Enhance your retirement plan with a

Qualified Default Investment Alternative (QDIA)

Retirement Plan Feature:

The Qualified Default Investment Alternative provision, or QDIA, was necessitated by the creation of the Auto Enrollment safe harbors from the Pension Protection Act of 2006. If an employee is automatically enrolled in a retirement plan, a default investment alternative is required from the absence of the participant's investment direction. The provision covers defined contribution plans such as 401(k)s. By adopting it, an employer can take safe harbor from many of the risks involved by investing a participant's funds without his/her direction. Compliance with the following rules is necessary:

- A QDIA may not impose financial penalties or otherwise restrict the ability of a participant or beneficiary to transfer the investment from the QDIA to any other investment alternative available under the plan.
- Participants and beneficiaries must have been given the opportunity to provide investment direction, but failed to do so.
- A notice must be furnished to participants and beneficiaries 30 days in advance of the first investment, and at least 30 days in advance of each subsequent plan year containing specific information regarding the QDIA.
- A QDIA must be managed by either an investment manager, or investment company registered under the Investment Company Act of 1940.
- A QDIA must be diversified to minimize the risk of large losses.
- A QDIA may not invest participant contributions directly in employer-sponsored securities.
- Other provisions apply.

Background:

Similar to the Auto Enrollment provision, Congress was concerned that a large population of employees was not taking advantage of the retirement plans available to them. Data suggested that most employees would not opt out of a plan in which they had been automatically enrolled. The result was Auto Enrollment. Once created, rules governing the investment of automatically enrolled employees became a necessity.

Employer Safe Harbors and Benefits:

- ERISA provides plan fiduciaries relief from liability for investment outcomes to individual account plans that allow participants control over the investments. Investment in a QDIA by a plan sponsor deems the participant to have exercised control if he or she had the ability to direct the investment but failed to do so.

Please feel free to ask us about all the provisions and requirements for implementing QDIAs in your retirement plan.

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