

Understanding Fees & Disclosures

Keeping expenses low is key to small business success—and calculating the costs of sponsoring a 401(k) plan might not be as straightforward as you think. It's important to understand the fees involved so you know exactly where your money is going.

PLAN ADMINISTRATION FEES

Plan administration fees or “base fees” are paid to a third-party administrator for their administrative services. This includes helping the plan sponsor maintain compliance. This fee is typically paid for by the plan sponsor.

RECORDKEEPING FEES

These fees go to the plan's recordkeeper for their services, which usually include keeping track of participant accounts, allocating new contributions to the proper participant, and providing plan participants and plan sponsors with access to their retirement account via online services, phone, and account statements.

Ascensus allows the recordkeeping fee to be collected from plan assets or paid for by the plan sponsor.

LOOK FOR TRANSPARENCY

Plan sponsors should align themselves with a retirement service provider or third-party administrator that endorses “full disclosure.”

This means all fees will be clearly identified up front for both the plan sponsor and the participants. Don't be afraid to ask questions about fees.



40%

of Americans participating in 401(k) retirement plans **do not fully understand** the fees associated with the accounts.¹



64%

of plan sponsors **think they aren't paying** any administrative or investment fees in their 401(k) plans or didn't know if they were.¹



65%

of plan sponsors **don't know how much** they pay in extra costs in their retirement plans.¹

TRADING/CUSTODIAN FEES

The trading/custodian fees are used to pay the custodian who holds the plan assets on behalf of the plan sponsor or administrator and the plan's participants. Under the direction of the plan's trustee, a custodian can buy, sell, or move assets. Typically, this fee is collected from plan assets.

FIDUCIARY SERVICE FEES

Fiduciary service fees can arise if the plan sponsor hires a fiduciary to fulfill a specific role on their behalf, such as a 3(38) investment manager or a 3(16) plan administrator. This fee is also typically collected from plan assets.

SUB-TA FEES

Transfer Agents (TAs) keep track of plans' investment purchases and sales. In order to manage the many accounts they might serve, a TA may only provide recordkeeping services for the master account, and hire a third party to do the investment recordkeeping for the sub-accounts. The third party is paid sub-TA fees for this service. Sub-TA fees may also be referred to as sub-transfer agent fees, sub-shareholder (participant) servicing fees, or shareholder servicing fees.

Many companies collect sub-TA fees and use those fees to offset the overall plan expenses. If you are not sure if a recordkeeper is keeping the fees or using them to offset the expenses of the plan, review their fee disclosure statement.



12b-1 FEES

12b-1 fees may also be referred to as commissions, distribution fees, or marketing fees charged on mutual funds. These fees may be subtracted from the returns of the fund on an annual and/or ongoing basis and can be used for administration services or paying brokers or other professionals who sell the funds. They are classified as operational expenses and are included in a fund's expense ratio. Typically, the fee commonly known as the basis point is 0.25%–1% of a fund's net assets. It's important to understand the basis points of the 12b-1 being charged. Not all plans have 12b-1 fees. Review the mutual funds prospectuses to learn more about their fees.

The list of fees above are the more common fees plans will be charged. However, each plan is unique and there may be other fees not mentioned. To see a full list of fees, review your recordkeeper's fee disclosure statement.

DISCLOSURES

One of the ongoing responsibilities of a plan sponsor is to maintain and provide appropriate documents and disclosures. Ascensus assists a plan sponsor by preparing most of these documents and posting reminders when the time to distribute information to employees nears.

408(b)(2) FEE DISCLOSURE

To assist plan fiduciaries, the 408(b)(2) notice must be provided by all Covered Service Providers (CSP). A 408(b)(2) form is a great resource for plan sponsors to identify all direct and indirect compensation received for service in addition to an explanation of services.

404(a)(5) PARTICIPANT DISCLOSURE


To keep the plan participants up to date, the law requires that a 404(a)(5), a record of fees such as the cost of investments, administration, and recordkeeping is provided annually. Ascensus posts this disclosure to the plan website, since the employer is responsible for distribution of the disclosure.

KNOW YOUR FIDUCIARY RESPONSIBILITY

A variety of factors may influence fees, including fund lineup and participant count. Small business retirement plan sponsors have a fiduciary responsibility to be aware of their fees and to keep fees reasonable for plan participants. When this responsibility is not met, the consequences for fiduciaries can be severe, including personal liability.

¹ Carmen Reinicke. "Roughly 40% of Americans don't understand 401(k) fees, government watchdog finds." CNBC. August 26, 2021.

Contact us to discuss how we can best support your organization.

 800-345-6363

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