirement goals, the amount you save is even more important than how you invest it.

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