An Open Letter to Retirement Plan Participants

A deep breath and a little perspective can go a long way right about now.

by Bret Contreras, CRPS®
Associate Director, Defined Contribution

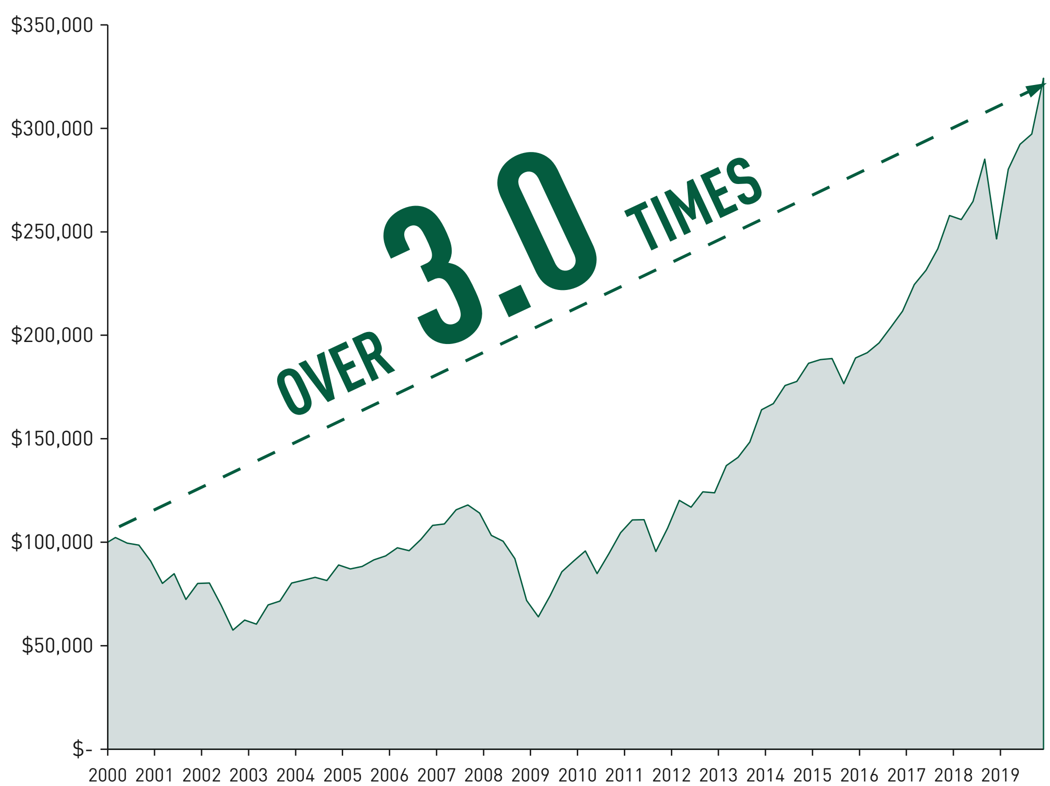
"It doesn't feel good." "This time it's different." "When are things going to get better?" "What should I do?" These are some of the statements and questions passing through our minds during the recent market volatility.

The silver lining for many retirement plan participants is that, for most, retirement is not happening tomorrow.

The last few weeks have felt drastic to many of us (to say the least). That's why some perspective may be helpful right now. Believe it or not, from 2000 through 2019, there were two such times when stocks almost declined **50%**. It's hard to fathom—or even remember—that this took place, but if an individual invested in the S&P 500 back in 2000 and went through those two dips, they still ended up with more than 3X their money (see the chart below.

HYPOTHETICAL GROWTH OF $100,000 INVESTED IN THE S&P 500 INDEX (01/01/2000–12/31/2019)

Since 2000, stocks have declined almost 50% twice....
But overall, an investment in the S&P 500 has grown over 3 times



This hypothetical illustration is based on the growth of a $100,000 investment from 01/01/2000–12/31/2019. For illustrative purposes only. Source: Standard & Poor's (S&P 500® Index). The index is unmanaged, does not reflect the deduction of fees or expenses, and is not available for direct investment. **Past performance is no guarantee of future results.**

Volatility happens. It's not a new concept, and those of us in retirement plans should fully recognize this. So before taking drastic steps in your retirement accounts, let's review a few of the high points of contributing to a 401(k):

WHY DID I INVEST IN A 401(K) PLAN IN THE FIRST PLACE?

The concept of saving for an event that may be 10, 20, or 30+ years away is sometimes difficult to comprehend, especially when a large majority of the workforce lives paycheck to paycheck. A 401(k) – by definition – is a tax advantaged defined contribution account offered by many employers. By design, a 401(k) is a longer-term savings vehicle to meet future needs post-career. When considering participation, one's time horizon and investment goals should be taken into account when deciding how much to contribute and what to invest in.

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THE BEAUTY OF A MATCH

Certain employer-sponsored plans offer some form of matching or employer contributions. Regardless of market return, if a participant was to invest, for hypothetical purposes, 3% of his/her $50,000 salary per month that would equal $125 for a total of $1,500 per year. If the company makes a matching contribution of 100% up to the first 3%, that puts an additional $1,500 into the 401(k). Where else would a participant get a 100% return? Yes, this idea doesn't take into account any investment holdings, but in this example, the participant balance would be double the initial contribution simply by taking advantage of the employer match.

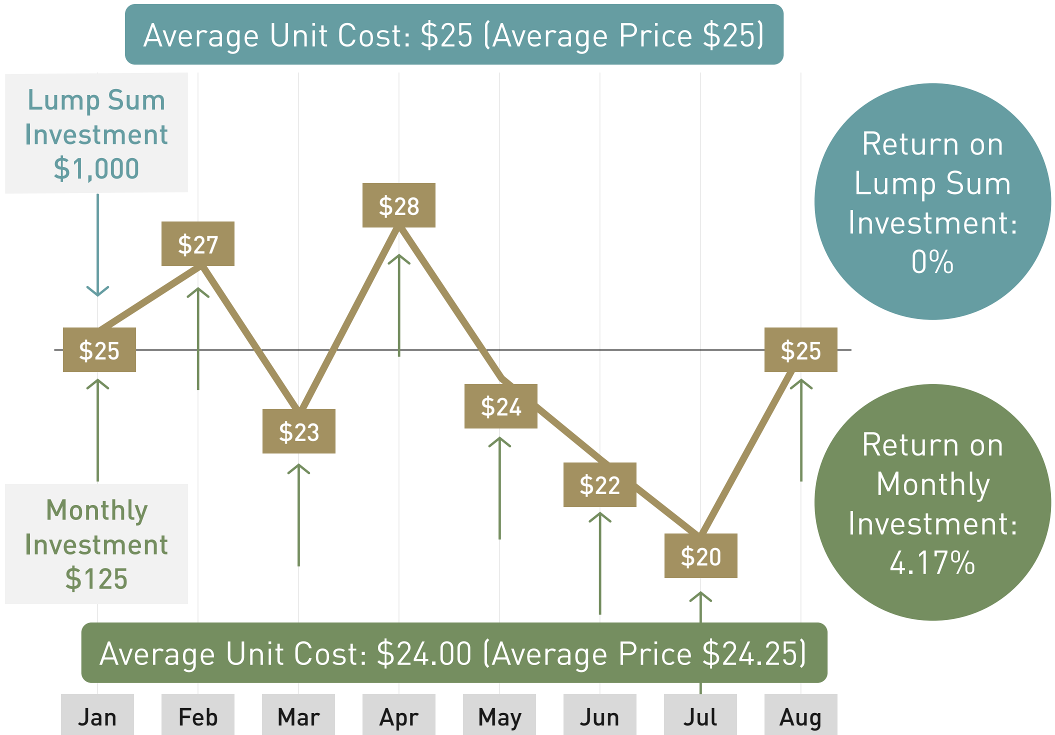
Automatic enrollment and auto-escalation are two newer (within the last 15 years) plan provisions that allow a participant to opt out of participating rather than having to pull the trigger on their own. These features are necessary today because as a country we are widely under-funded overall in terms of retirement savings. As the evolution from Defined Benefit/Pension plans to Defined Contribution/401(k) plans continues, employees should embrace the opportunity to contribute towards retirement.

ONGOING CONTRIBUTIONS TO RETIREMENT PLANS ARE A GOOD WAY TO DOLLAR-COST AVERAGE

Dollar-cost averaging is a strategy by which a retirement plan participant places a fixed dollar amount into a given investment on a regular basis. Returning to our example with the participant contributing 3% of pay, $125 a month would be split into $62.50 per paycheck. This is a meaningful way to accumulate more shares when the investment is down and fewer shares when the price is higher. If the market is down, it becomes an opportunity to buy more shares, thus creating a higher balance when the market returns to normal/rises.

Think of it as of a way to remove the emotion from investing. Having your company withhold this money from your paycheck and deposit it into your 401(k) account gives you the opportunity to benefit from buying at the lows and adding to the overall shares that you have.

HYPOTHETICAL ILLUSTRATION: HOW DOLLAR-COST AVERAGING CAN HELP RETIREMENT INVESTORS

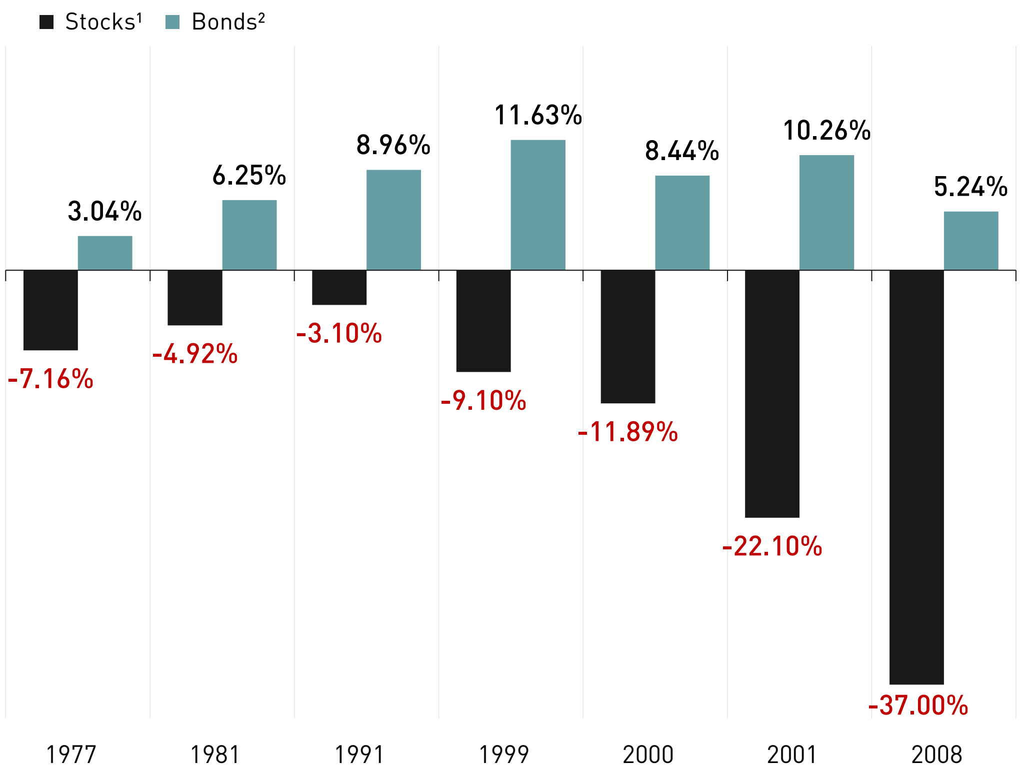


MARKET VOLATILITY IS A GOOD REMINDER OF WHY DIVERSIFICATION AND REBALANCING SHOULDN'T BE FORGOTTEN

The S&P 500 is down somewhere between 20-30% over the past 3 weeks. Whether you are invested in large/mid/small cap stocks, it has been hard to hide from recent losses. There are, however, categories that have held up much better relative to others. The Morningstar Core Bond category average, for example, was down less than 1% over the past week and actually up almost 2% over the past month. If you were to look at calendar-year returns in times where the S&P was negative, bonds acted as a great cushion to negative equity returns.

Most plans will have a 'core' bond fund along with some type of cash option or a stable value portfolio. Over the last 5-10 years, we have seen more plans start to include additional options such as multi-sector, high yield, global, and even inflation-protected options. Not all bonds act alike, but these types of options could potentially act as a source of stability when equity markets go awry.

CALENDAR YEAR RETURNS FOR STOCKS AND BONDS (1977-2008)



Source: Standard & Poor's (S&P 500® Index), Ibbotson Associates, Barclays. **Past performance is not a reliable indicator or a guarantee of future results**.

MAKE PRAGMATIC, NOT EMOTIONAL DECISIONS

Market volatility tends to encourage emotional decisions. Just take a look at the most turbulent quarters over the past 20 years and the negative flow numbers that accompany most of those timeframes.

The oldest rule in investing is buy low, sell high. 401(k) participants generally are saving for longer time horizons. Taking an extended view of the markets can assist retirement plan investors in times of volatility like these.

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- For more information, contact us at **888-522-2388** or visit lordabbett.com.

Past performance is no guarantee of future results.

[1]Stocks as represented by S&P 500.

[2]Bonds as represented by Barclays U.S. Aggregate Bond Index. Stocks are subject to greater risk and market volatility, while investing in the bond market is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. High-yield, lower-rated securities involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. For illustrative purposes only and does not represent any specific Lord Abbett mutual fund or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees and expenses, and are not available for direct investment. Diversification does not guarantee a profit or protect against loss in declining markets. Due to market volatility, the market may not perform in a similar manner in the future.

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