4 Keys to a Successful 401(k) Offering for your Employees

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American workplace retirement plans have come a long way in the past few decades, offering increased quality and efficiency.

More than 97 million Americans participate in defined contribution plans with assets in excess of 7.5 trillion. (Source: Vanguard, How America Saves 2018, June 2018). Workers that take full advantage of workplace savings opportunities will collectively be among the best prepared retirees in U.S. history.

As a business owner in today's economy, it's imperative that you offer a quality plan to put your company in the best position to attract and retain talent. However, managing all that goes into setting up and maintaining a plan can seem daunting. This guide contains 4 ways to make sure your company's plan is in the best position it can be.

1. Know Your Role as a Fiduciary

The Employee Retirement Income Security Act of 1974 (ERISA) regulates employer-sponsored retirement and welfare benefit plans. One of the primary purposes of the Act is to impose specific duties on plan fiduciaries. Thus, it is extremely important that business owners and plan sponsors know their role as it pertains to this fiduciary duty:

Duty of Loyalty

- A fiduciary must perform his or her duties solely in the interest of participants and beneficiaries, for the exclusive purpose of
  - Providing benefits to participants and beneficiaries, and
  - Defraying reasonable expenses of administering the plan

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Duty to Act Prudently

- Fiduciaries may need to hire or consult with an expert if they do not have the expertise on their own.
- Acting in good faith is not sufficient.
- A prudent decision-making process can be more important than the outcome of a decision.
- Decisions and meetings should be properly documented.

Duty to Diversify Investments

- A fiduciary should act to diversify investments so as to minimize the risk of large losses, unless, under the circumstances, it is clearly prudent not to do so.
- Diversification is measured with respect to the plan's entire assets, not at the level of the individual manager or investment option.

Duty to follow plan provisions

- Fiduciaries must follow the terms of the governing documents for the plan.
- The plan document provisions should be periodically reviewed and kept up to date.
- Other plan-related documents (e.g., the investment policy statement) should also be considered when carrying out this duty.
- Consistency across plan-related documents is important.

ERISA §409 provides that "Any person who is a fiduciary with respect to a plan who breaches any of the responsibilities, obligations or duties imposed upon fiduciaries by this subchapter **shall be personally liable to make good to such plan any losses to the plan resulting from each such breach..."**

2. Review Plan Fees Annually

A key component to fiduciary duty is making sure that ongoing plan fees and expenses are in line with the current marketplace.

There are two key reasons why you want to review plan costs annually:

1. Advances in technology
2. Changes in the size/makeup of your company

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When workplace savings plans emerged a generation ago, they rose in many corners of the financial services industry. Service providers for the new plans were to be found in broker-dealers, insurance companies, banks, and mutual fund companies. For many firms, the new savings market represented an important distribution channel for their financial products.

Decades later, as the market for workplace retirement plans and IRAs tops $17 trillion, the retirement savings juggernaut is maturing and standing as a substantial financial services industry sector in its own right. There are still all kinds of providers out there in terms of plan offerings, but the high-touch, high-technology sophistication of today's plan marketplace has significantly driven down the end costs of running a plan year to year.

No matter what type of advisor/company you use to run your plan, the pricing is nearly always based upon the number of active participants and/or amount of assets in the plan. Due to this, changes in your employee count and structure over the years can have a drastic effect on your plan's pricing. A plan that might have made sense starting out with little assets and 5 employees likely is not the best answer at a few million of assets and 30 employees.

It is very unlikely that those responsible for administering the plan (recordkeepers and third-party administrators) are going to come back to you and offer to take a pay cut. The responsibility lies with the business owner to be diligent in knowing if they are paying too much based upon the company's current employee makeup.

3. Use an Independent Financial Advisor for the Plan

Increasingly, independent financial advisors are looked to as a source of offering conflict-free retirement solutions that are open-architecture in design and offer best-of-breed services from different providers. This enables advisors working in a completely independent model to work on behalf of their client, unencumbered by fund selection or other boundaries typically found with advisors affiliated with a wire house, broker-dealer, or insurance company.

Advice, not sales.

Independent advisors are in the business of providing advice, not selling. They don't have sales quotas to push certain products. Instead, they are free to find you the best solution and help you with all aspects of your financial life.

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Lower-expense products.

Investment expenses matter to your future. The more you pay in expenses each year, the less money you have working for you. With compounding, higher-expense products can dramatically reduce what you will have left at retirement. Independent Registered Investment Advisors have a fiduciary duty to select investments with reasonable expenses.

Paid by fees, not commissions.

Independent Registered Investment Advisors are paid directly by you through fees. This fee structure is usually simple and easy to understand, since that's how you likely pay your other professionals (e.g., accountants and lawyers).

Interests aligned with yours

Most independent advisors' fees are a percentage of your account balance, so the advisor is usually incentivized to grow your accounts. They only make more money when you do.

4. Offer an Employee Financial Wellness Program

Wellness solutions offer a 360-degree approach to wealth management that takes into account the full measure of clients' financial lives:

- Estate Planning
- Risk Management
- Goal Planning
- Cash Flow Management
- Investment Management Strategies

Well-constructed wellness solutions help guide retirement savers to better outcomes, but these solutions have been historically offered to only the largest companies given their cost. However, with advances in technology and the ability to lower the overall cost of operating a small retirement plan, cutting-edge advisors have been able to package financial wellness services into their core offering for small business owners. There is no doubt that other market leaders will follow suit, helping to address the financial education gap between small and large market workers.

Conclusion

As retirement plans undergo seismic changes in regulations, technology, and market practice, it is imperative that business owners make sure that their plan is on the cutting edge of these changes. An experienced advisor can help small business owners identify retirement plan types, service models, and cost structures most appropriate to their needs, regardless of plan size.

For more information on how a plan advised by Oxford might be a fit for your business, contact **Tyler Henderson** today at **tyler@oxfordfp.com** or **513-469-7014** or schedule online at **www.oxfordfp.com**.

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