When we are hired by a business owner to audit their 401(k) plan, it's not unusual for us to uncover a host of confusing 401(k) fees. Employers who offer 401(k) plans rarely understand the depth of the fees associated with them. When we deliver our final audit report and RFP results, employers are usually surprised by the totality of the fees being paid out especially when compared to other service providers offering the same level of benefits.

401(k) service providers charge fees in many different ways. Some fees are transparent and other fees are not so easy to calculate. This makes it challenging to assess who is being paid, for what service and how much.

What types of fees might be charged in conjunction with a 401(k) plan?

- Mutual fund fees
- Administrative fees
- Custodial fees
- Advisor fees
- Revenue sharing fees
- Insurance related fees
- Fiduciary & Consulting fees

All of us expect the fees assessed against our own 401(k) retirement balances to be clear and understandable. In the real world, the truth is that the totality of the fees charged against our 401(k) retirement savings balances are far from understandable.

The fiduciary named in the plan document (typically the same person as the owner of the company) is required by the Department of Labor, under ERISA, to document and monitor the 401(k) fees being charged against the plan's assets. The plan fiduciary has the duty to ensure that the plan's fees are reasonable for the services provided.

The plan fiduciary has a duty to always act in the best interest of the plan's participants. The plan's participants have no control over the plan's fees or core investments and are simply beneficiaries of the efforts of the fiduciary. This places the total responsibility of oversight on the plan fiduciary.

High fees could severely damage retirement savings. These fees can be hard to calculate, especially when they are hidden in fine print and in undisclosed arrangements. This importance of fiduciary oversight to the plan participants is why the Department of Labor can levy actions against a plan fiduciary who fails to act in a prudent manner. Bottom line, it's a really big responsibility to handle other people's money.

Our 401(k) audit service is thorough and will uncover the fees associated with a 401(k) plan. Our audit will satisfy the ongoing responsibility of the plan fiduciary's duty to monitor the plan. Investment expenses should be reviewed regularly and audits need to be carried out at least every two three years or when there are significant milestones reached in a 401(k) plan's asset level. Our audit can help keep plan fiduciaries safe. And our audit also benefits the plan's participants.

Our audit process is as follows:

1. DOCUMENT COLLECTION

Step one, we collect all documentation. These documents may include an asset statement or any invoices for fees paid by the employer sponsoring the plan to various service providers. We'll also collect the 408(b)(2) fee disclosure from the plan. This document is mandated by ERISA and is provided to the plan fiduciary so fiduciary duties can be carried out.

Checklist: Fee Documentation

- Quarterly Asset Statement
- Service Provider Invoices (if any)
- 408(b)(2) Statement

2. UNCOVERING WHO IS GETTING PAID AND HOW MUCH

The list of service providers collecting fees from a 401(k) plan's assets could include:

Third party administrator: The third party administrator (TPA) handles many of the ongoing tasks required to keep a plan functioning such as an annual 5500 tax filing.

Custodian: The custodian holds the assets (the money saved in the plan) and processes any transactions requiring contributions, withdrawals, purchases or sales of investments. In other words, the custodian holds the money and handles all of its movement of assets into and out of the plan.

Recordkeeper: The recordkeeper documents who is participating in the 401(k) plan, the assets and investments they own, and how money enters and exits the plan. The recordkeeper is the one watching and recording everything the custodian does.

Adviser: The representative who is listed as the point of contact for your 401(k) plan.

Other Third Party Vendors: Your plan may also utilize the services of other vendors including auditors, brokers, asset managers, fund managers as well as those who may act as a 3(38) or 3(21) fiduciaries to your plan.

3. WE TRACE THE FLOW OF FUNDS FROM THE 401(k) PLAN TO THE SERVICE PROVIDERS

When it comes to 401(k) fee outflows, we identify:

Mutual fund expense fees. These are the fund expenses, called mutual fund expense ratios, for managing the funds in a 401(k) plan. These fees are used for fund management fees, operating and administrative costs.

Revenue sharing is a setup in which the investment company managing the mutual fund will pay other 401(k) service providers from the fees they collect. As an example, $1,000 in mutual fund fees could be distributed in this way: $500 to the mutual fund manager, $300 to the 401(k) provider, and another $200 to the adviser who recommended the 401(k) service providers and/or mutual funds.

Revenue sharing arrangements might explain why some 401(k) plan fiduciaries do not know how much their plans are paying to service providers. The practice of revenue sharing calls into question whether the adviser recommending a particular 401(k) service provider is doing so because 1) they are the best choice for the plan's retirement account assets, or 2) because the compensation payout is the highest for the advisor to the plan.

We believe advisors should make unbiased recommendations when it comes to the investment choices in a 401(k) plan. Unfortunately, this isn't always the case and our audit will uncover this practice if it is happening.

4. WE CALCULATE FEES PAID TO EACH SERVICE PROVIDER

Once we understand the outflow of fees from a 401(k) plan, we perform several calculations which provides us an accounting of the money flowing out of a plan as well as break down of how much money was paid to each service provider.

5. WE'LL COMPARE THE PLAN AGAINST OTHER 401(K) PROVIDERS

A soon as we assess how much money each service provider is charging the plan, we'll send out RFPs to dozens of independent 401(K) providers for a plan comparison. The 401(k) marketplace is a rapidly changing business and it makes sense to shop plans often. Once complete, the 401(k) plan fiduciaries will have a clear picture of where their plan stands in regards to other providers with similar services in the marketplace. This satisfies another key obligation under ERISA that a plan fiduciary must document.

6. WE'LL PROVIDE A COMPLETE AUDIT REPORT FOR THE PLAN FIDUCIARY'S FILE

Once all of the data from our plan audit is in place, we'll provide a document detailing our findings. This document could become valuable to a fiduciary in the event of a legal challenge in the future.

SAFEGUARDING RETIREMENT READINESS

It's important that 401(k) plan fiduciaries take steps periodically to monitor the fees associated with their 401(k) plan and document fee reasonableness. Employers with complex plans or a quickly-changing workforce may need to benchmark their plan annually. When left unchecked, high fees can add up quickly.

We see it time and time again: Business owners are busy, and it's easy to assume fees are reasonable until we uncover and document both the obvious and hidden costs charged to a 401(k) plan.

The 401(k) plan fiduciary is held accountable under ERISA law to understand their plan fees and is required to determine if the fees are reasonable for the level of service provided.

WHY PORTFOLIO MEDICS

Assessing a 401(k) plan isn't just about getting a good deal. It's about empowering your employees retirement security by making sure they get to keep as much of their savings as possible.

Think of Portfolio Medics as the Expedia of 401(k) plans. The result you will receive will be a forensic fee audit as well as a comparison of your costs to other providers in the 401(k) industry. That's your duty as a plan fiduciary and it's something we're well versed in.

As a plan fiduciary, why should you hire our firm to audit your 401(k) plan?

We're also a fiduciary.

PORTFOLIO MEDICS

27499 Riverview Center Blvd Suite 406
Bonita Springs, FL 34134
239-444-1766
www.portfoliomedics.com
Portfolio Medics is a fee-only SEC-registered investment advisory firm.