

Karen Telleen-Lawton: Can 401(k)s Get Any Sexier?

Removing the cloak on management fees for private retirement accounts

By Karen Telleen-Lawton, Noozhawk Columnist | Published on 05.14.2012 7:43 p.m.



Most of us look forward to retirement, but retirement planning can be a grind. Seventy million Americans rely on 401(k)s to fund at least a portion of their retirement. Typically our options are spelled out pretty well, but it's difficult to understand what we're paying in management fees for the funds that accumulate by the time we're close to retirement. 401(k)s are about to get undressed.

Two new [Department of Labor](#) provisions going into effect July 1 will require 401(k) sponsors (employers) to use a more transparent approach for disclosing their fees. ERISA 404(a)(5) and 408(b)(2) will uncover historically hidden costs. Together they should provide a long overdue jolt of truth for employees, 70 percent of whom mistakenly believe they pay no fees for the retirement money managed in their company retirement plans.

In fact, some employees pay 2 or even 3 percent in total fees — including extra loads, wrap fees, 12b-1 fees and high-expense actively-managed mutual funds. Instead, the total of “all-in” these fees should be 1 percent or less.

CPA and fee-only advisor Michael Eisenberg believes these changes are warranted: “People will finally understand that there is no free lunch. Somebody is getting paid to provide these services.” Other advisors, like [JP Morgan's](#) Michael Falcon, think most people will ignore the disclosures “like they disregard nutritional labeling.”

Mary Beth Franklin, a contributing editor with [Investment News](#), points out the importance of understanding fees with a hypothetical example. Two investors, each with \$250,000 in retirement accounts, each desires to accumulate \$1 million for retirement. Their accounts are identical except for the fee charged: Investor One pays a \$199 per month flat fee while Investor Two pays 1.5 percent annually, paid quarterly. With a 7.74 percent compounded annual rate of return,

Investor One can retire in 20 years, but it will take Investor Two 23 years and three months to reach the \$1 million goal.

Some advisors believe the rules don't go far enough in making the fees comprehensible. For instance, under the new rules, if your plan offers choices among many funds, the statement will list the cost per \$1,000 for each possible fund available at the company. Thus, the employee needs to find in the list each fund in which she's invested, multiply the balance in that fund by its specific cost per thousand dollars, and then sum them up to find her total management fee.

In most cases that shouldn't be onerous, but Tom Gonnella of [Lincoln Trust Company](#) believes investors need this all-in cost, or "personalized expense ratio," to successfully fund their retirement.

Although the new rules apply only to 401(k) plan participants, a new awareness about fees could spill into an increased demand to understand fees in private retirement accounts.

Mark Cortazzo of [Macro Consulting Group LLC](#) thinks the rules will "cause clients to question the fees that they are paying for managed accounts outside their company retirement plan."

The bottom line is, our eyes are being opened, but it's our responsibility to actually see. I, for one, do read the nutritional labels, and I return the item to its shelf when I don't like what I see. Raising our voices, whether we're the employees talking to the HR Department, or the HR Department to the plan sponsor, may be a more difficult task, but worth it for an amply endowed retirement.

— *Karen Telleen-Lawton's column is a mélange of observations spanning sustainability from the environment to finance, economics and justice issues. She is a fee-only financial advisor (www.DecisivePath.com) and a freelance writer (www.CanyonVoices.com).*