

## 401(k) Hidden Fees Now Revealed – But Do You Know What They Mean?

Written by Ginny Grimsley  
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### *Financial Advisor Explains 3 Fees to Look for Under New Rule*

You wouldn't authorize a company to dive into your checking account at will to withdraw money for undisclosed "services rendered," right?

"But that's what many people are unwittingly doing with the retirement plans," says financial advisor Philip Rousseaux, a member of the esteemed Million Dollar Round Table association's exclusive Top of the Table forum for the world's most successful financial services professionals.

"While a new law now requires disclosure of previously hidden fees applied to 401(k) plans, it's up to you, or your financial advisor, to find and review that information and determine whether the fees are reasonable," says Rousseaux, founder and president of Everest Wealth Management, Inc. ([www.everestwm.com](http://www.everestwm.com)).

By some estimates, up to 90 percent of fees attached to retirement plans are hidden. As of July 1, 2012, the new Department of Labor rule requires all hidden fees attached to retirement plans and mutual funds be disclosed to employers and employees.

"For many 'average joes' with 401(k) and 403(b) savings plans, disclosure hasn't helped at all," Rousseaux says. "The paperwork supplied can be so dense and full of jargon, they can't make heads or tails of it. I've even heard some financial advisors say they've seen statements that

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were nearly impossible to read.”

Meanwhile, the Department of Labor is reportedly investigating 50 complaints of violations of the new rules.

Rousseaux offers these tips for examining and understanding retirement plan fees.

- **Trading fees:** Trading fees apply to mutual funds, which generally comprise more than half of a 401(k). These previously undisclosed fees are brokerage commissions that are charged to the plan holder every time a fund is traded. The charge is a percentage of the fund's value usually ranging from less than 1 percent to less than 2 percent. In some cases, trading fees can double the cost of the transaction. “If your funds are being frequently traded, you may be spending quite a bit on trading fees – in addition to the other fees associated with managing the fund,” Rousseaux says. “If you can't determine whether the trading fees are reasonable, you should consult with an independent financial advisor.”

- **Revenue sharing:** These fees occur when mutual funds and other plan providers pay a third party for administrative services such as record-keeping, which the fund is expected to perform. These may be labeled “sub-transfer,” “agent/sub-TA” or “shareholder servicing” and they're built in to the plan's expense ratio, so it's not a double charge. Again, the idea is to review these charges and ensure they seem reasonable.

- **12 b-1 fees:** This term – named for the section in the regulation that allows for it – applies to marketing and distribution costs. They're generally paid as commissions to brokers who service retirement plans and they also may be paid to non-investment professionals such as recordkeepers or insurance companies. Most mutual funds have share classes that provide for varying revenue amounts from 12b-1 fees. Brokers and recordkeepers have an incentive to use funds with 12b-1 fees and to share classes with higher 12b-1 fees because they make more money.

Rousseaux notes that it's also important to look at the expense ratio for your plan, which should now be stated in dollars under terms of the new Labor Department regulation.

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“Generally, the lower the ratio, the bigger the fund will grow,” he says.

If you find any of these fees are draining an unreasonable amount of your retirement savings, you might consider rolling the money into another savings plan, such as a Roth IRA or fixed-rate variable annuity, Rousseaux says.

### **About Philip Rousseaux**

Philip Rousseaux is the founder and president of Everest Wealth Management and Everest Investment Advisors money management firm. A staunch advocate of objectivity in investment advice, he’s a member of the Million Dollar Round Table, the international association of independent advisors whose members are held to a rigid code of ethics. He is the co-author of “Climbing the Mountain to Financial Success” and co-hosts The Money Guys show on CBS Radio in various cities. Philip received his bachelor’s in economics from Towson University and completed the Wharton School of Business’s Investment Strategies and Portfolio Management Executive Education Program.