

## **CHOOSING A DEFAULT INVESTMENT FOR YOUR 401(k) PLAN**

Traditionally, many 401(k) plans have had a default investment — an investment that is used when employees neglect to make a decision about how to invest their plan accounts. Now, with the trend toward automatic enrollment, government regulators are focusing more attention on the types of investments that plans are using as a default. If you sponsor a 401(k) plan or a similar retirement plan, new guidance from the U.S. Department of Labor (DOL) will be of interest to you.

### **LIABILITY RELIEF**

When a plan invests an employee's contributions in a default investment, the employer may be liable for investment losses if the investment doesn't perform well. But now there's a qualified default investment alternative (QDIA). As long as a plan meets all of the DOL's requirements, a QDIA provides relief from fiduciary liability (though the employer must still prudently select the default investment).

### **QUALIFIED INVESTMENTS**

In its regulations, the DOL spells out the categories of investments that qualify as QDIAs. They include lifecycle and targeted retirement date funds that take into account an individual's age or retirement date, as well as funds that take into account the group of employees as a whole, such as balanced funds. Professionally managed accounts that take an individual participant's characteristics into consideration also qualify.

Stable value and money market funds, which frequently have been used as default investments in the past, can be QDIAs only for the first 120 days after the employee's first elective contribution. A QDIA generally cannot hold securities issued by the employer.

### **OTHER REQUIREMENTS**

To qualify for fiduciary relief, certain requirements must be met. Before investing your employees' contributions in a QDIA, your plan must give the employees the chance to direct their own investments. And the plan must permit employees to transfer out of the QDIA and into the other investments your plan offers with the same frequency available for the other plan investments (at least quarterly). You also must provide plan participants with certain notices and investment details. See your BB&T Institutional Services Consultant for more information.