

Client: A Financial Services Firm

Project: Blog Post

Objective: Tips on how law firms can aid employees in maximizing their retirement

Portfolio

How Law Firms Can Help Employees Maximize Their Retirement

Many 401k plans are offering an option called a self-directed brokerage account. A professional advisor can help people optimize their retirement plans, so they can meet their overall financial goals.

Law firms should consider amending their 401k plan options to allow third-party advisors to help employees get the assistance they need. So, they can make sound investment decisions without the uncertainty and risk of trying to navigate a self-directed brokerage plan on their own.

While most law firms allow self-directed brokerage accounts, they do not allow employees to hire third-party advisors to manage their 401k plan. Self-directed brokerage accounts provide employees access to various investment opportunities, including individual stocks and bonds, exchange-traded funds, and numerous other mutual fund options.

While these additional investment choices are a huge advantage to help save for retirement, the disadvantage is that the investment falls to the employee rather than the employer. Allowing third-party advisors, law firms can help employees manage their self-directed brokerage accounts, so they can have sound, profitable investments to help maximize their savings.

How A Self-Directed Brokerage Account Works

If you're going to offer a self-directed brokerage account, you need to pick a specific firm to use, such as [E* Trade](#) or [Charles Schwab](#), and list this account along with the other investment choices in the plan. In some cases, participants can have a specified window of time to move money from their general omnibus account to their brokerage account.

You can then buy and sell stocks, bonds, ETF's, and mutual funds with no tax consequences. However, some higher-risk trades are not allowed, such as trading on margin, buying put or call options, or futures contracts. Covered call writing is permitted unless the plan's charter forbids it.

Pros of Self-Directed Brokerage Accounts

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There are [several benefits to providing self-directed brokerage accounts](#):

- Employees have a more comprehensive range of investment choices than regular 401k's including stocks, bonds, and ETF's
- Participants can invest in multiple sectors or sub-sectors
- Self-directed brokerage accounts put the power and control into the employee's hands when it comes to managing their funds for retirement
- Employees who invest wisely may be able to build their retirement portfolio quicker than they would through a company-sponsored 401k plan

Cons of Self-Directed Brokerage Accounts

There are also a few disadvantages to using self-directed brokerage accounts; here are some examples:

- Inexperienced investors can lose a lot of money by making bad investments and trades
- It can be more challenging putting together a sound portfolio because of transaction fees and commissions.
- There's a potential for higher risk of trading due to emotion, leading to buying high and selling low.

Why Law Firms Should Allow Third-Party Advisors for Their Employees

Self-directed brokerage accounts have generally been the standard plans for law firms. However, they've been typically used by employees who make the most money and are experienced investors. For most 401k users, having a third-party advisor to help them build a solid retirement portfolio can help them prevent the common investment mistakes they may make independently.

Some employees may feel that the fees for a third-party advisor of self-directed brokerage accounts may be high. Still, they don't realize that they are most likely paying management fees on their company 401k without personalized guidance. Employer-sponsored 401k plan advisors are also obligated to the employer, not the employee.

Having a third-party advisor ensures that your savings plan is working towards your financial goals, not just a single retirement account. Many investors have multiple accounts in different places. A third-party advisor can take a comprehensive look at all of them and organize your investments to achieve a desired outcome.

A third-party advisor can also provide you with personal attention. They can help you determine your risk tolerance, which is a significant part of building your portfolio.

What Your Third-Party Advisor Should Do for You

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401k plans are complicated. The rules are hard to understand, and they're always changing. That's why you need a plan advisor that is well versed in 401k plans. [A good 401k plan advisor](#) has the experience and training helping employers make informed decisions.

A third-party advisor will help your firm develop an investment strategy that helps employers meet their fiduciary liability and introduce programs that can improve employees' chances of successfully saving for a comfortable retirement.

An excellent third-party 401k advisor provides employees with the tools to help them make sound investments to have a successful retirement and reduce fiduciary risk to the employer.

401k providers provide the following services:

- Assess employee needs
- Conduct enrollment meetings
- Ensure ongoing investment and financial education
- Educate participants about the plan's investment options
- Respond to participant questions during meetings and via phone or email
- Provide one-on-one guidance to employees that want it
- Educate retirees and former employees on how to manage their savings

Your 401k will likely be your largest investment and savings account. Working with an advisor can help you make the right choices to have a prosperous retirement portfolio.