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Be aware of fees paid to plan managers

We all learned the hard way during our recent (and continuing) economic crisis that we cannot become complacent in thinking that if we invest our money, we will make money. This has been shown to be true in real estate for many people. Furthermore, many older folks who have saved throughout their working years by investing in defined contribution plans (such as 401(k)s, 403(b)s, personal IRAs), have seen such plans lose a great deal of value. Retirees, who are already living on fixed incomes, have become very disheartened by the loss in their retirement investments.

In his October 5, 2009 issue of *Elder Law FAX* (www.tn-elderlaw.com), Tim Takacs reports that according to AARP, 83 percent of Americans are not aware of any fees paid to managers of their retirement plans, or they do not know how much they are paying. This lack of knowledge might not seem like a bad thing, since most of us have no idea how to effectively manage a portfolio of investments that make up most retirement plans. However, the fees which investment managers charge can make a big difference on the overall value of those investments, and we cannot afford to overlook this aspect of personally overseeing our investment accounts any longer.

Attorney Takacs quotes Scott Burns, a retirement plan adviser who writes a weekly column for the Houston *Chronicle.* Burns observes that many 401(k) plans continue to be risky, expensive, and complicated. Traditionally, such plans relied on retail mutual funds, which add an unnecessary expense burden. To illustrate, a federal government worker, if all things are equal (i.e. gross return and career contributions), with a virtually cost-free plan will accumulate 10.5 years of final income by age 67 by saving 6 percent of income starting at age 30. However, a private sector worker with a typical plan with costs of 1 percent per year, will accumulate only 8.5 years of final income by age 67 if the same 6 percent is saved starting at age 30. If the plan has costs of 2 percent per year, the worker will accumulate only 7 years of final income by age 67. Those are big differences when retirement security is being calculated. Nevertheless, it is very difficult to even determine what fees are being paid, much less how to reduce those fees.

The United States Government Accounting Office (GAO) recently issued its own report to the House of Representatives Ways and Means committee (www.gao/gov/highlights/d09641high.pdf). Congressional committees often request reports from the watchdog agency when they are considering legislation pertaining to the subject of the requested report. The GAO found that participants in some retirement plans are more likely to invest in products, such as individual variable annuities and retail mutual funds, which charge higher fees. Retirement plans more likely to do this are 403(b) plans and IRAs. Fee disclosure requirements are not uniform, even under ERISA (Employee Retirement Income Security Act of 1974 which was enacted in part to protect interests of employee benefit plan participants).

What can investors do? Read all prospectuses and other plan literature, ask about fees, and consider lower *cost* investments. Remember that an investment with a lower return, and lower fees, may actually be a better value than a promising high return investment with higher fees. Look for federal legislation in the next year on this subject.