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## Navigating Higher Fees and Opportunities for Smaller 401(K) Plans



Although the costs of retirement benefits have generally decreased due to fee compression, smaller plans remain disadvantaged. Fixed costs cause these plans to pay more per participant, while larger plans benefit from economies of scale.

The 2024 edition of the "401(k) Averages Book"<sup>1</sup> compared the total

bundled charges – which include investment, recordkeeping, and administration fees – of smaller plans versus larger plans. The research found that total bundled charges average 4.16% for plans with 10 participants and \$100,000 in assets, whereas plans with 500 participants and \$5 million in assets average only 1.62%.

Providers may also be more inclined to reduce variable costs for larger plans or plans with higher balances and fewer participants, as they see greater opportunities for cross-selling and additional revenue. Small firms, however, have alternative options, such as Simplified Employee Pension (SEP) or SIMPLE 401(k) plans, with some providers even waiving setup fees for these programs. It's important to note that smaller companies without access to a financial advisor may struggle to interpret the complex details of each plan's fees.

Roger Morrisette, Vice President of Small Business Retirement Products at Fidelity, stated, "We see general confusion, and folks are overwhelmed because there are a number of different options available." To address this, Fidelity developed a "Plan Sector" tool that helps employers better understand the differences between their retirement plan options.

The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2022, along with the original SECURE Act of 2019, has helped reduce the cost for

employers administering company-sponsored retirement plans. The legislation introduced

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<sup>1</sup> [Smaller Plans Larger Costs](#)



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Pooled Employer Plans (PEPs), allowing small businesses to benefit from economies of scale while outsourcing part of the fiduciary risk and administrative time required to operate a plan. Additionally, new startup tax credits from the Acts have helped small businesses cover the costs of establishing their retirement plans. Employers with fewer than 100 employees are eligible for a tax credit of up to \$5,000 for the first three years of the new plan, with an additional \$500 available for setting up automatic enrollment provisions. Employers can also claim \$1,000 credit per employee for matching contributions made to non-highly compensated workers.

“Some of the more successful Pooled Employer Plans (PEPs) are leveraging that tax credit to allow small employers to maybe start up a plan with no cost at all,” noted Ted Schmelzle, Assistant Vice President of Retirement Plan Services at The Standard. Although higher plan participant fees for small plans reduce savings further, experts point out that these costs are still insignificant when considering the post-tax savings and possible long-term gains from investing in the plan. Sean Jordan, Head of Small- and Mid-Market Segments at Principal Financial Group explains, “You’re talking about investment growth of multiple, full percentage points and fees that are basis points... They’re different scales.”

Despite increased fees, the plan's cost should begin to decrease over time as participant accounts and the plan's total assets both rise, particularly in a rapidly growing PEP. So even if the tax benefits don't pan out in the first year, they will eventually increase in savings.

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