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The Big Delay in Your 401(k)

Many workplace savers are discovering their options for reacting to market swings are limited. How to avoid feeling "trapped" by your 401(k) plan.

By ANNA PRIOR

The recent market swoons have felt like a recurring nightmare for millions of investors, many of whom still bear the scars -- financial and psychic -- of the market crash three years ago. But when they went online or dialed up the financial firms running their 401(k) plans, where more than $3 trillion of the nation's retirement savings reside, many frantic plan participants didn't get a quick response, specific short-term advice or even much thoughtful hand-holding. Instead, they got a different kind of holding -- the sort that generally involves Muzak.

At least that's according to the howls of some workers counting on these plans to retire and of the financial advisers trying to help them. Firms who run the plans concede that call volume tends to shoot up when the market goes through huge swings. But workers trying to get quick advice say they end up being put on hold, or they discover that their account information is out of sync with the fast-changing market. The only advice they get, say some plan participants, tends to be a boilerplate "stay the course" from phone reps.

Mitch Klebig, a genomics researcher at the Mayo Clinic in Minnesota, says his anxiety turned to annoyance when he tried to make changes to a 403(b) plan -- the 401(k) of the nonprofit world -- during the market mayhem last summer. The reason, he says, is that his plan didn't offer exchange-traded funds or the ability to trade live throughout the day. "ETFs have been around for years," he says. "Why can't they offer them in these plans?" William DeShurko, president of 401 Advisor in Centerville, Ohio, shares many of Klebig's concerns, particularly about restrictions on how often one can trade funds in certain plans. The limitations, he says, are "so anti-investor." (The Mayo Clinic says its plans are designed for long-term growth and that "ETFs are not the most appropriate options" to that end.)

While these issues are hardly new, critics say many of them put a spotlight on a recurring disconnect between the interests of the plan administrator, employer and investor. An unhappy brokerage client can switch brokers, but a frustrated 401(k) investor doesn't have much of a choice. As long as it's inexpensive and easy to maintain, there isn't much incentive for an employer to ditch a plan provider, says Scott Cramer, president of Cramer & Rauchegger, a retirement and estate-planning firm in Winter Park, Fla. "The employer's and the employee's interests aren't aligned," he says.

To be sure, some experts (and plan providers themselves) point out that some of these issues are either a technical challenge or due to features that are in the best interest of savers. Accounts don't get updated immediately because it takes time for net asset values of mutual funds -- a staple of 401(k) plans -- to settle, and then for every trade or change to be executed, say representatives for Fidelity, T. Rowe Price, J.P. Morgan Asset Management and Wells Fargo Institutional Retirement and Trust, which all run 401(k) plans. Many firms also flag research showing that too many investment options can overwhelm investors and lead to bad choices. And letting workers trade 401(k) assets midday? That strikes some as ludicrous: "It's like giving a loaded gun to a 5-year-old," says Meir Statman, a finance professor at Santa Clara University.

Still, for 401(k) investors hoping to avoid that trapped feeling the next time the markets go haywire, experts have a straightforward (if virtually always overlooked) piece of advice: Evaluate your retirement plan during the calm before (and after) each storm. The period after a stretch of volatility is the time to "reassess your ability to stomach these moves and make any changes," says Alicia Munnell, director of the Center for Retirement Research at Boston College. Investors can also check with their employer to see if an "open brokerage window" is an option within their plan. This feature allows plan participants to trade intraday, accessing individual securities and vehicles like ETFs. About 18 percent of plans have this option, says David Wray, president of the Profit Sharing/401k Council of America, an industry trade group. And if an employer doesn't ? Says Wray, "You can always ask them to add it."