WHAT FEES ASSOCIATED WITH A 401(K) PLAN?

Typically, 401(k) plans have three types of fees: Investment fees, administrative fees, and fiduciary and consulting fees. Some of these 401(k) fees are charged at a plan level for the management and administration of a plan, while others are related to the investments made by employees within the plan. Sometimes, the fees paid in a 401(k) are taken directly from plan assets by your service provider and then paid out to the various vendors working on the plan. In other cases, the investments themselves will carry fees, which are taken out of the money invested in that specific investment. All considered, fees in a 401(k) plan can go to many places, including:

- Investment Managers, who oversee the investments in a fund;
- Administrators, who handle things like the transfer of assets in and out of a fund;
- Record keepers, who keep detailed records of a 401(k) plan's transactions;
- Lawyers, who draft legal documents and oversee regulatory compliance;
- Accountants, who may perform audits of a 401(k) plan's activities;
- The Government, which collects any applicable taxes related to a fund's activities.

WHAT IS A 401(K) EXPENSE RATIO?

Investments like mutual funds and index funds have an "expense ratio," which refers to the percentage of an investor's assets used to cover expenses associated with the mutual fund. Expense ratios are determined by dividing the total expenses for a mutual fund by the dollar amount of its average assets. For example, if a mutual fund has an expense ratio of 1%, that means that 1% of your employee's total investment into that fund will be taken each year in fees.[1]

One type of fee to look out for if you're examining the costs covered by the expense ratios of your 401(k) plan's investments is the "load," which represents a commission paid to a broker for buying and selling shares of a fund. Some loads are paid when a share is purchased; and others are paid when a share is sold.

The money paid in an expense ratio generally covers investment fees for the management and marketing of the fund, but the expense ratio of an investment can sometimes also contain some often overlooked fees which are often spread among the many partners involved in running a 401(k) plan in a process called "revenue sharing."

WHAT IS THE AVERAGE RANGE FOR 401(K) FEES?

Typically, 401(k) plans cost somewhere between 1% and 2% of the plan assets, or the money saved in the account. Some outliers can see fees as high as 3.5%, but these high fees can have a significant impact on your employees' ability to retire and should be avoided if at all possible.[2] There are many factors which can impact the cost of a plan, from the amount of money in the plan, to the investment options you choose to include, to the level of service you receive.

401(K) FEES PAID BY EMPLOYERS

Of the three different types of 401(k) fees, employers can choose to pay either administrative or fiduciary and consulting fees, pay both, or have all fees paid by employees who participate in the plan. Investment fees are almost exclusively paid by employees. Employers who do choose to pay some of these fees often do so in order to keep costs as low as possible for their employees, so that more of their money is saved and invested for retirement. However, only 17.8% of employers fully pay administrative fees. A further 19.5% share these expenses with employees.[3] The rest have set up their plans so that these fees are paid out of the plan's assets or, in other words, by anyone who participates in the plan.

Additionally, some employers choose to work with specialized 401(k) advisers who will charge their own fiduciary and consulting fees. These providers can offer help in the form of fiduciary services to share in the employer's legal liabilities, or things like employee engagement and education assistance. Advisory fees like this are typically charged quarterly and are asset-based, which means they will be based on a percentage of the total assets in the

401(k) plan. Employers can choose to pay these expenses or, as we'll touch on later, this cost can be passed on to employees.

401(K) FEES PAID BY EMPLOYEES

Employees participating in a 401(k) plan can pay any of the three types of fees, but most commonly pay investment and administrative fees. Investment management fees are associated with what employees invest in within their 401(k) accounts, like mutual funds. As discussed above, the expense ratios tied to the funds your employees invest in may also go towards covering administrative costs for the plan.

Finally, fiduciary and consulting fees that are charged by 401(k) advisers for things like fiduciary services or employee education might be taken directly from plan assets, effectively meaning the employees and not the employer are covering those expenses.

READING 408(B)(2) FEE DISCLOSURES TO UNDERSTAND 401(K) FEES

When you're working to understand exactly what fees you and your employees are paying, your best tool is the fee disclosure document, which is required by section 408(b)(2) of ERISA. You can request one of these from your 401(k) provider at any time to get a clear look at:

• All services provided by your 401(k) provider and their affiliates or subcontractors;
• Each service provider's fiduciary status;
• And all compensation expected to be paid to any of these providers.

Your 408(b)(2) disclosure will also tell you both about "direct" and "indirect compensation," so you will be able to see if any of your providers are being paid through revenue sharing. This will help you understand if the expense ratios being paid by your employees contain any revenue sharing and give you a better understanding not only of the true cost of your 401(k) plan, but also whether or not your plan may be subject to any potential conflicts of interest.

KEEPING FEES REASONABLE IS YOUR FIDUCIARY DUTY

The goal of protecting your employees' retirement savings is worthwhile in and of itself, it's also a fundamental part of your legal responsibility as a fiduciary to your company 401(k) plan. The Employee Retirement Income Security Act of 1974 (ERISA) requires that employers who sponsor a 401(k) plan take a personal, legal responsibility to make good decisions on behalf of their employees. Managing fees and ensuring employees don't pay more than they should for their retirement plan is a key element of this responsibility.

This fiduciary responsibility is ultimately why it is so critical for you to understand exactly how much your employees are paying in fees, who is being paid, and how. For example, the presence of a load in an expense ratio signals that an investment may be handled by a broker, and not a 401(k) fiduciary. That in and of itself is not a problem, however it can be problematic if the broker who makes a commission on an investment also advised you to include that investment in your lineup. Since they stand to make additional money whenever an employee buys or sells that investment, their advice may be biased. As you review cases like these, as well as the rate of fees being paid by your employees, it's important to look into potential conflicts of interest in order to choose service providers and investments that don't cost more than they should just because a service provider stands to make more money.

MONITOR AND MANAGE 401(K) FEES FOR YOUR EMPLOYEES' SAKE

It's critical that employers understand exactly how much their employees will pay in 401(k) fees. These fees can add a lot of cost to your employees, and that's not good. Even an extra 1% in annual fees can reduce an employee's 401(k) account balance by about one-third after 35 years, meaning the average American household will pay $155,000 in 401(k) fees over a lifetime![4] Review statements like your 408(b)(2) disclosure with your provider and ask them to benchmark your plan's fees against other, similar plans. Benchmarking can shine a light on any parts of your plan that may not be in line with your expectations of service or price, as you'll get a chance to see what other companies like yours are getting in terms of service—and what they pay. If it turns out your plan includes high-cost funds, ask if you have lower-cost options that could work just as well. After all, every dollar saved is a dollar that can grow and secure your employees' futures—and that's what your 401(k) plan is all about.

1 https://www.investopedia.com/terms/e/expenseratio.asp
2 https://www.brightscope.com/…/The-One-Chart-That-Explains-…/
3 https://www.shrm.org/…/ben…/pages/401k-fee-benchmarking.aspx