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Are your employees worried about your 401K? Should you be?

By: Scott Brookes

As many plan participants are growing increasingly despondent about their retirement plan's investment returns, many practices are re-assessing the investment options available to their employees. As year-end statements land in many mailboxes this month, far more individuals have decided to become more conservative during these turbulent days in the stock market.

Unfortunately, many participants have "thrown in the towel" and put 100% of their money into a money market option. As the yields on money market funds are in the 1% to 2% range, this isn't always the participant's best option.

Consider a Stable Value fund as a "cash" alternative. If you are not offering one, ask your provider for a list. These are fixed income investment vehicles offered only to 401(k) and other defined contribution plans. Current yields are in the 4% range. The assets in stable value funds are shorter-term high quality bonds and interest-bearing contracts, purchased directly from banks, insurance companies or mutual funds. They typically guarantee to maintain the value of the principal and all accumulated interest. They are ideal for employees who want to preserve capital.

What to watch for: While they historically offer double the yields of a money market fund, just like money market and short term-bond funds, they can be interest rate sensitive in a lower-yield environment. Additionally, stable value providers are becoming more conservative, insisting that their funds' underlying bond portfolios have higher credit quality and liquidity, likely lowering future returns. And, like all fixed income investments, pay attention to fees. You have to compare costs and negotiate to get the best deals.

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