

# Full 401(k) disclosure long overdue

I'M ALWAYS dumbfounded at the extent to which company owners and managers responsible for 401(k) plans succumb to "status quo bias" when they could be dramatically improving a retirement plan.

Thanks in part to my testimony back in Washington over the years, the luxury of doing



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nothing may be fleeting. New disclosure laws will force the vendors of 401(k) services to disclose what they are being paid and what they are doing for the money,

decisions greatly affecting the nation's \$3 trillion worth of 401(k) money.

Starting next year, there will be two levels of cost reporting. First, the plan sponsor (the employer) will be required to report every component cost that is more than \$1,000 paid to any vendor or adviser out of plan assets. The vendors will report this information including what they do for the money, and it will be reported to participants on a quarterly basis.

Next, on an annual basis, participants will be told what the cost per thousand is for each of the investment products they have in their accounts. The average account balance for people age 50 and older is more than \$200,000, so we can imagine how one of these investors is going to react when he or she learns that the total cost at 1.5 percent amounts to \$3,000 per year.

That could be a third of the \$10,000 a year they are contributing. Breaking costs down to the participant level, employees

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will learn that they are effectively paying the adviser or broker who sold the plan a half-percent per year. This \$25,000 on a \$5 million plan breaks down such that \$1,000 (the one half-percent per year) is paid by that participant with the \$200,000 account.

Just so you know, a high-performance 401(k) plan costing participants just a half-percent per year, with a smattering of index funds, will outperform popular financial industry offerings by 2 percent or more per year on a weighted average basis.

A weighted average is the average return based not on just the average of all the money combined, but based on where the money is actually invested.

Large companies like Wal-Mart and Boeing have operated plans that charged participants an unconscionable amount for their 401(k) services and they're now being sued.

What I can't comprehend is the situation in smaller companies where company owners and key long-term employees often have half the money in the entire plan.

Where a smaller company's plan could obviously be improved, I'm amazed at how many company owners just can't pull the trigger and do the right thing.

In some cases, it has to do with personal relationships.

A broker who is a friend is getting paid \$10,000 to \$25,000 a year for doing next to nothing, but the owner never sees a bill or has to write a check.

The money just comes automatically out of annual earnings in good years or principal in a year of overall

losses.

It's one thing for the owner to indulge in that kind of inattention, and maybe they make so much money that it doesn't matter. But what about the fiduciary obligation they have to employees? How about those non-owner employees who have been struggling to save \$500 per month for the past 20 years? Doesn't the owner owe those folks better stewardship?

Every 401(k) decision-maker should be forced to take a course that starts with learning how to use a financial calculator.

Punching up an 8 percent return on a \$6,000 per year contribution and comparing the outcome to that of a 10 percent return is illuminating.

It would show that a loyal, 20-year employee contributing the \$6,000 to a substandard 8 percent weighted average plan is left with \$191,500 in 20 years. At 10 percent, that outcome would have been \$329,100, (about \$140,000 more.) Half the 2 percent difference is created with something as simple as cheaper, disclosed fees.

The business owner who might be contributing three times as much (\$18,000 a year) has therefore cost themselves \$420,000 – but more often than not, they don't get it.

I wrote the MONEY magazine cover article in 1998 entitled "Beware, Retirement Plan Rip-Off" and a Wall Street Journal editorial on the same subject.

If the disclosure legislation had been enacted then, American 401(k) participants would have another \$1 trillion dollars in these plans.

Better late than never.

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