Employer Support for Your 401(k) Plan

Employer-Provided Information

Your employer regularly provides you with information about your 401(k) plan. In its communications with you, your company will:

- Explain your plan and how to use it
- Explain your rights under the law
- Provide you with investment information

This information is so important that you should keep everything you receive even if it is not given to you on paper. If your employer sends you information by email, keep a copy of the email and save it with other plan related documents.

Summary Plan Description: The most important document you will receive about your 401(k) plan is called a summary plan description (SPD). The SPD is a government required communication that includes:

- General information about the plan (i.e., the name of the plan, the plan sponsor, and the plan administrator)
- The plan's eligibility requirements
- A summary of the plan's benefits
- Plan contributions and other funding information
- The plan's claims procedure
- An explanation of your legal rights

All the topics we've mentioned in this chapter (eligibility, vesting, matching contributions) plus those discussed in other chapters (loans, hardship withdrawals, distributions, and more) are covered in the SPD. Additionally, this document provides information on the appeals process should you have problems with the management of your plan.

You should receive a copy of your 401(k) plan's SPD when you join the plan, or shortly thereafter. Your plan's SPD is also available anytime upon request. If you do not currently have yours, contact your human resources department and ask for a copy. Keep your SPD in a safe place so you can refer to it whenever you have a question. The entire framework of your 401(k) plan is contained within the SPD. Use it well.

Other Plan Documents: Your employer will also provide other explanatory materials, for example, your account balance statement. This information, typically sent out quarterly, includes your contributions, your employer's contributions, the amount of money in your account, the status of your various investments, the distribution of your asset allocation, any changes you made to your account during the period, and any loans or withdrawals.

In addition, your plan has probably provided you with written information to help you invest your 401(k) plan assets. These materials are designed to help you make good asset allocation and investment decisions. Typically, they will be tailored for the actual investment options offered by your 401(k) plan. These and any other documents you receive from your employer are important reference materials and should be kept on file. Your employer may also provide investment education tools, such as newsletters, education or advice via the Internet, or financial planning assistance.

Managing Plan Investments

Federal law imposes a high level of responsibility on employers who offer 401(k) plans. According to the law, your employer is a fiduciary responsible for managing your 401(k) plan assets according to the "prudent man" standard. This requires a 401(k) plan fiduciary to act with care, skill, prudence, and diligence. However, fiduciaries are not required to be experts in every area. They can and often do hire outside advisors, such as attorneys, accountants, administrators, and investment managers. Fiduciaries are required to choose quality managers and monitor their performance.

A fiduciary is also expected to have control of the plan assets. This means that a fiduciary is responsible for making sure that your money is where it is supposed to be when it is supposed to be there. As a fiduciary, your employer is also responsible for ensuring that your payroll savings are deposited into your 401(k) account in a timely manner, and that the 401(k) plan is administered for the exclusive benefit of its participants, namely you, and their beneficiaries. They are also responsible for seeing that the fees you pay from your 401(k) assets are reasonable in light of the services provided.

These special requirements are some of the reasons for the uniformly high quality of plan administration and oversight throughout the 401(k) system. They provide you with a level of safety within your employer-offered 401(k) plan that you probably would not have if you invested on your own. However, the prudent man standard does not guarantee investment performance.

Profit Sharing

The most popular plan offered today combines profit sharing with a 401(k) plan. This approach offers all the advantages of 401(k) with an extra incentive-an employer provided contribution based on the financial success of the company. Companies that offer a profit sharing contribution in addition to the 401(k) feature generally have greater company contributions than those with only a fixed match. As a result, your account balance will grow more quickly and it will be easier to achieve your retirement goals.

There are many different approaches to profit sharing. For example, the amount and timing of profit sharing contributions are based upon the specifications of the sponsoring company. More than half of profit sharing/401(k) plans base a portion of their company's contribution on overall profits, tying retirement success to personal productivity and company success. In such cases, the profit sharing bonus is contributed as a lump sum at the end of each year, after the company's success has been determined. In other profit sharing/401(k) plans, the company contribution is made in company stock rather than in cash.

Profit sharing contributions to a 401(k) plan should not be confused with cash profit sharing that is added directly to your paycheck at regular intervals (annually being the most common). Sometimes your employer will give you the option of contributing part of your cash profit sharing as a 401(k) contribution. This may be described as "cash or deferred" election.

Legal Compliance

Your employer is required to administer your 401(k) according to rules established by the government. Complying with these rules is quite complicated and requires a significant effort by your employer, and your employer takes these rules quite seriously. Failure to comply with the rules could have severe consequences as the plan could be disqualified, in which case all of your contributions and plan earnings would be made immediately taxable and your employer would lose tax deductions taken from the contributions. Disqualification of plans rarely occurs since most employers make every effort to comply. However, these rules are intended to ensure that your 401(k) plan is designed and managed for the benefit of all of its participants and their beneficiaries. For example, these rules make sure that there is broad plan participation with no special treatment for company executives. In fact, some of these rules restrict the contributions of company executives and other highly compensated employees more than those of lower-compensated participants.