



## SMART INSIGHTS FROM FINANCIAL PROFESSIONALS

# Not All 401(k)s Are Alike: SDBAs Come with More Control

More employers are offering 401(k) self-directed brokerage accounts, and if you're a hands-on, motivated investor, they could be for you.

By Scott L. Bartow, Investment Adviser Representative  
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A three-legged stool has long been the go-to metaphor of financial experts. That image was meant to convey that, for most people, a comfortable retirement would likely be supported by three stable sources of income: an employer pension, Social Security and personal savings.

But that sturdy stool looks more like an antique these days. The pension leg no longer exists for most workers, particularly those in the private sector. According to the Bureau of Labor Statistics, only 16% of private industry workers had access to a defined benefit plan in 2019. Plus, there are credible worries that in the future, the Social Security leg will be whittled down, as well. That means the personal savings leg will have to carry more and more weight for future retirees.

Unfortunately, not all pre-retirees are prepared for this change. Many still think of their 401(k) or similar workplace plan as just a source of supplemental income; and they are not counting on it (or building it) to do the heavy lifting in retirement. They might look at their statements to see how much is in their account, celebrating or sulking, depending on what they see. However, they don't really know what investments they have or how those investments are meant to build a financially secure retirement. Many aren't even getting any professional advice, choosing instead to just watch their money go into the plan every month and hope for the best.

I refer to this as the 401(k) dilemma. The 401(k) is most people's largest retirement savings bucket, but it also may have the most restrictions, the least amount of options from which to choose, and next to zero personal advice from the plan representatives.

But hope is not a plan, and you should be saving in your 401(k) as though your future depends on it — because it very well might. You need to save as much as possible and get the most from every dollar you invest.

One way to do that is with a 401(k) self-directed brokerage account (SDBA), also known as a 401(k) brokerage window. An increasing number of employers are making SDBAs available to employees who want access to more investment options in their workplace retirement plan. In fact, your employer may offer an SDBA without you even being aware. You can ask your human resources department, call your custodian directly or check your plan's website for more information. The plan rules will state if this is an option.

## MORE OPTIONS, MORE CONTROL

There are several appealing aspects of a workplace retirement plan. There's the tax-deferred savings, of course, as well as the convenience of automatic payroll deductions and, for most, the added benefit of an employer contribution. But you may have noticed that your basic 401(k) plan does not offer as many investment choices as an IRA or a taxable brokerage account. Instead, your options have likely been limited to a few mutual funds (collections of stocks and bonds), annuities and maybe company stock.

SDBAs usually offer a wider and deeper bundle of options, including individual stocks and bonds, exchange-traded funds and, yes, mutual funds, but likely with more choices of sectors and subsectors. Your investment adviser may have even developed

relationships with active/tactical portfolio managers to super-charge your potential. You can put all your 401(k) savings in there, if you like, or just a portion. Either way, you'll have more control of your retirement savings and greater potential to grow your money faster while keeping all the advantages of a traditional 401(k).

## FORGET THE STOOL, BUILD YOUR SAVINGS

If you're the type of person who enjoys being more hands-on — doing your own research and making your own moves — an SBDA may be a great opportunity for you. But what if you don't have the time or expertise to vet different investments or handle your own account? Or, what if you're an emotional investor, without the discipline to manage a stock portfolio in a roller-coaster market?

You may find you could still benefit by using a financial adviser to help you set your retirement goals, choose the strategies and investments that will get you to those goals, and then assist you in managing your 401(k) SBDA along with any other assets you're using to build your wealth.

The American Retirement Association reports that “self-directed brokerage account participants who worked with an advisor had an average balance that was nearly twice the amount of those held by non-advisor managed accounts, according to an industry benchmarking report.”

While any reports or claims of performance should be closely reviewed, and vary by individual, the takeaway point is that there is a potential for improved results, and it warrants your consideration.

Of course, you'll want to be aware of all fees associated with your investments, making sure they are disclosed and agreed upon in advance, including but not limited to brokerage fees, buying and selling fees, professional expertise, etc.

If you're willing to put in the extra effort — and you work with an adviser you trust to look out for your

best interests — you may find an SBDA is just the tool you need to get your retirement savings on track for a future where taxes, inflation and health-care costs could well be higher than they are now. With increased longevity, you (and your spouse) could live well into your 80s, 90s or even 100s.

It is imperative to stay engaged. What's happening to your retirement savings is ultimately YOUR responsibility. You should know where your money is invested, any risks, investment costs and how they fit into your current and future needs. Even if you decide not to go with an SBDA, you may wish to employ a financial adviser to create or improve your overall financial plan and decide which of your employer's traditional 401(k) investment options are the best fit for that plan.

Whatever you do, don't count on that wobbly three-legged stool to support you. Build your personal savings now to help secure the retirement you deserve.

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