

## Most 401k Investors Fall Into Four Core Groups

By Robert C. Lawton, AIF, CRPS, President, [Lawton Retirement Plan Consultants, LLC](#)

I have done a lot of 401k plan participant education sessions over the years. As a result, I may know your 401k plan participants better than you do (without ever having met them!). That's because I have found that most 401k retirement plans have similar participant investor groups. These groups include:

### Core Funds Investors

**Approach to investing in your plan:** Willing to spend time understanding the economy and the markets. Comfortable with researching investment options on their own and keeping current with the markets.

**Preferred investment funds in your plan:** Core funds investors will consider investing in all of the funds that are offered.

**Demographic:** Found in all demographic groups although not in great numbers. Many providers target their employee education to this group mistakenly assuming that everyone in the plan is a "Core Funds Investor".

**Percentage of participants in your plan:** I have found that approximately 10% of all your participants belong to this group.

**What they need from you:** This is probably the only group that really appreciates the sort of employee education that you are probably doing now which features discussions on diversification, re-balancing, reviews of the economy and markets, etc.

### Index Fund Investors

**Approach to investing in your plan:** This group has come to the conclusion that it is impossible for most managers to consistently beat the market. They are willing to settle for index or average performance in their investment portfolio believing that the allocation of any additional time on their part to analyze investment opportunities is unwarranted. Their mantra is "Most managers can't beat the market, so what is the point?" They also are uncomfortable paying the higher expense ratios associated with actively managed funds and very much appreciate the lower fees featured by index funds.

**Preferred investment funds in your plan:** Index funds only. Are you currently offering enough of them in your investment menu for this group?

**Demographic:** Found in all demographic groups, their numbers are increasing.

**Percentage of participants in your plan:** Based upon my experience, I estimate that approximately 25% of your participants belong to this group.

**What they need from you:** A nice selection of index fund options. This group will be very happy once ETFs become more prevalent in retirement plans.

### **Specialty Funds Investors**

**Approach to investing in your plan:** These folks tend to be very sophisticated investors who are likely part of the executive group at your company. They may have access to, and can afford paying for, professional investment advice. This group is willing to spend a lot of time with their investments and their 401k accounts and often consider themselves to be more knowledgeable about investments than the investment professional leading your employee education sessions.

**Preferred investment funds in your plan:** These are the employees who are advocating for the addition of more investment funds. For example, they are happy that you offer a good intermediate-term bond fund, but would really appreciate a convertible bond fund as well. Often they have many investment portfolios and may use your plan to invest in options that are not available to them elsewhere.

**Demographic:** Generally older, highly educated with many years of investment experience. They tend to be highly vocal about your plan (often not in a complimentary way).

**Percentage of participants in your plan:** I believe that approximately 5% of your participants are part of this group.

**What they need from you:** They desire unique investment options including, but not limited to, commodities funds, ETFs, long-short funds, hedge funds, specialty funds, etc.

### **Target Date Fund Investors**

**Approach to investing in your plan:** This group is too busy to spend any time following or understanding the markets or the economy. They want to invest as quickly, easily and successfully as possible. They have lives and are busy with work, kids, hobbies, sports, their families, anything but managing their 401k plan account.

**Preferred investment funds in your plan:** Target date funds. But most of the time, they don't know that.

**Demographic:** All ages, shapes and sizes, but especially your younger and lower paid employees.

**Percentage of participants in your plan:** Experts say that up to 75% or more of plan participants are part of this group.

**What they need from you:** Someone, anyone to help them understand what a target date fund is. Once they get the concept, you will never see or hear from them again.

### **What to do now**

Many plan sponsors continue to offer employee education sessions that are targeted to the Core Funds Investor when it appears that they should be spending the bulk of the session talking to their Target Date Fund Investor group. This is a major reason why many plan sponsors struggle with getting employees to attend education sessions. Many participants have attended a prior session and saw that it wasn't really geared to their lifestyle or investment approach. Adjusting your curriculum to target those participants who just want to "set it and forget it" will increase the satisfaction your employees have with your employee education sessions.

Also keep in mind that the larger your 401k plan, the more important it is for you to offer a fund line-up that satisfies each of these types of investors. Plans that have 100 or less participants may only have between 5 and 10 Index Fund Investors. However, plans that have thousands of participants may have hundreds of these types of investors. If your retirement plan is attempting to serve a large number of employees, your investment menu should be broad enough for all of these investors to find a home.

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### **About the Author**

*Robert C. Lawton, AIF, CRPS is the founder and President of Lawton Retirement Plan Consultants, LLC. Mr. Lawton is an award-winning 401(k) investment adviser with over 30 years of experience. He has consulted with many Fortune 500 companies, including: Aon Hewitt, Apple, AT&T, First Interstate Bank, Florida Power & Light, General Dynamics, Houghton Mifflin Harcourt, IBM, John Deere, Mazda Motor Corporation, Northwestern Mutual, Northern Trust Company, Trek Bikes, Tribune Company, Underwriters Labs and many others. Mr. Lawton may be contacted at (414) 828-4015 or [bob@lawtonrpc.com](mailto:bob@lawtonrpc.com).*

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