



**ROCKWOOD** WEALTH MANAGEMENT

# Important Considerations

## Rockwood Wealth Management

**Successful Business Owners Vs. Their Unsuccessful 401(k) Plans**

As you may know, a significant number of Rockwood Wealth Management clients have amassed their personal wealth because of their hard work as owners of small and mid-sized businesses. These owners are faced with a difficult; and, at times frustrating responsibility. In addition to running their company and growing their business, they are challenged with the task of selecting a 401(k) plan that balances their personal retirement needs, the needs of the company, and importantly – the needs of their employees.

### **Why are insurance companies, brokerage firms, and payroll companies offering 401(k) plans?**

A bit of background is required to fully understand the nature of the 401(k) market. There exists a tremendous gap in the quality of the 401(k) plans made available to employees of large companies relative to those offered to most small to mid-sized companies. In smaller company 401(k) plans, the unethical sales pitch of “it really doesn’t cost anything” is offered since exorbitant fees from the underlying investments are used cover the administrative and recordkeeping costs of the plan. For clarity, as employees make their investment elections, a portion of the mutual fund expenses go to pay for much of the plan's administrative costs.

Often, business owners are not fully aware of the notion that high fees inside their employees’ accounts are subsidizing the costs of what was intended to be an employee benefit. We often find that smaller company plans did not have the critical mass to attract the brightest thinking in plan design and investment management. This void created an opportunity that was quickly filled by insurance and payroll companies eager to find creative ways to layer on fees to make these smaller plans profitable.

### **The Menu of Only Bad Choices**

The small and mid-sized business 401(k) market is fraught with nearly as many complexities as it is terrible options for plan providers. We have witnessed woefully inadequate and shamefully expensive 401(k) plans proffered by companies that aggressively market to the small and mid-sized business demographic. That list includes, but is not limited to: Nationwide, John Hancock, Great Western, Wells Fargo, ING, Paychex, Principal, and

*ADP. It is safe to assume that if you come across a plan provided by an insurance company, broker, or a payroll company, that it is a bad sign for employer and employees alike.*

Insurance and payroll companies found that by increasing the fees associated with the employee investment options they could administer these retirement plans quite profitably, as the business owner never has to pay the fees directly. The fees are paid indirectly – by participant accounts that hemorrhage dollars via mutual funds with unconscionably high fees.

In these plans, mutual funds are not admitted to the plan under a fiduciary lens in pursuit of the best interests of the employees. Instead, they are selected by the willingness of various mutual fund companies to pay "sweetener" fees to the insurance company for their funds to be included in their plan. For example: American Funds will pay the Principal Group a fee (a percentage of the annual mutual fund fee) so that its funds are included in a retirement plan.

### **Who is Paying Whom?**

Unfortunately, even with recent disclosure laws the pervasive industry practices resulting in the obfuscation of true costs (revenue-sharing, commissions, 12(b)1 fees, sub-transfer agency fees, etc.), many business owners would be hard-pressed to tell you the extent of the total expenses of their plans. A business owner trying to find the right plan is up against a veritable army of insurance agents and payroll sales teams that receive high commissions for selling these plans that work out nicely for the insurance company and poorly for the business owner and his or her employees.

The result is that investors struggle to access unbiased information upon which they can base investment decisions. In our view, the financial services industry at large has not represented itself with a great deal of integrity in matters relating to conflicts of interest and fees paid by investors to many brokerage firms. We feel this behavior has led to the existence of a great deal of mistrust brought about by a lack of transparency and disclosure.

## Plan Provider Selection

Beholden to no one except our clients, our purely independent position in the industry allows us to see past the aggressively marketed plans and recognize the options that truly suit the best interest of our clients.

To meet the needs of our business owners' 401(k) plans, we have opted for a significantly more professional approach. We can fit our clients with the optimal plan provider based on plan size, company structure, profit sharing intentions, and a host of other critically important factors often ignored by would-be salespersons bent on closing a quick deal. In short, we don't "sell" 401(k) plans, so we can implement whichever provider is best for our client.

We want our clients to enjoy the real benefits of a retirement plan, but at the lowest possible cost and without an administratively cumbersome process. Our intimate knowledge of the best providers in the industry is of significant benefit to our clients. Our clients work with leading experts in retirement plan design, record keeping and compliance – and do so at a significant savings relative to other options.

## Professional Investment Management

Selecting the optimal 401(k) plan provider is only half the battle. Additionally, a business owner wants to ensure that his or her employees are responsibly contributing to and investing in their retirement plan.

Ironically, most 401(k) brokers are not investment fiduciaries and therefore are not permitted to provide investment advice. Above all, employees and owners

understand the importance of their 401(k) assets and want help with their investment allocations. The traditional approach of providing a lengthy list of investment options and leaving portfolio construction up to the individual participant simply doesn't work as intended. Participants make bad decisions at bad times, as amateurish portfolios are cobbled together out of an array of equally bad investment options. The result is that both business owners and employees fail to capture the rates of return upon which their retirement depends.

We are fiduciaries and accordingly we provide professional portfolio design and management to owners and employees, just as we do for our private clients. We think it is critically important to go beyond suggestions and examples. As a result, we construct and manage the portfolios for each participant. We have the ability to use low-cost, institutional asset class funds to build risk-based investment portfolios for your plan which helps remove the danger that a plan participant will make errors in investment allocation.

## Integrity: Disclosure and Transparency

As a legal fiduciary, Rockwood Wealth Management requires that all plan fees are fully disclosed and that our clients are not subject to fees hidden in the fine print. As fiduciary advisors, we do not accept revenue-sharing, kick-backs, or commissions of any kind. We are heavily credentialed professionals, not salespeople, and we are compensated only by our clients.

Feel free to reach out to us to discuss your needs, your experiences, and how we might best be able to help you keep your 401(k) dollars right where they belong – inside your accounts.