Cracking Down on 401(k) Fees

401 (K), FEES, RETIREMENT, RETIREMENT SAVINGS, AMERICANS, LABOR DEPARTMENT, US DEPARTMENT OF LABOR SECRETARY, HILDA SOLIS, FIDUCIARY, JOHN CARL, PRESIDENT AND FOUNDER OF THE RETIREMENT LEARNING CENTER, BRAINERD, MINNESOTA, INVESTMENT ADVICE, FEE DISCLOSURE, PROFIT SHARKING/401K COUNCIL OF AMERICA, IVORY JOHNSON, FINANCIAL PLANNING, SCARBOROUGH CAPITAL MANAGEMENT INC., ANNAPOLIS, MARYLAND, SEC, SECURITIES AND EXCHANGE COMMISSION, BROKERS, COMMISSIONS, 12B-1 FEES, MUTUAL FUND COMPANIES,

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A new 401(k) fee disclosure rule may not increase Americans' retirement savings as much as the US **Department of Labor** has intended.

Last month the Labor Department announced an interim rule to enhance the disclosure of fees deducted **from 401(k)** and other retirement plans.

Starting in July 2011, firms that are 401(k) service providers must disclose in writing all direct and indirect compensation received, make available plan investment options in connection with brokerage and record keeping services or both and disclose any changes to the fee structure within 60 days.

Here's one example that the Labor Department offers on its website showing how much 401(k) fees can impact your retirement balance:

"Assume you are an employee with 35 years until retirement and a current 401(k) account balance of $25,000. If returns on investments in your account over the next 35 years average 7 percent and fees and expenses reduce your average returns by 0.5 percent, your account balance will grow to $227,000 at retirement, even if there are no further contributions to your account.

"If fees and expenses are 1.5 percent, however, your account balance will grow to only $163,000. The 1 percent difference in fees and expenses would reduce your account balance at retirement by 28 percent."

Secretary of Labor **Hilda Solis** has said that this new regulation "will give fiduciaries valuable information about compensation and revenue sharing, and the disclosure of this information will benefit millions of participants and their families."

But how many workers will actually notice the new 401(k) rules? Not many, said financial planner Ivory Johnson.

Johnson, director of financial planning at **Scarborough Capital Management** in Annapolis, Maryland, is cautiously optimistic. "It's good news, and hopefully the fees will go down with the disclosures, but I wonder if employees will pay attention to it," he said.

"To expect them to read more literature is an aggressive assumption."

Most of the information the new rule now requires was already available to investors. Any company with more than 100 employees has to disclose their plans' fees, information that consumers could always request. Now all companies, regardless of size, must let workers know about 401(k) fees.

Meanwhile, the **Securities and Exchange Commission** (SEC) is also cracking down on the fees 401(k) providers may receive for the mutual funds that are often held in 401(k) plans. The SEC has proposed new limits on sales fees—so-called 12b-1 fees—that mutual fund companies charge investors sold through brokers.

Funds would still be able to charge up to 0.25 percent in marketing and service costs as long as they're specified to be for such use. So while there may be more a more explicit description of fees, some worry it will not result in huge savings for investors—as brokers will continue to charge commissions and may even raise them to compensate for a reduction on other fees.

John Carl, president and founder of the Retirement Learning Center in Brainerd, Minn., said giving appropriate investment advice is far more important than fee disclosure. Barely half of all 401(k) plans offer investment advice to participants, according to a 2009 survey by the **Profit Sharing/401k Council of America.**

Many workers aren't satisfied with their 401(k) balance when they retire or aren't putting enough money into their plans to begin with, Carl says. Since 401(k) performance is largely dependent on **market cycles** and asset allocation, a downfall in the economy occurring early in your career can be offset by buying cheap assets. But if it occurs late, there's little you can do to recover any lost savings invested unwisely.

Even with fees, 401(k) plans still offer one of the best investment vehicles for **retirement savings**. The Labor Department advises investors not to consider fees in a vacuum, as they are only part of the bigger picture. Plus, "where else would investors go?" Johnson asked. "The best way to get a tax deduction is to invest with your 401(k)."

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