

*A Guide To*

# HIDDEN

*FEES*





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# *How Much* Can Hidden Fees Cost You?

Do you know how much you're paying in 401(k) fees? Or that you're charged fees in the first place? According to a TD Ameritrade Survey, 27% of participants didn't know how much they were paying, and, 37% of those surveyed didn't know they were charged fees at all. This doesn't quite square with the fact that 95% of 401(k) participants pay fees.<sup>1</sup> It's easy to focus on how investments are doing and how to minimize taxes, only to forget to add up how much of your retirement savings goes towards fees. The problem is that fees add up: According to the Boston College Center for Retirement Research, paying an annual fee of 50 basis points for 30 years can reduce the purchasing power of savings by one-eighth.<sup>2</sup>

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## WHY DO YOU PAY FEES?

There are administrative and investment management costs for 401(k)s. Fees can originate from the plan provider and the individual funds within the plan. There isn't much you can do about the plan provider fees, but you might have some choice when it comes to selecting funds within the plan with lower costs or expense ratios, depending on the 401(k) provider.

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## HOW HIGH ARE FEES?

The size of fees can vary: Some people may pay under 0.5% in fees, while others may pay more than 2%. This rate depends on the size of your employer's 401(k) plan, the number of participants, and the plan provider.

Even 2% might not seem like much, but over the course of your career, it can add up. Let's say you had \$100,000 in your retirement account, contributing \$6,000 a year for 30 years, were earning a modest 5 percent annually and paying an average 1%. If you reduced those yearly fees to 0.50 percent, You would have nearly \$80,000 extra in your retirement kitty after 30 years!<sup>3</sup>

For example, let's compare a 401(k) plan that charges 2% in fees to one that charges 1%. Both start with a balance of \$100,000 and have an expected annual rate of return of 8%. After 30 years, the account paying 2% in fees would have grown to \$574,350. Meanwhile, the account paying 1% in fees would have grown to \$761,225.

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# HOW CAN YOU FIND OUT HOW MUCH YOU'RE PAYING?

Each year, the DOL requires every 401(k) plan to distribute an annual fee notice to plan participants which includes an explanation of the plan-level and individual-level fees that might be deducted from a participant's account.<sup>4</sup>

They will likely be stated in the prospectus you receive when you enroll in a plan. If you opened your 401(k) years ago and don't remember seeing this prospectus, you can check in the updates you most likely receive annually. Look for categories or line items like "Total Asset-Based Fees," "Total Operating Expenses As a %" or "Expense Ratios," which all measure fees.



HIDDEN FEES



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## DON'T FORGET ABOUT OLD 401(KS)

If you leave a job and start a new one, you have a few options for your old 401(k). It's important to know how much you're paying in fees when making this decision, so make sure to account for the fees you're paying for all of your accounts. Regardless of the decision you make, it's crucial to talk to your financial advisor about the best strategies that are customized for your unique situation.

- **Cash out:** It's important to note that the funds become taxable once cashed out.
- **Rollover into your new 401(k):** It can help to compare fees between old and new 401(k) plans when considering this option. You will not pay tax on funds rolled over directly into your new 401(k).<sup>5</sup>
- **Rollover into an IRA:** As with the previous option you should consider fees between both retirement accounts.
- **Continue with the old 401(k):** In many cases you can simply leave your money in the 401(k) at your old workplace. Take your time in comparing fees and deciding on the best option. However, having multiple retirement accounts could complicate your finances.

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## MUTUAL FUND EXPENSE RATIOS

Mutual Funds expense ratios are also called 12b-1 fees. Each fund can set its own rate, so it's important to find out what you're paying. These fees can cover commissions to brokers and salespeople, as well as advertising and marketing costs. Fees can range between .25% and 1% of fund assets. Sometimes account owners may not realize how much they're paying, since fees are deducted from the fund balance and not charged as a stand-alone fee.



## MAKE A PLAN FOR THE LONG TERM

It can take a well-trained eye to spot hidden fees or less than ideal investment options, which is why it can be helpful to consult a financial advisor when working to make the most of your 401(k). If you're working with someone who is not considered a fiduciary, such as a broker, the fees you are charged may not be transparent. We operate as fiduciaries, which means we're legally and morally obligated to act in your best interests.<sup>6</sup> For this reason, we clearly disclose any management fees.





## THE BOTTOM LINE

Your 401(k) is a long-term investment: You pay into it for decades and will likely need to rely on it, among other sources of income, for decades in retirement. Fees add up over time and can eat away at your retirement savings. If you're closing in on retirement – maybe five to 10 years away – you should be paying more attention than ever to your 401(k) balance and the associated fees that could be nibbling away at your money. If you have questions or want to make changes, talk to your financial professional today.

## Disclaimer:

<sup>1</sup> “FeeX 401(k) Fee Calculator Helps Break Down 401(k) Plan Costs” TD Ameritrade.  
<https://tickertape.tdameritrade.com/retirement/compare-401k-fees-calculator-15627> [Accessed Jul 28, 2020]

<sup>2</sup> “3 Things to Know if You Don’t Want to Leave Your Retirement Income to Chance” APO.  
<https://apofinancial.com/3-things-to-know-if-you-dont-want-to-leave-your-retirement-income-to-chance/> [Accessed 2022]

<sup>3</sup> “At a Time of Financial Strees, 401(k) Fees matter More Than Ever” The New York Times.  
<https://www.nytimes.com/2020/07/11/business/401k-advice.html> [Accessed Jul 11, 2020]

<sup>4</sup> “GAO Warns That Many 401(k) Participants Don’t Understand Fee Disclosures” SHRM.  
<https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/gao-warns-401k-participants-dont-understand-fee-disclosures.aspx>  
[Accessed Sep 8, 2021]

<sup>5</sup> “401(k) Resource Guide – Plan Participants – General Distribution Rules” IRS.  
<https://www.irs.gov/retirement-plans/plan-participant-employee/401k-resource-guide-plan-participants-general-distribution-rules>  
[Accessed 2022]

<sup>6</sup> “Regulation Best Interest and the Investment Advisor” US Securities and Exchange Commission.  
<https://www.sec.gov/news/speech/clayton-regulation-best-interest-investment-adviser-fiduciary-duty> [Accessed Jul 8, 2019]

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