

Avoid the Default Investment Trap

Investors should consider whether their retirement plans' default investment is compatible with their investing goals.

If your employer offers a 401(k) or 403(b) plan, participating can be an important step toward having the retirement you want. To be successful, you must understand your retirement plan's investment options and choose those that are right for you.

Default Investments

Many retirement plans have a default investment (sometimes referred to as a "qualified default investment alternative," or QDIA). Basically, if you don't specify where you want your retirement plan contributions invested, the retirement plan invests your contributions in the default investment. Your retirement plan's default investment may be a balanced fund or target-date fund that includes a mix of stock and bond investments. Consider all your options.

Keep in mind that your retirement plan's default investment may or may not suit your personal needs and goals. You shouldn't assume the default investment is right for you just because your employer provided it. Sticking with an investment that isn't a good fit could impact your retirement readiness.

Instead, carefully review all your investment options and choose the ones that fit your goals, risk tolerance and investment time frame. Your financial professional can provide guidance in choosing suitable investment options.

Permission to Change Your Mind

If you initially decide to go with your retirement plan's default investment, you can opt later to have your contributions put into different investments offered by your retirement plan. Take the time to review the investment information your retirement plan provides, your current situation, and your long-term goals. You also may want to consider contributing to an individual retirement account (IRA) to help you further prepare for the future. Consider asking your financial professional about the different kinds of IRAs and how they work.