



HOW TO CUT THROUGH INFORMATION OVERLOAD WHEN IT COMES TO RETIREMENT PLANNING

White Plains, New York, January 2014 -- While freedom of choice is a great gift, there is a flip side that can be overwhelming when it comes to retirement savings plans, says Rich Rausser, Senior Vice President of Client Services for Pentegra Retirement Services.

Rausser explains, "The Columbia University study on 'choice overload' found that while consumers find a wide range of products initially appealing, they can find it difficult to finally decide on an option. This could not be truer than with retirement planning. The study found that the probability of an average employee joining a retirement savings plan decreases as the number of investment options increases. For every additional 10 investment choices, the researchers found, predicted participation rates decline on average by 2 percent. We see this now more than ever. Too many investment choices in a 401(k) plan can be absolutely overwhelming to participants."

He continues, "Information overload is a very real danger. The impulse to simply go with a fund name that's familiar or sounds sophisticated – or, in the very worst scenario imaginable, giving up and not investing in any fund – should be avoided."

In the 1980s there were essentially three investment choices in the 401(k) world: a stable value fund, typically chosen by the risk-averse; a stock fund; and a bond fund. One could spread their money across the three funds or put all assets into one fund. The choices were limited.

Today, with eight to ten different asset classes and numerous active and passive fund options, a participant can be faced with dozens of choices. However, according to Rausser, "The typical participant does not spend their day reading up on investments and the ins and outs of how to diversify." Instead, most people in today's environment are looking to determine how to make their retirement investment relatively simple.

Rather than be overwhelmed, simplify the clutter and just look at just three investment options, suggests Rausser. All of these investment solutions can be a "one fund" investment solution that is well diversified among the various asset classes:

1. Target date funds. These are often a mutual fund or collective trust fund that is designed to provide a simple, yet sophisticated investment solution through a diversified portfolio where the asset allocation strategy becomes more conservative as the retirement target date grows closer. A time-horizon based approach; the fund strategy is sophisticated and well-diversified, giving the participant exposure to the full spectrum of asset classes.
2. Model portfolios. Here participants have their deferrals invested by professionals in a guided investment solution based on a set of specific targets/objectives and desired outcomes. Essentially, it is an investment strategy based on your goals, risk tolerance and timeframe to retirement. These accounts are often attractive to participants who want the professional oversight and customization that comes with this approach, but do not have the time or expertise to determine this on their own.

3. Asset allocation funds. Employing a risk-based approach, asset allocation funds seek to balance risk versus reward by adjusting the percentage of each asset in a portfolio according to variables similar to those listed above. Typically such funds offer a blend of stock, bond and cash investments; such diversification usually makes for a less risky investment strategy than other funds, as different asset classes rarely all go up or down in value at the same time.

Keep your investment strategy simple but sophisticated. A typical 401 (k) plan has at least one of the three options mentioned above, which are relatively easy to understand. The key, as always, is to start to save as early as you can, contribute consistently, and increase your contributions as you go along, Rausser concludes.

Pentegra Retirement Services is a leading provider of retirement plan solutions to organizations nationwide. Founded by the Federal Home Loan Bank System in 1943, Pentegra offers a full range of retirement programs, including 401 (k) plans, Defined Benefit Pension plans, Cash Balance plans, 412(e)(3) Fully Insured Defined Benefit plans, Split Funded Defined Benefit plans, KSOPs, ESOPs, Profit Sharing plans, Age-Weighted plans, New Comparability plans, 457(b) and 457(f) plans, 403(b) plans, 401 (a) plans, Section 79 plans, Non-qualified Executive Benefit and Director plans, benefits financing solutions using BOLI and a broad array of TPA services. For more information, go to www.pentegra.com

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