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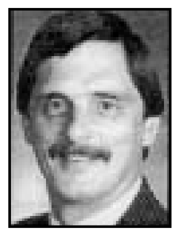
Retirement plans: what to tell staff



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Entrepreneur Tips

If you are the person responsible for your company's self-directed retirement plan — 401(k) or 403(b)— you might wonder what to tell employees right now.

The major stock indices have dropped for more than two years, and plan account balances have sunk with them.

You can't tell employees when the stock market will rebound, but you can offer these five key points to guide their actions:

■First, remind employees that we tend to view the recent past as the way the world will always be.

Remember late 1999 when stock prices were going up like a rocket and it seemed like the trend would continue forever? It didn't, of course, and neither will the current downturn in the stock market.

Remind employees that investments go up and down in the short term, yet it's the long-term that matters most for our retirement savings.

■Second, remind employees that you have a retirement savings plan to help them achieve long-term financial independence and retire with dignity. It's not to make participants fabulously wealthy.

Employees need to do some realistic retirement planning using their current account balances and reasonable growth rates.

Remind employees that many experts assume the value of stocks will grow 6 percent to 8 percent for the next few years, and not the 15 percent to 20 percent of the late 1990s.

■ Third, remind employees what makes a retirement savings plan work. An individual has to participate, and at as high a contribution rate as possible. A dollar saved today will be worth a great deal more than a dollar saved at some point in the future.

Also, remind employees about the value of diversification among different types of investments. Encourage employees to select an appropriate mix of large and small U.S. stocks, bonds, real estate and international equities. Suggest that employees find the right mix for their risk tolerance and stick with it.

■ Fourth, remember to encourage employees to seek investment advice from unbiased sources.

Promote the use of your plan's Internet resources or suggest employees call one of your plan's fund companies for assistance. As an alternative, encourage employees to hire a fee-only financial planner to assist them. A fee-only financial planner offers unbiased advice to create a mix of investments that fit an individual's unique blend of age, risk tolerance and objectives.

■Fifth, if you have a 401(k) plan with company stock as one of the investment options, remind employees it's there to help them feel like they are owners in the company.

At the same time, the purpose of a 401(k) plan is to help reach retirement goals and owning too much company stock adds a risk that an employee won't reach those goals. No investment professional would encourage an employee to have 20 percent or more of his/her dollars invested with one company.

The lessons from Enron, WorldCom and other companies reinforce this caution.

The next time an employee asks about your company's self-directed retirement plan, remind him/her of the basics — the present investment climate will change, the reason you have the plan, the value of saving now and the key to investing is diversification.

You don't need to predict the next major move in stock market indices to help employees know what to do with their retirement savings plan.

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