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## 4 Things That Are Behind Your 401(k) Fees

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Fees are the one thing everyone can agree on in 401(k) plans, and the consensus is they are too high. Some feel that if they pay anything as part of their company 401(k) plan they are paying too much. An important element in the fee conversation that has been missing is 401(k) plans aren't free. As a retirement saver in a 401(k) plan, or participant, it seems pretty straightforward. Money comes out of your paycheck, you invest it and you can go to a website or read your quarterly statement to track your progress. Simple right? The logical question is why is this any different from my investment account or personal IRA? Like a duck moving across a pond, what makes a 401(k) plan run takes place below the surface and is more complex than most realize.

### Complexity

For example, that simple contribution from your paycheck is anything but simple. Your employer and 401(k) provider need to determine if the percentage of your pay applies only to your base salary? Should it include overtime? What about if you get a bonus? Do 401(k) contributions get taken from that? If so, is it the same percentage as a regular paycheck or a different one? This is one small example of the hundreds of little details that go into running a 401(k) plan. Sticking with the theme, if you were supposed to have a 401(k) contribution taken from your bonus and it wasn't, it may or may not be a big



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deal to you, but now your employer might have a compliance violation on their hands. That means fines, penalties, lawyers and hours of work to fix the problem. They might even face the ultimate penalty of plan disqualification. This means the plan would be shut down and your retirement savings and everyone else's in the plan would be liquidated and sent back. Not a good outcome for anyone. For perspective, the government agency that oversees 401(k) plans collected \$1.1 Billion in fines, penalties and enforcement actions against employers last year alone. Back to the duck, it looks effortless on the surface. That is the goal of your employer and their service providers. However, the feet are moving quickly below the water line to keep things moving.

### **Security**

With over \$5.3 Trillion dollars sitting in 401(k) plans as of the end of 2017 that is a tempting target for identity thieves and hackers. These are real threats. There have already been incidents where money was stolen from 401(k) plans by cyber criminals. As a result, the company that holds your retirement money must continually invest in sophisticated cyber security defenses to protect both their institution and your savings from multiple forms of cyber attacks. They also have to protect your money from people who might look and sound like you. Let's say you have been diligently saving in your 401(k) at your company for several years. Next thing you know, you mysteriously have a loan against your account. How did that happen? If an identity thief has your social security number, date of birth and other Personally Identifiable Information (PII) they could call your 401(k) administration firm as if they were you. If they pass the security protocol they could take a plan loan for as much as \$50,000. Oh, and while they are there they could update your address on your account, because maybe you weren't aware but you moved recently. You want your loan check sent to the right spot, can't have that fall into the wrong hands. This is one of many examples the firms who handle your 401(k) plan think about and spend money, lots of money to protect your savings.

### **Lawsuits**

Another reality for your employer of running a 401(k) plan is they can be sued. In fact, the other day a company settled a lawsuit brought by their employees for the tidy sum of \$17 million dollars. The financial institutions handling your 401(k) and your employer are bombarded with headlines reporting new litigation and multi-million dollar settlements. What might surprise you is some employers are being sued despite offering a plan to their employees most of us around the country would love to be a part of. Simply being named in a class action 401(k) lawsuit could cost your employer millions of dollars to defend, even if the case is ultimately dismissed. Risks of this nature can not be ignored. To manage, it requires the time and expertise of your employer and outside professionals.

### **Cost**

The work and expense of running your 401(k) plan are real. To help avoid missteps with the IRS, Department of Labor (DOL), cyber thieves, class action attorneys or upset employees your employer hires firms with specific expertise to help them. It takes specialized training, powerful technology, and real world experience to help employers navigate the complex laws, annual compliance requirements and risk management practices to protect you, your money and your employer. These costs translate into fees that you might see on your quarterly statement or plan website. Or, they could be the reason your investments have revenue sharing or 12b-1 fees. The number of employees your company has, the total pool of money in their retirement plan, the design of the plan and several other details factor into how providers charge for their services. It might be frustrating, but you can't compare the cost of your personal investment account or IRA with your 401(k). While they are similar in concept, they are completely different.

## Closing Thoughts

These examples are a small subset of the ones your employer must manage to run a successful 401(k) plan. Ask questions about your plan fees, keep an open mind to what you hear. Most employers have spent considerable time reviewing plan fees and exploring options to ensure they are reasonable or negotiate lower ones where possible. If you want to have a productive discussion about 401(k) fees with your company, check back next week and I will share how to do that. No one likes to pay fees. The only thing worse is paying fees when you don't perceive any value. To keep the duck moving effortlessly across the pond, it takes knowledgeable professionals, attention to detail and a lot of work employees don't see, but should appreciate.

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