Is Your 401(k) Plan Perfect?

BY HAL SCHWEIGER

There are many weak small business 401(k) plans.

Many plans worked fine when they were originated. However, as the plans grew, costs may not have stayed competitive and features may not have been added that are available today.

Financial advisors that recommend plans to plan sponsors are financially liable for being a fiduciary for their plan.

Compare the plan you offer with the following description of the features of a perfect 401(k) plan:

- 1. Participants are automatically enrolled in the plan. Participants can have the option of opting out of the enrollment but have to actively choose that option. This increases participation.
- 2. In order to encourage maximum participation, the plan sponsor makes a safe harbor match for all employees.
- 3. The plan allows an automatic annual deferral increase for those that do not elect the maximum deferral at sign up. This encourages participants to continue to save at the recommend savings rates necessary for a reasonable retirement. Participants can opt out of the deferral increase at any time.
- 4. Participants can choose a limited set of diversified portfolios that vary in risk and return. These portfolios are rebalanced annually to maximize investment diversification and minimize participant confusion.
 - 5. The investment portfolios emphasize low-cost, high-performing passively managed funds.
- 6. Participants receive custom education that is focused on their specific needs. You, the advisor, review the participant accounts for participation rates, participation savings rates, portfolio selections, changes in portfolio selections, etc.
- 7. Participant loans, withdrawals, hardship withdrawals and termination cash-outs are restricted to encourage savings. Automatic rollovers to IRAs are performed on all accounts at termination prior to retirement age to minimize early cash-outs of accounts.
- 8. Your plan uses great, unbundled providers to supply plan administration services for reasonable fees. All fees are disclosed and documented and there are no hidden revenue sharing arrangements.
- 9. The plan Investment Policy Statement clearly describes how plan investment choices are selected and monitored, and participants have ready access to this document.
- 10. The plan advisor monitors the IPS with the plan sponsor each year. Adjustments to the IPS are made when necessary or if conditions dictate. This monitoring function is fully documented and kept in a file for auditing purposes.

Selling a plan that incorporates all 10 elements will help the plan sponsor fulfill its fiduciary responsibility and thereby help participants invest toward a better retirement. If you find that the plan you are selling is missing several of these features, it is time to make changes.

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