

Invest your time to find the right 401(k) consultant

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In the past, the trend among employers setting up 401(k) plans was to get the best investments, the best Web sites, the best communication plan, and “deal with costs later,” said **David Boucher**, senior vice president of corporate benefit services at [Longfellow Benefits](#) in Boston.

“Following the passage of the Pension Protection Act, there’s less focus on choice, and more focus on automation, how to set up plans that are idiot-proof,” Boucher said. “Companies want a plan but want it to cost as little as possible.”

The PPA requires employers who sponsor 401(k) plans to test the plans to ensure that the ratio between what highly compensated employees and non-highly compensated employees contribute to the plan is no more than 2 percent. For example, if employees who make less than \$110,000 contribute an average of 3 percent of their salary to the plan, highly compensated employees over that salary threshold cannot contribute more than 5 percent to the plan.

“Because many lower-paid employees are stopping their contributions, it’s affecting the top-compensated group,” Boucher said. “If you make over \$100,000, you may be able to afford to put a lot away, but you may not be able to because of the nondiscrimination test. It’s a major issue for 401(k) plans.”

Companies can get around the test by setting up a so-called “safe harbor” plan, which requires the employer to make a match or minimal contribution (3 percent) to the plan. But in today’s tough economy many companies are cutting back on their contributions.

“If a company can’t afford to make a contribution, they have to test the plan,” Boucher said.

Because there are so many issues and considerations involved in setting up or reviewing a 401(k) plan, most companies hire a consultant to help them analyze the options open to them and choose the best provider.

“A consultant can help you assess what issues you are having with your current vendor or what you are looking for in a new plan,” said John Carnevale, president and CEO of [Sentinel Financial Group](#) in Reading, “Based on those issues, the consultant can help you choose the right solution.”

There are many directions an individual company can go with a 401(k) plan, Carnevale continued. “A company may need a lot more hand holding than some other companies.

“Some providers just have a portal for a company to do on their own. If a company doesn’t understand that and is expecting a provider to hold their hand, they could end up with just a computer portal. I recommend companies work with a very experienced consultant.”

Finding an experienced consultant can be done in different ways. Sometimes companies will send out an RFP. Most of the time, however, companies rely on referrals from colleagues and other advisers, networking organizations, Internet searches and so forth.

A good consultant can help a company analyze its needs, negotiate all the options, write an RFP and assess respondents. Usually, two to three are invited in for an interview and presentation.

Although the trend in today’s tough economy is for companies and employees to cut back on their 401(k) offerings and contributions, the benefit is more important than ever, said Bert Kingsley, principal in the Hartford office of Mercer.

“The traditional pension plan is a dinosaur,” Kingsley said. “The 401(k) remains a cornerstone of retirement planning and any benefit package.”