



04.15.24 | INSTITUTIONAL RETIREMENT PLANS

## Retirement Plan Newsletter | Q2 2024

Michael R. Maguire, CFP®, ChFC®, RICP® – Financial Advisor

## 401(K) FEES

Do you know how much your 401(k) costs? Who is paying the fees? Are the fees reasonable? These are all important questions that any plan fiduciary should ask. Determining the overall cost of a 401(k) or 403(b) plan can be a difficult task, since the costs are not always as transparent as they should be. If you work with an experienced retirement plan advisor, they should be able to both explain and benchmark your plan fees. But let's go through the basics.

There are two essential documents that you will need when looking at your 401(k) Plan Fees:

**408(b)(2) fee disclosure** – This is intended for the Plan Sponsor. It is typically produced and provided by the covered service provider, and it details any direct or indirect fees that are charged by the provider and any affiliates.

**404(a)(5) fee disclosure** – This is intended for the plan participants and must be sent out annually. This document outlines any investment, administrative or transaction fees that the participant pays.

The plan costs are often bundled together and can be hard to parse out. However, they can generally be divided into 4 different categories.

### INVESTMENT

Otherwise known as expense ratios, these are the fees charged by the mutual fund for operation of the investment. They are charged as a percentage of assets, and they can vary widely dependent upon the type of investment. For example, passive or index mutual funds tend to be lower cost than actively managed funds. These fees are charged directly to the plan participant.

Investment options can also have “revenue sharing” built into them. This means a portion of the investment expense is used to offset other costs in the plan like recordkeeping or administrative fees. This practice makes the fees less transparent and can in some cases make the fees charged to participants uneven. An experienced retirement plan advisor should be able to determine what these “buried” fees are.

### RECORDKEEPER

The recordkeeper is the bookkeeper for your plan, in charge of tracking the participant accounts and which investments

they own. They also run the website, process incoming contributions and outgoing distributions. Often the recordkeeper is the “name” you associate with the plan, like Fidelity, American Funds, John Hancock, or Empower.

Typically, recordkeeper fees are either stated as a percentage of total plan assets or listed as a flat fee along with a per participant fee. They will vary based on a number of factors including overall plan size, number of participants, annual flows, and average account balance. These fees can be paid by either the employer or the employees.

There are also often transactional fees for things like taking a loan or a withdrawal. These are flat dollar amounts and charged directly to the participant account.

## **ADMINISTRATION**

Administration typically involves creating and maintaining the plan document, providing participant notices, preparing the 5500 and performing annual testing. The fee partially depends on the structure of your plan, and it is normally a flat annual fee along with a per participant charge.

If you have what is often referred to as a “bundled” 401(k), one provider does both the recordkeeping and the plan administration. In this case both the recordkeeper and administration fees are paid to that one provider. If your plan is “unbundled”, the administration of your plan is outsourced to a Third Party Administrator (TPA) and they receive these fees.

In both cases the fees can either be paid directly by the Plan Sponsor or deducted from employee accounts.

## **ADVISORY**

Many 401(k) plans hire a Registered Investment Advisor to serve as either a 3(21) Investment Advisor or 3(38) Investment Manager. The advisor’s responsibilities usually include constructing and monitoring the plan’s investment lineup, monitoring overall fees, and providing employee advice. Most importantly, a qualified Registered Investment Advisor is a fiduciary that helps provide an additional layer of protection to you as the plan sponsor.

The advisory fees are most often expressed as a percentage of assets, although larger plans can sometimes see a flat fee. The fees can either be paid directly by the Plan Sponsor or deducted from employee accounts.

It is important to remember that fees are only one part of the plan. The least expensive option is not always the best. When evaluating your retirement plan it is important look at fees, services, technology, and investment options.

Grimes has a dedicated team that specializes in providing investment advisory services to retirement plan fiduciaries and their employees. We assist clients with investment selection and monitoring, fee benchmarking, plan design and employee education. If you are not sure of your total plan costs or think you are overdue for a thorough review, please feel free to reach out to us.

### **IMPORTANT DISCLOSURES:**

Please remember that past performance is no guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Grimes & Company, Inc. (“Grimes”)), or any non-investment related content, made reference to directly or indirectly in this blog will be profitable, equal any corresponding indicated historical performance levels(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or

information contained in this blog serves as the receipt of, or as a substitute for, personalized investment advice from Grimes. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. No amount of prior experience or success should be construed that a certain level of results or satisfaction will be achieved if Grimes is engaged, or continues to be engaged, to provide investment advisory services. Grimes is neither a law firm nor a certified public accounting firm and no portion of the blog content should be construed as legal or accounting advice. A copy of the Grimes' current written disclosure Brochure discussing our advisory services and fees is available for review upon request or at <https://www.grimesco.com/form-crs-adv/>. Please Note: Grimes does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness, or relevance of any information prepared by any unaffiliated third party, whether linked to Grimes' web site or blog or incorporated herein, and takes no responsibility for any such content. All such information is provided solely for convenience purposes only and all users thereof should be guided accordingly. Please Remember: If you are a Grimes client, please contact Grimes, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. Please Also Remember to advise us if you have not been receiving account statements (at least quarterly) from the account custodian.