Guest Advisor Duff Meyer Asks Employers: Do Your Employees Know What They Are Paying for Their Retirement Plan?

As we have previously reported, the Department of Labor is taking important steps in the fight against excessive fees in the retirement plan space. Some service providers in the retirement plan industry are opposed to these regulations, claiming they are unnecessarily burdensome. The opposition of the 408(b)(2) regulation that was scheduled to become effective on July 16, 2011 has now been pushed back to an effective date of January 1, 2012. What does this new regulation mean to you as an employer offering retirement plan benefits to your employees?

What is 408(b)(2)?

408(b)(2) requires retirement plan service providers to disclose comprehensive information about their fees and potential conflicts of interest to you, the plan sponsor. This sounds like a good idea, right? And it seems relatively simple. Service providers must disclose to their clients how much is being received in fees and tell them if they have any conflicts of interest.

As you can imagine, service providers cried wolf saying the Department of Labor did not give them enough time to meet the regulation. Enough time? How much time does it take to take to let plan sponsors know what fees they are paying? The department of labor responded by issuing a statement that said in effect that they recognize service providers may need additional time for compliance.

“We want employers and workers to benefit from the increased transparency provided by these rules as soon as possible,” said Phyllis C. Borzi, assistant labor secretary for employee benefits security. “But we also appreciate that service providers may need more time for compliance efforts, because they have not yet seen a final Employee Retirement Income Security Act Section 408(b)(2) regulation. This action will provide that plan fiduciaries have all required information from service providers before they must disclose information to their workers, ensuring that workers receive accurate information about their retirement plan and investment costs.”

What are the questions to ask about retirement plan fees?

As a plan sponsor, it should be your goal to make any service provider disclose all the fees your plan is paying now or before signing a new contract. Would you buy a new phone system without knowing the cost? Why do that with your retirement plan? To accomplish this, simply contact your current service provider, ask these necessary questions and get answers in writing.

- What fees does our plan pay? Are they asset based or participant based?
- Is there any revenue sharing and how much?
- Is revenue sharing used to reduce my fee or is it additional compensation for the service provider?
- Do you, as my service provider, have any conflicts of interest? Proprietary funds, etc?
- Are you compensated differently for any particular investments or other items in the plan?

If your service provider cannot answer these questions, or does so with a long explanation, then it is time to find a new service provider. Remember, the goal of a retirement plan is to benefit the participants, not the service provider.

Keep in mind the reason the service providers require more time is because a lot of them are scrambling to find acceptable answers to these questions. They know what they are charging plan sponsors and participants – they just do not want you to know because, in lots of cases, it is excessive for the services provided. And that is exactly what the DOL is trying to avoid by passing these important regulations. Once plan sponsors understand what they are paying, the industry and participants will benefit.

Do people know and understand their retirement plan fees?

A **2007 survey by AARP** says "No!" and elaborates:

> *"Many 401(k) participants lack basic knowledge of the fees associated with their plans even though nearly eight in ten (79%) plan participants who make decisions about their 401(k) investments noted that fees are an important consideration in their decisions. For example, more than eight in ten (83%) participants acknowledged that they actually do not know how much they pay in fees and expenses associated with their own plan. Additionally, more than half (54%) of participants do not feel knowledgeable about the impact that fees can have on their retirement savings."*

Take note that you should be not only educating yourself about plans and plan fees, you also have a responsibility to educate your employees. Start with the information below.

The US Department of Labor explains 401(k) fees

Plan Administration Fees – The day-to-day operation of a 401(k) plan involves expenses for basic administrative services – such as plan recordkeeping, accounting, legal and trustee services – that are necessary for administering the plan as a whole. Today, a 401(k) plan also may offer a host of additional services, such as telephone voice response systems, access to a customer service representative, educational seminars, retirement planning software, investment advice, electronic access to plan information, daily valuation and online transactions.

In some instances, the costs of administrative services will be covered by investment fees that are deducted directly from investment returns. Otherwise, if administrative costs are separately charged, they will be borne either by your employer or charged directly against the assets of the plan. When paid directly by the plan, administrative fees are either allocated among individual accounts in proportion to each account balance (i.e., participants with larger account balances pay more of the allocated expenses) or passed through as a flat fee against each participant's account. Either way, generally the more services provided, the higher the fees.

Investment Fees – By far the largest component of 401(k) plan fees and expenses is associated with managing plan investments. Fees for investment management and other investment-related services generally are assessed as a percentage of assets invested. You should pay attention to these fees. You pay for them in the form of an indirect charge against your account because they are deducted directly from your investment returns. Your net total return is your return after these fees have been deducted. For this reason, these fees, which are not specifically identified on statements of investments, may not be immediately apparent.

Individual Service Fees – In addition to overall administrative expenses, there may be individual service fees associated with optional features offered under a 401(k) plan. Individual service fees are charged separately to the accounts of individuals who choose to take advantage of a particular plan feature. For example, individual service fees may be charged to a participant for taking a loan from the plan or for executing participant investment directions.

Click here to read more about retirement plan fees from the US DOL.

Read my MMP post "Employer Retirement Plans: Does the Manager Have Fiduciary Liability?" **here.**

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Duff Meyer is the Institutional Advisor at **Carolina Wealth Management**. A frequent retirement plan speaker, he is dedicated to helping plan sponsors understand and improve their benefit. Duff continually writes articles and informative guides for plan sponsors that are featured in numerous publications and on the web. His entire financial career has been dedicated to helping plan sponsors find a better 401k. He is an advocate for plan sponsor, not the plan provider. He can be reached **here.**