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(Possibly) The Biggest Small Business 401k Fee Study Ever!

Posted by [Eric Droblyen](#) on Aug 24, 2016

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Meaningful 401k fee data is hard to come by – and that’s a big problem for small businesses. Sponsors of small business 401k plans have a fiduciary responsibility to keep 401k fees reasonable for plan participants. When this responsibility is not met, the consequences for 401k fiduciaries can be severe - including personal liability.

Required publicly available filings – most notably the [Form 5500](#) – provide only snippets of fee data. And 401k providers are of little help as few disclose fees online or in published documents. Even worse, plan fees are often a tangle of 'direct' fees from employees and sponsors and 'indirect' fees that come from certain investment providers. Following the money is a difficult job even for those plan sponsors willing to invest the time and energy to do so.

To help small businesses understand their 401k fees, Employee Fiduciary launched a no-cost [401k fee comparison service](#) about 2 years ago. When this service is requested, we provide a [report](#) that totals all of the compensation a 401k pays plan service providers and fund companies into a single '[all-in](#)' fee. This report is based on the following information, which is supplied by the 401k fiduciary:

- [ERISA 408b-2 fee disclosure](#)
- Current fund-line-up with balances
- Participant count

Since launching the service, we’ve accumulated a large database of 401k fees. Below is a summary of the fees we found for 121 401k plans with less than \$2M in assets. 401k fiduciaries can use this study to help evaluate their plan fees for reasonableness.

Fee summary

Provider	Number of Plans	Average Plan Assets	Average Parts	Average Provider Fees ⁽¹⁾	Average Net Investment Fees ⁽²⁾	Average All-In Fee %
ADP	18	\$757,088.01	26	\$7,392.49	\$4,252.42	2.46%
American Funds	12	\$612,114.13	18	\$6,112.60	\$2,734.71	1.68%
Ascensus	6	\$854,775.65	23	\$6,690.76	\$5,391.22	1.54%
CUNA	1	\$868,995.52	23	\$9,124.67	\$1,813.99	1.26%
Digital Retirement Solutions	1	\$651,335.42	30	\$6,627.73	\$4,080.24	1.64%
Empower	6	\$1,060,094.25	37	\$15,331.51	\$5,481.75	2.34%
ePlan Services	3	\$380,987.76	11	\$4,817.04	\$2,078.89	2.15%
John Hancock	20	\$682,789.50	20	\$8,781.13	\$2,390.41	2.23%
MassMutual	7	\$1,011,870.30	41	\$12,269.88	\$4,973.84	2.02%
Merchants	1	\$305,221.88	4	\$5,310.00	\$2,240.87	2.47%
Mutual of Omaha	2	\$541,684.79	40	\$11,474.54	\$1,998.04	2.60%
Nationwide	2	\$595,382.84	25	\$10,658.62	\$3,374.24	2.52%
OneAmerica	3	\$1,069,013.38	49	\$17,046.56	\$5,570.37	2.41%
PAi	5	\$385,430.75	7	\$5,163.26	\$2,767.58	2.82%
Paychex	21	\$491,222.76	16	\$5,484.74	\$3,939.98	2.26%
Pentegra	1	\$1,124,832.17	18	\$10,972.68	\$1,272.49	1.09%
Principal	6	\$504,277.09	22	\$10,023.70	\$1,626.32	2.87%
Securian	1	\$1,255,285.00	38	\$16,831.03	\$5,201.44	1.76%
Sentry Insurance	1	\$1,346,829.13	45	\$13,408.26	\$4,592.30	1.34%
Sharebuilder	1	\$433,727.83	6	\$5,105.76	\$444.93	1.28%
The Standard	1	\$357,168.26	5	\$9,143.33	\$671.20	2.75%
Transamerica	2	\$260,039.79	8	\$5,821.51	\$1,087.99	2.86%
Averages		\$677,331.93	23			2.22%

⁽¹⁾Provider Fees - include all direct and indirect compensation received by the various parties servicing the plan.

⁽²⁾Net Investment Fees - include only the portion of the investment expenses retained by the investment manager, presented net of fees paid to other providers.

Key findings

We made the following observations during our study:

- Generally, brand name insurance and payroll company 401k providers are the expensive, while lesser-known, 'open architecture' providers are the least expensive.
- The lower the asset-based fees a provider charges, the better! **Fixed rate asset-based fees** can explode plan expenses as assets grow.
- Nearly all of the insurance company 401k plans use **variable annuities** in their fund line-up. Variable annuities are basically mutual funds wrapped in a thin layer of insurance with additional fees and redemption restrictions. A 'wrap' fee can be 1% or more, turning low cost mutual funds into costly variable annuities.

Employee Fiduciary fee comparison

In a **2014 presentation**, Yale professor Ian Ayres cited **Employee Fiduciary fees**, paired with low-cost Vanguard funds, as a benchmark for low cost small business 401k plans. So how does Employee Fiduciary stack up against the providers studied?

	Plan Assets	Parts	Provider Fees	Net Investment Fees*	All-In Fee %
Employee Fiduciary	\$677,331.93	23	\$2,041.87	\$1,041.06	0.46%

*Assumes a typical Vanguard fund lineup with an average investment expense of 0.1537% annually.

The lesson – it pays to shop!

Look, I get it. Shopping for a 401k plan is not going to make anybody’s list of fun things to do – most 401k fiduciaries just want to get this chore off their plate. It can be very easy to do that by buying a 401k plan from a provider you see on TV or giving into a salesperson sent by your company’s payroll provider.

Don’t do it! It’s worth your time to shop around. As our study shows, the fees for small business 401k plans can vary dramatically and the consequences for buying an over-priced 401k plan are great – participants must work longer to meet their retirement savings goal while fiduciaries risk personal liability.

Written by: **Eric Droblyen**



Eric Droblyen began his career as an ERISA compliance specialist with Charles Schwab in the mid-1990s. His keen grasp on 401k plan administration and compliance matters has made Eric a sought after speaker. He has delivered presentations at a number of events, including the American Society of Pension Professionals and Actuaries (ASPPA) Annual Conference. As