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Don't ignore retirement plan costs

PERSONAL FINANCE

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Retirement-plan fiduciaries are facing greater scrutiny than ever. Well-publicized cases such as Enron and Lucent Technologies have brought 401(k) plan sponsors to the forefront of ERISA litigation. We believe that the next trap facing corporate officers and directors, trustees, and investment committees may be related to the payment of excessive fees and expenses.

Defraying plan expenses can be as important as choosing appropriate investments. The Employee Benefits Security Administration (EBSA) - the Department of Labor agency that enforces ERISA's fiduciary liability provisions – offers this example of how fees can affect a 401(k) participant.

"Assume that 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." (visit www.dol.gov/ebsa/publications/401k_employee.html.)

Using these assumptions, the reduction in value to accounts in a plan with 10 participants during the same 35-year period would be $640,000. In a plan with 100 participants, it would be $6.4 million, and for a plan with 1,000 participants, a whopping $64 million.

According to the Los Angeles law firm of Reish, Luftman, Reich and Cohen, "The EBSA example assumes a $25,000 account into which no contributions are made. In reality, participants continue to make contributions during the course of their employment, so the EBSA example doesn't begin to adequately demonstrate the significance that excessive plan expenses can have on a 401(k) plan."

The EBSA website also has singled out the obligations of 401(k) plan sponsors to monitor plan expenses.

"By far the largest component of 401(k) plan fees and expenses is associated with managing plan investments. Fees for investment management and other investment-related services generally are assessed as a percentage of assets invested. You should pay attention to these fees. You pay for them in the form of an indirect charge against your account because they are deducted directly from your investment returns. Your net total return is your return after these fees have been deducted."

The DOL has made it clear that getting independent, outside advice is crucial. The DOL, SEC and states have forced better vendor disclosure. The opportunity is better today than ever for these fiduciaries to compare plan costs. It can be a great benefit to plan participants and provide fiduciary protection.

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