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DOES YOUR COMPANY'S 401(k) PLAN DESERVE AN A OR AN F?

A high quality 401(k) retirement plan that has top performing investment options, an experienced advisor and reasonable fees can help attract and retain talented employees.

At Shelter Rock Management, we are familiar with the intricacies of 401(k) plan design. As an independent firm, we are able to provide unbiased guidance and serve as an advisor partner with a wide variety of plan administrators. *Our 401(k) experience and know-how enables us to provide outstanding retirement plans for our corporate clients.*

Below, we have provided a series of questions and insights that can help you determine whether or not your firm is a candidate to have its 401(k) plan reviewed and upgraded.

DOES YOUR 401(k) PLAN HAVE HIGH QUALITY INVESTMENT OPTIONS?

One of the most common complaints by participants is the quality of the plan's investment options. It does not have to be this way!

- *Does your 401(k) have solid investment options?*
- *How does your plan's mutual funds compare to similar profiled funds from other investment companies?*
- *Does your 401(k) have mutual funds from many different investment companies?*

Many companies provide 401(k) administration including some of the largest mutual fund, insurance and payroll providers.

When we design a 401(k) plan that contains a roster of 30-40 mutual funds, it is a much different experience depending on the administrator that our clients have chosen. Some companies allow advisors to consider thousands of mutual funds from hundreds of different investment companies. Other 401(k) providers have much less flexibility. An advisor may only be able to consider less than a hundred mutual funds from several investment companies when designing a retirement plan.

DOES YOUR 401(k) ADVISOR ADD VALUE?

In a 2024 survey by conducted by the largest 401k recordkeeper, plan sponsors were asked what they value most about their advisors. The top three items mentioned were 1) improving participant outcomes (increasing employee plan participation, providing investment guidance and excellent service to their employees), 2) providing valuable plan design insights for their company's needs, and 3) providing objective guidance to make the right plan choices. The same survey also asked company employees what they value most about their 401k plan advisor. The top answers included researching the investment options and offering asset allocation and investment guidance for their unique profiles.

- *Does your 401(k) plan have an advisor?*
- *Does the advisor research the mutual funds and make occasional changes to the investment line-up so that the plan's quality and integrity does not erode over time?*
- *Does the advisor provide investment allocations that are suitable for different age, income and risk-tolerance level employees?*

We have reviewed a number of 401(k) plans that have high cash balances that can exceed 20% of total assets. This is a reflection of the participants being confused about how to invest their 401(k) accounts. Many companies do not have an advisor to provide guidance to their employees. Alternatively, some advisors may be inexperienced with investments or not engaged and helpful to participants.

ARE YOUR 401(k) FEES REASONABLE?

Many corporate executives and participants have little insight as to whether or not their 401(k) fees are high, low or competitive. Recent fee disclosure rules have improved transparency, but this is still a complicated topic for non-industry professionals.

- *Are your 401(k) plan administration fees reasonable?*
- *Do the investment options have high, low or competitive fees?*
- *Is the advisor fee reasonable?*

Most 401(k) providers allow companies to pay the administrator and advisor fee or these expenses can be passed through to participants. Regardless, these expenses should be evaluated to make sure that they are reasonable and competitive. However, in practice, these expenses can vary significantly based on the service providers chosen. Some 401(k) providers have a variety of different administration and investment cost structures within their own companies.

The investment option expenses can be less transparent than other 401(k) plan costs. These fees are embedded in the performance of the mutual funds that participants are able to invest in. Some 401(k) companies have much higher investment expenses than others. In fact, the exact same mutual funds offered to participants can have significantly different expenses based on the 401(k) provider that a company has chosen.

CONCLUSION

Many 401(k) plans can be significantly improved. The difference between a high quality 401(k) plan and a poor one can often be as simple as having the trustee sign a few forms to add or replace an advisor. In other instances it may make sense to switch providers.

Shelter Rock Management provides 401(k) expertise to small and medium sized businesses enabling them to offer outstanding retirement plans. If your management team has an interest in having us review your plan to see if it can be improved, please email us at info@shelterrockmanagement.com.