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KNOW YOUR PLAN ADVISOR'S ROLE

While plan sponsors crave simplicity, having a competent team of advisors and understanding their various roles is crucial in the smooth operation of a 401(k) Retirement Plan. A good plan sponsor will know who these people are, what function they perform, and how much and by whom they are getting paid. The sponsor has a fiduciary duty to monitor and shop their advisors and plan operations.

401(k) plans are typically run using either a bundled or unbundled approach. In a bundled approach, the investments and administrator appear to be the same company. This is typical of large plans and those offered by payroll companies. The new Pooled Employer Plans (PEPs) and the updated Multiple Employer Plans (MEPs) also fall into this bundled category. While there is some degree of ease in administration and the possibility of lower fees, often service suffers because the point of contact, the broker, is not an expert in the payroll or administrative issues that arise.

These bundled plans often offer fewer investment choices and restricted plan design. The client never really knows who is being paid for what services because they are all "bundled" into one pricing and packaging. I personally feel this is an inferior way of offering 401(k) plans because "simplicity" may cost you more in time and money in the long run. For more on this approach, click here.

In an unbundled approach, each component of the plan is shopped separately. By being engaged as a plan sponsor, you can gain the expertise needed from each party as well as benchmark them against others in their field. Here is a basic outline of the players and the roles they play:

PAYROLL DEPARTMENT

In a small company, usually the payroll is handled by the bookkeeper or in-house staff. Companies may also use a payroll service or HR department. Because 401(k) plans require employee participation, it is critical that the payroll person understand how to make and report 401(k) deferrals. This is often where the plans break down. All payroll software has a 401(k) line in the employee withholding section and it is generally not a problem, however appointing a direct contact is critical when setting up this process.

Most mistakes are made at this level and generally this is the responsibility of the plan sponsor in an unbundled approach. Educating the payroll person is the job of the Financial Planner and TPA when setting up these plans. Using outside payroll companies should not be a problem if the time is spent setting it up right the first time.

THE INVESTMENT BROKER OR FINANCIAL PLANNER

This person is often the first point of contact. They are responsible for presenting the investment alternatives to plan sponsors. They meet with the company owners to discuss what type of investments they want in the plan. It is their job to educate and enroll participants into the plan. They also act as a liaison between the plan, the investment company, and the third party administrator. They are generally paid by the investment company in the form of commissions; however, some may act on a fee only basis.

They are important because they can answer the day-to-day questions from plan participants. What is a mutual fund? What is a bond? How should I allocate my money? A good financial planner will also help participants with their personal financial situations. Good communication skills and expertise in investments alternatives are important in a good financial planner.

THE INVESTMENT COMPANY

These are the big insurance and brokerage companies that hold the money. They are often called Wholesalers or plan custodians because they offer their investments through financial planners. For a link to see the investment providers we work with, click here. They offer the investments and hold the accounts. Most have websites that allow participants to see and change their account allocations daily. They may also help the financial planner with enrollment and participant education. They may offer their own funds or use an "Open Platform" that allows the plan sponsor to add outside funds to the fund menu.

Often, dealing with these big companies can be hectic as they each have their own forms, rules, and procedures. By having a good Financial Planner, administration is simplified by having that one contact. The investment company gets paid a percentage and other fees out of the investment accounts, and pays the financial planner. When shopping for investment companies, look at returns, fees, and ease of communication for the participants to determine which company best fits your needs.

THIRD PARTY ADMINISTRATOR

The TPA is responsible for plan design, documents, compliance, and government reporting. We are usually paid on a direct fee basis and may offset any amounts the investment companies may pay us. We are important because we are the first line of defense against the Department of Labor and the IRS. By running proposals with plan design alternatives and working with the Financial Planners and investment companies, we create plans that best fit the company. Our fee schedule is here.

Having a good TPA is critical to the smooth operation of the plan. The investment people do not have time to keep up on the constantly changing rules and regulations. We don't recommend or sell investments. Our sole focus is compliance and accuracy of the administration as well as plan design. A good TPA will save employers money by offering a sophisticated plan design instead of a cookie cutter approach of a bundled plan.

INDEPENDENT CPA AUDITOR

When a 401(k) plan has more than 100 participants, the regulations require the plan be audited by an independent CPA. They are paid a fee and check the work of the other parties. They are hired by the plan sponsor and annually charge a few thousand for their work. Their audit report must be attached to the Form 5500 at the time of filing. Timeliness, fees, and the ability to work with the other players is crucial in choosing an auditor.

INDEPENDENT TRUSTEE OR FIDUCIARY SERVICES

Large plans will often hire an independent trustee to act on the plan sponsor's behalf. These people are paid a fee for services to act as the trustee. They may shop the investment and TPAs, and step into the position of trustee for the employer. I do not believe they are worth the money for small plans but have a role in the large plan market. By having an expert handle your plan, a large company is potentially relieved of fiduciary liability with respect to the plan. There are 3(21) Co-fiduciaries and 3(38) Fiduciaries. For more information on what every fiduciary should be doing, click here.

BOTTOM LINE

If you are using a bundled approach, ask for the responsibilities and roles of each party, and how much they are getting paid and by whom. In an unbundled approach, check fee schedules, plan design and the quality of service. These plans are excellent employee benefits and tax plans when all the parties are working together. We hope this basic outline will give you the knowledge to make your plan work. Need help? Contact us today for a meeting or proposal.