

CHAPTER 1

The 401(k)

Industry is Broken!



As a plan *fiduciary*, the first thing you must realize is that the *401(k)* industry is broken in many ways, and, therefore, it is entirely possible that your plan is broken too.

This does not mean that there are not smart, dedicated, and honorable people or excellent companies throughout the industry – there are. However, the system operates in a way that puts you and, more importantly, your employees, at a great disadvantage. The two biggest issues in the industry are the rampant *conflicts of interest* that exist and the lack of easy-to-understand *fee disclosure*. This negatively impacts your participants' ability to retire successfully and also puts you at risk as a fiduciary because you are personally liable for the decisions that are made about the plan.

Information is a necessary and valuable resource when it comes to understanding how a retirement plan works. However, information alone is not sufficient for a plan fiduciary. It must be paired with understanding in order to make good decisions for the plan and its participants. The combination of information and understanding is known as prudence, which is highly esteemed in the world of *ERISA*.¹

This book will help reveal many of the industry practices which put plan participants and fiduciaries at a disadvantage and will help them understand, among other things:

- The basic fiduciary responsibilities outlined under ERISA (Chapter 3)
- The roles, responsibilities, and motivations of the various people/companies involved in selling and servicing these plans (Chapter 4)
- Which questions to ask and what information to gather in order to uncover and reduce the various fees and expenses associated with 401(k) plans (Chapters 6 and 7)
- How to design a 401(k) plan to deliver successful outcomes (Chapter 8)
- How to help employees use the plan most effectively (Chapters 10, 11, and 12)

Armed with both knowledge and understanding, plan fiduciaries will assume a position of control relative to their service providers, achieve greater clarity into their plans' composition and performance, and make better decisions. While plan participants will primarily benefit from improved decision-making, fiduciaries will be able to sleep better knowing they have discharged their duties in a prudent and effective manner.

Questions to Ask:

1. Am I aware of any conflicts of interest that my service providers may have?
2. How do these conflicts impact the objectivity of their recommendations?
3. Am I confident that I have a clear understanding of all fees in my plan?
4. Is it possible my company's plan is broken and I don't know it?