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What You Need to Know about 401(k) Plans Today

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The changes in Employee Retirement Income Security Act (ERISA) regulations governing retirement plans affect everyone — including physicians. In order to comply with the rules, you first must be aware of them.

Last summer, rather quietly, new rules from the Department of Labor (DOL) governing 401(k) plans went into effect. At the deadline all "covered service providers" must have presented the newly required fee disclosures to plan participants. The service providers were also required to disclose earnings (i.e. fees) in excess of $1,000 since every participant has the right to see an accurate breakdown of costs and fees.

Now that the dates are far behind us, retirement plan fiduciaries must be in compliance with the new regulations, as outlined by the DOL — yet some are not. In this article, we'll discuss what is expected of plan sponsors and making plan contributions.

Responsibilities

If you own your practice and have not provided comprehensive fee disclosures to your employee participants, then it's likely that you're vulnerable to lawsuits — and it only takes one employee to blow the whistle on a company that is not following ERISA's new regulations!

Generally, 401(k) offerings for employees are managed by an outside retirement plan service provider. Now, if management fees and fund offerings are not properly supervised, there may be harsh legal consequences, such as we saw in the $35 million dollar penalty against ABB Incorporated, the plan sponsor that employed Fidelity as their service provider. Neither company properly served the employees' interests.

Physicians and companies offer 401(k) savings plans as an employee benefit. However, as the saying goes, the road to hell is paved with good intentions. As a plan sponsor, it's your responsibility to act as a fiduciary, act on behalf of your plan's participants, disclose all fees, present information in as transparent a manner as possible and follow the law.

The DOL has outlined its standards here. Employers assume fiduciary responsibility and accountability when it comes to the chosen plans, so it is vital to ensure that, independent of the retirement plan service provider's goals, the plan participants are cared for first. ERISA regulations governing these plans created greater accountability (and therefore liability) for the plan sponsor.

What should every plan have? High-quality, low-cost and flexible choices: this means a wide range of different, low-cost investment options. Furthermore, it is crucial that there is a competent investment advisor acting in the capacity of a fiduciary and available to offer ongoing, unbiased, personalized support to plan participants. This constitutes not only putting the menu of investments together for the plan sponsor in a one-time meeting, but also ensuring that participants who wish to receive more education will be able to make well-informed decisions.

Optimally, this education will occur several times per year with the goal of ensuring the participants choose investments which match their goals with as little risk as is possible. During these meetings, participants will be informed about topics relating to their investment choices, such as the benefits of active versus passive management, rebalancing, and the dynamic asset allocation strategies over the course of a participant's lifetime.

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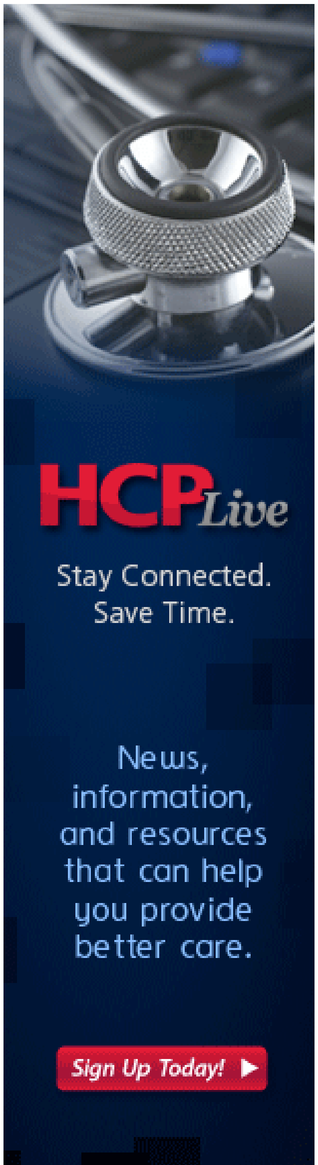

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