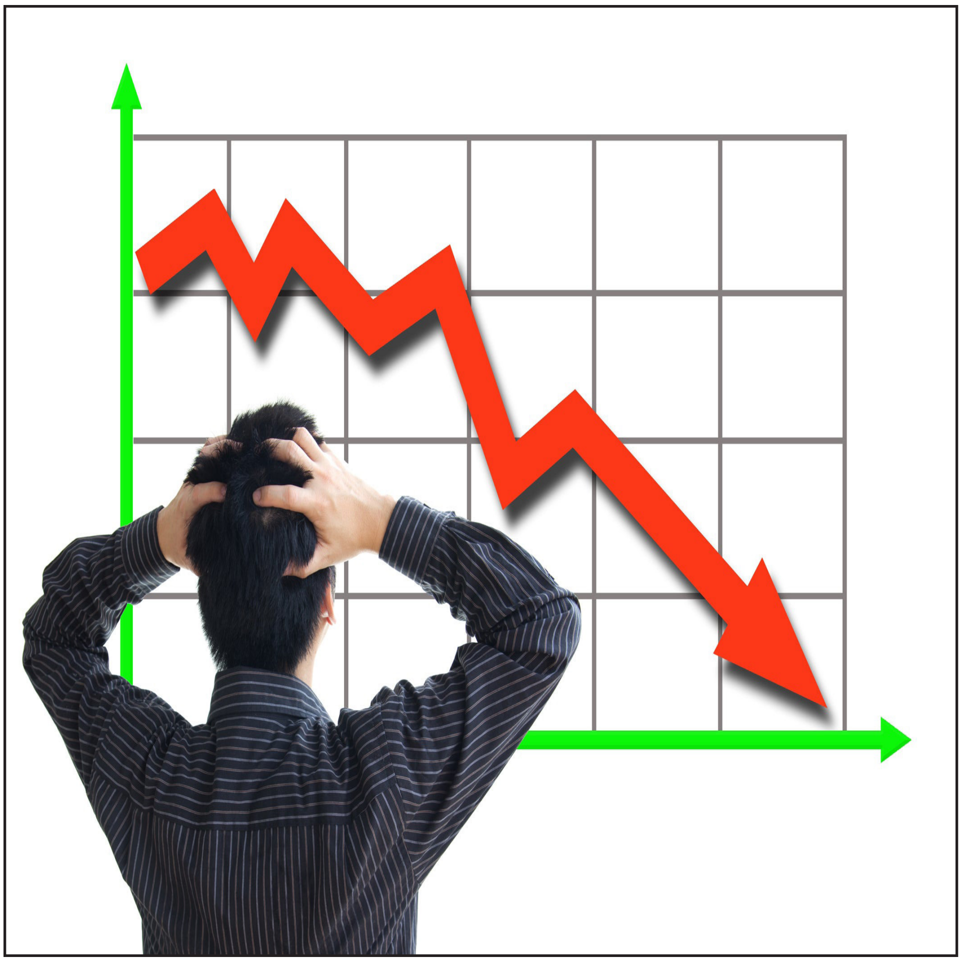
What 401(k) Plan Sponsors Should Do When The Markets Go South

By Ary Rosenbaum, Esq.

There is a proverb that success has many fathers, but failure is an orphan. It means that many people will seek credit for success, but very few will accept responsibility for failure. Plan sponsors and plan providers love to talk up 401(k) plans when stock markets are good, but not many want to talk when the stock markets are doing terribly. As a 401(k) plan sponsor, you need to do your job when the market is good or bad. Actually, times like these are when you need to be more vigilant. This article is all about what you need to do.



Understand that it's cyclical

When the stock market is booming and everyone seems to be making money as they did in the late 1990s, everyone forgets a little thing called a bear market. The stock market doesn't always make money for everyone invested, there have been significant bear markets where returns have decreased by around 40%. This current market trend is the third market correction and bear market that I've been a part of since I started as an ERISA attorney in 1998. While it seems we are in a recession, we don't know how long until we get out of it and there are indications that the current uptick in the market may be short lasting since the market may still be overvalued. While you don't have to be a Wall Street expert, you need to understand that there are times when investment returns go down south.

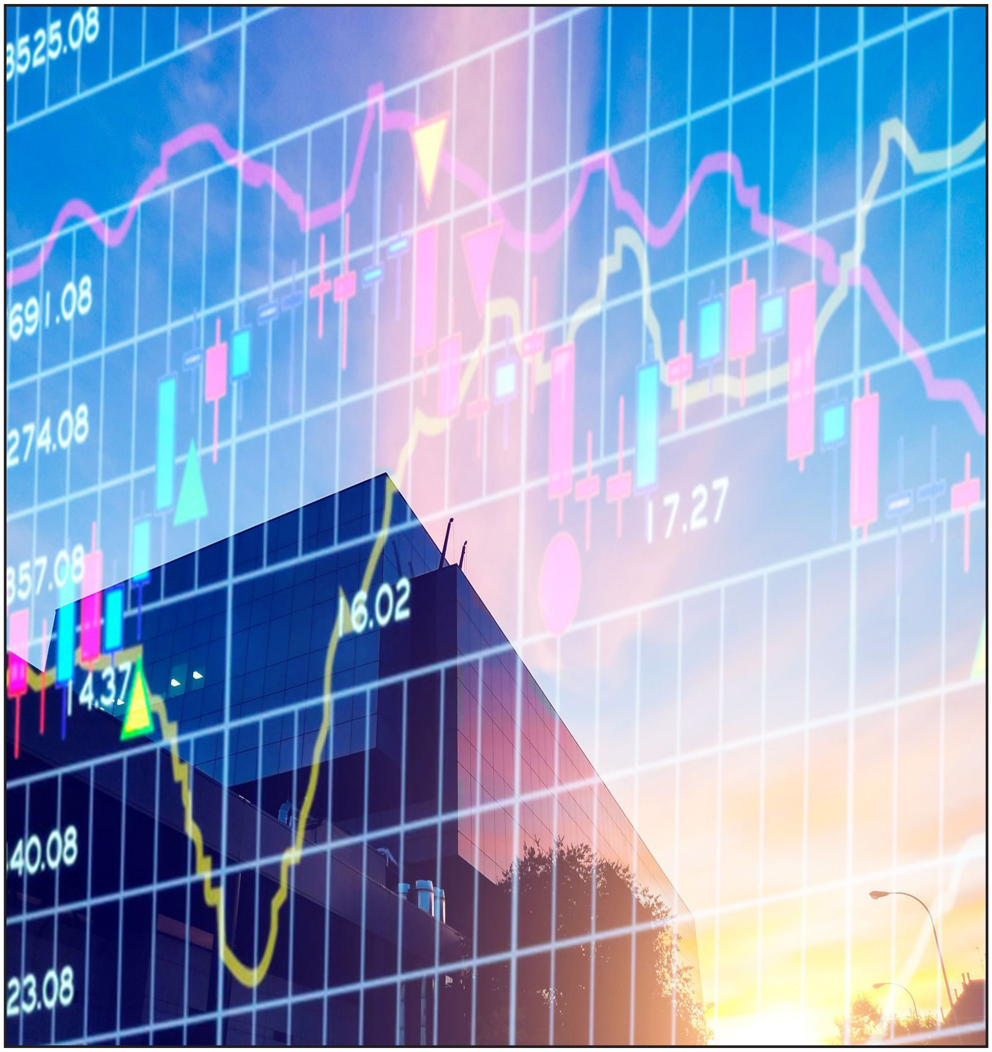
When times are rough, be more vigilant

From a sales perspective, it's always harder for plan providers to get new clients when the stock markets go south because plan sponsors don't want to talk about their 401(k) plans. It's counterintuitive, but when markets tank, this is the time to be more vigilant over your plan. This is exactly the time that you should be more concerned about your 401(k) plan. When times are rough when the time your participants have questions or are nervous when they see their retirement savings shrink. Nervous people do silly things and this might be the time they need to be talked off a cliff. I understand that bad news may mean you don't want to talk about the 401(k) plan, but you can't let the bad news serve as some sort of paralysis that leads you to do nothing. You need to always be vigilant, but more vigilant when the markets and retirement account balances falter.

Contact your advisor

As a 401(k) plan sponsor, you need to be there for your plan participants. As a plan fiduciary, that's the job. However, that doesn't mean you should be offering any type of investment advice to confused and overwhelmed plan participants. Unless you're licensed in the securities business to give advice, you shouldn't be offering your two cents. You should be contacting the financial advisor that works on your 401(k) plan. Do your job by having them do their job. Ask them whether the investments offered under the plan are suitable to the terms of the plan's investment policy statement (IPS). Also, make sure you have an IPS because there are still plans that don't and your advisor needs to develop one for you. Also, these are the times to hire an advisor if you don't have one and if you have a 401(k) plan without an advisor, you've been doing it wrong all this time.

Like other plan providers, your plan's advisor is a trusted resource that you should rely on, especially during times like this.



Sitting down with the advisor

After contacting the advisor, make sure they are available for a meeting. This could be an emergency meeting or one that is regularly scheduled. If you haven't had regular meetings with your plan's advisor, then shame on you. You need Regardless of their role as a financial advisor, make sure that minutes of the meeting are kept and held with your plan's records. You need to make sure that the investments still fit within the parameters of the IPS. It's likely that they still fit the needs of you and your plan's participants. If they don't, then the advisor is going to make a change. You may consider having the advisor reach out to plan participants at this special time, which should augment your current education meetings with plan participants. While you probably don't need a special education meeting for participants, consider some communication from your advisors to assuage panicking plan participants. When the markets tank, plan participants are well known to make unsound and costly investment decisions, including locking in any losses by shifting all the equity positions to fixed income.

Do your job, especially now, hold those enrollment meetings

Many plan sponsors hate enrollment/education meetings for plan participants because time away from work costs them money. However, to properly mitigate risk, you need to make sure enough information is provided to plan participants so that they can make educated investment decisions of their own. Participants investing on their own doesn't protect you from liability from their losses if you do nothing to make sure they can make informed investment decisions. Now, more than ever, you need to regularly schedule enrollment/education meetings for plan participants. Saying you're too busy isn't going to help you mitigate your risk as a plan sponsor. Let your advisors do their job and hold regularly scheduled enrollment meetings and plan education meetings, based on your 401(k) plan's entry date.

Make a change if they are unresponsive

I have an expression in life: "I needed you, you weren't there and I no longer need you." You will always who was there and who wasn't when times were rough. If you reach out to your advisor and they have no interest in helping you out with guidance or offering some type of participant education or advice, this is certainly the time to consider changing advisors. You need plan providers that will be with you all the time for support and if they can't be there when the markets tank or are volatile, these are advisors that you don't need. When the stock markets shoot up, everyone is a financial expert. When the stock market faces a correction, that's when you see the value of a financial advisor, and an advisor unwilling t do their job is someone you can't afford to keep.

Ultimately, don't panic

They often say that slow and steady wins the race. Over the long term, the stock market is still the best long-term investment. These market corrections are a blip and are actually a buying opportunity for those that understand the terms of dollar cost averaging and long-term investing. This isn't the time to do something rash like terminating your 401(k) plan or eliminating all equity types of investments. People who panic make mistakes and as a plan fiduciary, this is something that you can't afford to do.

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