

Many doubt skills caring for nest eggs

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New York, N.Y. - When it comes to managing money, studies done by a leading human resources firm that track the financial acumen of the masses show that most Americans don't know what they are doing.

That's a big negative for President Bush, whose plan to create personal Social Security accounts is based on his belief that most Americans want to, and are capable of, building a profitable portfolio made up of stocks and bonds.

"I have a Ph.D., have belonged to an investment club for 10 years and have studied the market - and even I have invested badly over the years," says Marjorie Abrams, 67, a retiree from Gainesville, Fla. "What will those who don't understand the market do with their savings? How much time can they be expected to devote to it?"

Certainly not the long hours logged by professional Wall Street analysts, traders and money managers. Research confirms that a huge swath of U.S. workers have little or no interest in serving as their own personal portfolio manager.

Fifty-nine percent of Americans think it is a "bad idea" for the government to let workers invest some of their Social Security taxes in stocks and bonds, according to a USA Today/CNN/Gallup poll done March 18-20. Twenty-three percent said they are "uncomfortable" with the idea of managing their own investments, and 27 percent said they pay "a great deal" of attention to their investments.

But a study by Hewitt Associates that analyzed the 2003 investment behavior and account activity of 2.5 million employees eligible for 401(k) plans exposes a treasure trove of investment mistakes by average investors.

Three out of 10 employees eligible for 401(k) plans don't even participate, Hewitt says. That means investors are passing up free money in the form of matching contributions from their employers.

'Non-saving' mentality

Despite horror stories about employees at scandal-scarred companies such as WorldCom and Enron having their 401(k) accounts wiped out because they had all their money riding on their own company's stock, 27 percent of 401(k) investors still have more than half of their money in their employer's shares. And proving that investors are hardly hands-on, only 17 percent made 401(k) transfers in 2003.

Another Hewitt study, done in fall 2004 with Harvard University and the Wharton School at the University of Pennsylvania, found that a "non-saving mentality" persists. The study focused largely on "low savers," those who do not stash enough in their 401(k)s to earn the company match. When "low savers" learned they were passing up \$1,200 a year in matching contributions, one-third said they intended to raise their savings rate. But only 15 percent actually did.

No doubt, there are lots of people who consider themselves savvy investors and think, as Bush suggests, that they can earn bigger returns managing a slice of their own Social Security money. But there is a far larger, more vocal group that views stocks as a tough way for amateurs to make money.

One investment adviser who has seen many investors make costly mistakes says privatizing Social Security would have "catastrophic" consequences. "The general public tends to play up their investing success, while ignoring the lessons of their losses," says Christopher Harriman Dann, of the Olson Dann division of LaSalle St. Securities. He says nine times out of 10, investors' long-term performance lags behind the market by a wide margin.

A study released in April 2004 by Dalbar, a financial services market research firm, confirms Dann's theory. The research, which analyzed mutual fund money flows the past 20 years, found that the Standard & Poor's 500 index had annual gains close to 13 percent during that period; the average investor earned just 3.5 percent.

"Keep Social Security the way it is," says Fred Berlack, 61, of Oceanside, Calif. "The average Joe has little or no investing skills."

Short menu of options

"The typical 401(k) investor is a much different animal than someone who opens an account with a broker and makes a decision to be an active investor," says Lori Lucas, Hewitt's director of participant research. "Most investors don't feel they're up to the challenge."

Bob Pozen, chairman of MFS Investment Management and a member of the presidential commission formed to address Social Security reform, says concerns about investors not being smart enough to manage their own money "are overblown." Even though the Bush administration has not yet issued a final proposal, Pozen stresses that investors will likely not be inundated with a dizzying array of choices.

Many experts such as Lucas say it is incumbent that any plan put forth must be simple and essentially mistake proof. They recommend a short menu of options and say a plain-vanilla balanced fund with a pre-determined mix of stocks and bonds based on one's age would make the most sense. In addition, balanced funds would serve as a relatively low-risk default option for people who don't want to make their own investment decisions.

There are growing signs that do-it-yourself investing is not everybody's favorite pastime, including:

- Falling participation in Washington state's hybrid plan. In 1996 and 1997, when the bull market was in full swing, Washington gave its teachers an option of staying in the traditional pension plan or switching to a hybrid pension plan - 50 percent of assets in a traditional pension and 50 percent in a private account.

Seventy-four percent opted for the hybrid plan. But when public employees were offered the same choice in 2002 and 2003, after the slump, only 11 percent chose the hybrid offering.

- Lower returns for do-it-yourself pension investors. Nebraska, which pioneered private accounts for public employees in the early 1960s, scrapped the accounts for new hires in 2003 after a study that showed returns on individual accounts were lower than those posted by professionally run state pension programs. Replacing them: a cash-balance plan run by pros with a guaranteed 5 percent return and the potential to earn more.

The state is basically shifting back toward traditional pensions, says Anna Sullivan, executive director of Nebraska's Public Employees Retirement Systems. "Frankly, people have too many other things to do than manage money. They are busy working and taking the kids to soccer games and Cub Scouts."

- 401(k) money left on the table. One thesis as to why people don't invest in 401(k) plans is they can't afford it. But a study co-authored

by Harvard University Ph.D. candidate James Choi found that "ignorance" and "procrastination" may be more to blame.

The fall 2004 study found that 66 percent of workers older than 59 1/2 who don't participate in their 401(k) - people who could stash money into their 401(k) and yank it the next day without penalty - still said they didn't ever plan to sign up.

"These people basically had free money available to them but didn't take advantage of it," Choi says.

"It is akin to walking past a \$100 bill and leaving it on the sidewalk."

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