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Revenue Sharing Fees

Granite Insight

Do smaller 401K plans pay higher fees? Recently in The Las Vegas Review, the article intimates that smaller plans pay higher fees. This may be true, but there are ways to minimize the impact. The truth is the fees are not that much greater.

The Issue:

The majority of plans have built in fees called 12b-1 fees (payment to a broker, advisor or provider) and sub-ta fees (payment usually going to the broker-dealer). At issue: How are the fees from the mutual funds distributed? Or, in most cases, Does the provider keep the fees? Most bundle providers (mutual fund companies, brokers, banks, insurance and independent advisors) keep the fees. Principal Insurance won a lawsuit saying the fees are the their property!

The article from The Las Vegas Review says the fees are three times greater. The reality is that they are greater, but we doubt three times greater. If they have a triple payment, and their investments are poor, then why haven't the employers moved their plan?

The DOL says the fees need to be reasonable. Not all Third Party Administrators, Record-keepers and custodians are equal. The Employer needs to investigate 401k services and functionality, to give themselves and their employees a better experience. After all, if a vendor charges more, but one gets better service and functionality isn't that worth something?

Translation:

If revenue sharing fees are received by a bundled provider, then it definitely increases cost.

The Solution:

Employers of all sizes need to reduce their exposure to any provider who receives direct compensation from not only their own proprietary funds, but all funds. To protect the Employer's fiduciary exposure, the fees should go into a separate account owned and operated by the plan.

That's transparency!

Please call 203-210-7814 to inquire about implementing a transparent system which reduces plan costs.

Additional information: If you would like specific information on operational and investment best practices, please contact Granite Group Advisors. Granite Group provides investment and operational consulting services for Retirement Plans, Pension, Endowments and Private Clients.