

## **WHY SOME RETIREMENT PLANS OFFER NO INVESTMENT OPTIONS**

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Many 401(k) plans offer investment options; and many employers consider that choice when the plan is established. However, after weighing all of the advantages and disadvantages, and further discussing it with their advisors, some employers (mostly small employers) decide not to offer investment options for several reasons:

### **A) PROFESSIONAL INVESTING**

- 1) They feel that the long term results would be better if these funds were put in the hands of professionals -- firms that follow the markets day in and day out. Employers monitor the professionals' results and can replace these professionals if it is felt they are not performing in the best interests of all participants.
- 2) This will free up each employee to do what he does best, which is the day-to-day operation of the employer's business.
- 3) Every participant in the plan, including officers and the owners of the business, are affected by this decision. However, it is felt that all participants will come out ahead through the use of outside professional investment advisors.

### **B) EXPENSES**

- 1) Offering investment options entails additional administrative expenses – more frequent statements to participants, additional election forms, more work for the payroll department and outside advisors, as well as investment education of employees. Some employees may not want this additional burden and responsibility, even if the employer were to pay for all the expense of distributing investment material and conducting periodic meetings to explain investments.
- 2) It may be felt that these kinds of additional expenses will cut into the dollars the employer can afford to contribute to the plan.

### **C) INVESTMENT RISK**

- 1) Professionals recommend that the split of the investments between stocks, bonds, different maturity dates, market sectors, investment styles, etc. should recognize that these are long-term investments. There is a common fear, well-founded in surveys, that many employees are too conservative when they are given investment options but don't take the time to educate themselves on these matters.
- 2) On the other side of the coin, some people want to take even more risk than a well-balanced portfolio might create. To those employees, many say that if you can truly afford to take more risk, then you probably should have other funds in addition to what is in your employer's retirement program. Those funds could be made the more risky part of your personal portfolio, especially since *outside* of a retirement plan is where there may be some tax advantages to higher risk -- for example, capital gains tax rates.
- 3) Some employers are also concerned that some plan participants may, through short-term transfers between investment options, attempt what is called "market timing" – trying to guess when the various markets will be up or down. Most professionals state that even *they* cannot make such guesses, and, instead, they recommend focusing on what makes investment sense from a long-term point of view.