YOUR 401(K) PLAN, YOUR RESPONSIBILITY

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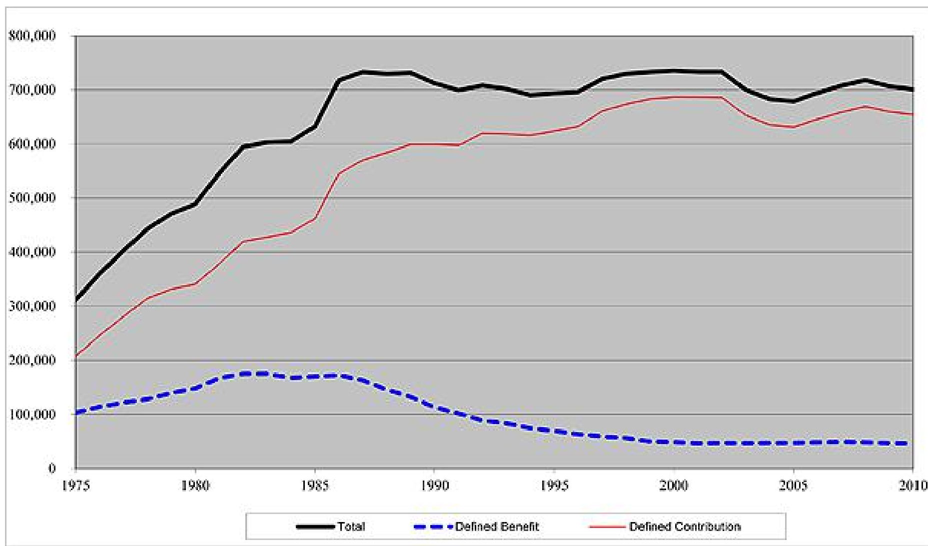
One of the many challenges Americans face today is saving enough money for retirement. The generations of Americans currently in retirement have predominantly received income from two sources: Social Security and pensions. However, since the early 1980s, the burden of funding future retirements has fallen on the individual. A significant decline in the number of pensions and an increase in the number of 401(k) plans have contributed to the current shortfall of retirement savings for many. Before we discuss the trend, let's take a look at what these two different types of plans are and how they work. A Defined Benefit (DB) Plan is a traditional pension plan in which the participant (employee) receives a benefit at retirement based on a predetermined calculation. An example of such a calculation would be receiving 75% of the average of the last five years' salary before retirement annually. If the average salary for the last five years before retirement is $40,000, then the pension benefit would be $30,000 annually in retirement for life. The employer usually makes the contribution into the pension plan for the participant based on actuarial calculations to fund the pension plan, and the employer controls the investment direction. A Defined Contribution (DC) Plan is a retirement plan commonly referred to as a 401(k) plan, in which participants (employees) contribute a portion of their salary into an account that provides a variety of investment options designed to meet the needs of the participant. At retirement, the participant still controls the investments and determines what is taken out of the account as income. A 25-year-old who put $2,000 per year into his/her 401(k) plan could expect to have an account balance of $374,000 at age 65, assuming his/her account grew at an average annual rate of 6.5%. The participant makes the contributions into his/her account, with the employer in some plans making a matching or profit-sharing contribution to the participant's account. In most cases, the participant controls the investment direction. According to the Department of Labor,[1] the number of private pension plans in the United States has decreased from a peak of 175,143 in 1983 to a low of 46,543 in 2010. During the same time period, the number of profit-sharing and 401(k)-type retirement plans has grown from 207,748 in 1975 to 654,469 in 2010. Even more compelling is the trend with private pensions and 401(k) plans with more than 100 participants. Those private pension plans decreased from a peak of 25,979 in 1983 to a low of 10,155 in 2010. The number of 401(k) plans grew from 17,303 in 1984 to 518,675 in 2010. **Number of Pension Plans by type of plan, 1975-2010**



NOTE: Excludes plans covering only one participant.
SOURCE: Form 5500 filings with the U.S. Department of Labor.

In addition to the growth in the number of 401(k) plans, the number of plan participants has grown to over 72 million with an average account balance of $51,927 as of 2010. This is quite a large number of participants left to their own devices to choose investments that are often confusing to the average investor. According to a 2011 AON Hewitt 401(k) plan survey,[2] the average number of investment options in a 401(k) plan is 13. Additionally, building a long-term portfolio and selecting appropriate options (equity, fixed income, target date or lifestyle) can prove daunting. When a participant is provided with too many options and not enough guidance, the typical reaction is to do nothing. If you were to retire today, would $52,000 before taxes be enough money to last you through your retirement years? Increasingly, investors are realizing that a focus on asset allocation and portfolio diversification can prove more manageable—and potentially more effective—than traditional stock and active manager selection. Some of the benefits of exchange-traded funds (ETFs), including transparency of holdings and precise asset class exposures, can help make ETFs great building blocks for a diversified portfolio. At WisdomTree, we believe our focus on fundamentally weighted strategies makes our ETFs a natural fit for long-term investors, which can be perfect for a 401(k) plan. *For more information, please contact your financial professional or visit our website: www.wisdomtree.com/401k/.* [1]U.S. Department of Labor, Employee Benefits Security Administration Private Pensions Bulletin Tables and Graphs, November 2012. [2]AON Hewitt 2011 Trends & Experience in 401(k) plans survey.

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