

# Commco Comments

Timely Information and Updates for Employers and Retirement Plan Sponsors

## Participant Education Can Help Control Plan Costs

Providing education to retirement plan participants is not only a plan sponsor's fiduciary duty, it can also pay off in reduced plan costs and administrative burden. When participants have a solid financial education, they make better choices. This can lower expenses both for themselves and for the plan as a whole. Here are some ways that employee education can benefit your plan.

### Individual Expenses

A more educated and financially engaged employee population is less likely to request plan loans or premature distributions, saving them from the transaction fees, tax penalties, and lost earnings potential associated with those transactions. They may choose investments with a keener eye toward underlying fund expenses, which can reduce their ongoing costs. Employees who understand the difference between pre-tax and Roth contributions are in a position to make contribution choices that could dramatically decrease their lifetime income tax burden.

Educated employees tend to contribute to their retirement accounts more consistently and at a higher rate. They are also more likely to understand the long-term nature of investing and to choose and accept a suitable amount of risk for their situation, which in turn makes them less likely to panic and sell investments during downturns. These behavioral improvements can lead to significantly larger retirement plan balances over time.



### Overall Plan Fees

The wise choices and planning that lead educated participants to higher balances benefit not only themselves, but also their coworkers and the plan as whole. Larger retirement plans have more negotiating power than smaller ones, and tend to have lower costs as a percentage of plan assets. However, it's not only the total plan assets that matter. Average participant balance is also a factor in pricing.

For example, according to benchmarking tools provided by Fiduciary Decisions, Inc., a 401(k) plan with 10 participants and assets of \$500,000 may expect all-in costs ranging from 1.19% - 2.42%. Keeping average participant balance constant (multiplying both the balance and the head count by four), a \$2 million plan with 40 participants comes in with an average cost range of 0.77% - 1.62%.

If we hold assets at that \$2 million level but vary the participant count, we see the impact of average balance. A \$2 million plan with just 10 employees (average participant balance of \$200,000) would only expect an average cost of 0.70% - 1.41%, whereas the same \$2 million plan with 100 employees (average participant balance of \$20,000) sees fees increase to an average range of 0.84% - 1.80%.

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While these might not seem like very large numbers, when multiplied across an entire plan balance and multiple years, the difference really adds up. And since (in most cases) some plan costs are borne by the employer and some are deducted directly from participants' accounts, it's a difference that matters to everyone.

### **Time is Money**

An educated and engaged participant population can make a 401(k) plan easier and more efficient to administer. Employees who are comfortable with their plan's website are less likely to need an HR representative's help with things like managing contributions or beneficiary updates. Fewer withdrawals and more consistent contributions means fewer transactions to approve, less room for processing errors, and a quicker, smoother annual administration process with the plan's Third Party Administrator. When participants are more self-sufficient, plan sponsors spend less time and money managing or correcting issues.

### **Putting it into Action**

One of the difficulties with offering any type of education to a broad population is that the individuals who need it the most are often the least likely to accept it. While this is not a challenge at every company, plan sponsors who struggle with employee engagement may wish to consider incentivizing or even requiring attendance at educational meetings. It's also important to document and retain evidence of plan educational offerings, to prove compliance with the plan's fiduciary duty of education.

If it's time for an education and enrollment meeting for your employees, or if you'd like to discuss your company's employee financial education plan, email us at [newsletter@thecommco.com](mailto:newsletter@thecommco.com) to start the conversation.

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