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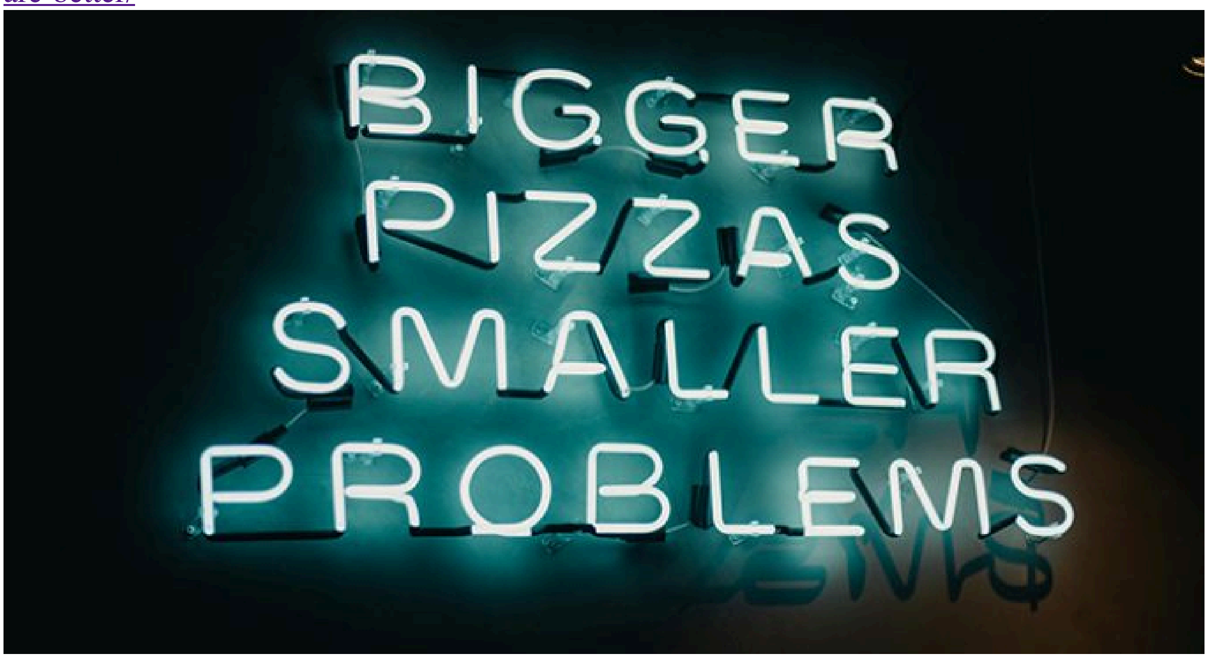
5 Reasons Bigger 401k Plans Are Better

by Christopher Carosa, CTFA September 17https://fiduciarynews.com/2024/09/5-reasons-bigger-401k-plans-are-better/



They say, 'bigger is better,' and, in many ways, they're right. Taller quarterbacks can better see over the oncoming defensive linemen. A bigger bank account can buy more presents for Christmas. A big brother keeps the bullies away from your lunch money.

In the same sense, bigger 401k plans have several advantages over smaller 401k plans. Here are five you might want to explore.

Access To Lower Costs:

Plan service providers often offer an array of products. The lowest cost options are generally limited to high volume customers. In the 401k world, that means bigger plans.

"Larger plans have access to lower cost share classes. Some mutual funds do not have 'retirement share classes,' usually leaving retail shares and institutional shares as investment options," says Brian Seelinger of Knox McLaughlin Gornall & Sennett, P.C. at Erie, Pennsylvania. "Retail shares are normally expensive with a large immediate fee (load) and higher annual expenses. Larger plans have more assets and can potentially cross the asset threshold (usually in millions of dollars) for institutional shares which have no load and lower internal fees. This is dependent on proper management and oversight of the pooled plan."

Bigger doesn't necessarily mean one plan. It could mean the pooling of smaller plans into one larger plan.

"Small businesses can benefit from Pooled Employer Plans (PEPs) by accessing lower administrative costs, more robust investment choices, reduced fees, and participant education tools, which are typically experienced by larger 401k plans," says Mary Jo Innis, president & CEO at The R.O.W. Group in Nashville, Tennessee. "Small businesses may not have the resources and benefits to compete with large corporations due to their smaller plan assets, which result in higher costs, less investment choices, and poor employee participation. As a small business owner, it is important to consider implementing a retirement plan benefit in order to recruit and retain the best talent, which is crucial for remaining competitive in their respective industry and market."

Negotiating Leverage:

Largess not only gives you access to products and services already "cheaper by the dozen," it also puts plan sponsors in a position to bargain for more favorable pricing.

"Larger 401k plans can negotiate lower fees for administrative services and investment options due to their size and bargaining power," says Richard Bavetz, investment advisor at Carington Financial in Westlake Village, California. "For instance, a large corporation with thousands of participants can negotiate significantly lower expense ratios on mutual funds or index funds, reducing employees' costs for managing their investments. Additionally, they can secure lower administrative fees for services like recordkeeping and compliance since service providers are willing to offer discounts based on the volume of participants and assets involved. In contrast, a smaller 401k plan with only 20 employees doesn't have the same leverage to negotiate these discounts, often resulting in higher administrative costs and more expensive investment options for their employees, reducing the plan's overall effectiveness."

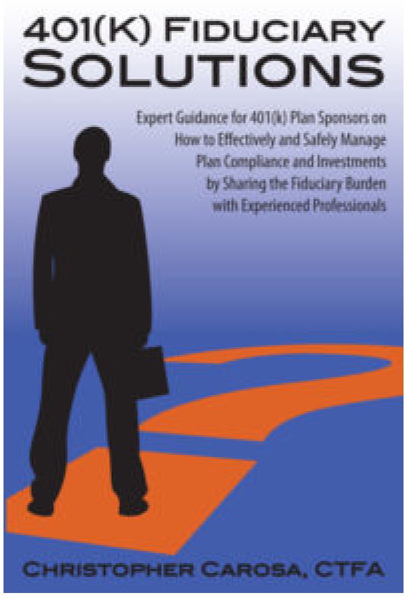
Ability to Spread Fixes Costs Over a Larger Asset Base:

Some costs can't be negotiated. These relatively fixed costs are the same no matter the size of the plan. Bigger plans can absorb these costs over a larger asset base, meaning the per participant cost is lower.

"A larger retirement plan shares its expense over a larger number of employees and the administration, legal, and advisory costs are often lower as a percentage of assets within the 401k plan," says Steven Abernathy of Abernathy/Daley 401k Consultants in New York City. "A PEP plan combines several/many company's 401k plans, creating a much larger plan. This enables the efficiency of larger plans (in this case a PEP) to create the advantage of the same administration, legal and auditing costs over a larger, or much larger, number of plan participants. PEPs are not necessarily a better retirement plan option. PEPs just allow smaller 401ks to come together and save money on the audits and administration. PEPs don't work well with intricate corporate k plans in general. For instance, a tiered profit-sharing plan offering different employee vesting periods and different profit-sharing amounts will not work with a PEP."

In addition to spreading out the costs, larger plans can also spread out the savings.

"Every plan has an investment menu, but the cost of an investment advisor to select, monitor, and report on the investment menu can be spread across more plan assets for a larger plan," says Jeff Coons, chief risk officer at High Probability Advisors in Pittsford, New York. "This is why investment advisers will have 'breakpoints' in their advisory fees, with a lower percentage fee charged as plan assets cross higher levels. Because a pooled employer plan will have a single investment menu for all participants in the pool, the costs of selecting and monitoring the investment menu can be spread across all of the plans in the pool. This results in lower advisory fees than if that small plan were to higher the advisor for their plan alone."



Can Afford More Services:

Whether it's through saving money or through spreading costs over a larger base, bigger plans often find themselves able to acquire more services. As a practical matter, therefore, they have the opportunity to choose from a wider array of products and services compared to smaller plans.

"Larger 401k plans, particularly very large 401k plans, have leverage in negotiating contracts with service providers to 401k plans, and can obtain more favorable fee schedules," says Marcia S. Wagner of the Wagner Law Group in Boston, Massachusetts. "Larger 401k plans have professional staffs and HR personnel to administer 401k plans. Larger 401k plans can afford to pay for investment consultants and investment advisors to assist them with the plan's investment platform. Larger 401k plans also frequently have outside ERISA counsel. Smaller 401k plans may not be able to afford these types of advisors."

The fact of the matter is that some service providers simply won't engage smaller firms because it's not profitable for them to do so.

"Larger plans have advantages of economies of scale, pricing efficiency, and professional management," says Robb Smith, president of RS Fiduciary Solutions and PEP-HUB.com in Plano, Texas. "Small plan sponsors cannot match the buying power of larger 401k plans. Service providers cannot expend as much time and energy on small plans as revenue streams and margins are compressed at the smaller plan level."

Dedicated Personnel:

Finally, if a plan is big enough for all of the above, it's also big enough to high specialized personnel dedicated to monitoring and maintaining the plan. This frees up time for others to focus on the business of the business – generating revenues.

"Larger employer-sponsored plans have more plan assets and leverage in the marketplace, which can result in costs savings for the plan," says Michelle Capezza, Of Counsel at Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. in New York City. "A larger plan sponsor will also be more likely to have its own personnel to assist with plan oversight and management, and the resources to retain outside consultants and advisors to assist with plan compliance matters. Smaller employers can be overwhelmed with the requirements of maintaining retirement plans, and may be forced to enroll employees in a government-run payroll IRA program if the employer does not sponsor their own plan."

Hiring specialized employees can make larger plans more efficient, and that benefits all plan participants.

"Larger plans have higher levels of internal professional management by HR and Treasury resources," says Jerry Conway, consultant for PEP-HUB.com in Stratford, Connecticut. "These resources round out the Retirement Committee and bring knowledge, experience and expertise to the committee. Roles and responsibilities are defined, controls and reporting are established and all of this can lead to a superior plan with best in class services and modest fees. Further – PEPs provide a pathway to lower fees that a small 401k would not have."

We'll leave you with a word of warning. Bigger isn't always necessarily better. Just ask Goliath.

What do you think? Join us every Wednesday at noon (Eastern Time) for our Thought Leader Roundtable discussion. Not sure if you're on the email invite list? Click here to be added to the list**.**

Christopher Carosa is an award-winning online news producer and journalist. A dynamic speaker, he's the author of 401(k) Fiduciary Solutions, Hey! What's My Number? How to Improve the Odds You Will Retire in Comfort, From Cradle to Retirement: The Child IRA, *and several other books on innovative retirement solutions, practical business tips, and the history of the wonderful Western New York region. Follow him on* Twitter, Facebook, *and* LinkedIn.

Mr. Carosa is available for keynote speaking engagements, especially in venues located in the Northeast, Mid-Atlantic, and Midwestern regions of the United States and in the Toronto region of Canada.

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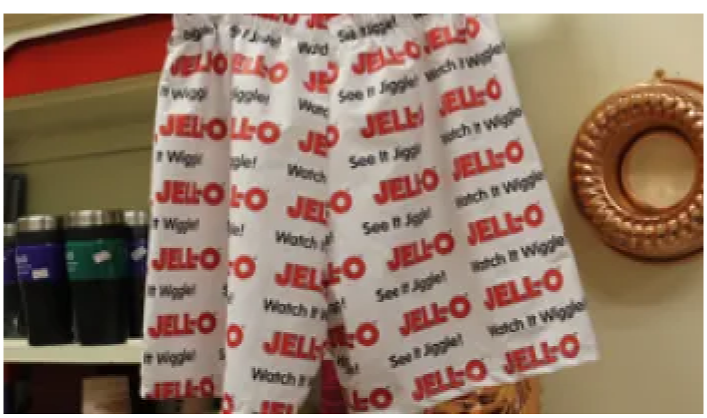

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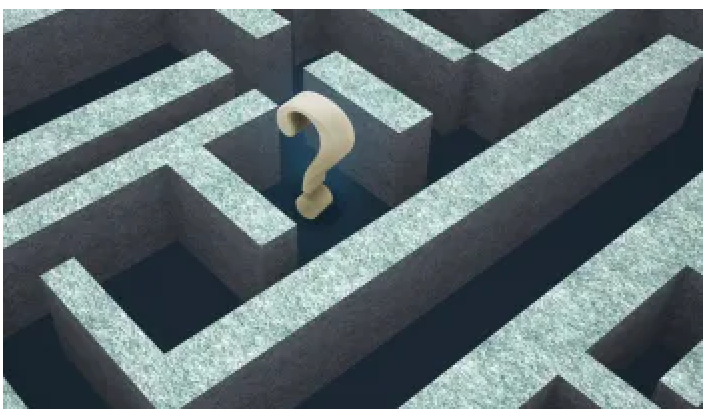

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This is not to say the 401k is perfect and that there's no need to improve it. These improvements, though, would be more like tweaks rather than wholesale changes.

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