Is There a Cocker Spaniel Hiding in Your 401(k) Plan?

Would you expect to win a marathon carrying a Cocker Spaniel? Probably not. Could you win? Well, it is possible in theory, but unlikely. In some ways your company's retirement plan is like a marathon. Long term discipline, sacrifice and endurance can yield amazing results for you and your employees, unless you're carrying a Cocker Spaniel.

For the record I like dogs and have nothing against Cocker Spaniels but it is an absurd image: a runner on the road with a Cocker Spaniel clutched to their chest. In your company's retirement plan the dog may be your plan's investment fees. The average 401(k) plan's investment fee, for plans with less than fifty million dollars, is about one and one third percent.[1] Over time this may mean thousands of dollars for your retirement and millions of dollars for your plan and your employees.

You can set the dog down and run a better race.

There are a couple of reasons your plan's investment fees might be weighing your plan down. Many of the investments offered in plans today are actively managed funds and many of these funds pay your advisor a commission.

First, how does your advisor get paid? Maybe you're writing them a check for their services, using deductible dollars and a service schedule based on the services you want for your plan? You have control of your plan's fees and services.

Or, maybe an insurance company or an investment company is paying your advisor a commission based on a fraction of your plan's assets, with higher value accounts effectively paying more. To frame it another way, how comfortable would you be if your physician was paid by a pharmaceutical company for your treatment?

---

[1] Society for Human Resource Management "401(k) Plan fees Declined Slightly in 2012" by SHRM Online Staff 2/28/2013

http://www.shrm.org/hrdisciplines/benefits/articles/pages/401kbfeeseclined.aspx

Do you think this might color your doctor's advice? There is a better way.

You can take control of your plan's fees and services just like you do with your firm's tax and legal advisors by hiring a financial planner to objectively work with you and your plan.

Let's beat the market! Consistently! Say over the next couple of decades! Whatdaya say?

Sounds great doesn't it? However, this is more of a fantasy like the lost city of El Dorado than any resemblance to reality. The promise of actively managed funds is performance, but over time the vast majority of actively managed funds underperform relative to their corresponding benchmarks. As a trustee for your plan does it make sense to spend your time sorting through hundreds of options with your advisor hoping to find that rare gem? Remember that trite but true disclaimer that past performance means little about what might happen tomorrow or the day after that. Your time is probably better spent running your company.

While it is impossible to invest directly in any particular index, and every investment has some sort of expense there are investments tied to benchmarks with costs that are a small fraction of what you might be paying now.

Over the last decade there has been a meteoric rise in low cost investments tied to benchmarks and indices in most every asset class and many sectors of the economy. It is a bigger world than S&P 500 Index Funds. Meeting your fiduciary responsibilities of providing a diversified menu of quality investment options for your employees is as easy as it has ever been. Expenses for many of these investments are measured in hundredths of a percent, potentially cutting your fees by 70% or more.

Setting down the dog in your retirement plan is not a new idea. Laws in Australia, India, Italy, Germany, Great Britain, South Africa and Switzerland have outlawed commissions in retirement plans and there is a move to cap investment fees in many of these countries too.[2] Here in the United States the Securities and Exchange Commission and the Department of Labor are considering similar rules for retirement plans much to the chagrin of the financial services lobby. It is quite likely that someday the law of the land here in America may look a lot like those other countries with greater transparency for retirement plans. Why?

Competitive returns, low investment fees, and the services you want for your plan from an advisor you pay with deductible dollars can help your plan run a better race for you and your employees. It's going to be a long run so you might want to check your shoelaces and set down the Cocker Spaniel.

Douglas E. Richards, CLU, ChFC, CFP ®
Financial Planner
Crest Financial LLC

My ETF 401(k) ℠ **http://www.myetf401k.com**

Clear Fees. Clear Services. Clearly Different. ℠

---

[2] The Economist May 3rd 2014 Briefing: Fund Management