Managing a business can feel like playing a game of Whac-a-Mole: Tackle one problem and another one pops up. Providing the best product or service to your clients is a full-time job in itself, but clients aren’t the only important part of your business—you also have to think about employee satisfaction and loyalty.

Offering a 401(k) plan to employees can be a great benefit to help attract and retain the employees you need to build your business, but it can be a hassle to manage, and not all 401(k)s are created equal.

For smaller companies in particular, 401(k) plans are often riddled with underperforming or expensive fund options. Smaller plans may also charge additional record keeping and advisory fees. This is particularly troubling because the companies that sponsor 401(k) plans are legally liable if they have expensive or imprudent investment options in the plan.

At times, the high fees and inferior options in many plans make it more attractive for participants to invest on their own rather than in the plan, despite there being more latitude to contribute to a 401(k) because contribution limits are higher than for other tax-deferred accounts like IRAs.

The truth is that many qualified retirement plans were either designed by individuals with no expertise in picking mutual funds or by financial representatives who don’t monitor the funds in the plan on an ongoing basis because their incentives are not aligned with the plan participants and sponsors. These critical elements could be negatively influencing your plan’s future.

Select Great Funds

Within U.S. large-cap core funds over the past twenty years, the difference between the top-performing and the bottom-performing mutual fund each year has averaged a whopping 60%. If you happen to pick a winner in any given year, you are likely to have drastically better performance than someone who invested in the worst performer.

That difference can be particularly acute. For example, in 1999, the top-performing large-cap fund was up 120% while the laggard of the group lost 22%—a 142% gap!

To be fair, it is virtually impossible to foresee which fund will be the top performer in any given calendar year, but long-term performance is more predictable. Avoiding expensive funds run by underperforming managers is a critical ingredient for building wealth. For example, from 2015–2017, the difference between the top and bottom quartiles of mutual funds was over 10%. For an account worth $100,000, that can mean a difference of over $10,000 over three years!

Selecting great mutual fund managers, or at least steering clear of chronic underperformers, is one surefire way to improve a 401(k) plan.

Monitor Expenses

We invest in a 401(k) because we want to make money. And the less we pay in fees and expenses, the more we get to keep for retirement. First, the good news: With the advent of low-cost passive investing, average expenses in mutual funds have been dropping. The bad news is that
Set It, Don’t Forget It!

In reality, many plans are not set up poorly but can devolve over time if left unmanaged. It is critical to have someone monitoring for potential improvements and pitfalls on an ongoing basis. Star portfolio managers can retire, leaving their old funds less desirable to invest in. New or lower-cost strategies come online that weren’t available before. Retirement laws change. All of these potential changes require a professional with experience managing qualified retirement plans.

The Role of the Qualified Plan Adviser

There are plenty of investment and legal challenges associated with establishing and growing a 401(k) plan at your business, but the benefits of tax-deferred growth for retirement are difficult to ignore. Both employer and employee can be much better off with an established plan.

A plan adviser can add value in a number of ways:

- **Evaluate** an existing plan and determine if better investment options are available. A plan adviser can also compare different record keepers and custodians to determine if it is worth switching to a new provider.
- **Monitor** the investment landscape to identify mutual funds that should be added to the plan investment options.
- **Update** model portfolios of mutual funds within the plan so participants can maintain a diversified, risk-balanced investment strategy.
- **Educate** and work with individual plan participants to formulate an investment strategy appropriate for their personal 401(k) account.

Despite the complexity, building and maintaining a qualified plan is well worth the effort. The ability of employees to make significant contributions to their own retirement, along with that of employers to match contributions, means your plan can become a tool to attract and retain talented individuals and grow your business (along with your retirement savings) over time. Incorporating an experienced registered investment adviser into your plan can improve the quality of investment options and the quality of life for your participants.

**Questionnaire**

While many company 401(k) plans can benefit from a second set of eyes reviewing the investment options, outsourcing your 401(k) management is not for everyone. Please complete the questionnaire below to see if hiring an investment adviser is right for you.

Has managing your company’s 401(k) plan distracted you from other work responsibilities?
A. No B. Yes

When was the last time an investment professional reviewed your 401(k) plan?
A. Less than a year ago B. More than a year ago

Are there hidden fees in your 401(k) plan?
A. No B. Yes/Unsure

What is the lowest-cost investment option in your plan?
A. Less than 0.5% B. More than 0.5%

Would your employees benefit from an educational seminar with a financial adviser?
A. No B. Yes

Are you satisfied with the current investment options in your 401(k)?
A. Yes B. No

If you answered ‘B’ to one or more of these questions, it might be worth consulting with an investment professional about your company’s 401(k) plan.

If you have additional questions, or would like to go over your questionnaire with an investment professional, please contact us at your convenience. We know this is a big decision, so we look forward to having the chance to talk to you about all of your options. You can call Adviser Investments at 800-492-6868 or email us at info@adviserinvestments.com.