

One Hidden Danger of a 401(k)

By Chris Miles

I have often heard many well-intentioned Americans tell me that they feel they are on track to their retirement goals merely because they have been saving a good amount in their 401(k)'s or similar qualified plans. Many believe this is their only option.

My purpose is to shed light on a critical factor that is one of the causes for dramatic disappointment to our 76 million Baby Boomers now entering retirement. This covert killer can leave one with LESS THAN HALF of the money when you retire than the financial calculators will show you. Worst of all, no one would ever know why because the 401(k) providers are not required to disclose it. This lurking enemy is commonly referred to as "fees."

Hidden fees are one of the most misunderstood components of a 401(k). According to 2007 AARP survey, 83% of respondents said they did not know what fees they were charged, many of whom believed that there were no fees. The reason there is so much confusion is because the disclosure of fees are not required by law. In fact, if they are disclosed, they are often buried several pages in a document called "Statement of Additional Information." At times, it is nearly impossible to even get the information from the 401(k) providers.

According to the US Dept. of Labor, 17 different types of fees can be applied to any 401(k) plan. Many of these fees are 12b-1 fees, soft dollar fees, brokerage fees, redemption fees, shelf space fees, etc. that are sometimes combined into a single fee called a "wrap fee." The combination of these fees can be over 2% per year! This could cut someone's retirement balances by more than half of the expected balance even if they get a certain projected rate of return and make the employer match obsolete. This occurs because fees are not factored in the fund's historical performance charts that many view in the prospectus.

Some fees are so excessive that there are class action lawsuits against the 401(k) providers. One lawsuit in Washington State has a fund that charges 12.17% in fees each year!

Fees are not inherently bad but ignorance is not bliss when time is no longer on one's side. How are these fees affecting your retirement? What could happen if these fees are charged as your balance is declining? Do you realize that an annual fee as small as 1.35% can cut your end balance in half after 40 years of accumulation?

I invite you to watch this video to learn more about this critical issue. Join the Killing Sacred Cows Group on Facebook For Updates and Discussions