

Got A Great 401(k) Idea?

Here's A Few Tips

By Ary Rosenbaum, Esq.

I've been in the retirement plan business for over 26 years. I've heard a lot of great 401(k) product pitches and a lot of bad 401(k) pitches. Even the greatest ideas can fail, because of circumstances and budget. If the best product won out, we all would have been using Betamax and Mac computers. Yet, we all know the reality of what happened. This article is about developing great 401(k) plan ideas and products, and the pitfalls to avoid to make sure they succeed.

The best idea doesn't always win.

Again, when it came time to home video recorders, Betamax was a better system than VHS. Betamax tapes were smaller and more compact than VHS tapes. Betamax tapes had a higher resolution and better color reproduction than VHS tapes. Betamax tapes had a higher horizontal resolution, up to 500 lines compared to VHS' 240 lines. Betamax tapes had a "bookmarking" feature. Betamax tapes were quieter while playing than VHS tapes. So why did VHS beat Betamax in the home video recorder format war?

Early Betamax tapes could record up to one hour of programming. Later VHS tapes could record up to six hours of programming. More importantly, Sony was the only Betamax manufacturer, there were multiple VHS manufacturers. That is why VHS machines ended up being much cheaper to produce than Betamax machines. Sony later learned its mistake with the next format war for HD DVD players as their Blu-Ray beat HD-DVD.

Sony learned from the mistakes of Betamax and developed Blu-Ray with other manufacturers such as Pioneer and Panasonic, as well as making sure their Playstation 3 used one. Other than teaching you some business history, the point is that the greatest idea doesn't always win, the most successful ideas don't have to be the best, they just have to be the most widely accepted.

Make sure the idea works.

When I worked for that Fakakta law firm on Long Island, I tried everything to market myself and get my name out there be-

use for this, wasn't licensed to do business in the state of New York. When the agent did finally find an insurance company that could offer the product in New York, it wouldn't work because it demanded participants to have at least \$25,000 in their account balance to invest in, which would violate the testing of benefits, rights, and features. So if you have a great idea for the 401(k) world, make sure it works within the Internal Revenue Code and ERISA.

Bounce the idea against others in this business.

You may think you have the greatest idea since Ted Benna came up with the 401(k) plan, but that's your opinion. I think it's a great idea to bounce your idea for a product or service against people you know in this business. It's best to gauge how good your idea is, when other people in this business, that is independent of you and your idea, can tell you how they feel. If they feel your idea has merit, then you know you're not wasting your time. Kind of like Larry David at times, I have been a buzzkill when people presented me with ideas that I thought



cause no partner there was going to help. I was contacted by an insurance agent with a novel idea for using annuity within 401(k) plans, which was a great idea at the time when the market was tanking thanks to the subprime mess in 2008. So the agent took out advertising in the local newspaper and rented out a theater room. A handful of people showed up. The only problem is that the insurance company he wanted to

would never catch on in the 401(k) world. I've also supported people with some great 401(k) ideas for products and/or services. I have a pretty good track record of knowing what will fail or not in the 401(k) world. With regular business, I'm usually right except when I thought it was a bad idea for Apple to start their stores to compete against Comp USA and for Amazon to start selling more than books, movies, and music.

Distribution matters

As I discussed about Betamax, one of the failures was that it was Sony technology and they were the only manufacturer. Had Sony licensed their technology to other providers, perhaps Betamax would have caught on. That's why no matter how much Macs are better than PCs, they will never catch on as the dominant computer as long as Apple is the lone manufacturer. You can have the greatest idea since participant-directed investments, but it means nothing if you don't have the distribution to get your idea from 401(k) plan sponsors. Find out who you need for an effective and wide distribution of your idea and get them behind you.

Make sure you're well-financed

You can have the greatest idea or product in the world, it doesn't matter if you don't have the money to support it. It reminds me of a local organic food store that opened up in my neighborhood. It was across the street from Trader Joe's and it closed within a few months before I could even set foot in there. They didn't have enough financing to make it through a year. I've seen some great companies out there in the 401(k) world with great ideas and/or services. The problem is they never achieved critical mass and flopped because they didn't have enough money to make a go of it. One of the best ideas I ever heard of, which was unique at the time and should have spurned enough interest by 401(k) participants failed miserably because the purveyor of this idea had no money to promote it and get enough 401(k) plans to offer this benefit.

Don't spend too much money on stuff you don't need to market your idea.

When I started my practice in 2010, I joked that there was a cottage industry of people who wanted to separate me from my money. There would be various providers who wanted me to spend money on advertising or sponsoring an event. There would be search engine optimization (SEO) sales-



people who wanted me to spend thousands for SEO, but I was convinced no one would look for an ERISA attorney through Google. Everyone with any business event, wanted me to sponsor it. Had I spent everywhere people wanted me to spend money, I would have been broke within months. Spending money needs to be focused and it needs to be effective. Don't spend money at the local chamber of Commerce event if that's not going to draw you a dime of business. When I was working at that Fakakta law firm, I did a lot of small business networking with local businesses. I even sponsored a couple of their events. It was a waste of time and money because none of these small entrepreneurs would ever lead me to a plan sponsor who needed help on a 401(k) plan. You can spend five figures on a national 401(k) event, but is that the most effective use of your dollars? That's your decision. It depends on who is attending these events and whether a table at the event will net you value for your spending. Spend money on advertising and sponsoring events, but spend wisely.

Social media is cheap.

When I wanted to start a nationwide ERISA practice at that Fakakta law firm, the partners protected their client lists like

it was some national treasure. I knew that cross-selling to existing clients couldn't happen and I didn't have much of a client base. So I thought of writing articles that financial advisors and Third-Party Administrators could disseminate to their clients and potential clients for free. By paying it forward to them, they would then refer me to business when someone needed an ERISA attorney. The managing attorney at the firm whose very own husband did social media for his practice and was quite good at it, scoffed at the idea. She thought it was beneath the firm to do, treating my idea as if I was selling fish and shellfish out of my trunk on Route 110. 15 years later, I can say that it was social media that built my law practice. Writing relevant content about your idea or

service can generate a whole bunch of buzz that paid advertising and sponsorships may not. When I was struggling in my practice at the beginning, it was the co-founders of Brightscope who advised me that their way to build buzz was contributing to the LinkedIn 401(k) groups. Social media has to be informative, but not too strong on the sales pitch because it gets tuned out otherwise.

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