

Make Your Wishes Known

Making your employer's plan the first stop applies only to those dollars you defer that are joined by matching dollars in your account. Check your plan. For instance, it may be the case that your employer offers a match only up to the first \$3,000 that you contribute annually.

Don't get us wrong: We still like defined contribution plans for your retirement savings even after you've reached the matching limit. The money that you contribute to the plan comes regularly out of your paycheck without you having to do anything at all, and you're getting that tax deduction by contributing pre-tax money.

That said, as you may have discovered while running the numbers above, the investment options in your plan might not be that great. If you're staring at a bunch of underperforming mutual funds, you might want to write a letter pointing out that, at the very least, your lineup ought to include a low-cost S&P 500 index tracker.

Oh, wait. We've already written that letter for you. Here it is now, in fact — suitable for cutting, pasting, and emailing to your favorite Benefits Director.

Sample Letter

Dear [Benefits Director],

I have reviewed the investment options for our company's 401(k) plan, and I wish to request that a passively managed S&P 500 equity index fund be added to our plan's choices. The available studies relating to mutual funds reveal that over any 10-year period of time, an S&P 500 index fund will likely outperform the vast majority of actively managed funds.

The improvement in returns that we employees can expect from the selection of an equity index fund as opposed to the average high-fee actively managed equity mutual fund is truly dramatic. I quote the following excerpt from John Bogle's piece, "The First Index Mutual Fund" available for your review at www.vanguard.com. In it, Mr. Bogle writes,

"What difference would an index fund make over 50 years? Well, let's postulate a +10% long-term annual return on stocks. If we assume that mutual funds costs continue at their present level of about 2% a year, an average mutual fund would return 8%. This 2% spread is very close to that of the past 15 years, during which the Vanguard 500 Portfolio provided a 2.2% margin of return over the average equity fund (or, more accurately, the better performers that survived the period. [E]xtending this compounding out in time on a \$10,000 initial investment, the market (at 10%) would produce \$1,170,000 after 50 years; the mutual fund (at 8%) would produce \$470,000. The difference in return between the two — \$700,000 — is an unbelievable 70 times the initial stake of \$10,000.

Don't Settle for Less

"Looked at from a different perspective, our hypothetical fund investor has earned \$1,170,000, donated \$700,000 to the mutual fund industry, and kept the remainder of \$470,000. The financial system has consumed 60% of the return, the fund investor has achieved but 40% of his earnings potential. Yet it was the investor who provided 100% of the initial capital; the industry provided none. Confronted by the issue in this way, would an intelligent investor consider this split to represent a fair shake? Merely to ask the question is to answer it: 'No.'"

While I may not be with our fine employer 50 years from now, I do intend to defer more than \$10,000 into our 401(k), so I believe that the inclusion of an S&P 500 index fund in our plan would likely make a very significant difference in the retirement that I can look forward to.

Given the fact that I understand that I'm looking at perhaps \$700,000 or more as a consequence of your reaction to this request, please understand that I intend to be persistent.

But only if I have to be.

Thank you for your attention to this matter.

Very truly yours,