[White Paper]

Examining Your Company's 401(k) Plan:

4 Questions to Consider as a Plan Sponsor

SHELTON
CAPITAL MANAGEMENT

Introduction

As a 401(k) plan sponsor, it is your responsibility to ensure that your employees are receiving a plan that works for them. In fulfilling this, it is important to periodically assess all aspects of your company's 401(k) plan. This should include a review of the investments you are offering to the participants, in addition to all key elements of your plan.

There are a number of points to consider during each review period, including:

Are your employees participating? If not, how are you encouraging participation?

Are you receiving the fiduciary support you need as a plan sponsor?

Are you paying too much?

Are your employees well informed?

If you are unsure about any of these, it may be time to reevaluate your current 401(k) plan provider.

Are your employees participating?

Employee participation is a critical area of review, as participation rates are often a good indicator of how well suited your company's 401(k) plan is for your workforce.

A number of factors can contribute to low employee participation rates. The following questions will help you learn more about what the causes are for your organization. From here, you can determine what changes need to be implemented to effectively incentivize company-wide participation.

Does your current plan incentivize your employees to invest?

Employees are more likely to invest in a 401(k) plan if their employer matches their contribution. Otherwise, employees may be more inclined to explore other investment opportunities to prepare for retirement.

Does your plan currently offer auto-enrollment?

Auto-enrollment means that your employees are automatically enrolled in your organization's 401(k) plan. This typically occurs when new employees are eligible to participate in the plan.

Auto-enrollment may also occur at specified intervals over time for existing employees who are not yet enrolled in the plan. Employees are also able to opt-out if they wish. Although many benefits of auto-enrollment are employee-focused, there are several advantages for employers.

According to one study, participation rates for plans using auto-enrollment increased to approximately 92%, compared to about 57% for plans not utilizing auto-enrollment.

Additionally, by allowing employees to opt out, as opposed to opt in, processes are simplified for both the employer and the employee. The employer set-up process is streamlined, while employees are encouraged to consider the benefits of saving for retirement.

Furthermore, increasing participation from auto-enrollment can help your plan pass non-discrimination testing.

Auto-enrollment positively impacts the number of non-highly compensated employees participating in the plan. For many companies, non-highly compensated employees are the greatest contributors to below average participation rates.

So, in sum, auto-enrolling employees that would not traditionally participate will facilitate your yearly non-discrimination tests by encouraging the participation of employees who would traditionally opt-out.

Are your plan's investments aligned with your employee's values?

As a 401(k) plan sponsor, it is in the best interest of your company and your employees to ensure that your plan's investments are aligned with the values of your workforce.

Today, sustainable investing, or ESG investing, is a growing priority amongst employees.

The Forum for Sustainable and Responsible Investing defines sustainable investing as an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact.

"Over the past decade, ESG investing has evolved from individuals doing impact oriented investing in their IRAs to organizations and corporations including these products in 401(k) portfolio options," said Betty Moszeter of Green Alpha Advisors.

Ann Margaret Williams, Shelton Capital Management's Director of Retirement Plan Services, confirms this, saying that in her conversation with plan sponsors, "ESG funds come up probably seven out of 10 times."

With increasing social awareness around environmental issues and more plan sponsors adding ESG options due to investor demand, your plan can be easily optimized by including ESG investments. This will ensure that your plan's investments align with the ever-evolving values of your employees.

Does your plan appropriately fit your workforce's demographic?

The demographic of your workforce may contribute to employee participation rates in your company's 401(k) offerings. The following questions provide more insight on how certain demographics influence contribution.

What percentage of your workforce are women?

According to a 2017 report by the U.S. Department of Labor, approximately 46% of working women participate in a retirement plan.

Furthermore, a recent Bank of America survey (2021) confirms this. The survey found that only 55% of women participate in 401(k) plans, whereas male participation was 61%. It was also reported that men significantly surpass women in retirement plan balances.

What is the average tenure of your employees?

If the average tenure of your employees is shorter than the amount of time required by your 401(k) plan for an employee to become vested, the result may be low employee participation.

On a similar thread, 401(k) plans help to attract and retain top talent, especially within an increasingly competitive market.

In fact, SCORE (mentors to America's small businesses) reports that 94% of owners contend that 401(k) benefits promote recruitment and retention within their business.

Additionally, a 2019 study from the Society for Human Resource Management sought to determine the value of retirement benefits in comparison to other benefits offered by employers. The data revealed that retirement benefits ranked second in importance to employees, behind only healthcare benefits.

Improving Participation Rates

At Shelton Capital, we care deeply about participation rates. Our goal is to move the needle toward 100% employee participation. In order to do this, company employees must understand their options, their retirement goals, and their personal investment risk tolerance.

We often find that low participation rates are a result of the common misguided belief that user-friendly technology alone will solve the growing retirement crisis in the US.

With more than half of Americans having less than $10,000 saved for retirement, we argue that the solution is multifaceted.

So, what is the solution?

Well, we know that ongoing employee education works extremely well for our clients. As a result, investment education is a critical part of Shelton Capital Management's core values. It is essential when providing authentic client service and achieving positive results.

Far too often, company employees view their 401(k) as a box that needs to be checked. However, when comprehensive educational resources are made available, employees can begin to better understand their options, their retirement goals, and their personal investment risk tolerance.

At Shelton, our educational efforts come in many forms, including:

- Live education sessions in our clients' offices (temporarily video conference calls).
- A customer service team based in Denver, CO dedicated to answering participant questions.
- Online education through videos and other resources.
- Comprehensive and extensive emails containing a multitude of investment tips. These tips are also archived on our website.

Conclusion

Low employee participation in your company's 401(k) plan may be a product of multiple factors.

So, if you find that your plan's participation rate is lower than you'd like, ask your plan provider what steps they might suggest for improving participation and contribution rates. Together, you can take inventory of the reasons why participation may be low and discuss potential solutions.

Are you getting the fiduciary support you need?

Throughout the process of evaluating your company's 401(k) plan, you must consider the level of support you currently receive from your provider.

It is important to know that fiduciary support can look like many things. It is equally as important to acknowledge that your company's preferred partner and required level of support are subject to change as your company evolves.

In other words, as your company grows, your 401(k) plan should, as well.

For example, perhaps when you started working with your plan's current financial advisor, you wanted to have the ultimate say in the investment options being offered to your employees; a relationship in which the advisor reviewed the plan's investments and provided suggestions.

However, your business has grown and become more complex. Now, you may not have the resources to play a part in the decision making processes as you once did. In this case, you may want to consider finding a plan that offers additional support from an advisor.

An advisor should be brought on to make informed investment decisions and assume responsibility over more of the day to day processes. This level of support is provided by 3(38) fiduciary services.

What are 3(38) fiduciary services?

A 3(38) investment manager is responsible for exercising discretion in selecting, managing, monitoring and benchmarking the investment offerings of a retirement plan.

The plan sponsor delegates the authority to make changes in the plan's investment lineup to the 3(38) investment manager. These decisions can include adding and removing mutual funds or other investments that are offered within the plan.

Conclusion

As a plan sponsor, the level of fiduciary support required to meet the needs of your employees may change over time. As your company grows, you should consider increasing the responsibilities of your investment manager. This often means utilizing a 3(38) fiduciary.

Shelton Capital Management is a 3(38) investment fiduciary on 401(k) single and multiple employer plans. We act as the outsourced investment committee for our clients.

We conduct investment selection and monitoring, and we offer quarterly documentation to plan sponsors.

Are you paying too much?

As a plan sponsor, it is your key responsibility to ensure that your employees incur the lowest reasonable costs from the investments offered to them.

So, you should take the time to understand how your plan's offers align with the current needs of your employees. The best place to start this process is to review the fees and expenses associated with your current plan.

First and foremost, you should focus on outdated investment lineups and costs of plan administration. These expenses impact employees and employers directly, and can depreciate the value of retirement plans.

Investment Lineups

As a plan sponsor, it is crucial to regularly evaluate the changes in employee contribution and asset growth.

By continually optimizing the choice of investment options, your employees can gain access to lower cost, higher quality options.

Administration Costs

When it comes to plan administration costs, it is important to review the services, their performance and overall costs.

This review will likely reach one of two possible conclusions. First, you may confirm that your current services are still needed and performing adequately. Or, you will learn that these services are no longer aligned with your company as it has changed over time.

Conclusion

It is crucial to evaluate overall plan costs on a periodic basis. By ensuring that all funds are being efficiently allocated, you can help maximize the selected 401(k)'s potential for your employees.

Are your employees well informed?

It’s safe to say that a company-sponsored retirement plan is one of the most powerful tools an employee can have. Yet, so much of today’s workforce remain concerned about their 401(k) plan.

But why?

Well, as a plan sponsor, it is your responsibility to provide a way for your employees to save for retirement. However, it is not your responsibility to help your employees manage the investment risk in their account.

And while no one will argue how necessary a 401(k) plan is for retirement, it is important that your employees are aware of the inherent risks.

The easiest way to ensure that your employees are confident in their retirement plan is to leverage a plan provider that prioritizes the financial education of your workforce.

At Shelton Capital, this is what we do.

In fact, we have developed a number of educational resources to help employees better understand the risks in their 401(k) investments. These resources act as additional layers of support to your employees, allowing them to feel secure in their retirement plans. This may even lead to higher participation rates across your organization.

The following three risks offer a glimpse of the information Shelton will make available to your employees. We also provide insights on how to best avoid these risks.

Improper Allocation

401(k) account values can rise and fall with the markets, meaning they offer no protection from loss — no matter how soon you need the money. The key to avoiding this risk is to maintain the proper asset allocation for your employees’ risk tolerance level. Examine the investment options offered by your company and be sure to diversify your employees’ choices in a way that is consistent with the risk tolerance.

Turning on Autopilot

Because of the many decisions that come with starting a 401(k) account, many participants employ a "set it and forget it" method with their plan. In a matter of a few years, those who neglect their 401(k) may realize that their account no longer reflects their risk tolerance. Take the time to create a 401(k) strategy and to check in with your employees to ensure that they understand the benefits of re-balancing on a regular basis.

Lack of Investment Guidance

While a robust lineup of investment options is good, too many can easily confuse and overwhelm investors. Without sufficient investment knowledge, employees may choose to invest less across a larger number of the options provided to them. In this case, these employees will end up with a portfolio that is not diversified or appropriately aligned with their needs.

Conclusion

Your employees are working toward their retirement goals, and their strategies may require ongoing adjustments.

With the right plan provider, your employees will be encouraged to check in with their advisor to ensure their retirement strategy aligns with their goals. At Shelton Capitol, we pride ourselves on this level of service.

The Bottom Line

If you are busy running your business and need a more hands-on approach to managing, reviewing, and perhaps changing your 401(k) plan provider, it can pay to work with an expert. You may find that your plan, and most importantly your participants, could benefit from changes to your company's offerings.

About Shelton Retirement Plan Services

Shelton Retirement Plan Services is a provider of sophisticated 3(38) investment fiduciary services. We aid plan sponsors and adopting employers with the nuances of their company 401(k) retirement plans.

While other service providers focus solely on the small and medium business owner (SMB), and on the administration of the company's 401(k) plan, Shelton Capital goes one step further -- *or many.*

We understand that comprehensive 401(k) support is inclusive to plan sponsors and participants alike.

Our concierge-level service goes above and beyond the industry standard. Shelton Capital Management service professionals answer participant calls and provide ongoing support.

Additionally, various online tools and educational resources are available for participants to explore at their convenience. This directly impacts your company, as these services are known to improve company-wide participation rates.

If you are looking for a cutting edge, fiduciary focused solution for your organization's 401(k) plan, give us a call at (800) 225-8778 or schedule a complimentary video meeting with a retirement plan consultant. Our goal is to optimize retirement plans for your participants, allowing you to focus your energies on growing your business.