



Why All Plan Sponsors Should Use An Organized 401(k) Recordkeeping Platform?

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A Question Often Asked

“The 401(k) program you are presenting involves expense ratios and extra asset charges. Why can’t we just open up some low cost mutual funds directly and avoid the costs?”

Features of Organized 401(k) Recordkeeping Platforms

- A Basic Menu of Selected Mutual Funds – Usually from Numerous Fund Families
- Allocations Preset on Computer To Automatically Spread Contributions
- Daily-Valued Accounts with Ability to Reallocate Money On Any Given Day
- No Minimum Initial Investment Requirements or Subsequent Purchase Requirements
- Source Accounting – Deferrals, Match, Profit Sharing, Rollovers, Roth
- Automated Payouts, Withholding and Filing of Withheld Taxes and Related Tax Returns

Why Not Just Buy Mutual Funds Directly?

- Would have to open several mutual funds in the name of each participant at one fund family or brokerage firm
- Need to meet the minimum initial purchase requirements for each fund
 - For example, a \$100 salary deferral will not meet most funds requirements particularly if the participant wants proper asset allocation which would require 7-8 funds
 - The initial and subsequent minimums end up forcing participants to not be invested or limit proper asset allocation

Why Not Just Buy Mutual Funds Directly?

- Payroll department would have to prepare and run an allocation spreadsheet each pay period telling the single mutual fund family exactly how much money to put into each mutual fund – very cumbersome and prone to errors.
- Participant would inform employer of changes
- Reallocations are difficult to accomplish
- In a 401(k) plan, you must have “source accounting” – impractical to accomplish without a 401(k) recordkeeping platform – would require multiple accounts for each participant

Why Not Just Buy Mutual Funds Directly?

- For example, suppose a participant wanted to use only 4 mutual funds (not very well diversified), but we needed to track 3 sources: Salary Deferrals, Safe Harbor contributions and Profit Sharing contributions. Then you would need 12 mutual fund accounts for one participant
- If you had 10 participants doing likewise, you would need to maintain 120 mutual fund accounts – completely impractical!

Why Not Just Buy Mutual Funds Directly?

- Payouts and rollovers and the handling of non-vested amounts very cumbersome
- Employer must take extra efforts to file withheld taxes and do payroll tax returns – costs money for TPA to handle
- TPA must do trust accounting on each and every mutual fund and must then consolidate to plan level reports by doing spreadsheets – the fee for this would cost a lot more than the asset charge you are saving
- TPA's do not want to even try to handle plans with informal direct mutual fund investments

No Real Savings In the End

- Suppose you save the platform asset charge of 0.60% on \$200,000 or \$1,200
- This savings for participants would be offset by much higher TPA fees to the employer for source accounting and trust accounting
- Also, your internal staff will have to spend much, much more time on the plan
- Participants will not have as good of tools for tracking their accounts and no meaningful quarterly statements

Proper Fiduciary Review

- The organized programs generally involve some level of on-going tools to handle the necessary fiduciary review
- Without an organized program the client must worry about this on their own or the client's financial advisor must handle this somehow with resources they have available – taking more time and effort for everyone

401(k) Recordkeeping Platforms

- There are substantial reasons why they were developed and are so popular
- Better for participants – easier to achieve proper asset allocation and easier to restructure investments when needed
- Better for plan sponsors – minimize their internal time and Fiduciary Review process
- Better for TPA – eliminates tedious trust accounting – we can charge somewhat lower fees
- Good for any financial advisor because the vendors Fiduciary Review tools can be utilized easily

Thank You for Your Attention!
We Hope this Presentation
Helped You Understand the
Need for an Organized 401(k)
Recordkeeping Platform.