

News Release

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ADVICE MATTERS: NEW CHARLES SCHWAB STUDY DEMONSTRATES POSITIVE IMPACT OF PROFESSIONAL ADVICE ON 401(K) INVESTOR BEHAVIOR

Growing Number of Employers Make 401(k) Help Available, but Few Plan Participants Take Advantage

SAN FRANCISCO, Sept. 15, 2010 — Charles Schwab, a 401(k) service provider to approximately 1.5 million company retirement plan participants, today released the findings of a new research study which reveals that professional advice has a direct and positive impact on the behavior of 401(k) plan participants. The study, which combines an in-depth behavioral analysis of 401(k) plans serviced by Schwab and a nationwide attitudinal survey of more than 1,000 401(k) plan participants, also shows that although more employers are making 401(k) help and guidance available, and most employees surveyed say they would use it, few plan participants actually take advantage of the advice offered to them.

In Charles Schwab's study, "The New Rules of Engagement for 401(k) Success", 70 percent of survey respondents say the 401(k) is their only or primary source of retirement savings. However, just participating in a 401(k) is not enough to ensure confidence: less than half (47%) of 401(k) participants surveyed feel very confident when it comes to making investment decisions and 53 percent say they find retirement benefits even more confusing than health care benefits.

The analysis of 401(k) plans serviced by Schwab finds that use of advice can have a significant impact on people's behaviors in 401(k) plans. Specifically, use of professional advice has a positive impact on participant savings, diversification, and investing behavior. For example:

- **Improved savings rates** – Seventy percent of participants who receive 401(k) advice make changes to their deferral rates, and their savings rates nearly double as a result, jumping on average from five percent to 10 percent of pay.
- **Greater diversification** – The average participant who has not received professional advice is invested in less than four (3.7) asset classes, whereas participants who receive advice have a minimum of eight asset classes.
- **More disciplined investing behavior** – The vast majority (92%) of advice users stayed the course in their 401(k) portfolios from July 2008 through February 2009 and was fully invested for the significant market rebound through the remainder of 2009.

"There is no doubt that the 401(k) has become a significant slice of the retirement savings pie in America, which is why we need to zero in on what truly drives positive and meaningful results for 401(k) investors," said Steve Anderson, head of Charles Schwab Retirement Plan Services. "When we look at participant behaviors and results among the 401(k) plans we service at Schwab, the use of professional help and guidance is one of the biggest factors in 401(k) success."

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Advice Adoption: Perception vs. Reality

Acknowledging the role the workplace can play in providing financial education, a significant number (74%) of Schwab's plan sponsor clients are currently offering 401(k) participants access to professional third-party investment advice. That number has grown considerably since 2005, when it stood at 42 percent. But while a majority (55%) of participant survey respondents says they would use free personalized advice if their employer made it available, an analysis of actual participant behavior in plans serviced by Schwab reveals something different: less than 10 percent of people with access to advice actively use it. Survey respondents cite a number of explanations as to why they don't engage in 401(k) advice even if it is available as part of their plan:

- 27 percent say they are getting financial advice elsewhere outside of the workplace.
- 26 percent say they have more immediate concerns, such as day-to-day financial matters.
- 23 percent don't think they have saved enough money to warrant spending time to get help.
- 49 percent want to have more than \$100,000 saved before taking the time to get advice.

"Even though most people say they would use professional help if it were available, the reality is that more often than not, procrastination, distraction or confusion prevents them from doing so," said Catherine Golladay, Charles Schwab vice president of 401(k) education and advice. "But it is clear from our study findings and our personal experience with clients that people are more likely to engage in professional help if it is provided in a personalized one-on-one setting."

Strategies for Employers: Engaging Plan Participants in Advice

Based on the research, Schwab has identified strategies for employers to help increase 401(k) participants' use of professional third-party advice, which Schwab makes available at no additional cost to the plans it services:

- **Offer one-on-one consultations** – Fifty-one percent of 401(k) investors surveyed say they prefer a personalized touch over online tools (23%) or brochures (4%).
- **Show participants the money** – Sixty-five percent of survey respondents need some kind of motivation to use advice, and more than one third (34%) of them says they would like some kind of proof that advice would improve their investment returns.
- **Work with a trusted third party** – According to the survey, 74 percent of people trust personal financial advisors and 59 percent trust financial institutions as a source for savings and investing information and guidance.
- **Know when to engage** – Unfortunately, the majority of survey respondents cited "approaching retirement" as the top reason to seek help with planning – when it can be too late to maximize the potential savings in a 401(k) plan, but other top life events prompting people to seek help include changing jobs (29%), stock market volatility (28%), and loss of spouse or partner (23%).

The Devil is in the Distraction: Finances Impact Workplace Productivity

The survey portion of Schwab's study indicates that many 401(k) participants worry about their personal finances while they are on the job. More than two-thirds of people (68%) report worrying about their finances at work. Survey respondents also say that these distractions can impact their productivity in the workplace, with 82 percent saying they feel more focused when their personal finances are in order.

Among those who say they are worried about their personal finances, only 28 percent feel more prepared for retirement than their peers, and just 17 percent are confident they will have enough money to retire. Worriers are also more likely to be dependent on a 401(k) as their only source of retirement savings. Nearly one-third (29%) of survey respondents who say they are worried about their personal finances use a 401(k) as their only source of savings compared to just 14 percent of those who say they are not worried.

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Anderson notes that among 401(k) investors surveyed who have received advice in the last two years, 52 percent are confident in making investment decisions compared to 35 percent who want advice but have not received any. In addition, 69 percent of advice users surveyed believe they are good at saving in their 401(k) versus just 44 percent who want advice but have not received any.

“401(k)s are the gateway to investing and retirement savings for millions of Americans, and employers and plan providers like Schwab have an opportunity to make a significant difference in people’s lives,” emphasized Anderson. “Getting more 401(k) investors engaged in professional advice needs to become a bigger priority for the industry, because we know that it has a positive impact.”

About the Charles Schwab New Rules of Engagement Study

Participant survey data was derived from responses of 1,005 U.S. consumers who are employed full or part-time and participate in their company’s 401(k) retirement plan. The online survey was fielded by Koski Research from June 9-17, 2010.

Plan and participant analytics represent 911 qualified defined contribution plans and 755,000 participants serviced by Schwab Retirement Plan Services, Inc., a subsidiary of The Charles Schwab Corporation. Data was collected between January 1, 2005 and June 30, 2010.

Retirement plan investment advice is formulated and provided by GuidedChoice Asset Management, Inc. GuidedChoice is not affiliated with, nor is it an employee or agent of Charles Schwab & Co., Inc. (Member SIPC) or Schwab Retirement Plan Services, Inc.

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About Charles Schwab

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