Don’t underestimate the value of inertia

For today’s plan participants, doing nothing may be the best approach to managing their 401(k) accounts.

While plan sponsors may bemoan the lack of interest employees show in their retirement plans, this inertia may have actually protected them during the recession. According to a Vanguard report based on 3.2 million participants in 401(k) and other defined contribution plans, many plan members experienced higher account balances in 2009, traded minimally in response to market volatility, increasingly diversified their assets through automatic investment programs and protected their nest egg when they left their employer.

“Despite the financial maelstrom of the past few years, we’re seeing positive signs for many participants in employer-sponsored retirement plans,” says Steve Utkus, head of Vanguard’s Center for Retirement Research and a co-author of the report. “While there continue to be opportunities to improve saving rates and asset allocations, employees covered by these plans are benefiting from improved plan design, such as automatic enrollment and automatic deferral rate increases, as well as target-date funds.”

Utkus credits inertia for some of this behavior. “Inertia was once the foe of 401(k) plan participants, holding them back from participating, putting away sufficient assets, and making optimal choices,” he says. “Now, inertia may often be a friend of participants, as most continued to participate in their plan and contribute regularly, while not trading excessively or altering their long-term allocations.”

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