



FinishStrong by Design™

A newsletter designed to help you tackle the most pressing issues in today's increasingly complex retirement plan world.

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Types of 401(k) Fees

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In our last issue, we explored why the **Pension Protection Act (PPA) of 2006** has mandated certain types of Fee Disclosure: because many in our government believe excessive fees in the retirement plan industry are a primary reason that average Americans are retiring with too little money in their retirement plan accounts. **As a fiduciary to your plan, you need to know the various types of fees normally associated with retirement plans and what is considered "reasonable".**

Remember, much of PPA is still not finalized. **However, one of its central components IS known: Fee Disclosure.** In December 2007, U.S. Secretary of Labor Elaine L. Chao said,

"One of the Department's top priorities is improved disclosure in order to ensure that participants and fiduciaries have the information they need to make informed decisions. We are working quickly to implement regulations that foster fair, competitive and transparent prices for services as well as combat excessive or hidden plan fees."

Thus, the U.S. Department of Labor announced a proposed rule which requires that contracts between certain service providers and retirement plans provide for **specific** and **detailed** information. It requires that **all services** furnished to a plan and **all compensation**, direct and indirect, to be received by the service providers be disclosed **in writing**. The proposal also requires the disclosure of possible **conflicts of interest** of the service provider that may affect the performance of plan services.

How Does this Affect Me?

Do you know the type and amount of fees currently being charge against your retirement plan? You should - not only because the Department of Labor now says so, but because, armed with this information, many employers and their advisors have been able to negotiate **fee reductions** for their plans!

Types of Fees- Generally, a plan has 4 major categories of expenses:

1. **Investments** - operating expenses of underlying funds; often the lion's share of total plan expenses
2. **Recordkeeping** - essentially an accounting function, to keep plan assets segregated by person, by investment fund, and by source (salary deferral, matching, profit sharing, etc.)

3. **Administration** - annual government filings and testing required to keep your plan in compliance
4. **Advice** - including investment advisor's/consultant's fees or broker's commissions.

For investments, "high fees" tend to fall into two categories. The first is that the expense ratio of one or more of the mutual funds is excessive. That can easily happen as a plan grows in size. For example, one share class may be appropriate for a small plan, but as the plan grows, a lower-priced share class may be available. Obviously, plan sponsors, and their advisors, need to be attentive to this issue or their 401(k) plans could inadvertently be paying excessive fees. The second common area of excessive investment fees involves so-called "wrap" fees, often charged by insurance companies and brokerage houses. These are sometimes called "asset charges". While wrap fees are not inappropriate per se or overly expensive, they can be and, in our experience, they sometimes are. For example, we have seen cases where the total annual fees in a group annuity contract were 3%-4% per year! This is akin to starting a 100 meter dash 20 - 30 meters behind the rest of the competitors.

For both recordkeeping and administration, a common trap is for the fees imposed to be asset-based, as opposed to on a fixed-dollar fee schedule. If fees are asset-based, the real dollars paid for these fees grow as plan assets grow. Again, while this practice is not inappropriate per se, it does need to be reviewed on a regular basis to ensure your pricing stays in-line with the competitive marketplace.

Furthermore, a common industry practice is for mutual funds to pay so-called "soft-dollars" to an administrator. Various mutual funds name these "Sub-Transfer Agent" (sub-TA) or "Recordkeeping Service Fees". These sorts of payments are "under the table" (i.e. not currently required to be disclosed, but this is changing) and chances are you are paying them! The trick is to uncover them, and then have them credited back to the plan and its participants - improving fund returns, overnight!

With regard to fees and commissions for advice, these fees or commissions are often embedded in the investment products and can be particularly difficult to find and calculate. Fact is, many plan sponsors do not know what they are paying in this regard. Sometimes, these fees are called "12-b(1) fees" and are required to be disclosed in a prospectus (but who reads prospectuses?). Again, aside from 12-b(1) fees, disclosure of the fees has not formerly been required. As a result, plans often pay too much for the services they are receiving-thereby hurting their participants' returns. Further, as a plan grows, the fees and commissions should become increasingly smaller as a percent of the assets. That is because the services required to operate a plan do not tend to grow proportionately with the assets. However, many advisers base their fees and commissions on a percentage of the assets in the plan, which is appropriate to a point, but can become overly expensive as plan assets grow.

How Do I Know What is Reasonable?

To properly evaluate these fees, the **First Step** for a plan sponsor is to know the total **annual fees**. The **Second Step** is to obtain information on the **charges for similar plans** (e.g., plans with similar assets and numbers of participants) the competitive marketplace does a good job of establishing reasonable prices. Those two steps are rudimentary; a more sophisticated analysis can be done with the help of a skilled retirement plan advisor.

Once the various service providers have recouped their operating costs, plus a reasonable profit, the balance of the fees and commissions should be restored to the plan. This is often done as a cash

payment into the plan, which is sometimes called an "ERISA budget account" or an "expense recapture account." That money is then available to pay other expenses of the plan or to be allocated back to the participants. It ultimately improves the benefits for the participants, and that is the fiduciary's responsibility.

A Final Note: With regard to any of the above fees, when plan sponsors are writing checks for the advice or service - as opposed to having them invisibly netted from plan assets - the costs are usually reasonable. Again, free market choices prove to be efficient!

The Bottom Line

If you do not know the **total annual fees** charged against your retirement plan, ask for help. Triune has a proprietary tool called **Full Fee Disclosure®** (FFD), where we condense the entirety of your plan's fees onto a single page, easily-understood report. We'd be happy to send you a complimentary copy of our template - **JUST ASK FOR IT**. Then you can obtain the information from your current providers and simply "fill-in-the-blanks". To request your **free copy**, please email finishstrong@triunefp.com with "**NEED FFD TEMPLATE**" in the subject line or **call 913-825-6100**.

In our Next Issue, we'll explore the topic of a **QUALIFIED DEFAULT INVESTMENT ALTERNATIVE** (QDIA) and what it means to you and your participants.

Until next time,

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