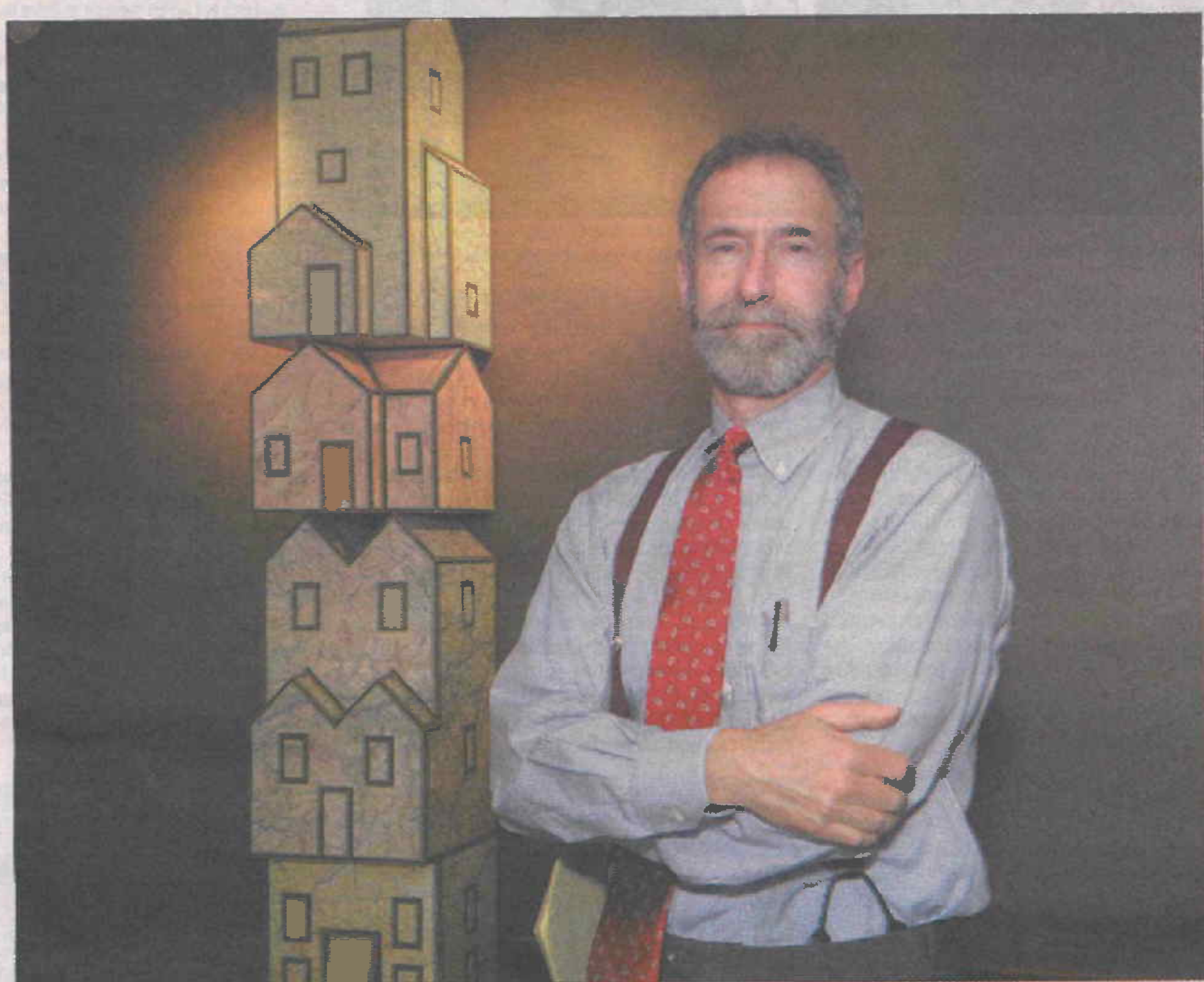
BANKING & FINANCE

Shopping for your 401(k)



CATHY CHENEY | PORTLAND BUSINESS JOURNAL

Bullard Smith lawyer Tom Kramer says new regulations requiring greater transparency of retirement plan fees will aid plan participants.

The new rules aren't perfect, but they should **sound a wake-up call** for many investors.

Employers and workers gain better access to vital fee information

BY ADAM WORCESTER
CONTRIBUTING WRITER

A pair of new federal regulations should make it easier for Oregon employers and employees to shop for retirement plans.

The U.S. Department of Labor issued the regulations, which deal with disclosing fees charged by retirement plan companies for handling 401(k) investments.

"401(k) plans aren't the first things on businesses' minds," said Andrew Fadenrecht, a retirement plan adviser with BCI Group in Portland. "The new disclosures will help provide some accountability for plan providers."

The first regulation, which took effect July 1, requires retirement plan vendors, such as mutual fund companies, to disclose detailed fee and compensation information to employers. Employers are expected to review that information, then determine whether the vendor's services are necessary and if its contracts and fees are reasonable.

FAST FACT

TAX BREAKS FOR retirement-related accounts such as the 401(k) cost the federal government $140 billion in 2011.

The second regulation, which took effect Aug. 30, requires employers to give participating employees concise information about the fees they pay for their 401(k) plans. Most employees will receive detailed information tied directly to their 401(k) fees when they receive their fall quarterly statements.

While choosing a retirement plan will remain challenging, analysts say the new rules help all parties make better-informed choices.

For businesses, it will be easier to objectively compare competing retirement plans. Though vendors have always disclosed fees to employers, the costs are difficult to discern amid the voluminous paperwork accompanying each 401(k) plan option.

Also, employers often lack the expertise to vet the information they receive from vendors and judge its veracity.

Tom Kramer, an employee benefits attorney with the Portland law firm of Bullard Smith Jernstedt Wilson, said retirement plan vendors have not always provided objective and reliable information, and plan administrators have not known how to ask for it.

"We've moved in the right direction," Kramer said. "It's still confusing, but now the information is a lot more understandable."

Even so, many businesses are increasingly turning to third-party advisers such as BCI for help in comprehending their 401(k) options.

BCI rates retirement plans for employers on a scale of 1-10, and advises companies on the best way to administer the plans. It currently assists about 65

SEE FEES, PAGE 22

NEW LEADER: Mark Brandon takes the local helm for Banner. 24

PRIVATE BANKER: Choose someone at a sophisticated organization. 28

NEXT WEEK: Oregon's independent colleges find themselves a new voice.

FEES: In the end, employees must make their own cost comparisons

FROM PAGE 21

Oregon businesses of varying sizes.

"The average 401(k) participant wants to know that someone who cares about them is paying attention. They want to feel that someone has a sharp eye on it, and is working in their best interests," Fadenrecht said.

Even with management due diligence, though, the ultimate responsibility for choosing a 401(k) plan falls on participants. The new regulations help them assess at a glance one of the most important components of retirement plans: the impact of fees.

Retirement plan vendors are compensated through fees, which typically range from 0.5 percent to 2 percent a year, for the cost of running the fund. But many fund purchasers either do not know about their fund's fees, or do not fully understand the effect those costs have on their cumulative returns.

A 2011 national AARP survey, for example, revealed that about 71 percent of survey respondents thought they did not pay any 401(k) fees, while 6 percent said they didn't know whether they paid fees.

Such ignorance can cost participants hundreds of thousands of dollars over the life of a retirement fund, said Kramer.

"There may be two kinds of funds with similar results, but one costs 50 basis points, and the other 125. All other things being equal, you'll come out three-quarters of a percentage point better per year in the lower-cost fund," Kramer said.

The average American household with two working adults will pay about $155,000 in 401(k) fees that will consume nearly one third of their returns over a lifetime, according to a study published in May by New York City-based Demos, a national research, policy development and advocacy organization.

CATHY CHENEY | PORTLAND BUSINESS JOURNAL

BCI Group's Andrew Fadenrecht says the new disclosure rules give plan providers more accountability.

"The hope is that us employees will become better educated," said Jean Setzfand, national vice president of financial security for AARP. "This will put more pressure on plan providers to put low-cost products in their 401(k) account offerings."

With the first quarterly statements under the new regulations, participants can read a summary of their fund that details fees assessed by percentage of dollar amount. For a fund charging 1 percent, the fees would be $1 per $100 invested.

Setzfand said that formula might sound reasonable until investors consider the accumulated fees they have paid during the time they've held the fund.

"That's when the sticker shock effect will really be felt," she said.

The new rules aren't perfect, but they should sound a wake-up call for many investors, said Dan Weeks, founder and chief operating officer of BrightScope Inc., a San Diego-based company that rates 401(k) providers and produces financial reports for consumers.

At BrightScope's website, www.brightscope.com, private retirement-plan participants can compare their plan's fees against other plans of a similar size. BrightScope provides color-coded analyses of corporations' savings plans that include comparisons of total plan costs, company generosity, investment menu quality and account balances, among other things.

Fadenrecht compared the new disclosure regulations to similar rules that require food manufacturers to list nutritional information on their packaging.

"There are people who always look at it, there are people who never look at it, and there are people who learn to look at it," he said. "In the middle ground, there's an opportunity for them to be more informed."

Weeks predicted the new transparency will have one immediate benefit for 401(k) participants. It will likely cut the fees plan providers charge "big time," he said.

portland@bizjournals.com | 503-274-8733

PARTICIPANT DIRECTED

The Department of Labor has issued new rules to help American workers manage and invest the money they contribute to their 401(k) pension plans.

Some of the basics of these plans:

- A "participant-directed plan" is one that puts investment responsibilities on participants or beneficiaries.
- An estimated 72 million participants are covered by these participant-directed plans, which contain nearly $3 trillion in assets.
- Fees eat up an average of more than one-third of total returns earned by mutual funds.
- Under the new labor department rules, plan service providers must provide fee disclosures to employers, or plan sponsors, effective July 1.
- Plan sponsors must provide plan-related fees and expenses to individual participants, along with a description of the services they paid for, effective Aug. 30.

AARP provides an online 401(k) fee calculator to help investors better understand fees and their effects on returns at www.aarp.org/401kfees.

BrightScope provides 401(k) plan ratings and rankings for consumers at www.brightscope.com.