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As an employer, you may choose to offer various benefits to help your employees build their own financial security, especially when it comes to retirement. One effective tool for this is a QDIA, or Qualified Default Investment Alternative.

A QDIA is the default investment option offered inside an employer sponsored retirement plan. If an employee contributes to the plan but does not specify how they want their money invested, it is automatically allocated to the QDIA. QDIAs were created by the Pension Protection Act of 2006. This act was designed to get more people to enroll in employer sponsored retirement plans and to protect plan sponsors when they choose investments on behalf of their enrolled employees.

A prudently selected QDIA can help provide plan participants with a well-rounded investment portfolio, even if they did not select it themselves. But not every type of investment can be selected as a QDIA. And it must meet specific requirements outlined by the Department of Labor. There are three main types of QDIAs, Target Date Funds, Manage Account Services, and Balance Funds.

Each type has its own way of managing a mix of stocks and bonds and comes with its own benefits and considerations to understand. When selecting a suitable QDIA for your participants, start by looking at the overall demographic of your workforce. Your employees ages, savings rates, and retirement balances can help steer you to the right type of QDIA.

Next, evaluate whether the mix of investments in that potential QDIA suits your employees needs. Comparing and contrasting multiple options can help you find the best fit. Considering factors such as risk, return, and cost. Costs are key to selecting an appropriate QDIA. These aspects can have significant impacts on participant account balances and behaviors.

Finally, make sure to educate your employees about their QDIA. Explain what a QDIA is, the associated risks and benefits, and how they can choose a different option if they want. Clear information can help employees feel more confident in their QDIA. and informed about their retirement choices. Carefully selecting a QDIA is not only elemental to your fiduciary process, but it is a way to improve your employees retirement outcomes.

To learn more about selecting the right QDIA for your retirement plan, or to assess whether your current QDIA is appropriate for your employees, call CAPTRUST. We can help you make an informed choice.

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