

Cut Unnecessary Costs to Improve Your 401K Performance Frugal Finances

Especially in the last year or so, most plan participants are asking: what is going on with my 401(k)? However, most plan sponsors are not.

That's because, unlike benefits such as health insurance which must be evaluated at the end of each term, most 401(k) plans roll over from year to year without a review. As a result—while markets and businesses continually change—401(k) plans usually don't, unless sponsors ask for it.

Asking for a plan review often results in reduced costs which, over time, can significantly improve a plan's performance. Small and mid-sized businesses owners, who are generally the largest investors in their 401(k) plans, have the most to gain by improving performance. For many larger companies which have been reducing benefits this year, it could mean giving something back to employees.

Most sponsors don't initiate a review of their plans because they worry it will mean a complicated move to another plan provider. However, improving plan performance usually doesn't require major changes to the plan. It's often a matter of doing some benchmarking—such as comparing your administrative and record-keeping fees and investment line-up of options— and then going back to the vendor and asking them to sharpen their pencil.

Keeping Up with Market Changes

While it seems counterintuitive that, with everything that's happened in the market, some plans now qualify for a better share class, many do. Although some plans lost up to 40% of their value last year, over a longer period, many plans have grown significantly. A 401(k) plan that was established four or five years ago could have accrued assets which now qualify it for a better share class, which means an improved fund expense ratio. Even a 1% reduction in fees can result in a much more substantial nest egg over the long term.

Or if the plan's assets have grown and the provider is collecting more revenue than is necessary to run the plan, the company could qualify for a better share class.

If a company has experienced layoffs and the remaining participants are well-invested in the program, it could mean a higher average account balance. That could also qualify the plan for a better share class.

In addition, some plans have asset-based fees which cover various services, including administrative, record-keeping, compliance and advisor services. However, as the assets have change, it's possible the services haven't. For example, when the plan was designed, perhaps it was comprised of \$1 million in assets and the asset-based fee was 1% or \$10,000 a year. Now, six years later, the plan is worth \$2.5 million and the asset-base fee is still 1% or \$25,000. It may be time to review and determine if the fees are commensurate with the value of those services.

Most plan providers and brokers do not regularly assess plans to determine if they now qualify for a better share class or reduced fees. Today, with companies tightening their belts and reducing 401(k) plan matches, the time has never been better for plan sponsors to take a look at their plans and see if they can improve performance. After a thorough review, both employees and sponsors are likely to be in a better position with their plans.

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