

# ARE YOUR COMPANY 401K FEES *TOO HIGH?*



**BEST**  
WEALTH MANAGEMENT

## LENGTHY, CONFUSING AND OFTEN VAGUE 401K CONTRACTS MIGHT KEEP YOU IN THE DARK ABOUT HIDDEN FEES.

A 2012 Ruling from the Department of Labor (DOL) requires that all vendors providing services to a 401k fully disclose their fees to employers, but some vendors, mainly insurance companies, still continue to find ways to make it difficult for you to figure out what the 401k is costing you and your employees.

### 5 Types of 401k Fees

- **CUSTODIAN** – This is where the employees' money is physically held.
- **INVESTMENTS** – Each investment will carry its own expense. The costs can vary widely. In fact, many mutual fund companies, for example, will have several different versions (called share classes) of the same mutual fund with each having a different fee. There could be as many as 10 different versions of the same mutual fund, and you may or may not be receiving the cheapest version.
- **INVESTMENT MANAGER** – An investment manager will typically help with investment selection, investment monitoring and employee guidance.
- **RECORDKEEPER** – This is the company that provides the website for employees to log into so that they can make investment elections, choose how much they wish to contribute, view statements, view historical transactions, etc. The Recordkeeper also keeps a record of all transactions into and out of the 401k plan. They also provide statements to employees on a regular basis.
- **THIRD PARTY ADMINISTRATOR (TPA)** – They are responsible for handling all legal aspects of the 401k plan such as vesting, testing, employee eligibility, sending out required disclosures and plan documents, and filing IRS Form 5500 annually. In many cases the Recordkeeping and TPA duties are bundled together by one company.

*You should receive a fee disclosure notice each year (called a 408(b)(2) Fee Disclosure Notice) from your TPA. This notice should clearly outline all fees within your plan. Once you have become familiar with the fees, you can begin to determine whether or not they are reasonable.*

## The Legal Responsibility of Business Owners

The Employee Retirement Income Security Act (ERISA) requires that the employer “pay only reasonable expenses from plan assets.” In other words, it’s the business owner’s legal responsibility to make sure that all vendors within the 401k are charging reasonable amounts.



### What are “reasonable” 401k fees?

Total fees (including all the vendors listed to the left) should generally be under 1.5% per year for plans with \$1 million or more in assets. Start up plans and smaller plans (under \$1 million) tend to be more pricey from a percentage standpoint simply because there aren’t many assets in the 401k plan. But as the 401k plan grows the fee percentage should drop.

An employer should not judge a 401k based solely on fees. It is equally important to look at the services and value being provided. For example, if you are using the cheapest provider around, you may not be getting the fiduciary guidance that you need in order to satisfy your legal responsibility to your employees.



One of the ways that we help to determine reasonableness is through an annual benchmarking process. This means that we will annually compare the fees of your 401k plan to other plans of similar size to make sure that you are in the ballpark of averages.

If you aren’t sure what your company sponsored 401k fees are and would like some help identifying and understanding them, please contact us for a no cost evaluation.

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