Retirement plans set on autopilot aren't in your best interest

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Who is flying the retirement plan plane for your company? If you have set your controls on autopilot without a solid flight plan and regular course adjustment, you're a flight risk. Don't just 'set it and forget it'. However, if you've taken the autopilot approach to your company's retirement plan, know that you're not alone.

The single biggest mistake business owners make during these challenging economic times is to assume that because participants are in the plan, all is well.

For many companies, once the provider is selected for the plan, owners no longer think about it other than ensuring that the contributions are submitted appropriately. Think again.

Why? Well, like everything in life, things here are also constantly changing. The laws are continually being developed and adjusted not just in the investment funds but in the plan design. In fact many law changes have been made or are being discussed in light of the recent economic conditions. For example, the law now may allow you to get out of what were previously design mandated contributions under certain plan designs. Annuities may or may not become a requirement within plans. There is a sizable debate right now about investment advice to and appropriate investment alternatives for plan participants.

Lifecycle funds or "Target Date" funds have been increasingly popular over the past 5 – 10 years. Industry experts estimate that approximately thirty percent of retirement funds are now in these types of funds. Participants like them because they are easy to choose and the assumption is the fund company will manage the money appropriately up to retirement. The challenge with setting these lifecycle funds on autopilot is the assumption that everybody has the same definition of "appropriate". Income level, other assets and propensity for risk are all elements that are not a "one size fits all" but lifecycle funds treat everyone the same based on a date. In addition, it is often difficult to tell what underlying funds comprise these funds and what performance and fees are associated with them. Lastly, a big concern is that these lifecycle funds take you up ***to*** the target retirement date and not ***through*** it. I don't know many people that are ready to fully cash out on their retirement date. Most want their accounts to continue to grow and create income.

I feel the single biggest mistake business owners make during these challenging economic times is to assume that because participants are in the plan, all is well. Now more than ever, education is important and providing education protects you, the employer. Employers wanting to comply with ERISA are required to offer "periodic" reviews to plan participants. If your provider is not offering to do this on an annual basis at a minimum, consider looking elsewhere. Depending on your provider's arrangement, this education should be at little or no additional cost to the employer. Minimal efforts in providing education could keep you away from big costs in the courtroom.

Consider this scenario: Two years ago, a business owner had 30 employees. Due to economic conditions, they have had to reduce staff to 20. First, legally, a layoff of over 20% of the employees within one year has significant implications in the eyes of the Department of Labor and Internal Revenue Service from a plan perspective. That must be addressed. Then aside from the legal aspects, we think about the impact on those remaining 20 employees. What a boost in morale and in their financial future by making sure they have had the option to sit with the financial advisor for a no-cost, one-on-one review of their retirement plan. This is an employee perk at no additional cost to you, the business owner. If you're a business that treats your employees like family, a layoff is tough enough on everyone. Look for ways you can give them a boost without additional costs.

As a business owner and plan sponsor, you have an obligation to your employees to check in on the plan on a periodic basis. These periodic checks help you comply with Section 404(c) of ERISA and can mitigate your risks as an employer and trustee. Now is a good time to invite your provider in for an economic update and education for your employees on their current plan.

Chart and monitor your plan's course. Know where you are going and what the flight conditions are. Then find the best co-pilot to help fly your retirement plane to get you and your participants where you need to be. Expect no less.

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