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401K Plan Fees

How much does it cost to run a 401k plan? What am I receiving as service? Among other duties enumerated by the Department of Labor, 401k plan fiduciaries have a “responsibility to ensure that the services provided to their plan are necessary and that the cost of those services is reasonable.” That’s not exactly a hard metric to measure what your plan should cost. Typically fees can be in the range of 0.5% to as high as 5% of your account balance. New regulations that went into effect in 2012 require 401k plans to provide a more transparent breakdown of their fees to employers and employees. While this may help, confusion is still the norm.

Studies have shown that extraneous fees could reduce your account balance by 28 % over an average working career. Organizations such as the AARP have surveyed 401k plan participants and have found that most are under the impression that the plan administrator doesn’t charge anything, hardly an encouraging starting point.

The first essential element to managing your 401k plan fees is to identify all current charges including hidden expenses in order to determine whether the plan is receiving sufficient service to justify the payments. The second essential element is to benchmark those expenses against those for similar plans. Of course this is easier said than done.

Basically 401k fees cover two broad categories, investment management and plan administration. Investment management costs are paid from the fund expense ratios to manage the assets in the various mutual funds. This is by far the largest single expense and can be as much as 80% of total fees. Such factors as mutual fund share class, mutual fund asset class balances, and whether mutual fund management styles are active or passive can influence costs.

Plan administration costs include recordkeeping, internet and call center services, Trustee services such as the costs of securities transactions, and the costs of maintaining the plan assets. Other administrative costs are compliance, legal communications, investment consulting and employee education, and other transactions (e.g. loans).

All of these fees can be assessed in various ways and combinations ranging from hard dollar charges to a percentage of assets basis charge. Fees are influenced by the total number of participants, what services are provided and used, overall plan complexity, whether services are bundled or unbundled, whether there is revenue sharing, and by commissions and finder’s fees. Sorting them out and assessing their effectiveness can make a big difference in the success of your plan.