



Hidden 401(k) Fees You Don't Know About

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The good news is that if you have a 401(k) plan, you are on the right path to a successful retirement. In 2011, an AARP study showed that most people have a 401(k) and are knowledgeable in the amount they would like to have saved up by the time they retire. The bad news is that a lot of Americans do not realize they could be losing thousands of dollars a year due to fees associated with their 401(k)'s. The same study found seven out of ten people were not aware they pay fees to their 401(k) plan provider to maintain their account. When told of these fees, three in five were not aware, or did not feel knowledgeable, of the amount they pay in fees.

First, please know that I AM ALL FOR INVESTING IN A 401(K), especially if your employer matches your contribution each year. This is free money, and is a great, easy way to save for retirement. Although, as with any investment, I want you to be educated and know exactly what is going on with your hard-earned money. Successfully using a 401(k) plan to prepare for retirement requires knowledge of investment opportunities, types of plans and their mix of investments, knowledge of risk, and awareness of the costs associated with maintaining a plan.

It is important to note that some fees are normal, as with any service. Having a 401(k) through your employers typically gives most, if not all, of the following benefits:

- Tax benefits: a free pass on capital gains tax and the option to invest pre-tax dollars (you will, however, have to pay taxes when you withdraw your money)
- Automatic payroll deductions which always makes life easier.
- An employer match or contribution.
- Decent diversification.
- Everything is in one convenient place and package.



When a company offers its workers a 401(k) plan, it usually has to hire an outside firm to manage it. The outside company charges fees to maintain the accounts known as administrative, management and compliance fees, which a majority of fall on you as an employee. These fees come out of your fund's performance, and are usually a small percentage taken off the top of the account balance each year. For example, 6% return is stated in your employment contract, but the outside company charges a 1% fee. This actually means you are only getting a 5% return. Or, on the other hand, if you lose 10%, you are actually losing a total of 11% because the outside company will collect on fees whether your 401(k) has gains or losses. Therefore, the bigger the account, the higher your annual fee.

Most people are paying a few hundred dollars per year, but a few hundred dollars over several working years can add up. Demos, a New York City-based 'think tank,' found last year that the average two-income household would lose more than \$150,000 to fees over a 40 year career!

There are several ways to find out what your company is charging you in 401(k) fees. Last year, the federal government introduced a new set of rules requiring that plan providers be more transparent about the 401(k) fees they charge. First, you should have received your 401(k) plan fee disclosures in the mail. Hopefully, you did not just throw them away! You can find out what fees you're paying in the disclosures. Another way is to go to the website of the company that manages your 401(k) and log in to your account to see what fees you're paying. You can set up a username and password so that you have full access to your account at any time. Or, you can simply follow the link I have on my website at www.thesmartmoneygal.com. Click on "Jean in the News", then click on "Tips to Lower 401(k) Fees." Future Advisor lists hundreds of companies different 401(k) plans listed by popularity, size, industry, etc.

401(k) fees will generally range from 0.36% on the low end to about 1.71% on the high end. The highest fees are typically at small companies of 1,000 employees or less, where human resource teams have less power to negotiate with financial firms that offer 401(k)'s. In my opinion, anything below 1% is considered reasonable and low cost. As with any professional service comes some type of fee, so a low cost fee is realistic. Now, anything above that is considered too high, and can take a big chunk of your savings overtime. Think about it, if you have \$100,000 in your retirement account and pay 1.5% in fees, that is \$1,500 in fees every year! Fortunately, there are a few steps you can take that might help you lower your fees.



1) Do Your Homework

As I mentioned, be sure to find out how much you are being charged in fees per year. Do some research to see what other options are available to you. Many plans have a "low fee" option. You can save yourself an enormous amount of fees simply by picking the right fund for you. Some employers even pass on the fees to their employees by charging the same annual fee for everybody each year. This is definitely something that would save you money as your 401(k) grows overtime (i.e. you pay \$150 each year, as opposed to a percentage of your overall fund

amount: 1.5% of \$10,000 is \$150, so once you reach that in your 401(k) account, you would be paying more if you pay the percentage fee each year). Now, you might be stuck with the only 401(k) your employer provides, but it is good to know exactly what fees you are paying so you can plan accordingly.

2) Talk to HR

Bring your fees to the attention of someone at your company who deals with the plan. At a large organization, that individual may be in human resources; at a smaller company, it could simply mean shooting an email to someone at the executive level. This person will have the best overall knowledge of your 401(k) plan, your options, and they have a fiduciary duty to make the most reasonable and appropriate choices regarding your plan. Ask them to explain the fees (they can get a bit confusing even with the new transparency laws) and to look into better options. See if you can negotiate lower fees for you.

3) Consider an IRA

Remember, I am a huge proponent of 401(k)'s and think they are one of the best ways to save for retirement. However, if you are not able to have a low-cost plan, I would suggest putting in money annually up to the amount that your employer will match. Then take the rest of the money you are saving up and seek the help of a financial professional, such as myself, who can help you invest in something like an IRA or Roth IRA. Although, take note the most you can contribute to an IRA is \$5,000 per year (\$6,000 if you are 50 or older) compared to \$17,000 you can contribute to a 401(k) each year (\$22,500 if you are 50 or older). Also, be sure to ask the financial advisor what you will be paying them in fees, so you can be certain they are charging you less than your 401(k) fees.

I cannot say it enough: 401(k)'s are great, and are a great way to save for retirement; especially if your employer matches your contribution. This is free money and even with higher fees it will provide a boost to your retirement savings. My job is to simply educate you and make you as knowledgeable as possible when it comes to your hard-earned money. For more information, visit my website www.thesmartmoneygal.com or call me at Senior Financial Security, Inc. in The Villages, FL.



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