New Retirement Plan Fee Disclosures May Cause Confusion

I have a confession to make.

I'm guilty of not always reading all of my mail before discarding it.

While I do make an effort to at least open everything to gauge its importance, I have to admit that as soon as I see "Privacy Notice" or "Important Changes to Your Account Terms" followed by lots and lots of really small print my eyes tend to glaze over and it gets filed in the circular file (i.e. garbage can) immediately.

Somehow I'm betting that I'm not alone.

Because I suspect that I'm more than likely in the majority on this, I would venture to guess that most people have not yet read and thoroughly understood the information they have received pertaining to the new fee disclosures for their employer 401k plan. That means that a whole bunch of people are likely to be really surprised – and likely confused – when they start seeing their share of the plan fees listed as an actual dollar amount on their statements by year end.

Fees? What fees? You mean there is a cost for investing in my 401k?

In a word, yes – and there always has been. The fees that you will see listed on your upcoming statements are not new – they are just being shown to you for the first time in this manner.

All investments have a cost – after all, doing the research, investment analysis, trade execution, position monitoring, reporting, statement preparation, account servicing, etc. takes work and therefore costs money. The employer may absorb some of these costs but many of the costs are dependent on how the participant elects to invest the account, so are the responsibility of the participant.

In some cases that cost is very apparent (i.e. the ticket charge for buying or selling an individual stock) while in other cases it can be harder to ascertain.

401k plans offer various investment options that participants can select but the expenses of the plan are not necessarily limited to just the costs associated directly with the investments themselves. There can also be administrative costs and investment advisory costs – and in some cases plans are invested in more complex or alternative products which can add a whole additional layer of expense.

The Department of Labor passed new rules that require that all of these fees – and what services they are associated with – be spelled out and provided to both the plan sponsor (i.e. employer) and the participants (i.e. employees) in plain English. These disclosures were first provided in summary and percentage form but will soon be required to be listed in dollars on participant statements.

In large part I like the new rules. The murky world of retirement plan expenses has long been a place where excessive fees have been charged and hidden. Plan sponsors have always been responsible for making sure that plan fees are reasonable but frankly that job was very difficult when the information was hard to find and even harder to benchmark. The new rules will likely bring about positive changes in the industry.

Like so many regulation changes however, I fear this one will have unintended consequences. A recent survey conducted by the AARP found that 71% of 401k participants don't think they have any costs for investing in their plan. That means that the vast majority are going to be upset when they see those fees in dollar terms for the first time. I just hope it doesn't dissuade anyone from continuing to participate as the benefits of doing so can be immense.

But, perhaps I'm worried about nothing. You all read the disclosures right?

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