Are you being ripped off by a 401(k) plan?

Posted By **Nilus Mattive** On Tuesday, June 12, 2012 at 7:30 am at 7:30 am

The bad news is that it's quite possible you *ARE* being ripped off by your 401(k) plan … or at least have been at some point in the past.

The good news is that you will finally have a reasonable chance of at least knowing for sure this fall.

That's when a new Labor Department rule goes into effect that requires plan administrators to more clearly outline all the fees they charge for managing 401(k) plans.

The fees will be broken out into two categories:

First, There Are Good Ol' Investment Management Fees

These are the expenses associated with the actual funds your plan offers.

You are probably already familiar with these since nearly all mutual funds and ETFs inherently contain certain costs for things like marketing of the fund.

And I'm sure you also understand that, all other things being equal, lower expenses mean better investment returns.

Yes, there are some actively-managed funds that are worth greater expenses. However, the vast majority of them are *NOT* worth paying more for when compared to basic index funds.

Meanwhile, even the expenses associated with a given type of index fund can vary widely — despite the fact that all these funds should be very similar in terms of their performance!

Yet There Are Also Administrative Costs to Consider

These fees are not related to the individual funds but are instead charged by the companies administering your company's 401(k) — typically large financial services firms, which are often the fund companies themselves. And the costs that fall under the banner of administration can include things like accounting, recordkeeping and legal work.

It will probably come as no surprise that financial services often inflate these numbers just to provide one more money-sucking layer on top of the fees you're already paying for the funds themselves.

In fact, they often make up the vast majority of the money being taken from plan participants' pockets — as much as 80 percent or 90 percent!

And what's more maddening is that your employer may not have a clue whether you're paying these kinds of fees … or how they stack up to those being charged by other potential plan providers.

For example, the Government Accounting Office surveyed 1,000 plan sponsors and discovered that *HALF* of them either didn't know whether they or their employees were paying fees or mistakenly thought those fees had been waived.

Surprisingly, this also included plenty of large employers who should have known better.

And only 5 percent of employers surveyed said they had asked for any of this information on their own!

So It's Up to You to Do the Digging

Right now, most people have no clue what they're actually paying for the privilege of participating in a particular 401(k) plan or by picking a specific mutual fund.

Case in point: Based on a survey conducted by the AARP, 71 percent of respondents believed they were *NOT* paying fees on their 401(k)s … and another 6 percent didn't know if they were.

Starting with your third-quarter statement, it should be a lot easier for you to figure out what those costs are for a given investment choice being offered by your company's retirement plan.

Let's be clear — you still may not get a complete breakdown of everything. However, you will at least see expense ratios that are calculated per $1,000 invested in any given fund.

I suggest you study those numbers carefully.

As you look, keep in mind that that a typical expense ratio might be in the range of 0.8 percent. A low number would be in the 0.2 percent or 0.3 percent range. And on the high end, some funds may be costing as much as 1.4 percent!

That's pretty staggering when you think about it. Because it means that you might automatically be losing a full percentage point of your annual return just for picking one fund over another … *BEFORE* you even consider the performance of the investment itself!

This is why, in the case of actively-managed funds, you should also go one step further and look at the historical performance figures over the last five- or ten-year period. If the fund's results aren't consistently beating its benchmark by more than the costs, choose something else.

Most importantly, if you see overall expense ratios that look higher than normal, let your plan sponsor (i.e. your employer) know. Because despite the fact that they should be on top of these issues, the numbers prove that often times they aren't.

Best wishes,

Nilus