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**FRED BARSTEIN**
Founder & CEO of TRAU, TPSU and Editor in Chief of 401kTV

# Keeping Retiring 401(k) Participants: Pros and Cons

## Much depends on a company's particular circumstances and the needs of retirees.

Should 401(k) plan sponsors encourage retiring participants to remain in or to leave their plans? This issue is largely unsettled, not so much for logistically difficult smaller accounts, but for those with $5,000 or more in assets. Moreover, the answers may depend on a company's particular situation and culture. Financial advisers would do well to understand the issues so they can raise them in a timely fashion and help sponsor clients make intelligent decisions. Here are a few ideas to consider:

### Pros: Arguments for working to keep retiring workers in a plan

- Increased assets can translate into lower recordkeeping costs and better service, especially if the retiring employees have the large balances common to older workers.
- Increased assets can also mean lower investment expenses as the plan may be eligible for lower-cost share classes.
- Offering post-retirement investment options may help with recruiting and retention, and encourage new employees to roll over balances from other plans.
- Plan sponsors can try to help protect retiring employees from opting to take lump sum payments and using the proceeds unwisely rather than reinvesting them. Unlike a rollover IRA, all company 401(k) plans are overseen by fiduciaries and both enjoy protection in bankruptcy.

## Cons: Arguments against keeping retiring workers in a plan

• Additional retired participants may add to the potential for an audit.

• They can increase compliance costs, fiduciary liability and risk of litigation generally.

• Some retirees may have difficult histories with the company, increasing the odds of conflict.

• Keeping track of missing participants can also add to costs and liability, and is a current hot-button issue for the Department of Labor.

## Tactics and Practicalities

Encouraging participants to remain in place after retirement is fairly straightforward: It includes offering retirement income products and lower-risk investment options, as well as target date funds that are designed to manage assets through, not to, retirement. Additionally, plans can set up automatic withdrawal options for retired workers. Advisers can also play a constructive role, working with participants in retirement on investment planning and personal financial planning.

If the employer seeks to retain retiring or departed participants, however, it is essential that remaining in the plan be in their best interest.

Defined contribution plans generally provide lower pricing than the retail accounts available to separated employees. Still, retail accounts may offer far more investment options than 401(k)s, and retirees with higher account balances may be able to access quality financial advice on their own.

Employees who are moving to another job may benefit from the growing trend of “roll-ins,” where they can consolidate other defined contribution and IRA accounts into their new plan, making comprehensive planning easier—a reason they may want to move assets from their current plan. However, departing workers may be better off remaining at an existing plan if they are moving from a large company that has institutional pricing to a smaller organization that does not.

## Key Topic for Client Conversations

Clearly, these issues are important to 401(k) plan sponsors. Advisers should be prepared to point them out and offer practical solutions. With an estimated 80 million baby boomers, or 10,000 per day, expected to retire over the next 20 years, effective strategizing around their investment accounts will only become more urgent.

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**Neuberger Berman**
1290 Avenue of the Americas
New York, NY 10104-0001



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