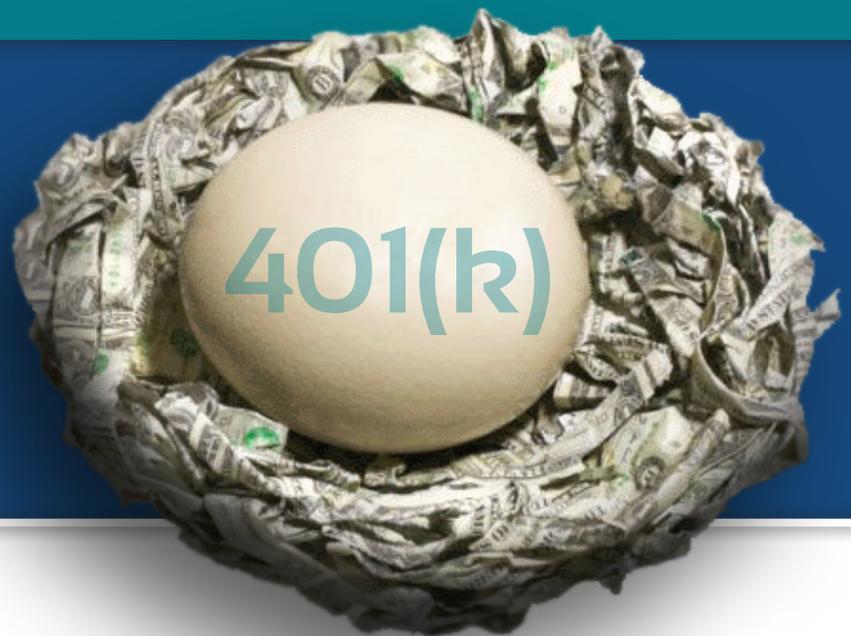


The True Cost of 401(k)s

A quick guide for independent advisors



Overview

Many 401(k) owners are paying significantly more in fees than they realize. The Government Accountability Office (GAO) recently did a study asking a thousand 401k sponsors how much they paid in fees. The amount reported by the sponsors was then compared to data from publicly available filings, investment fund prospectuses, and firms that track and rate 401(k) plans. The GAO's results estimated that over 90% of sponsors did not know about or use the resources available to compare and assess plan fees. One sponsor of a large plan underestimated record keeping fees alone by more than \$58,000.



I. A Percentage of Contributions Pay for the Fees

For every dollar participants pay in contributions to their 401(k), a percentage will go to pay fees. The money in that percentage will not be invested, will not earn interest, and it will not become retirement income for the participant. These include plan administration fees, investment fees, individual service fees, sales charge fees, and management fees. An average working couple will pay up to \$200,000 in 401k fees.

II. The Hidden Fees of 401k Plans Are

Higher Than You Think

- **Transaction Fees** – Again, only half of 401k sponsor knew if they paid transaction fees, and many of those underestimated what they paid. In one example from the GAO report, a large plan sponsor reported that they did not pay transaction costs when they actually paid about \$310,000. Transaction fees range from .45% to 2.72% of assets.
- **Recordkeeping fees** – Record keeping and administrative fees can range from .01% to 37% of plan assets annually. And because these fees are based on a percentage of plan assets they increase as the fund grows, even though the level of service tends to stay the same.

- **Investment management fees –** According to the GAO report, about half of 401(k) sponsors do not even know if they pay these fees even though they constitute the majority of plan charges. This may be because the fees are deducted from assets and not invoiced to the plan sponsor.
- **Revenue Sharing Fees –** Plan participants can pay high fees under revenue sharing arrangements and not even know it. Most plan sponsors don't understand how their 401k's revenue sharing works. One plan sponsor reported that they didn't know if they paid revenue sharing fees when they paid \$5,000. Another that reported they did not pay these fees actually paid \$5,900 in invoiced fees and another \$4,800 deducted directly from participant accounts.
- **Consultant and Advisor Fees –** Almost 90% of 401k plans hire a consultant or advisor and most pass that cost on to participants. These fees alone can range from .25% to .75%.
- **Smaller Plans Mean Higher Fees –** As is often the case, smaller plans with less money to invest pay more than larger plans. The plan that paid the highest fees in the GAO report had less than \$1,350 in assets and paid 37%. Many 401(k) plan fees are paid by participants resulting in reduced retirement savings.



III. Volatile Market Exposure

Although the market is recovering, 401(k)s are still vulnerable to future downturns. Be aware and read up on the many issues surrounding the high costs of 401(k)s. CLA USA Marketing offers access to a series of videos that can be used at point of sale with your clients. Ask us for more information.