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FINANCIAL

Three Things You Need to Know About Your 401(k) Fees

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Fees have always been a four-letter word. No one likes them or wants to talk about them, but how they are calculated, the method in which they are paid, and how you determine they are reasonable have been thrust into the spotlight due to the Department of Labor fiduciary rule.

1. Fee Levelization – Fee levelization is the new, fancy industry term for the averaging of fees within a 401(k) plan. To explain, the investments that are a part of a 401(k) plan can pay fees to the plan adviser, third party administrator, and recordkeeper. The fees are used to keep billable expenses to the plan low or nonexistent. The problem is that each investment may pay a different amount to each party involved and therefore, the investors in the funds that pay more to each party may pay more for their investments than investors in the lower fee paying investments. Fee levelization, or the averaging of fees, aims to correct this issue by taking the average fees of all the investments and charging each individual participant in the plan that average fee, rather than each individual investment paying the fees.

2. Invoicing vs. Plan Assets – By far the most commonplace practice for collecting fees for plan administration and recordkeeping has been to receive compensation from the investments, as discussed above, and then to collect any outstanding amount from the plan assets in a pro rata manner. This avoids an actual bill being sent to the plan sponsor. However, when fees are taken from plan assets, participant retirement balances are being used to pay the fees. If the company can afford to pay the plan fees outside of the plan investments, the fee payments may be considered for a business tax deduction. Please make sure to consult with your tax professional for the specific effect on your taxes.

3. Reasonableness of Fees – There have been a handful of recent legal cases that have addressed the appropriateness of fees in retirement plans and for the most part, they have all determined that your plan does not have to be paying the lowest fees, but the most reasonable fees. Also, keep in mind there is a fiduciary responsibility to monitor fees. In order to prove reasonableness and that your plan has a handle on fees, there needs to be documentation of how the fees were determined,

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what services the plan received for fees, and that they continue to be reasonable. One way to document that your plan has reasonable fees is by having a Fee Policy Statement. Fee Policy Statements lay out what fees are being paid, to whom, and for what.

If you think that your plan would benefit from a clearer understanding of what fees you are paying and if they are in fact reasonable, please let us know. We would love to help you.

About the Author

Jamie serves as the Strategic Retirement Plan Coordinator for Grinkmeyer Leonard Financial. She works with company presidents, CEOs, CFOs, and human resources professionals to design, implement, and manage a total benefit strategy, including 401(k) plans and group health and welfare plans. Jamie holds the Qualified 401(k) Administrator (QKA) designation as awarded by the American Society of Pension Professionals and Actuaries, which signifies her qualifications as they pertain to the complex issues of qualified plan design, testing, and administration. She also holds the Accredited Investment Fiduciary® (AIF®) designation as awarded by Fi360 and the Certified Plan Fiduciary Advisor (CPFA) designation as awarded by the National Association of Plan Advisors.

About Grinkmeyer Leonard Financial

Grinkmeyer Leonard Financial is an industry leader in helping to provide focused, full-service defined contribution consulting services to employers looking for efficient, effective strategies for managing their retirement plans. We seek to help employers maximize plan efficiency, minimize fiduciary risk, increase participation and diversification, boost investment possibilities, and improve the overall plan experience. Grinkmeyer Leonard Financial is a proud member of Retirement Plan Advisory Group, one of the largest independent consulting networks in the U.S.

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