Advisor Connect | Help Clients Understand Why a QDIA Matters

MAKING IT ACTIONABLE

Auto-enrollment has been proven to be effective in raising participation rates in 401(k) plans. As a result, it's been pretty widely adopted across the country, especially in mid– to larger plans. However, automatic enrollment creates a situation where many employees fail to make an investment election on their own. This creates a need for a default investment in the lineup.

A cash fund has no risk, but also has no growth potential. Other investments may have income or growth potential, but expose a plan sponsor to fiduciary risk by making the decision to direct such contributions. Given these complications, the industry and regulators realized that it was important to establish what is known as a **Q**ualified **D**efault **I**nvestment **A**lternative, or **QDIA**.

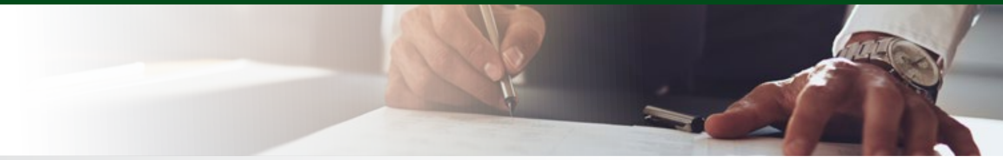
A QDIA is an important addition to the fund lineup, as it:

- Helps satisfy ERISA 404(c), and
- Provides plan sponsors with a safe harbor from fiduciary liability for participant investment decisions.

The regulations governing a QDIA stipulate that it must be one of three types of investments:

1. Target Date Fund
2. Balanced Fund
3. Professionally Managed Account

When choosing or recommending a particular investment to be used as the QDIA, there are several key things to consider. The investment offered needs to reflect the age and income ranges of the employees, as well as the sophistication of the investment fiduciaries. Also, employees must have the choice to opt-out of the QDIA and self-direct their investments.



When properly administered, a QDIA offers a number of benefits. It can:

- Eliminate plan sponsor risk associated with contributions by employees who fail to make investment elections,
- Make offering an auto-enrollment feature more attractive, which, in turn, may
- Increase plan participation and improve plan cost efficiency.

Get in touch with us if you'd like to review this topic in more depth or discuss with your clients. We're happy to help.