

FAQs on Disclosures to Help Employees Understand Their Retirement Plan Fees



U.S. Department of Labor
Employee Benefits Security Administration

Why is it important for me to understand the fees related to my workplace retirement plan?

Many employees are saving for retirement through the retirement plan offered by their employer, such as a 401(k) plan. Employees who participate in 401(k) plans assume responsibility for their retirement income by contributing part of their salary and often by directing their own investments.

If you participate in such a plan, you're probably paying fees relating to the funds in which you invest on top of the administrative fees relating to the plan itself. These fees affect investment returns and affect the size of your nest egg at retirement.

Let's take a quick look at how fees can affect you: Assume that you are an employee with 35 years until retirement and a current 401(k) account balance of \$25,000. If returns on investments in your account over the next 35 years average 7 percent and fees and expenses reduce your average returns by 0.5 percent, your account balance will grow to \$227,000 at retirement, even if there are no further contributions to your account. If fees and expenses are 1.5 percent, however, your account balance will grow to only \$163,000. The 1 percent difference in fees and expenses would reduce your account balance at retirement by 28 percent.

It is common for plans to have a number of service providers, such as recordkeepers, custodians, consultants, attorneys, accountants, and others. But their services are not free and often are passed through to the workers themselves.

In recent years, arrangements for how services are provided to retirement plans and how service providers are compensated have become increasingly complex. Many of these changes have improved efficiency and reduced the costs of administrative services and benefits for plans and their participants (that's you, the employee or your beneficiary). However, the complexity has made it more difficult for many plan sponsors and fiduciaries (again, typically your employer) to understand how, how much, and by whom service providers are compensated.

How can I get more information about my retirement plan's fees?

The Employee Benefits Security Administration has issued two rules to help plan participants make more informed investment decisions and to help plan fiduciaries (your employer) avoid overpaying plan service providers.

One rule requires the plan's administrator (often your employer) to provide plan, investment, and fee information to you. As a result of these rules, you will be able to review the costs you're being charged to save for retirement and compare the costs associated with different investments.

The other rule requires service providers to provide fee information to the plan fiduciaries (again, typically employers) to help them make better decisions about the service providers they select and the investments made available under the plan. Better employer decisions should lead to more efficient pricing and lower costs to retirement plan participants, thus preserving more of the savings you have available for your retirement.

You could encourage your employer to shop around for other providers willing to offer the same services, but at a much lower cost. And, just so you know, the law is on your side: plan fiduciaries have an obligation to consider the fees and expenses paid by your plan – and to operate the plan in your interest.

When will I receive these disclosures?

Each year, most plan participants (you) will receive information about your plan and investments. In addition, at least quarterly, most plan participants (you) will receive information about plan-related fees and expenses actually charged to or deducted from your account.

Who do I contact if I have additional questions?

For questions related to private sector retirement plans, please contact an EBSA Benefits Advisor online at www.askebsa.dol.gov or by calling toll free 1-866-444-3272.