



Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

• See a sample reprint in PDF format.

• Order a reprint of this article now

THE WALL STREET JOURNAL.

WSJ.com

FAMILY MONEY | SEPTEMBER 10, 2008

How Much Does Your 401(k) Cost You?

By KAREN BLUMENTHAL

You may not realize it, but you could be paying thousands of dollars a year in fees on your 401(k) retirement account, hidden expenses that affect how your savings will grow. The government is now trying to expose those charges so you can make better investment decisions.

Under regulations proposed by the Department of Labor, 401(k) plans every year will have to disclose each investment's annual expense ratio -- the percentage that goes to management and other costs -- along with more detailed performance data. In addition, any administrative or other fees deducted from your account will have to be spelled out. New regulations may go into effect as soon as Jan. 1.

The fees and other costs we pay are hard to find because they're taken out before we see investment results. But they are significant because they nibble into our returns now, and, over decades, they can take a huge bite out of our future savings tally. Perhaps more important, expense ratios -- even more than an investment's past performance -- turn out to be a strong indicator of how a mutual fund will fare down the road.

"In almost every study we've run, expenses show up as a very significant predictor of future performance," says Christine Benz, director of personal finance at Morningstar Inc., the investment research firm. In other words, over time, funds with lower fees are likely to outperform those with higher fees in the same category. By contrast, says Ms. Benz, "our data indicates that past performance is a weak indicator" of future results.

But even with more information, understanding and making sense of investment expenses can be a mind-bender. To get a handle on them, I decided to dig into my own 401(k) account to see what I was paying and what I could do about it. The plan is a typical one, and the exercise turned out to be revealing -- and somewhat painful.

Finding the details. Many plans, but not all, provide performance data on the various mutual funds and other investment options they offer, though they may

not detail the one-, three- and five-year data and equivalent benchmark performance that the Labor Department will likely require. Yet plans don't currently have to detail the administrative fees or the expenses built into investment choices, and finding those can be tedious and time-consuming.

My plan is managed by Fidelity Investments, which provides lots of information on a fairly user-friendly Web site. It was easy to find the expense-ratio link for the Spartan International Index fund, for instance. But once there, the numbers were confounding: There were three separate expense ratios -- 0.2% as of April, 0.1% after reductions as of February and 0.1% after a cap on expenses in 2005. It took conversations with three people at Fidelity to confirm that the expenses are capped at \$10 for every \$10,000 invested. Finding the fund's prospectus -- which contained details on the expenses -- required a few extra clicks.

My funds don't come with any "loads," the sales charges assessed when you buy or sell a fund. Neither do they assess so-called 12b-1 sales and marketing fees. But your funds might. Some of mine do assess penalties for short-term trading, but I'm way too lazy to move into and out of funds frequently.

To find out who pays my 401(k) plan's administrative expenses -- those outside of individual funds -- I needed to locate something called the Summary Plan Description. That required a call to my employer's benefits department to get a copy. I learned on page 87 that the company picks up the modest legal and accounting fees, and the rest of the expenses appear to be paid from what Fidelity already charges. That's good news: Some plans actually charge participants for all or part of the administrative cost.

How cheap is it? Knowing that the Fidelity Growth fund charges \$94 in expenses for every \$10,000 invested still didn't tell me if those expenses were reasonable. Fred Reish, a Los Angeles lawyer specializing in employee benefits, cautions against looking at the average expense ratios for, say, large growth funds, since those averages include high-cost retail funds that wouldn't normally be in a 401(k). Instead, he suggests a better comparison would be the funds with the lowest expenses in their category.

At the Morningstar.com site, I put in the fund's ticker symbol (FDGRX) and clicked on a little "i" next to the expenses number. That showed me the fund's expenses were well below the category average of \$137 per \$10,000 invested, but still fell into the second quartile. In other words, this fund was more department store than Target, cost-wise.

Michael Callahan, of pension consultant Pentec Inc., says he would consider expensive any U.S. stock fund with an expense ratio over 1.5%, or an international fund with a ratio of 2% or more.

Using another free Morningstar tool called Xray, I entered all my stock funds and found that my average expense ratio was 0.36%, or \$36 per \$10,000 invested, mostly because I lean toward index funds and Fidelity's are among the cheapest.

I was feeling pretty smug -- but there was a catch. I couldn't find the expense ratio for one of my favorite investments, a company-sponsored "guaranteed investment contract" fund, which functions as sort of a low-volatility intermediate bond fund. The new Labor Department rules will require disclosure of expense ratios for these types of funds, as well as for collective trusts, which operate like mutual funds but aren't subject to regulation.

Gina Mitchell, president of the Stable Value Investment Association, a trade group, says the typical guaranteed-investment-contract fund has an expense ratio that ranges from about 0.4% to about 0.8%, depending on whether administrative fees are included. The higher end of the range is more than the bond-fund offerings in my plan charge. If it applies to my account, it would raise my average overall cost to about half a percentage point, or around \$2,500 a year in expenses on a \$500,000 portfolio.

Figuring out your overall cost is especially important if you are deciding whether to keep your 401(k) with a former employer. Hewitt Associates compared the expenses of a typical 401(k) and the retail costs of an individual retirement account, and found that a 35-year-old saver who chose the IRA could end up with 9% to 18% less in her retirement account at age 70 than if she stayed in the original plan. If your plan charges high expenses, you may also want to consider how much of your income you want to invest in it, beyond capturing the full employer match.

What to do now. Even with differences in costs among funds, don't invest based on expenses alone. They should only be a factor, along with your asset mix, the fund's ranking among its peers and its long-term performance.

Consider my international stock funds: Spartan International Index and Fidelity Diversified International, a managed fund with 10 times the expenses -- \$102 per \$10,000. Even with much-higher costs, the managed fund has outperformed the index fund over three, five and 10 years.

Over the long run, the cheaper index fund may ultimately do better. But in the meantime, I appreciate the managed fund's outstanding performance. My solution: Divide my international piece between the two. I will also now watch the managed fund more diligently. The higher costs underscore why we need to expect more from actively managed funds and avoid them if they don't routinely offer superior results or diversification.

You can find out more about the proposed disclosure changes at the Labor Department's Employee Benefits Security Administration site (www.dol.gov/ebsa). Comments are due this week; you can email yours to [e-ORI@dol.gov](mailto:ORI@dol.gov), with the subject line "Participant fee disclosure project."

- Email: familymoney@wsj.com

Copyright 2008 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com