

Under the Hood of Your 401(k)

“All I care about is that I make money!”

We say that all the time but that is a little like saying that all I care about my car is that it can top 100 miles per hour. But how about cost, fuel efficiency, reliability, safety, style, comfort and what is under the hood?

With your 401(k) there are also many considerations. What is the cost? Do I make money in the next month? Year? Decade? Until I retire? How about safety or risk? How reliable is it? What is the best mix of investments? When should I change investments? What is under the hood?

That last question will often stump most owners of cars and of 401(k)s. But it is what’s under the hood that is the starting point to find the answer to all the other questions.

With a car you put fuel in. You drive it. You take it in for maintenance. And after a while you replace it.

It is as simple with your 401(k). You put money in. It grows (you hope). You check it periodically. And after a while things change and you do some replacements.

So how does the 401(k) engine work? Here is a short walk through the engine of a 401(k).

Record Keeper

The record keeper represents the controls, all the parts you operate to have your 401(k) do what you want and tells you how fast you are going and if there is anything wrong.

Investments

The investments are the engine block that is the source of the power to drive the growth of your money.

Administrator

The administrator keeps your 401(k) legal by filing all the paperwork and making sure that your plan does not violate tax and other laws.

Adviser

The adviser is your driver or instructor.

Custodian

The custodian is the tank that holds the investments that fuel the growth of your plan.

Trustee

The trustee is the central computer that watches over all that is going on to protect the investments from unauthorized use.