

Uncovering the Hidden Fees in Retirement Plans

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Financial advisers understand there are undisclosed fees on employee-sponsored retirement plans, but an alarming number of our clients don't. In fact, according to a recent AARP study, seven out of 10 participants in such plans have no clue what they're paying in fees—or how those costs can eat into their retirement savings.

We've been trying to educate clients about this for a while, but a Department of Labor rule that took effect July 1 has made the issue part of a national conversation. Essentially, the rule requires that all hidden fees attached to retirement plans and mutual funds be disclosed to employers and employees. Not surprisingly, many of the administrators and big firms behind 401(k)s, 403(b)s, and SEP individual retirement accounts weren't thrilled by the change.

Disclosed fees, such as operating fees and advisory fees, account for only about 10% of the total fees attached to many retirement plans. Hidden fees account for the rest, and they are difficult to understand. Even highly trained fiduciaries and actuaries sometimes struggle to calculate the actual cost of undisclosed fees.

While the fee-disclosure law is a step in the right direction, it will be helpful only if plan participants can decipher the information. That's where advisers come in. They have a duty to stay on top of the fee issue and teach clients how hidden costs affect retirement savings.

We've found private workshops to be an effective way to educate consumers. Our clients often invite their peers and co-workers to attend the workshops. We do risk and fee analysis with the group, make sure they understand the fees attached to their account, and, most importantly, we cover income planning.

Many people are heading toward a retirement in which they will have to rely on their 401(k), IRA or similar plan for the bulk of their income. It's important that advisers make the risks of that clear and ensure that clients have a portion of their income in a low-risk account. It's going to take people a while to adapt to the fee-disclosure information, and advisers need to be at the forefront of those conversations.

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