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Employee Benefit Solutions

Your Retirement Plan's Investment Fees Warrant a Closer Look

If your organization sponsors a retirement plan, it's important to recognize and understand all of the expenses associated with the plan. As you're probably aware, plan sponsors may use certain retirement funds to pay allowable administrative and other plan-related expenses.

But your plan document must authorize any payments for expenses. Also, the payment must be in the plan participants' and beneficiaries' interest, and the amount paid from the plan must be reasonable.

With that established, you might notice that investment fees make up most of your plan's expenses. (This is typically the case.) Let's take a closer look at these fees so you can build some familiarity with them.

Tricky to Locate

Investment fees are often referred to as the "expense ratio" within an investment. They're paid to the mutual fund companies that manage the funds. For example, if a participant invests in Mutual Fund A, the mutual fund provider can deduct fees from any income related to that fund to pay itself for managing the investments of Mutual Fund A.

These fees can be tricky to locate because they're factored into the "net total return" that's often reported to participants. For instance, if a particular fund has generated an 8% return for the year, but 1% of that return is used to pay the related investment fees, this results in a net total return of 7% and the fund will report an expense ratio of 1%.

Common Types to Identify

There are a variety of investment fee types. Common ones include:

Sales Charges. Also known as loads or commissions; the investment advisor charges these fees to participants for buying or selling shares of an investment.

Management Fees. These are the fees paid to the investment advisor managing the fund. They can vary drastically by manager and usually become more expensive as the investment manager spends more time actively managing the fund. However, as with any financial investment, higher management fees don't necessarily ensure better performance.

12b-1 Fees. These fees are continual amounts paid from fund assets and are usually used to pay for things such as advertising, account servicing and broker commissions. They've been a hot topic in the past few years because of their reclusive nature.

One Piece of the Puzzle

Naturally, investment fees are but one piece of the puzzle when it comes to plan expenses. But they're an important part nonetheless, so it's critical to identify them specifically and monitor their impact.

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