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Hewitt Data Shows Americans Continue To Save in 401(k) Plans Despite Economic Woes

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2008-11-24

Employees Responding to Market Declines by Choosing Safer Investments

LINCOLNSHIRE, Ill. — Despite the recent market upheaval and poor investment returns, employees are staying the course and maintaining a long-term focus on retirement saving by continuing to invest in their 401(k) plans, according to a new analysis by Hewitt Associates, a global human resources consulting and outsourcing company. Still, workers are not immune to the market's recent struggles, and some are reacting by moving 401(k) assets into less risky investment funds. Further, tight economic times are prompting more employees to tap into their retirement savings in the form of hardship withdrawals.

Hewitt's analysis of 2.7 million U.S. employees reveals that the average 401(k) plan balance has dropped 14 percent in 2008 to $68,000, down from $79,000 in 2007. In the past two months alone, employees, on average, have lost nearly 18 percent of their 401(k) plan savings, and some have lost more than 30 percent. Despite the significant market declines, savings rates have dropped marginally, from 8.0 percent in 2007 to 7.8 percent in 2008. Just 4 percent of employees have terminated their 401(k) plan contributions altogether.

While most employees continue to save, Hewitt's data shows that some workers are reacting to the market's roller-coaster fluctuations by adjusting their investment mixes and moving money into less risky funds. The amount of 401(k) assets held in equities is at an all-time low, with only 53.8 percent of assets, on average, compared to 68.1 percent a year ago and down from its high of 74.2 percent in 2000. In addition, while the number of employees making trades has risen slightly—19.3 percent verses 18.7 percent in 2007—the amount of 401(k) assets being transferred has been significantly higher. To date, 5.3 percent of employees' 401(k) savings has been traded, compared to 3.5 percent in 2007. In October 2008 alone, 1.25 percent of employees' 401(k) balances were traded, almost three times the historical average.

"401(k) plan balances are taking an obvious hit in the current market environment, but it's encouraging to see that most employees are sticking to their long-term investment strategy and not making rash decisions that ultimately could derail their retirement goals," says Pamela Hess, director of retirement research at Hewitt Associates. "The concerning behavior we are seeing, however, is some evidence of knee-jerk investment decisions, with a significant increase in the number of investment transfers immediately after the market drops. In the vast majority of cases, employees who impulsively respond to the fluctuations of the market can dramatically reduce their overall retirement savings, as employees are unlikely to readjust their investment portfolio when the market makes a turn for the better. Therefore, it's important to keep in mind that retirement saving is a long-term strategy."

Despite stable 401(k) savings rates, Hewitt's data shows an uptick in the number of employees tapping

into their 401(k) plans. More than 6.0 percent of employees withdrew money from their 401(k) plans in 2008, up from 5.4 percent in 2007. The increase is due to an upsurge—16 percent—in hardship withdrawals. Some firms in industries that have been especially hard-hit by the economy have been experiencing hardship withdrawals in excess of 10 percent of their population—nearly 9 times more than the average 401(k) plan. Interestingly, 401(k) loan activity has remained consistent, with 22 percent of employees currently having a loan outstanding.

"Because the credit crisis has made borrowing from financial institutions more difficult, we're seeing more employees turn to their 401(k)s to get the money they need to help them get by," explains Hess. "It's unfortunate that employees are turning to hardship withdrawals instead of 401(k) plan loans, because hardship withdrawals are subject to penalties and additional income taxes that can dramatically and permanently erode employees' future retirement dollars. What's more, workers are not allowed to contribute to their 401(k) plan for six months following the hardship withdrawal. Loans, on the other hand, enable employees to borrow money penalty-free and, more importantly, continue to make contributions to their 401(k). Ongoing contributions ensure workers gain the benefit of employer matching contributions, which significantly aid in savings growth and are critical to reaching retirement goals."

About Hewitt Associates

For more than 65 years, Hewitt Associates (NYSE: HEW) has provided clients with best-in-class human resources consulting and outsourcing services. Hewitt consults with more than 3,000 large and mid-size companies around the globe to develop and implement HR business strategies covering retirement, financial and health management; compensation and total rewards; and performance, talent and change management. As a market leader in benefits administration, Hewitt delivers health care and retirement programs to millions of participants and retirees, on behalf of more than 300 organizations worldwide. In addition, more than 30 clients rely on Hewitt to provide a broader range of human resources business process outsourcing services to nearly a million client employees. Located in 33 countries, Hewitt employs approximately 23,000 associates. For more information, please visit www.hewitt.com.