

# Market Turmoil Frightens Off Young Investors

*Participation in 401(k) Plans Is Dismal, as Is Savings Rate; 'I Don't Know Where to Start'*

BY MARY PILON

**T**HE IDEA OF SAVING for retirement always terrified Zack Teibloom. With the stock market's big drop this year, it seems even more daunting.

"I don't even have one K, let alone 401 Ks," says the 23-year-old Mr. Teibloom, a recent college grad who works as an editor for a small magazine in Chicago. "I'm worried that if I put money away, it won't even be safe the way the markets are going."

The saving and investing habits of young workers have long been dismal. Only 49% of eligible workers in their 20s participate in 401(k) plans offered through their employers, according to a 2007 study from Hewitt Associates Inc., a Lincolnshire, Ill., consulting firm. And less than 20% of this group is saving anything at all for retirement.

Declining stock prices actually favor young investors, because it means the shares they buy have more room to grow in the decades before they hit retirement. But anecdotal evidence suggests the rocky stock market is scaring off many young people.

"There's a lot of fear right now," says Pamela Hess, director of retirement research at Hewitt. "A lot of employees aren't contributing."

Recent changes may make it easier

for some younger employees to begin building a nest egg. Two years ago, Congress altered the law to make it easier for employers to automatically enroll workers in retirement-savings plans. Employers can deduct money from workers' paychecks and invest it in a number of conservative investments, such as so-called balanced mutual funds, which hold both stocks and bonds.

## Getting Started

Opportunities are rife for young investors in a beaten-down market. Some tips:

- ✦ Contribute enough to your company's 401(k) plan to capture the **full matching contribution**.
- ✦ If you're not eligible for a 401(k), start a Roth or traditional **individual retirement account**.
- ✦ Don't be too conservative. Younger investors have **time on their side** and can recover from short sputters in the market.

Employers often set the contribution **rate** at 3% of workers' salaries, and some auto-enroll workers at a higher rate to ensure they get the full company match—the amount an employer contributes into an employee's account beyond their salary. Some employers also automatically increase workers' contributions each year. Employees have the option of opting out of automatic retirement-savings plans, but few do. Often, the time frame for dropping out of automatic enrollment is limited to as little as 10 days.

The law is having an impact. Fidelity Investments, which runs retirement plans for 16,700 companies, says that as of June, 2,343 plans had auto-

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matic enrollment, up from 723 plans the year before.

Other financial-services firms are targeting younger people in their marketing. Charles Schwab Corp., for example, has been running ads for various products—such as its High-Yield Investor Checking Account, which is linked to a brokerage account—in TV shows like "30 Rock" and "Heroes," which appeal to a younger audience. It's also buying print ads in magazines like Shape and Men's Health, and it has revamped part of its Web site ([www.schwabmoneyandmore.com](http://www.schwabmoneyandmore.com)) with graphics, interactive tools and a glossary of basic financial terms. Schwab says it has seen an increase in younger clients since the campaign began, but declined to release specific numbers.

As experts are quick to point out, young workers don't necessarily have to save a lot to have a big effect on their future retirement savings. Over time, the power of compounding will amplify the growth of money saved in your 20s. For example, if you invest a modest \$100 a month for 40 years in an investment account earning 7% annually, you will end up with \$262,000.

The message has gotten through to some young people. Sekhar Suryanarayanan, 25, a business analyst at Deloitte & Touche LLP in San Francisco, contributes 10% of his salary and gets a 6% match from his employer.

"I feel a sense of urgency and nervousness about retirement," Mr. Suryanarayanan says. "But saving was something that was pounded into me by my parents."

Still, 40% of workers in their 20s withdraw their 401(k)s in cash when they switch jobs, rather than roll it over into a new retirement account or leave it in the old account, according to a recent Fidelity study. And they'll switch jobs between seven and 11 times in their careers, says Scott B. David, president of workplace investing at Fidelity.

Kevin Cronin, 27, a public-relations associate in New York, isn't eligible to join his company's 401(k) plan until next summer, but he continues to contribute to a Roth individual retirement account, which he started in 2003 when he left college. He maxes out his contributions and is undeterred by the recent swings in the stock market. (A Roth IRA allows you to make after-tax contributions that grow tax-free, while a traditional IRA allows you make pretax contributions. Both types of accounts impose limits on contributions.)

"It's a long time horizon," he says. "I'm just going to screw it up if I try to micromanage it." Mr. Cronin meets with a financial adviser at the end of every quarter to reallocate his portfolio, and says he tries not to pay too much attention to financial news.

Many young investors aren't aware that even if they're not eligible for a 401(k) through work, they can still start investing on their own through an IRA, as Mr. Cronin has done. Accounts can be opened with as little as \$50.

"There's a misconception that you need a large amount of money to get started," says Ilkay Can, director of acquisitions at Schwab. "But you don't."

Gian Hill has a 401(k) program offered to her through the Minneapolis public-relations firm where she works. Though her company would match her contributions up to 5%, she keeps postponing filling out the paperwork to start it.

Ms. Hill is also balancing paying off student-loan debt, credit-card debt, car payments, car insurance and a mortgage she shares with her boyfriend. She resolved to start contributing last November, when she turned 25, but didn't end up doing it. Now the recent financial news has given her another reason to put it off.

"I don't even know where to start," she says. "And a lot of people like me are in the same boat."