

As seen in:



The Old 401K after a Good Bear Market

By Kelly L. Kazmierski,
Legacy Financial Services Group

Traverse City, MI --- My sister called me recently to tell me that she stopped paying into her retirement account at work. Her feeling was “why should I continue? I put a dollar in there and it turns into 50 cents the next day!” While a dramatic exaggeration of the truth, I see her point and have compassion. Except, she is 38 years old and won’t touch this account for 21 ½ years! That is plenty of time to allow the economy and the market do what it is going to do, three times over. Not to mention that whole, “buying in low; you-still-own-the-same-amount-of-shares-and-they-will-come-back-in-value,” concept that fuels my industry.

After the call, I looked at her plan online and was disappointed with her options as I often am when I analyze a 401K or retirement plan. They are so limited!

401Ks, 403Bs, 457 plans --- all these kinds of retirement vehicles are confusing. Not just to the average person but, even to the business owners that offer them or sponsor them. 401Ks got really confusing this year, as the Supreme Court ruled (*LaRue v. DeWolff*) in favor of 401K plan participants last February. This ruling allows employees, for the first time in history, to actually sue their employers directly for losses inside their accounts. Why? My guess; employers are the people offering the plan and as such, need to be aware of the plans’ benefits and limitations. In effect, they kind of are responsible, at least from a fiduciary stand point. Too many business owners don’t take that seriously enough.

What employers used to think is a “nice benefit they can offer that will help attract and retain high quality

employees” has become much more. 401Ks are fast becoming the main stream retirement option and, an expectation upon employment.

These plans *are* a great benefit. But now more than ever, business owners *need* to make sure their plans are up to par. Just like we review our home owner’s insurance, car insurance, investment accounts and schools our children attend, these items merit a review - routinely.

I manage 401Ks for small businesses. I also have a 401K. It is through experience that I can say there are some things about a 401K that are an absolute must going forward. I have about 22 things I need to see in a 401K to call it a good one but, here are three really simple things you should not concede on:

1. The fees have to be reasonable, disclosed and acceptable. These plans can carry administrative fees, investment management fees (either through separate accounts or an asset charge) and investment level expenses inside the mutual funds or separate accounts. Understand the fees and make sure they are reasonable. 3-4% a year in total fees can eat a lot of retirement dollars away.

2. The investment choices have to be top notch. These plans offer anywhere from 7-125 choices inside them. Regardless of the amount offered, these choices need to be the highest quality available. No low quality funds. No expensive funds that underperform their benchmarks. No funds that you can’t find or track data on. The investments offered are what people are buying into. The offerings have to be the best.

3. You need to know your 401K provider. Every time a person puts a dollar in their retirement plan someone, somewhere gets paid. That person is your broker, your salesperson, your administrator, call them what you want – they are the person you pay. Each plan participant needs to know that person and make them work for their paycheck. They should be a co-fiduciary with the business owner, making them accountable to the plan.

Those three things will bring you peace of mind and happy employees that are saving wonderful nest eggs for their retirement. They are simple and easy to locate inside your plan documents. Maybe it’s time for a New Year’s check up?

About the author: Kelly is an investment manager with fee-only Registered Investment Advisor, Legacy Financial Services Group, LLC. Alongside Legacy’s founder and CEO, Derek E. Weeks, Kelly specializes in bringing long term success and peace of mind to business owners and retirees.