Medical Practice Trends Podcast 56

Should Your Practice Offer a 401(K)? with Guest Cynthia Loh, Betterment for Business

Dr. Polack: This is Peter J. Polack, MD, of Medical Practice Trends. Our podcast guest today is Cynthia Loh. Cynthia is the General Manager of Betterment for Business, Betterment's 401(k) platform.

Previously, she was a Director at ZocDoc and held roles at Berens Capital and PIMCO in addition to serving on the PIMCO Foundation Investment Committee. Before PIMCO, she worked at Merrill Lynch in healthcare and technology investment banking and served as a member of the American Express Digital Advisory Board. She has also guest lectured at Columbia University's Mailman School of Public Health. She has a BA in cognitive science from UC Berkeley and an MBA from Stanford University.

Welcome, Cynthia.

Cynthia: Thank you, Peter. Happy to be here.

Dr. Polack: Thank you. I guess we should start with basics and explain what exactly a 401(k) is.

Cynthia: Sounds great. A 401(k) is a vehicle for businesses to use to help their employees better save for retirement.

Dr. Polack: Is it always just simply a benefit to try to get better employees? What are some of the advantages that a medical practice employer would have to offer 401(k)s for their employees?

Cynthia: Great question. As we see competition heat up for attracting and retaining talent for employees, we oftentimes see a medical practice start to look to the 401(k) if it's not something they already offer.

Traditionally, it's been difficult, I would say, to compete on the 401(k) front – one 401(k) looks a lot like another 401(k) – but as we've seen the emergence of the DOL rule and how prevalent that is in day-to-day conversation today – even John Oliver is talking about the DOL rule – people are starting to ask a lot more questions on a 401(k) – how much you're paying in fees, if your vendor is giving investment advice – so there really is an opportunity to differentiate as a medical practice on the type of 401(k) that you can provide for your employees.

Dr. Polack: Can you talk a little bit about that law for those of us who aren't as familiar with it?

Cynthia: Absolutely. In the medical community, there is an oath that you take to serve in the best interest of your patients. The financial industry actually doesn't have something similar. As it relates to investing and advising, financial advisors don't have to always serve in the best interests of their customers. In some situations, they actually don't.

One example of that would be working with an employer on their 401(k) and actually advising that employer to select a specific fund where that advisor might get kickbacks or have revenue share and be a part of that. So, while it could be a good fund, it's not always disclosed that they're getting this type of fee and their view might be tainted.

Dr. Polack: How does it differ from a fiduciary responsibility, or is it essentially the same thing?

Cynthia: It's essentially the same thing. It's all wrapped up together in this rule, this idea that we're trying to shift into a world where being a fiduciary is part and parcel for the package as a financial advisor.

Dr. Polack: How does a 401(k) differ from a profit-sharing plan?

Cynthia: Good question. Typically what we see is a profit-sharing plan as a feature of a broader 401(k) plan. 401(k) is the tax code of the regulation for this retirement platform; profit-sharing is typically a feature that we see in retirement plans that we've seen medical practices employ.

Dr. Polack: In a 401(k), is this always a matched sort of program, or does it depend?

Cynthia: It depends. Many of the employers that we work with on their 401(k) do offer a match. This obviously is a benefit for their employees, but it actually also serves another goal, which is that certain types of matches can reduce the operational burden a bit on a 401(k) in that you're sharing a match across all of your employees. It's something called a safe harbor plan.

Dr. Polack: In a medical practice that has, say, five doctors who are the owners, the partners, are they required to have the same plan as the employees, let's say highly-compensated employees who aren't in either of those two categories? Is there a differentiation, or does there have to be the same plan for everybody?

Cynthia: Good question. We see this a lot, actually, in medical practices, where you have doctors who might have different savings objectives. They might, for example, want to try to meet that $53,000 threshold that you can max out in a 401(k), and then they also work with a lot of staff who may not have that same objective or may not have the financial means for the same type of contribution.

A 401(k) plan is offered to all employees who work at the company, but what's really critical is making sure you have a good plan design so that it meets the needs of all the employees at the practice.

Dr. Polack: While we're talking about a plan design, there's a lot of marketing and advertising out there. A lot of banks and financial institutions get into this. I guess one of the concerns is always that it's sometimes presented as something that can be simply set up, and then the question is who is handling the money? Going back to the issue of fiduciary responsibility, who has that? Is it the company that's managing the 401(k), or does that fall back on the owners of the practice? What are the dos and don'ts of looking at these issues?

Cynthia: That's a great point. 401(k)s can be very complicated and have operational costs, but they also don't have to be. When you're thinking about evaluating a 401(k) plan, you should ask about the fiduciary responsibility. That is definitely a question. And the question really is "Are you serving as a fiduciary for me and my employees?" – meaning "Who has the responsibility?" – "And are you looking out for the best interests of both me and the employees at the company?"

I think other questions are related to fees. How are fees paid? Are they paid by the company? Are they paid by the employees? Is there revenue-sharing, that type of thing, within your 401(k)?

The third thing to just to make sure it's a benefit for all employees is how do doctors and staff get investment advice on the 401(k)? Is it through technology? Is it through a once-a-year session at the practice? How is it positioned so that everyone has access to this type of advice so that they can make the best decisions for their retirement account?

Dr. Polack: If a practice were to do this, is this something that employees are obligated to do, or strongly encouraged? What are some best practices as far as getting people to buy into doing this?

Cynthia: If the goal of a medical practice is to encourage strong participation, there are a few things that you can do to help encourage that. One is something called auto-enrollment. What this means is that at the onset of the plan, every employee is defaulted to being enrolled into the 401(k) plan. We see participation rates upwards of 80% in these types of plans.

The second thing you could do is the match. We see very high participation rates when medical practices offer to match employee contributions that go into the plan.

The third piece is investing advice. Being able to understand what it is you're investing in or how to make those investments and being able to access that in an easy fashion also help employees get comfortable to invest in a 401(k) plan as well.

Dr. Polack: Explain how a match would typically work. There is a maximum amount that an employee can set aside. Is that a percentage of their salary, or is it a dollar amount?

Cynthia: Good question. Matches can be set up, and they are typically specific, depending on the type of plan design you have for your 401(k) plan. Typically in a 401(k), an employee can contribute either a percentage or a dollar amount. Those limits on how much they can contribute on annual basis change. Currently, that limit is $18,000. From an employer standpoint, they can also contribute up to the total amount of $53,000, all in.

Dr. Polack: Okay. Talk a little bit about your company, Betterment for Business. Do you work with companies or practices of certain sizes? What's your typical customer like?

Cynthia: We work with all types of different companies. I would say we work specifically with a lot of medical practices that are dealing with some of the issues that I raised earlier, which is really trying to find a plan design that's effective for the doctors and the staff of the plan that we're administering.

So, it's across the board, but I would say typically, we don't see plans that have much fewer than 10 to 15 doctors before they start a 401(k) plan, and we have plans that go up to thousands.

Dr. Polack: If a practice has an existing profit-sharing plan, is that mutually exclusive to having a 401(k) as well?

Cynthia: That is not, no. So, you can have a 401(k) plan with a profit-sharing component as well.

Dr. Polack: All right. Walk me through the steps here. You have a practice. They have, say, 12 doctors. They have a profit-sharing plan. Some employees have been saying "Hey, would like to save some extra ourselves – not necessarily matched, but just on our own." How would you walk them through that process?

Cynthia: We typically initiate that process. We can have a conversation with the doctors or whomever is administering the plan. Sometimes practices work with an advisor or consultant; we're happy to loop them into the conversation as well.

The Betterment for Business is really a different kind of 401(k). Stepping back for just a second, typically a medical practice's experience with a 401(k) can be pretty onerous. You'd have to pick a provider and pick 12 to 20 underlying funds and have an understanding of why we picked those funds and all of that.

At Betterment, we actually do all of that for you. We serve as the fiduciary for the plan, as well as the employees. We pick all the underlying funds for the practice, and then we actually provide personalized managed accounts for all the employees within that practice.

Going back to the onboarding process, after we have a conversation and understand a little bit about their specific situation with their profit-sharing plan and whether they have a 401(k) plan, we introduce Betterment for Business and how they can help their employees save more money with our advised solutions. A typical conversion process takes about three to four months from start to finish to move their current 401(k) plan over to Betterment for Business.

Dr. Polack: Then there would be somebody who would come in once a year or however often to reassess how the plans are doing and maybe give additional advice to the employees if they want to make changes. How does that work?

Cynthia: Great question. As I mentioned, we are not really your typical 401(k) vendor. We do have the option for our employees to come in once a year and check in, but the great thing about our solution is it's largely digital, so you're being administered advice in real time.

You can log in at 11:00 p.m. when you get home from work and actually get the advice on your 401(k) account. But better than that, if you link up other accounts that you might have – your spouse's account, your taxable account, and others – we can actually aggregate all of that and provide the best advice in a holistic fashion, inclusive of your 401(k).

Dr. Polack: That's great. Any final thoughts on practices out there on the sideline wondering if they should offer a 401(k) benefit or not?

Cynthia: We are obviously big fans of 401(k), and we think it is a really important benefit to have for your employees as they think about navigating retirement. I would also just say if you have an existing 401(k) today, just make sure you know what you're getting. Make sure you're not paying fees that are exorbitantly high, and make sure you know whether your financial advisor is a fiduciary or not to you and your employees.

Dr. Polack: Yes, that last part is very important. We found that out.

Cynthia, if someone wanted to get some more information on taking the next step, how could they contact you or someone in your company?

Cynthia: Great question. We have a website; it's BettermentForBusiness.com. There you can click on a link to get started, and someone from our team will be in touch.

Dr. Polack: Okay. Thanks so much. I appreciate it.

Cynthia: Thank you, Peter. I appreciate it.