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Employers can take aim at workers' 401(k) fees

While an increasing number of Americans are diligently making contributions to their 401(k)s, they may be unaware of an important detail: the excessive fees they may be paying to their 401(k) administrator.

For all of the great reasons that come along with having a 401(k), one little known fact is beginning to leak out: Fees often take a big bite out of the average American's nest egg.

For small businesses with a 401(k) plan, the situation can be far worse than for big companies with the leverage to negotiate lower fees. Whether you're a sole proprietor or part of a big company, an employee or an owner, take a look at your 401(k) plan today and understand your costs.

Do fees really make a difference for retirement savings accounts? The answer is a definitive "yes."

And it's not just a little difference. Check this out: If you have \$50,000 in a 401(k) that returned a fixed 8 percent a year, made no more contributions and incurred investment fees of only 1 percent, you will save \$372,168 in 30 years. But if your provider charges you 2 percent annually in participant fees, you'll save only \$274,451 —that's a full \$97,717 less.

Even at 1 percent, fees can consume more than a quarter of a 401(k)'s pure returns over the 30 years. But at 2 percent, fees can devour nearly half (45.5 percent) of all of your investments' pure returns.

What are these fees and what's fair?

401(k) providers incur costs to provide investments and support for their customers. These costs are driven primarily from the investments, record keeping, administration, product development and customer support.

When it comes to a fair price, you should set a goal of paying 1 percent or less in participant fees. Unfortunately, meeting this goal won't be as easy as you think.

Uncovering how much you're charged in your 401(k) can be difficult, as many fees are hidden with many different names. If you take the time to peruse a prospectus, you'll find the expense ratios of the fund. Dig deeper and

RETIREMENT STRATEGIES



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is the fees you pay. We suggest three steps right off the bat to improve your return:

1) Invest most, if not all, of your 401(k) holding in index-based funds. Index-based funds consistently have lower expense ratios than their actively managed fund peers, and can give you a big leg up over time.

According to analysis by the Bogle Financial Markets Research Center, Standard & Poor's Mutual Index Funds have an average expense ratio of 0.2 percent, versus the average mutual fund expense ratio of 1.52 percent — a 1.32 percentage point advantage.

And from 1980 through 2005, investors in the S&P's 500 index earned 42.5 percent more than those who chose their actively managed funds.

2) Get a complete list of your 401(k) plans' participant fees by asking both your provider and employer. Expense ratios are a great starting point, but make sure you ask about additional investment management fees. If you're only seeing expense ratios, you're not likely getting the full story.

3) Ask your employer to either find a provider with lower participant fees or to have the provider offer a different selection of funds. Look for funds that enable you to keep your fees under 1 percent across a diversified range of fund options (e.g. stocks and bonds, U.S. and international). Ask your employer to retain a provider that offers transparency and no surprise fees.

you'll likely find one or more of the following: sales loads, Sub-TA fees, 12b-1 fees, shareholder servicing fees, asset management fees, transaction fees — the list goes on and on.

Three tips for employees

Financial markets can't be predicted or controlled, but one thing you can manage

As the size of your company's 401(k) plan grows and exceeds \$5 million, negotiate lower asset-management fees.



What businesses can do

If you're a business owner or in charge of your company's 401(k) program, you can have even more influence in helping your participants if you:

1) Trade out most, if not all, of your actively managed funds for their index-based peer funds. Most 401(k) programs offer many more "actively" managed funds than index-based funds, and these tend to carry high expense ratios with no guarantee of better returns.

2) Get a complete accounting of fees charged to participants. Let your provider know that your goal is to keep participant fees under 1 percent in total. If your provider complains, it's time to shop around.

3) Ask for easy-to-use tools that enable employees to understand what they are paying without needing to decipher multiple prospectuses. Of course, reviewing each prospectus is still a wise thing for everyone to do.

4) Lastly, as the size of your company's 401(k) plan grows and exceeds \$5 million, negotiate lower asset-management fees. The larger your company's plan is in dollar value, the greater influence you can have in lowering the cost of your plan and ensuring your employees get the best value.

America's workers are likely paying billions of dollars every year in unnecessary 401(k) fees. Don't be one that is paying too much.

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