

ask

THE  
EXPERTS

## The 411 on 401k's

**Q. Are 401k fees your companies black swan liability?**

**A.** Every dollar spent on plan fees is one less available dollar for the benefit of your employees or your company. From a liability standpoint, employers have a “fiduciary” obligation to make sure that their retirement plan fees are “fair and reasonable”. In 2018 the DOL levied fines amounting to \$1.1 billion in fines for compliance breaches in employee benefit plans. This is an increase by over 40% from 2017. If your 401k advisor is an ERISA 3(38) fiduciary or CEFEX certified, you’re in a better position than over 80% of 401k plans. They are likely handling annual benchmarking requirements and ensuring plan fees meet the DOL’s “fair and reasonable” criteria.

While plan fees seem small as

expressed as a percentage, most are less than 1.50%. Over time, fees erode investment returns resulting in a significant impact on an employee’s retirement savings. For example, take an employee who contributes \$15,000 per year for 40 years with an 8% rate of return. A reduction of plan fees to 0.50% from 1.00% can increase an employee’s retirement savings by over \$430,000. This would increase their annual retirement income by over \$20,000 at a 5% distribution rate.

Studies have shown that the most evident correlation between cost and performance for actively managed mutual funds is a negative correlation. Less than 15% of U.S. Equity Mutual Funds beat their benchmark, according to SPIVA.

To ensure 401k fees are reasonable, start by asking your 401k advisor if they participate in revenue sharing with the mutual funds offered in the plan.

401k advisors that receive revenue sharing often leads to the use of more expensive mutual funds.

Second, ensure that the mutual funds in the plan have an average expense ratio at or below the national average. In 2015, the national average expense ratio was 0.51% for mutual funds held in 401k plans according to the Investment Company Institute.



**QUARTZ PARTNERS**  
INVESTMENT MANAGEMENT



facebook.com/quartzpartners



linkedin.com/company/quartz-partners-investment-management



@quartzinvest

**Kyle P. Webber, Managing Partner**

kwebber@quartzpartners.com

quartzpartners.com | 518.328.0201 | 17 1st Street Troy, NY 12180