

401(k) fees could reduce average nest egg by 30%, study says

By Walter Hamilton, Los Angeles Times

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The average U.S. couple could pay nearly \$155,000 in fees for their 401(k) plans over their careers, according to the analysis by Demos, a nonpartisan research organization.



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Here's the latest scary retirement statistic.

The average American couple could pay nearly \$155,000 in fees for their 401(k) plans over their careers, reducing their eventual nest eggs by more than 30%, according to a new report.

Rather than the hypothetical \$510,000 that a dual-earner couple could have at retirement with no fees, they would be left with only \$355,000. The fees include explicit charges and indirect expenses, such as the cost that mutual funds incur to trade stocks.

Wealthier families could shell out nearly \$278,000 in fees, according to the analysis by Demos, a nonpartisan research organization.

The mutual fund industry and some independent experts disputed the findings of the study, saying it overstated the costs that most Americans incur.

"There's a problem — I'm not quite sure the problem is as large as stated," said Mike Alfred, chief executive of BrightScope Inc., a San Diego company that analyzes retirement plans.

Still, the report pointed a spotlight at what many experts say is an enduring problem — high fees that drain the retirement prospects of millions of Americans.

Retirement-industry consultants have long complained that a variety of factors — hidden fees by 401(k) providers, lax government regulation and poor oversight by employers that sponsor retirement plans — contribute to excessive costs.

A study by the Government Accountability Office last month found that many employers did not understand the fees that 401(k) providers charge their workers.

The U.S. Labor Department will begin requiring extensive disclosure of all 401(k) charges in July. Mutual-fund firms and other 401(k) companies will have to disclose all fees to employers, and employers will have to pass that along to their workers.

Fees are one of many concerns about the risks of these plans.

Employees who work for companies with low fees and strong investment options — and who are fortunate enough to retire during or after a bull market — can do well in 401(k)s, experts say. But those with inferior plans, or who retire after a bear market has ravaged their savings, have far worse odds.

"If you do everything right and you get a little bit lucky, you'll come out OK," said Robert Hiltonsmith, a policy analyst who wrote the Demos report. "But if you don't do everything right or don't get lucky you won't be in a good place."

The mutual fund industry sharply disputed the Demos analysis.

The average person pays \$248 a year in 401(k) fees, according to a study last year by the Investment Company Institute, a fund industry trade group. That would cost the average dual-income household just shy of \$20,000 over their four-decade working lives.