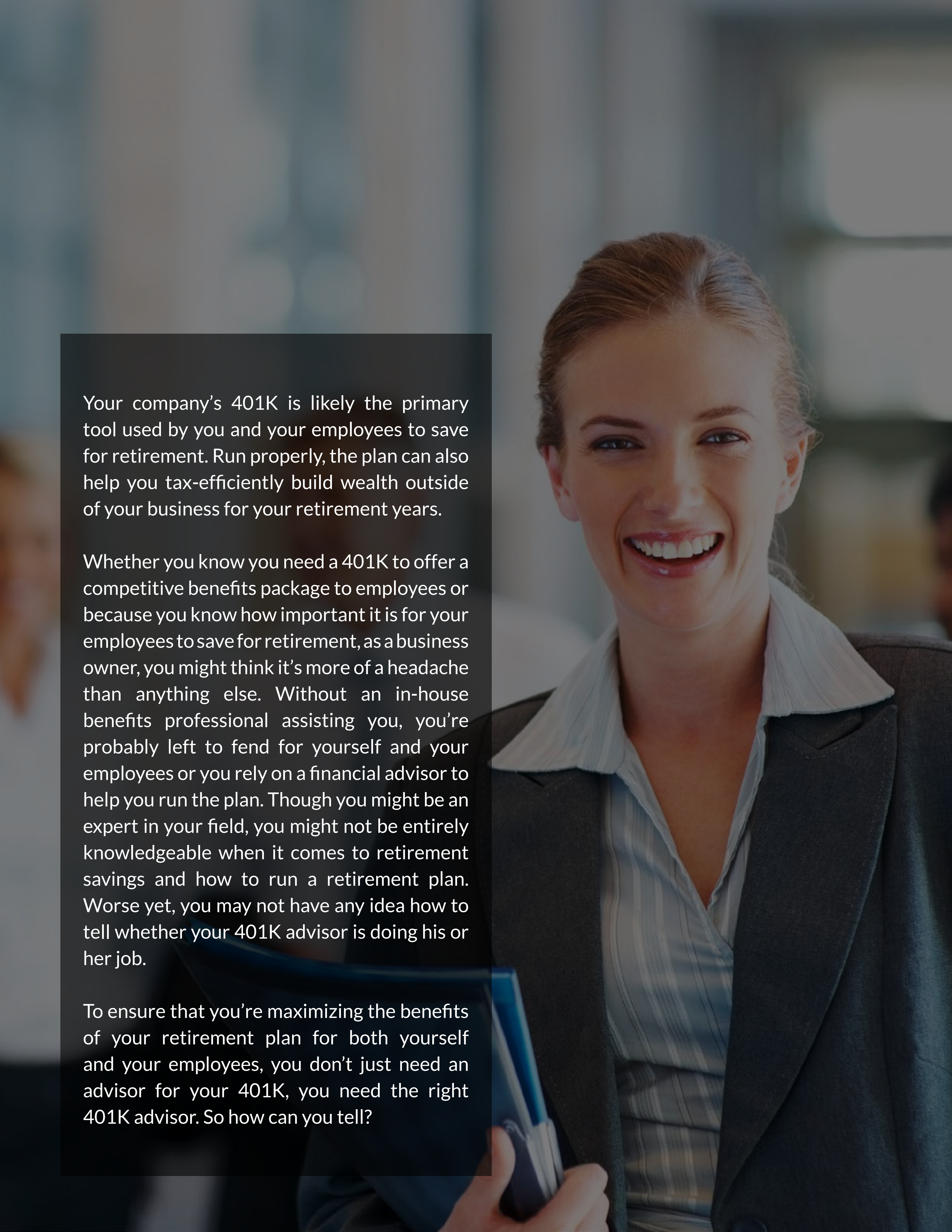
The Business Owner’s Guide to

Choosing the Right 401K Advisor

THAYER PARTNERS



Your company's 401K is likely the primary tool used by you and your employees to save for retirement. Run properly, the plan can also help you tax-efficiently build wealth outside of your business for your retirement years.

Whether you know you need a 401K to offer a competitive benefits package to employees or because you know how important it is for your employees to save for retirement, as a business owner, you might think it's more of a headache than anything else. Without an in-house benefits professional assisting you, you're probably left to fend for yourself and your employees or you rely on a financial advisor to help you run the plan. Though you might be an expert in your field, you might not be entirely knowledgeable when it comes to retirement savings and how to run a retirement plan. Worse yet, you may not have any idea how to tell whether your 401K advisor is doing his or her job.

To ensure that you're maximizing the benefits of your retirement plan for both yourself and your employees, you don't just need an advisor for your 401K, you need the right 401K advisor. So how can you tell?

The #1 Key Question to Ask Your 401K Advisor

Here's an amazing fact: According to The Retirement Advisor University, less than 2% of all financial advisors in the US manage more than ten 401K plans while 75% of advisors have 3 plans or less. Think about that for a minute. That means that 98% of the 330,000 financial advisors in the US do not specialize in 401K plans. Rather, they come across a plan because a business owner or CEO friend knows and likes him and assumes that, because he is a financial advisor, he is skilled to manage a 401K plan, one that is subject to ERISA. The advisor takes the business, because why not? He knows he can do enough to get by.

So here is the key question to ask your current 401K advisor or one you are looking to hire: how many 401K plans do you run? What are your credentials? If there is any ambiguity, exercise caution because he may not be trained, specialized, or experienced to run your retirement plan. You wouldn't hire a mechanic who fixes only two cars a year, or an airline pilot with similar experience. If he makes no effort to dedicate the time to become accredited, go to conferences, or read up on the latest retirement plan trends and best practices, why would you hire him? What could he bring to the table?

Make Sure Your Advisor Is a Fiduciary on the Plan

For bonus points, ask your advisor if he serves as a fiduciary on your 401K plan. Listen carefully to the response and ask him about his fiduciary accreditation (one of the most common is an AIF® or Accredited Investment Fiduciary). You are not asking if the recordkeeper/insurance company offers some kind of fiduciary service (called a 3(21) or 3(38) service), you are asking if he serves as a named fiduciary on the plan (as a 3(21) or a 3(38) fiduciary, as defined under ERISA, the federal statutes governing retirement plans). You are asking if he is personally liable for the plan. This fiduciary role has become an extremely important consideration as employers have become savvier. In most cases, it would make sense to look for an advisor that serves in as a fiduciary for your plan.

Educating Your Employees, Increasing Plan Participation, and Improving Plan Design

Your company's 401K plan is critical to not only your own retirement but that of your employees. You want to be able to maximize the plan's benefits by educating your employees and increasing participation so they can gain the full advantage of the plan you offer. Having an advisor who can provide your employees with group education meetings can increase employee participation in your plan and help employees be better prepared for retirement. The gold standard, however, is offering your employees advice (which only a fiduciary can do) via one-on-one retirement planning meetings with the plan advisor each year. Because it can be time consuming (e.g., 20 minutes multiplied by the number of 1:1 meetings), it can cost extra, but it is usually well worth it.

Just as employee education and advice could be described as "pulling" someone into a plan, plan design could be described as "pushing" someone into the plan by providing incentives to save more. Education and plan design must work together for the best retirement outcomes. Examples of basic 401K plan design include having a Safe Harbor match, a basic match, or offering a ROTH 401K. More advanced examples include auto-enrollment, auto-escalation, a Stretch Match, and New Comparability. To maximize savings for your HCEs, you might consider pairing your 401K with a Defined Benefit or Cash Balance plan. If many or most of these terms are new to you, then you are not getting much value from your advisor and likely have a Two Plan Tony on your hands.

Funds and Fees

Funds and fees are two other major areas where the right advisor can add enormous value. For example, 401K plans hold either passive or active mutual funds. Passive funds are index funds that are very low cost and track their respective benchmark using computers (e.g., the S&P 500 index fund will track the S&P 500 Index, less nominal expense and something called Tracking Error). Active funds are mutual funds run by investment teams (i.e., real humans) who pick the strategy and the individual stocks or bonds. The investment teams are highly skilled, highly paid, and may execute frequent transactions for their strategy. As a result, active mutual funds generate higher fees and operating expenses than passive, index funds. Active managers believe they offer strategies that protect assets during times of volatility.

In 2014, 80% of all active mutual funds underperformed the market, according to S&P Capital IQ Fund Research. You probably have a plan with many active funds. Consider then, using some passive funds in your plan! Remember that if you are the trustee of your 401K or help run it, you are a fiduciary, meaning that all of your decisions must be made in the interest of the employees in the plan. Remember also that, as a fiduciary, you are not required or even encouraged to beat the market, which is why having low cost index funds that track the market could make a lot of sense.

Another key area of your plan is fees. There are three basic fee buckets:

- ☑ what you pay for the investment funds
- ☑ what you pay for administration (a.k.a. the recordkeeper or third-party administrator)
- ☑ what you pay the financial advisor

The good news is that they have all been under the spotlight. The recent federal requirements for these three parties to disclose fees have increased the scrutiny, the litigation, and both employer and employee awareness. As a result, there's a big opportunity for most employers managing a 401K to slash fees. In fact, it is not uncommon for us to find significant savings in plan fees just by changing recordkeepers and/or using index funds instead of active funds in the plan.

Peace of Mind for You and Greater Satisfaction for Employees

An expert 401K advisor can offer your company a retirement plan that meets strict fiduciary and legal standards and is designed to prepare both you and your employees best for retirement. Through the use of an advisor who specializes in retirement plans, you'll have a better understanding of your plan responsibilities, greater peace of mind knowing the plan is being managed to fiduciary standards, in line with your plan objectives, and potentially better retirement outcomes for your employees through education, advice, and plan design.

Thayer Partners is an independent investment management and benefits firm, providing fiduciary and consulting services to business owners and their employees. Whether you need assistance with a personal or corporate retirement plan, health insurance plan, long term care, or business valuation, Thayer Partners can help.

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