401(k) Investors Who Use Professional Help Outperform Those Without It

By Lee Barney

September 27, 2011

Investors who relied on professional help in the form of target-date funds, managed accounts and advice earned nearly three percentage points more than those that did not, according to an analysis of eight large defined contribution plans between 2006 and 2010 by Aon Hewitt and Financial Engines. The plans covered 400,000 participants with $25 billion in assets.

The study found that in those five years, worked who received some form of professional experienced higher returns averaging 2.92 percentage points, net of fees, than those individuals who managed their 401(k) on their own. According to Aon Hewitt and Financial Engines' projections, a 45-year-old participant who invests $10,000 and receives professional help will have a portfolio valued at $71,400 at age 65, compared to $42,100 for someone who doesn't get any help.

The study also found that 30% of participants were using help in 2010, up from 25% in 2009. It also found that younger investors with smaller balances were the most likely to use target-date funds, and younger investors with larger balances preferred online advice. For those nearing retirement, managed accounts are the favored investment vehicle.

"This research shows the concrete value of professional retirement help during a variety of market conditions, and across age groups," said Christopher Jones, chief investment officer at Financial Engines. "The help that employers have made available is having the desired effect of keeping participants in diversified portfolios and avoiding costly mistakes."

The study also found that 38% of non-help participants have excessive risk levels, and 18% have risk levels that are too low. In contract, participants using professional help maintained more diversified allocations with appropriate risk levels, and also employed a rebalancing strategy.

"Exacerbated by continued market volatility, workers not using help are clearly making significant investment mistakes," Jones added. "Their inefficient portfolios and skewed risk-taking is hurting results—and as the numbers show, the cost is very high."

-- This article first appeared on Money Management Executive.