

Friday, August 1, 2008

## Hidden fees eat into earnings from 401(k) plans

Pacific Business News (Honolulu)

This month, the only Cuban restaurant in Hawaii will begin offering a 401(k) plan to its 15 full- and part-time employees.

"I've never set one up," said Michael Iamele, general manager of the two-year-old restaurant, Soul de Cuba Cafe, which recently launched **Soul de Cuba Specialty Foods**, featuring pre-made sauces and marinades.

"But it's an investment for our employees and for our business, because our employees make up our company. We're a business that's on the verge of expanding."

Soul de Cuba's managers, who were finalizing details last week, opted for a multiple-employer plan allowing them to match the first 3 percent of employee contributions 100 percent and anything above that at 50 percent.

Their decision to offer a retirement plan -- unusual for a small company -- comes as traditional pensions become a relic of the past, replaced by defined-contribution plans such as 401(k)s.

More than 60 million workers nationwide participate in 401(k) plans, whose combined assets are \$3 trillion, according to the Washington-based Investment Company Institute.

The 401(k) industry also is undergoing new scrutiny for the fees it charges and the undisclosed investments it makes. There have been at least 300 lawsuits in the past three years against major companies on the Mainland for failing to fulfill fiduciary duties to employees.

While there have been no cases involving Hawaii companies, industry experts say it's important for employers to understand the obligations that come with offering 401(k) plans, even when they're administered by an investment manager.

"The majority [of employers] don't understand the fiduciary responsibilities, what it entails, the personal liability that comes with being a fiduciary in a plan," said

Cristopher Borden, director of Kobo Wealth Conservancy & Family Office of Honolulu, which is advising Soul de Cuba's managers on its 401(k) package.

Many employees also aren't aware of fees deducted from their accounts, Borden said.

"People should be concerned what's happening 15 to 20 years down the road," he said.

A 401(k) plan with a 1 percent fee increase over 20 years could reduce retirement benefits by up to 20 percent.

Those employees pay an average of 1.2 percent each annually in 401(k) fees, which come out to a combined \$30 billion in wasted, inefficient retirement plans, said Matthew E. Hutcheson, an independent pension fiduciary and congressional expert who was in Honolulu last week to meet with investment managers.

"Investments are like a bar of soap; the more you handle them, the less you have," he said. "401(k) plans are designed to let participants handle that bar of soap too much."

Hutcheson, who has written white papers on the subject, lists a number of hidden fees, including transaction costs and commissions between brokers and fund managers.

The U.S. Department of Labor unveiled a plan this year that would require employers to disclose all information about fees and investments. The proposal is pending.

In July 2007, U.S. Rep. George Miller, D-California, introduced a bill that would make 401(k) fees easier to understand, with similar legislation proposed in the Senate.

"We will see legislation or full-blown regulation in 2009," said Hutcheson, who is involved in federal efforts to provide transparency in 401(k) plans. "Meantime, we are proceeding as though it's always been the law. Somebody is going to be responsible for being asleep at the wheel."

#### **401(k) fees**

The U.S. Department of Labor has identified 17 fees related to 401(k) plans. Here are some of the more common ones:

- Plan administration fees. Operational expenses such as legal fees, educational classes, retirement-planning software, phone voice-response systems and online services.
- Individual service fees. Optional-feature expenses charged individually to account holders.

- Investment fees. Plan-management expenses deducted from investment returns. This is the most common fee.
- Sales charge. Transaction expenses related to buying and selling shares, also known as commissions or loads.

*ccruz-george@bizjournals.com | 955-8039*

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