



## **Case Study:**

**Enhancing Retirement Outcomes at a  
Physician Office Through Managed  
Account QDIA and ETF Model  
Portfolios**



## Background

A multi-specialty physician office with **18 staff members** (including physicians, nurses, and administrative staff).

### Industry:

Healthcare / Medical Practice

### Challenge:

The physician office offered a traditional **401(k) plan** with a default investment option of **generic target-date mutual funds** as the Qualified Default Investment Alternative (QDIA). The investment menu consisted largely of actively managed mutual funds with **expense ratios averaging 0.85%**, which reduced net returns for participants.

The practice owner wanted to:

1. Improve participant retirement readiness.
2. Reduce investment costs.
3. Offer more personalized investment solutions.



## Initial Plan Issues



- **Low engagement:** Most employees never changed their default target-date fund allocation.
- **High fees:** Mutual fund expense ratios were above industry averages, reducing long-term growth.
- **One-size-fits-all approach:** Target-date funds didn't account for individual risk tolerance, outside assets, or retirement goals.

## Proposed Solution

The plan advisor recommended:

1. **Replacing the target-date fund QDIA** with a **Managed Account QDIA** – a personalized investment solution that adjusts allocations based on age, risk tolerance, salary, account balance, and retirement goals.
2. **Replacing expensive mutual funds with low-cost, risk-based ETF Model Portfolios** in the core investment lineup.

## Implementation Steps

### 1. Plan Review & Benchmarking

- Compared current plan fees and investment performance to industry benchmarks.
- Found potential cost savings of ~0.50% annually through ETF-based strategies.

### 2. Fiduciary Review

- The plan sponsor worked with a 3(38) fiduciary investment manager to oversee fund selection and monitoring.

### 3. QDIA Transition

- Default investment option switched from target-date funds to a **managed account program**.
- Employees were automatically enrolled into managed accounts unless they opted out.

### 4. Investment Menu Redesign

- Replaced 12 mutual funds with **5 risk-based ETF Model Portfolios** (Conservative, Moderate, Growth, Aggressive Growth, and Income).



- ETFs had average expense ratios of **0.08%** compared to 0.85% for the old mutual funds.

## 5. Employee Education

- Hosted a lunch-and-learn session to explain the changes.
- Provided one-on-one consultations for participants to discuss risk tolerance and retirement goals.

## Results After 12 Months

### Plan Cost Reduction:

- Average investment expense ratio dropped from **0.85% to 0.15%**, saving participants an estimated **\$13,000 annually** in fees (based on total plan assets of ~\$2 million).

### Participant Outcomes:

- **Personalized Allocations:** Managed accounts factored in outside savings, desired retirement age, and risk preferences.
- **Higher Engagement:** 78% of employees completed their risk questionnaire.
- **Improved Savings Rates:** Average deferral rate increased from 5.2% to 6.8% after education sessions.

### Fiduciary Benefits:

- Reduced fiduciary risk by engaging a 3(38)-investment manager.
- Documented prudent process for QDIA selection and investment lineup changes.

## Key Takeaways

- Personalization matters: Managed accounts as a QDIA can better align with individual needs than generic target-date funds.
- Cost efficiency drives results: Moving from high-cost mutual funds to ETF model portfolios can significantly enhance long-term retirement savings.
- Education boosts participation: Communicating changes effectively leads to higher engagement and savings rates.

## Before-And-After: 401(k) Plan Cost & Performance Comparison



Category	Before (Target-Date Funds & Mutual Funds)	After (Managed Account QDIA & ETF Model Portfolios)	Impact
<b>QDIA Type</b>	Generic Target-Date Mutual Funds	Managed Account Program (personalized allocations)	More tailored to each participant's goals, risk tolerance, and outside assets
<b>Average Fund Expense Ratio</b>	0.85%	0.15%	<b>0.70% annual cost savings</b>
<b>Total Plan Assets</b>	\$2,000,000	\$2,000,000	—
<b>Annual Investment Costs</b>	\$17,000	\$3,000	<b>\$14,000 saved annually</b>
<b>Fiduciary Oversight</b>	Plan sponsor responsible for investment selection	3(38) fiduciary investment manager engaged	Reduced fiduciary liability
<b>Participant Engagement</b>	~25% completed risk questionnaires	78% completed risk questionnaires	+53% engagement
<b>Average Deferral Rate</b>	5.2%	6.8%	+1.6% increase in savings rate
<b>5-Year Net Performance (after fees) <i>Projected</i></b>	4.8% annualized	5.5% annualized	+0.7% improvement due to lower fees and better allocation
<b>Retirement Readiness</b>	Generic glide path, no personalization	Customized to income, age, risk, and goals	Higher probability of meeting retirement targets