



Employer Connect | Understanding 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 fund lineup.

A cash fund has no risk, but also has no growth potential. Other investments may have income or growth potential, but can expose you, as plan sponsor, to fiduciary risk by making the decision to direct such contributions. Given these complications, industry regulators realized that it was important to establish what is known as a **Qualified Default Investment Alternative**, or **QDIA**.

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

- Helps satisfy ERISA 404(c), and
- Provides you (as plan sponsor) 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

It's important to note that the selection of one of these investments as a QDIA needs to reflect the age and income ranges of your employee population as well as your comfort as the plan fiduciary. But don't worry, we're here to help you get this right.



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It's also important to note that employees must always be able to opt-out of the the QDIA and self-direct their investments should they wish.

Offering a QDIA doesn't alleviate all of your fiduciary liability, but it does:

- Eliminate your specific risk related to the default investment of the plan when it's used for contributions by employees who enroll but who fail to make their own elections
- Makes 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 and how it applies to your situation and plan.