

“Why Don’t You Stay?”

Every year, millions of dollars flow out of defined contribution plans as participants retire and move the bulk of their retirement savings into Individual Retirement Accounts (IRAs). It seems like the natural progression of things; you retire from a company and you take your retirement savings with you. Stacy L. Schaus, CFP®, PIMCO Executive Vice President and Defined Contribution Practice Leader, poses an important question – “Why don’t you stay?”. In her November 2013 [PIMCO DC Digest](#) article, she discusses the benefits of retirees staying in company sponsored 401(k) plans both for participants and plan sponsors. She also outlines how companies can increase retention of retirement plan participants.

Benefits

First, consider the benefit received from economies of scale. When items are purchased in larger quantities, the price tends to decrease. The same concept works for retirement plans. Plans with more assets can usually get better per participant pricing just as a group tends to have better pricing than an individual in an IRA. Think of it as the group discount. This benefit leads to more retirement savings for all participants in the long run. More specific to retirees, switching to an IRA can result in paying expensive front-end commissions to brokers as well as higher annual costs.

One of the most significant benefits to staying in the company sponsored 401(k) Plan is the oversight of the plan sponsor fiduciary. Having a fiduciary who knows the regulations and all due diligence requirements regarding the Plan is a strong advantage over traditional IRAs. Also, since 401(k) plans are ERISA-qualified plans, they offer asset protection for retirees and beneficiaries. Although assets in both qualified and non-qualified retirement accounts cannot be touched in bankruptcy proceedings, the extent to which creditors can dilute IRA assets in other situations varies by state.

Increasing Retention

Many retirees do not know if they have the option to stay in their company sponsored 401(k). Communication is essential. If Plan Sponsors want to retain retirees in their Plan, the reasons and advantages over other options need to be conveyed. Additionally, plan design should allow for retirees to access their money in the fashion that best suits them. At Ekon Benefits, we offer the *Flexible Payment Option* which allows participants to access funds as they need them in retirement. The Plan should also offer a sufficient amount of investment choices with an adequate balance of risk and return.

Lastly, guidance must be available to retirees. At some point, they were given education on how to save for retirement but chances are they were not taught how to efficiently consume their savings or structure their investment income at retirement.

Creating an environment of taking care of retirees beyond employment may take time, but as Ms. Schaus asserts, it is a win-win for participants and plan sponsors.