One of the biggest misconceptions in the 401k world is all plans are created equal. Nothing could be further from the truth! It is this misconception that is hurting plan sponsors and plan participants alike.

As a full-service Third Party Administration firm (TPA), we welcomed the “full disclosure” of fees promulgated by recent Labor Department regulations. Naively, we believed this would open the eyes of plan sponsors to the exorbitant fees charged by the typical mutual-fund sponsored plans, payroll company plans, or any of the other “bundled” plans offered by many in the financial advisory community. Sadly, the disclosures were done in such a way that few took notice.

What does it matter? AARP published a survey in February 2011(http://assets.aarp.org/rgcenter/econ/401k-fees-awareness-11.pdf) that found 71% of those polled thought they did not pay fees on their 401k accounts!

We’ve all heard the joke that 401(k) plans are now 101(k) plans because market values have dropped (only recently having rebounded to some degree). Many feel they will have to work longer, work in retirement, save more now, or a combination thereof, to gain lost ground. No one is considering all the costs coming out of their accounts! It is still hidden!

According to the Labor Department, there are more than 480,000 plans covering 72 million participants with $3 trillion in Plan assets. More attention to the fees and expenses is imperative.

What Can Be Done?
A simple compliance review of the Plan is all that it takes. Consider a recent Plan audit and review what was discovered:

Fees Charged:
• Client thought they were paying the payroll company $500 annually for administration fees.
• Actual fees were $200 monthly!
• Difference: $1,900 (200 x 12 months less $500 imagined cost)
Underlying fund fees:
• Client thought the fees were about 1%
• Actual charges: 2.5% (not unusual)
• Difference in percentages 1.5% (2.5% actual charge – 1% estimated cost)
• Difference in dollars: $300,000 in plan assets x 1.5% = $4,500
Total unknown costs: $4,500 in fund fees + $1,900 in administration fees or $6,400! Think of the cost difference with a plan holding more assets!

Is There Anything Else?
Administration costs and fund fees are the obvious problems. However some mutual fund companies, some payroll companies and many of the “bundled” plans typically have a “one size fits all” structure. In other words, there is no individuality. Contrast their designs to a custom designed plan and the differences are dramatic!

What are some of the differences?
• Use of the non-elective Safe Harbor actually reduces costs in most cases
• The discretionary portion of the contribution is unable to be Cross-Tested, Integrated or Age-Weighted in cookie cutter plans whereas custom plans easily incorporate these features.
• “Unbundling” or separating the investment portion from the administration function allows for more choice.

The only way to get the full picture is to have a Compliance Review of the Plan. Get three views:

1. Administration Fees charged by the Cookie Cutter plan compared to fees charged by custom provider, what’s the difference?
2. Fund fees charged by the Cookie Cutter plan. What are charges with the current fund line-up compared to the custom design alternative?
These three views will be an eye-opener and the decision will be clear once analyzed.

3. Allocation of the Employer contribution: how is it allocated in the Cookie Cutter plan, what is the allocation in the custom plan, and what is the difference?

These three views will be an eye-opener and the decision will be clear once analyzed. And don’t think everything is “OK”. Check it out! Plan sponsors and trustees now have a fiduciary requirement to do so. Labor Department audits will be tough. Trustees will be grilled on

□ What funds are in the plan and why?
□ How were they chosen?

This is where it starts! Do the right thing and have a Plan Audit and Review prepared. On audit you can prove Due Diligence has been considered. It is the cheapest peace of mind available today!

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□ Using what criterion?
□ When were the investment options last checked against a benchmark?
□ In which quartile do the investment options rank?
□ When were the laggards last replaced?
□ What are the underlying fees being charged and is it reasonable?