

BEWARE HIDDEN FEES IN RETIREMENT PLANS

New Department of Labor rules mandating greater transparency go into effect July 1

BY JOHN SPOTO

Successful business owners know the value of recruiting and retaining talent. They also know the importance of having a sensible plan to minimize taxes and convert the financial success of their business into security for themselves and their team.

Once viewed as a costly employee benefit, IRS-approved retirement plans have become powerful tools in accomplishing these goals. The 401(k) is preferred by most companies, because it's affordable and flexible.

They aren't free, however. Expenses fall into two main categories:

1. Administration fees: These include accounting and legal record-keeping and trustee service costs, and;

2. Investment fees: These constitute the majority (sometimes more than 90 percent) of total plan expenses, including payments to the investment management company, custodians holding plan assets and other plan vendors.

It's hard to quantify the costs of operating these plans. Investment expenses include "hidden" revenue-sharing arrangements with other service providers. These arrangements are undisclosed side payoffs from the investment company to salespeople, brokers and other vendors.

Abuses related to undisclosed compensation arrangements are, quite frankly, incentives for providers to recommend higher-cost investment options that exact a heavy toll on plan participants in the form of substantial lost wealth.

That's why the Department of Labor is enacting new legislation designed to create greater transparency regarding fees. The rules mark an important step forward in helping



employers and employees make informed investment decisions to realize a secure and comfortable retirement.

The federal Employee Retirement Income Security Act, which governs private employer retirement plans, was passed in 1974. It mandates that employers have a legal and ethical responsibility to plan participants and their beneficiaries to ensure fees are reasonable and necessary. Undisclosed fee arrangements, however, have made it almost impossible to determine if anyone is working in their best interests.

To insure greater transparency, the Department of Labor issued two important new regulations which will take effect this year, each with a simple objective. They are:

1. ERISA 408(b)(2) Sponsor Fee Disclosure Rule: Effective July 1, this requires service providers to deliver to plan sponsors a clear description of the services provided

and a disclosure of all fees. The objective is to enable sponsors to determine if the fees are reasonable.

2. ERISA 404(a)(5) Participant Disclosure Rule: Effective Aug. 30, this requires employers to regularly provide employees and beneficiaries information on plan fees, services and investment options. The purpose is to allow plan participants to make informed investment decisions.

While large organizations have the personnel to identify costs and leverage the competition to drive them down, small businesses typically don't. As a result, while plans appear inexpensive based on disclosed costs, hidden fees can add up to a steep price for employers and employees year after year.

Knowing your rights and the rules that protect them is an important step toward future success for your family, your team and your business. **MVB**