



## **BENCHMARKING YOUR 401(K) FUNDS**

Benchmarking is a retirement plan best practice that allows plan sponsors the opportunity to “take a peak under the hood” of their 401(k). The process allows you to compare your plan to similar plans, measuring key metrics such as participant saving and participation rates, fee reasonableness and service providers. Benchmarking should be a key part of your due diligence process and there are four main areas to focus on when assessing your company’s retirement plan. They are:

1. Plan Design
2. Service Providers
3. Funds
4. Fees

Each aspect of your plan requires a slightly different set of research, analysis, questions and documentation process. In this article, we are going to focus on the best practice of benchmarking funds.

### **FUNDS**

To get started, let’s use a familiar analogy. If your company’s retirement plan was a car, then the plan’s investments would be like the components and features of your vehicle. They would range from the engine and power steering, to features like back-up camera, cruise control, power windows, Bluetooth, and more. The features you select will depend on your preference and driving needs. However, for now, let’s begin with the basic car model – or in the 401(k) world, we call these investment menu options the 404(c) list of funds.

The basic 401(k) investment menu would include five (5) investment categories:

- Large Cap
- Small Cap
- Bond
- International
- Stable Value / Money Market

In the car industry that would be like the equivalent of:

- Engine
- Transmission
- Sound system
- Wheel/tire package
- Interior

While all of these are necessary for the car to run, there are always options with each selection. Just like a car, your investment menu may offer different types of investment categories. While searching for appropriate investments for your plan, it is a best practice to speak with an investment professional for support. They can help to find, narrow, and provide a list of investment options that aim to meet the objectives of the plan and diversity of the participants.

With the basic mechanics of your 404(c) list established, it's time to actively monitor, or benchmark, them.

Benchmarking best practices:

- **Implement** an Investment Policy Statement (IPS)
- **Create** criteria for fund selection and removal within the plan
- **Monitor** the investment menu
- **Evaluate** the cost associated with each investment
- Possibly **hire** a 3(38) Investment Manager
- And very importantly, **document conversations**, notes and actions

Additionally, it's important to remember that each participant has a different retirement time horizon and risk appetite. Therefore, when plan fiduciaries are selecting the investments for the plan, it's important to consider different investment options that are in the best interest for the variety of the employee population.

One investment option to consider is a qualified default investment alternative, better known as a QDIA. This is a particular investment fund that encourages employees to invest in long-term savings options. Adopting a QDIA can help plan sponsors manage exposure to liability from the investment decisions (or lack thereof) made by their plan participants. Without one, fiduciaries could be held liable for losses when a participant fails to actively direct their investment.

QDIA regulation states that plan participants have exercised control over the assets in their retirement accounts if, in the absence of a participant's investment instructions, the plan sponsor invests those assets in a QDIA. This serves as a safe harbor for the plan sponsor. There are four different types of approved QDIA funds:

**Target date fund:** Creates an investment model based on participant's age, retirement date and life expectancy.

**Balance fund:** Offers a mix of equity and fixed income investments.

**Professionally managed account:** This is actively managed by investment managers and provides an appropriate asset mix of equities and fixed income for each individual participant; this also takes into account the primary decision factors of age, retirement date, and life expectancy.

**Stable value fund:** This serves as a capital preservation product for the first 120 days of participation and offers an option for plan sponsors who want to simplify administration if employees opt out of participating before incurring additional tax.

Take the time to document each investment. Also, if you have questions or want to talk through strategies, we can help.

A key goal of a retirement vehicle is to provide employees with a suitable vehicle that, like a car, can fuel their drive toward a successful retirement destination.

**We are the premier 401k plan specialist in Arizona, providing state of the art plan design, management and employee education to assure maximum employee participation and satisfaction. We believe all employees should have the opportunity to secure a financially sound retirement and we manage the plan solely for the participants so they may achieve their goals.**

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