
Plan Sponsor
Digest

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Your Challenge, Our Solutions™

# Three things you may not know about your retirement plan

Many plan participants may not fully understand all the advantages their employer-provided retirement plans provide. Here are three aspects of your retirement plan that may surprise you.

1. By law, the assets of a retirement plan are held in a trust (or invested in an insurance contract), separate and apart from the assets of the employer sponsoring the plan. Plan assets must be used solely to benefit plan participants and beneficiaries.

2. Your retirement plan assets are portable, so that if you change jobs, you won't have to start over. You may have several options for your retirement savings, such as keeping the money in your current plan, moving your savings to another employer's retirement plan or an individual retirement account, or cashing out your plan assets.

3. You can change beneficiaries. If there's a major change in your life, you have the flexibility to add or subtract an individual or individuals from the list of beneficiaries who would receive the assets in your retirement account upon your death.

Employer-provided retirement plans also offer tax benefits, professional investment management, and an automatic payroll contribution feature, all of which can simplify and streamline saving for retirement.

## How America views retirement plans

U.S. households hold generally favorable impressions of 401(k) and similar "defined contribution" retirement plans. Among surveyed households with defined contribution plan accounts or individual retirement accounts:

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| 91% | agreed that **their plans helped them think about the long term**, not just their current needs |
| 82% | said the **tax treatment** of their retirement plans **was a big incentive to contribute** |
| 86% | had **favorable opinions of their plans** |
| 83% | were **satisfied with their plan's investment options** |

This information is based on data compiled from *American Views on Defined Contribution Plan Saving, 2017*, Investment Company Institute, February 2018.

# Investing in style

Style-conscious investors may have an edge when it comes to making decisions about the investments in their retirement accounts. Does that mean wearing designer clothes and driving a sports car will make you a better investor? Of course not. But paying attention to the investing styles that fund and portfolio managers follow can be helpful.

## Passive vs. active investing

Active fund managers strive to outperform a market index by buying and selling investments.

A passive investing style, however, is based on the theory that it's difficult to "beat the market," so investors might as well "buy the market." Passive fund managers aim to mirror the performance of a specified market index (such as the S&P 500, an index of 500 stocks issued by large U.S. companies).[1] Since it's impossible to invest in an index directly, a passive fund generally holds the same securities in the same proportions as the index the fund follows. The fund manager switches investments only when the underlying index changes.

Limited trading means that index funds have relatively low expenses. However, passively managed funds generally don't outperform the indexes they follow because market indexes don't have expenses, whereas index funds and portfolios do. And when the market is down, there's not much passive fund managers can do to avoid losses.

Note that actively managed funds typically have higher expenses and fees than passively managed funds. And, if the manager makes poor investment choices, the fund's performance may suffer relative to its benchmark index.

## Growth vs. value investing

Some fund managers follow a growth style investing strategy, favoring the stocks of established companies that typically deliver above-average growth in earnings and profits. These companies are typically large, stable firms that reinvest their earnings, a sign they intend to keep growing. Some fund managers prefer a value style. The goal is to look for undervalued stocks that managers feel may be poised for a comeback. Value stock prices may be low for a number of reasons: a company's earnings may have fallen short of estimates, the stock may be temporarily out of favor, or the entire industry or sector may be troubled.

## Large vs. small cap investing

Some funds focus on company size, which is known as market capitalization, or "market cap." It refers to the total dollar value of a company's outstanding stock at a specific point in time, determined by multiplying the company's stock price by the total number of outstanding shares. The dollar ranges to determine market cap aren't set in stone, but there are general definitions (see below).

- **Mega cap** — Market cap of at least $200 billion; typically industry leaders
- **Large cap** — Market cap of $10 billion to $200 billion; well-known companies; considered relatively stable
- **Midcap** — Market cap of $2 billion to $10 billion; more volatile than large caps
- **Small cap** — Market cap of $300 million to $2 billion; generally new or young companies

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Historically, large-cap stocks have sustained relatively slower growth with lower risk, while small caps offer relatively higher growth potential and higher risk, although past performance is no guarantee of future results.

## Style drift

Sometimes, a manager or management team of an actively managed fund or portfolio will add investments that don't fit with the fund's objectives or investment style. This is called "style drift." It can happen for a number of reasons.

One reason is disappointing returns. The manager of a small-cap stock fund may add some large-cap stocks to the fund to try to boost performance, for example. Style drift also can occur when the fundamentals of a fund's underlying investments change. A small company might grow into a mid-sized company, for example. Or a value stock might turn into a growth stock.

If one of your investments "drifts" from its stated style substantially, it could create overlap or duplication without your knowing it. In turn, that could change your portfolio's exposure to investment risk and its potential return. It's important to be aware of changes in the investments you hold. If the changes aren't compatible with your investment strategy, you may want to make some adjustments.

Understanding the different investing styles can help you select investments that diversify your retirement account.[2] Although mixing fashion styles might be a no-no, mixing investment styles can be a good thing.

[1] An index is a measure of the value of a hypothetical portfolio of securities that is representative of the market (or market segment) it tracks. Indexes are unmanaged; no securities are bought or sold in an attempt to increase the value of the index. An investor cannot invest directly in an index.

[2] Diversification does not ensure a profit or protect against loss in a declining market.



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