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RETIREMENT PLANNING

How You Can Tell If Your 401(k) Fees Are Too High

By CHRISTOPHER OSTER and KEN BROWN
Staff Reporters of THE WALL STREET JOURNAL
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It's all about the fees. In the late 1990s, the big worry for 401(k) participants was whether their plan had the latest technology fund to top the performance charts. Now, the concern is that the companies that manage the plans are charging too much.

With a nudge from regulators investigating the mutual-fund industry, companies are hiring consultants to help them understand 401(k) fees and to make sure their workers aren't being overcharged. For employees, it's an opportunity to ask for information that will help them determine whether they're overpaying and help them ask for changes in their plans.

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As Returns Sag, Employers Turn Up Heat on 401(k) Fees

"Employees can really push their employer to find out more," says Fred Barstein, chief executive of

401kexchange.com, an online retirement-plan search consultant. He says plan participants won't have much luck asking for more fee information from fund companies or other companies that administer plans, because they don't have a contractual or fiduciary relationship with the participant.

Some simple math can tell investors what they're paying for a plan. First, find your plan's expense ratio by looking at the fund prospectuses. If you have \$50,000 invested in your 401(k), and the expense ratio on your investment is 1%, then you're paying about \$500 in fund management fees and administrative expenses.

The question is whether that's a good deal or not. If you're in a huge plan with \$1 billion in assets and 10,000 employees, it probably means you're paying too much. If you're in a plan with 25 employees and \$500,000, you're likely getting a bargain. However, fund expense ratios typically aren't included in a plan's regular mailings, says Steven Gissiner, a principal with Clark Consulting. Prospectuses are usually mailed only when a 401(k) participant first invests in a fund option. You can request a recent one from your fund company.

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Comparing Plans

Another way employees can determine whether their plan is too expensive is to push their employer to show them that the plan's expenses are appropriate, possibly by showing how it stacks up against similar plans of the same size.

"Somebody on the management side of the company has to help," says Ward Harris, managing director of the McHenry Consulting Group, a benefits research and consulting concern.

Mr. Harris says companies should hire an outside firm to examine a plan's fees, or if necessary seek bids from new providers, every two years.

Looking at Features

There also are some plan features that may increase the likelihood you're being overcharged. If your plan is with a fund company that charges loads, does your plan use a retail share class rather than an institutional class reserved for large customers? Is your plan in a group annuity with an insurance company? If the answer is yes to either question, there's a chance you're paying too much.

Another sign that employees may be paying too much is "if you want to talk with someone about your investments, and you have to talk to a broker instead of the fund company directly, that probably means your costs are going to be higher," says Mr. Gissiner. He says that fund companies such as Vanguard Group and Fidelity Investments have customer-service representatives who can give some basic advice about investments.

Jim Norris, a principal in Vanguard's integrated retirement plan solutions group, says one thing to look at is the average balances in employees' 401(k) accounts. If the "average account balance has doubled in 10 years and your fees haven't changed, I think you should be asking questions," he says.

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