

# I Don't Trust My 401(k)!

*or maybe I do—but should I?*

*by Patrick M. Fay*

*Participant meetings provide an excellent opportunity for employees to voice concerns and fears. Recently, one recurring topic I've heard from plan participants is their increasing level of insecurity regarding 401(k) plans.*



This lack of confidence is unsettling and is a particular concern for companies whose first thought may be, “This couldn’t possibly be one of my employees! I have an advisor (or a vendor) who conducts education meetings frequently and is available to help people.”

### **A crisis of confidence**

Sadly, in spite of an increase in education and planning meetings, participants remain skeptical about the stability of their individual 401(k) plans. Even among participants who attend several meetings and hear these oft-repeated messages: “Stay the course,” “This is a buying opportunity,” or “It’s a great time to put more away,” doubt still lingers. At day’s end, people seem hesitant to believe messages that don’t quite address their concerns. At SilverStone Group, we recognize the challenge that employers face when tough times make it harder to address their employees’ fears.

### **It’s all about trust**

The critical step in understanding participants’ angst is to examine where “trust” comes from.

*“The glue that holds all relationships together—including the relationship between the leader and the led—is trust, and trust is based on integrity.”*  
—Brian Tracy

For most people, trust is built over time, when we witness integrity and sincerity on the part of those we are asked to trust. Leaders learn to exhibit those attributes, and we learn to trust them. With 401(k) plans, the leader can be the plan advisor, plan sponsor and/or vendor. As with other trust situations, it becomes the leader’s challenge to show integrity and display a sincere desire for participant success, so that we can begin to regain the trust of those who follow us. Without trust, we could find ourselves leading in the right direction only to look around and find that we have no followers.

### **The past still haunts us**

Unfortunately, past events have not always been kind to advisors of 401(k) plans. People still remember the Enron scandal and the ensuing fallout of that organization’s decimated 401(k) plan. Reports of Bernie Madoff’s pyramid scheme, with its ultimate destruction of billions of dollars of retirement funds, did nothing to encourage retirement plan participants. Stories of bank failures, the recent decline in the stock market and an unstable economy make consumer

uncertainty even more pronounced. Combine these incidents with daily media reports of high unemployment and instances where highly qualified individuals are struggling to find work, and it’s not surprising that employees report a high level of discomfort regarding their personal financial status. Some employees have begun to question the financial security of their employers and whether they should be worried about their prospects for long-term employment.

Another trust issue regarding 401(k) plans is the fact that retirement plans do not require full fee disclosure. For example, some plan sponsors choose to utilize banks because they provide a better rate on other business accounts—not because the bank’s program offers the best return for employees. This apparent conflict of interest promotes uncertainty in employees, which leads to an erosion of trust. Employees feel powerless. They believe they have no say in the process and often do not understand why it’s sometimes necessary to make changes to the plan.

### **Bringing it back**

So how can a leader regain trust? The most important step is to demonstrate to employees that you understand their point of view. They need to know that you, the advisor, plan sponsor or vendor, can put yourself in their shoes and that every action you take is in their best interest.

Trust is rebuilt by eliminating all potential conflicts of interest and crafting a plan that works to the benefit of the participants. Trust returns when communication is transparent, when necessary change is thoroughly explained and participants believe they are part of the process.

### **A real-life lesson in trust**

Recently, a client had a difficult decision to make regarding cost cutting measures. Management asked, “Do we eliminate the 401(k) match, which has been a long-term staple of the plan, or do we lay off a few employees?” Neither option seemed to be viable, as both had the potential to drastically affect morale.

Some would rationalize that, in the best interest of the company, downsizing a few individuals and retaining the 401(k) match would be the path of least resistance. The only people negatively affected would be those no longer employed. However, the company had difficulty accepting downsizing as the better option.

In the end, the decision was put into the employees’ hands. Everyone was asked for input and management listened to

the responses. It was decided collectively that it would be better to retain all employees and eliminate the match until the day comes when it can be reinstated. I believe that these employees learned a valuable lesson in trust—that their employer is looking out for them. And, perhaps even more importantly, that their employer trusts them to help make vital business decisions. Employees are more willing to follow the suggestions of trusted advisors when advisors openly invite problem-solving interactions.

The dilemma faced by this company is not an unusual one. In fact, according to Charles Schwab, the percentage of companies that provide a matching contribution to a 401(k) plan has dropped from 78 percent in 2007 to 70 percent as of March 31, 2009.

### Outlook for the Midwest

From a strictly local point of view, and using a much smaller sampling of our clients, we find that many have been able to maintain a match up to this point. This could be the result of two fortuitous factors: first, the recession has been slower to reach the Midwest; and second, the recession does not seem to have hit as hard in this part of the country as in other regions. However, we now must ask, “Since we have been the last to feel the effects of the recession, will we be the first or the last to pull out of it?” The answer to that question may determine whether we see more local companies cut, eliminate or postpone their 401(k) match.

Should we reach a point where more companies are forced to cut the retirement plan match, it’s valuable to remember that cutting the match may be less destructive to morale than laying off staff members. It’s also critical to communicate these issues openly and thoroughly with all employees and, if possible, to allow them to participate in the final decision.

Employers should also be aware that a variety of benefits can be added to a 401(k) plan at no additional cost to the employer or the employees. These options may include such programs as Participant Advice, Target Date or Lifestyle Funds, Managed Accounts, and Roth 401(k). If it becomes necessary to adjust your organization’s retirement plan match, either temporarily or permanently, it’s good to know that you can “accentuate the positive” by offering additional benefits.

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