TRIUNE

# FinishStrong by Design™

**A newsletter designed to help you tackle the most pressing issues in today's increasingly complex retirement plan world.**

Volume 1; Issue 4

## *Is the First Investment Decision your 401(k) Participants Make also their Last?*

**August 2008**

In our last issue, we explored the **types of fees** charged against 401(k)'s and other retirement plan arrangements as well as how-to determine **what is reasonable**. We know that the **Pension Protection Act (PPA) of 2006** is causing significant movement within the retirement plan industry. Another component of PPA is the notion of a **Qualified Default Investment Alternative (QDIA)**. *What is it? Why is this significant? How does it affect me?*

**First, some background -**

**Every 401(k) and similar plan offering participant-directed investments must specify - in its plan document - a "default investment option".** This means that should a participant fail to elect investments for his/her account, the plan trustee must do so for him/her. To date, conventional wisdom has been to specify a "no-risk" investment option, typically a stable value, guaranteed account or money market. After all, as a fiduciary to the plan already subject to innumerable potential exposures, who wanted to intentionally expose a default-invested participant to any "risk" associated with the stock or bond markets?

**This is changing.** In the preamble to the Qualified Default Investment Alternative regulations, the Department of Labor explained: *"It is the view of the Department that investments made on behalf of defaulted participants ought to and often will be long-term investments and that investment of defaulted participants' contributions and earnings in money market and stable value funds will not over the long-term produce rates of return as favorable as those generated by products, portfolios and services included as qualified default investment alternatives, thereby decreasing the likelihood that participants invested in capital preservation products will have adequate retirement savings." (Emphasis added)*

**So what are my QDIA options?**

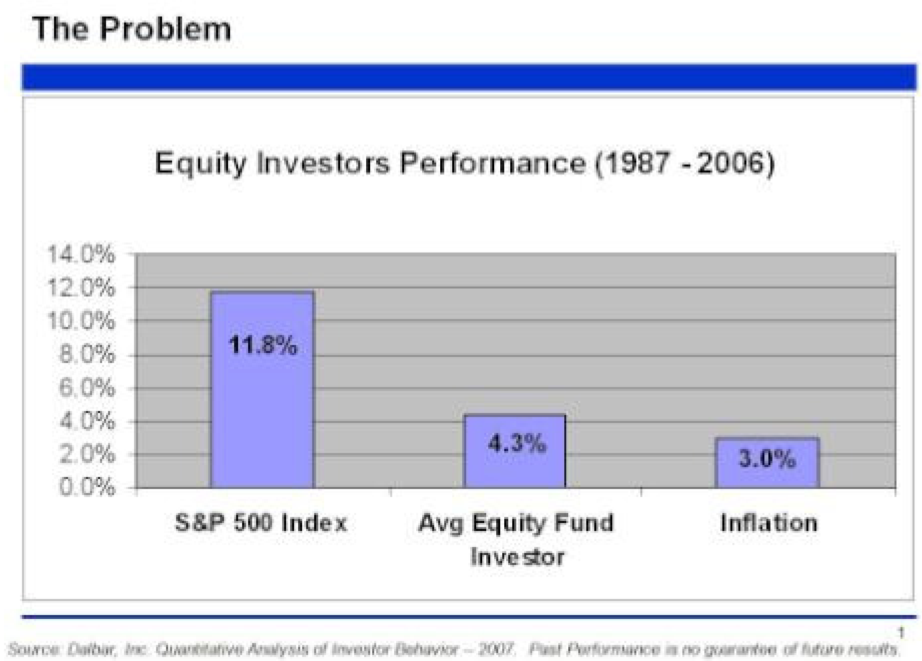
According to the PPA, acceptable choices include:

- So-called "Life-Cycle" or "Target Retirement Date" funds
- So-called "Life-Style" or risk-based funds
- Balanced funds
- Professionally managed accounts

Each of these options has 3 common characteristics:

1. Widely diversified across various types of investments
2. Rooted in asset allocation
3. Actively-managed

**Why is this significant?**
We would argue that, for once, the government is mandating investment strategies the Retirement Plans have been slow to adopt. Consider the following slide -




**Why this *alarming* disparity? Consider that the average 401(k) Particpant in America:**
- Changes her/his investments approximately once every 5.7 years.[1]
- Owns 3.3 mutual funds in his/her account[2]
- Makes investment decisions emotionally

**How does this affect you?**
The average retirement plan participant does not use the sound investment strategies now being mandated. For example, it is widely-accepted that asset allocation accounts for 91.5% of a portfolio's investment returns[3], and yet, most participants have no clue what this means. In other words, many participants do not modify their investment mix unless and until their employer forces them to do so by changing 401(k) providers (on average, approximately once every 7-10 years[4]). Thus, our real life experience coupled with industry stats has led us to pose these questions: ***For how many of your participants will their first 401(k) investment decision be their last? And what is your responsibility to help these people maximize their returns?***

**The Bottom Line**

Ironically, given the new QDIA regs, going-forward participants who are apathetic to their investment decision-making (i.e. they use the default option offered by the plan by failing to choose their own) are virtually assured to out-perform those who try to do it on their own!

*Have you updated your plan's default investment option? If not, do you have an investment option in your lineup that would qualify under the regs? Have you considered Automatic Enrollment? Are you informed as to the asset mix of actual participants within your plan?* **PPA may require all of the above.** If you need HELP to do so, just ASK. Please email finishstrong@triunefp.com with **"HELP!"** in the subject line or **CALL ME at 913-825-6100**.

In our Next Issue, we'll explore the topic of Automatic Enrollment and what it may mean to you and your participants.
Until next time,

*Geoff*

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1. Source: Fidelity Investments Institutional Service Company (FIISC). Fidelity, the nation's largest 401(k) recordkeeper, provides recordkeeping services for 1 in every 7 Americans.
2. Ibid.
3. Brinson, Singer & Beebower, Financial Analysts Journal
4. Source: Plan Sponsor magazine