



What You Don't Know about 401(k) Fees Can Hurt You

Many participants in 401(k) plans have no idea how administrative and investment fees can affect their retirement savings, and an equally large number of plan sponsors struggle to evaluate the reasonableness of these fees.

Whether 0.5% or 1.5%, 401(k) plan expenses compound over time and can take a significant bite out of participants' retirement savings. And, in many cases, the fees are easy to overlook because they are automatically deducted from participants' accounts.

Earlier this year, a survey of 1,000 investors by TD Ameritrade found that only 27% knew how much 401(k) fees they were paying in 401(k) fees and a vast majority, about 37%, mistakenly believed they did not pay any fees.



What are the Types of Fees?

There are a wide range of expenses associated with 401(k) plans.

According to the Department of Labor, there are two categories of 401(k) fees: administrative and settlor expenses. Administration expenses cover plan administration and investment management and are generally considered to benefit plan participants exclusively. Settlor expenses, which cover fees charged by service providers during the plan formation, design or termination phase, are considered to benefit the plan sponsor.

Recordkeeping fees are a very common type of fees. It can vary significantly depending on the amount of plan assets under management. In addition, various types of funds have different fee structures. Some mutual funds, for example, charge a commission that is often paid upfront by plan participants. There are actively managed funds that charge fees higher than 1.50%.

Overall, plan sponsors have a fiduciary responsibility to find competent service providers that do not charge unreasonable fees that can reduce participants' returns. They are also required to disclose fees and charges so plan participants can make responsible choices.

Fees Matter

Just a 1.0% difference in fees can have a significant impact on the amount of savings available to participants upon retirement.

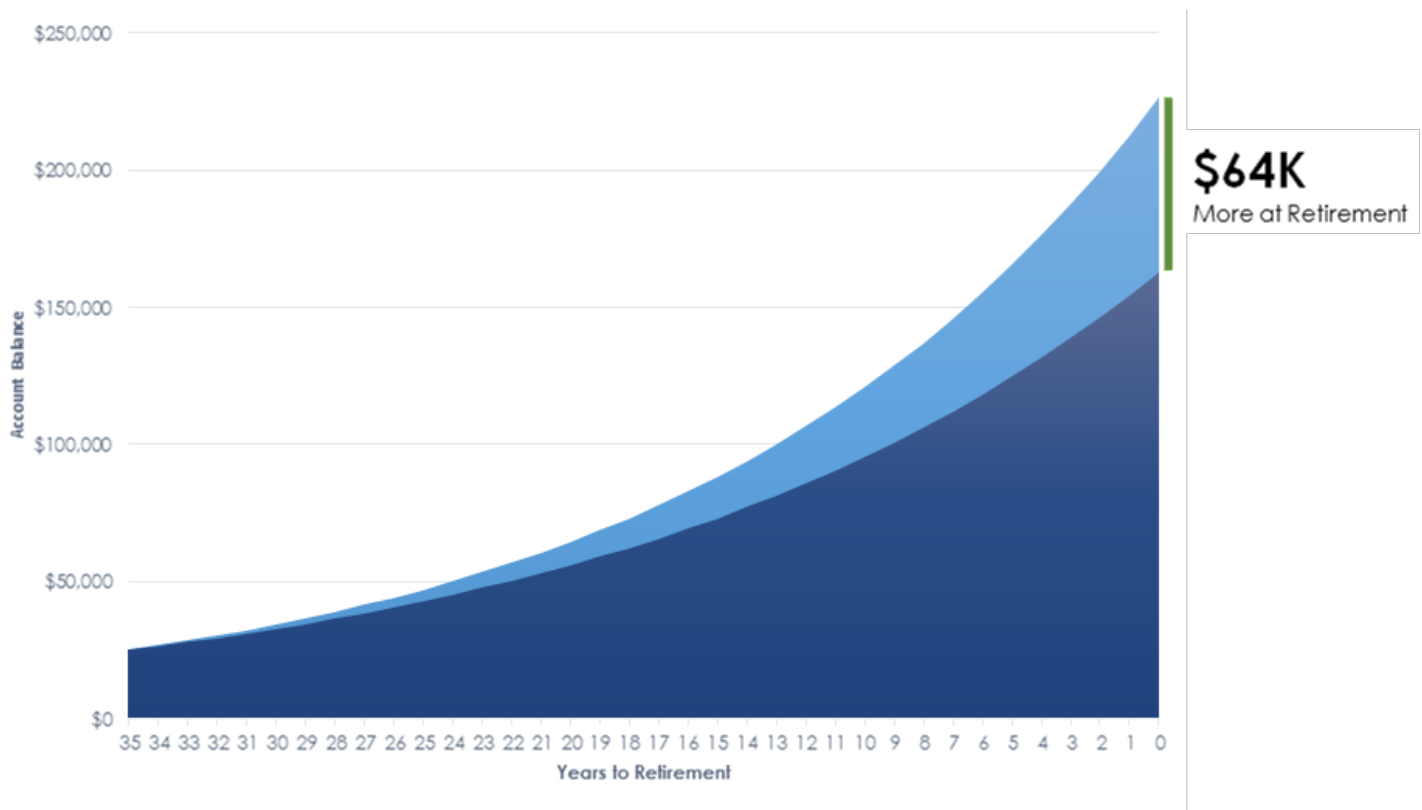
Take this oft-cited example from the Department of Labor: A current 401(k) participant has an account balance of \$25,000 and 35 years left until retirement. If returns on investments average 7% over the 35-year period, and fees and expenses are 1.5%, the account balance grows to \$163,000. If fees and expenses are 0.5% over the same period, the account grows to \$227,000 at retirement – an increase of \$64,000.

What Sponsors Can Do

Reducing excessive 401(k) expenses begins with finding the right service providers. As such, the provider search initiative is of critical importance to sponsors looking to set up 401(k) plans or renew existing service agreements.

Plan sponsors can benefit from specialists who have experience conducting thorough due diligence on service providers and possess strong benchmarking capabilities to help with negotiating fees and service commitments.

Is Your Retirement Account on the Right Track?



Recently, USI Consulting Group (USICG) used its benchmarking capabilities to help a client dramatically lower its cost during a provider search initiative. The USICG team's findings, based on a comparative analysis of a list of service providers, convinced the client to consider other competitive plan options.

The process gave the client sufficient leverage to compel the incumbent service provider to renew its focus on service issues, including significantly reducing recordkeeping fees and assigning an account manager for the plans. The competitive bidding opportunity, driven by the benchmarking study, and the changes that resulted from them, collectively saved plan participants \$170,000 a year in recordkeeping fees.

How USICG Can Help

This is one example of how USICG works with employers of all sizes to select, negotiate fees and monitor the service providers that support their 401(k) plans.

The group's proprietary database, service provider search and audit services are designed to help sponsors identify the right service providers and ultimately select the most cost-efficient service.

To learn more about USICG services, including provider search initiatives, plan design and benchmarking capabilities, contact your USICG representative or visit www.usicg.com.

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