A Guide for Navigating Retirement Fees

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The Department of Labor (DOL) has proposed rules for those who advise on retirement products. Interestingly enough, the proposed rule states that these professionals must act as a fiduciary. If this passes, advisors will be required to act in the best interest of the client.

Trustees must act as a fiduciary and are held to this higher standard of loyalty and impartiality. This proposed new DOL rule requires that same standard be applied to all who advise on retirement accounts.

The DOL discussion focuses on reasonable compensation and fees in trying to ensure that retirement advice is truly in the best interest of clients.

Investment expenses are paid in a multitude of ways. Commissions may be paid from mutual funds and insurance products that are passed through to the client via higher investment expenses.

Financial planners and advisors may also charge fees along with commissions; this is often referred to as fee-based. Some advisors charge a flat fee or may charge a percentage of assets under management and are not paid by anyone other than the client; this is fee-only.

If you don’t read the entire 150 page investment prospectus, here are some common fees and expenses you can look for:

Insurance companies participate in the retirement advice business. Insurance products are often sold with a sales load and also have mortality and expense risk fees. Surrender charges are incurred if the policy is cancelled before the agreed upon time (usually ten years). Within the insurance product there are investment subaccounts that come with additional fees.

Mutual Fund sales loads are classified by “Share Class”. The letter appearing at the end of the fund’s name, like “A” share class defines the front-end load. Usually 5% commission is deducted at the time the mutual fund is purchased.

A “B” share class means that the fund has a back-end load. When the fund is sold a percentage is paid to the advisor as a commission.

A “C” share class charges a level load (usually 1%) every year that you hold the fund. If it’s redeemed early, there may be a back-end load.

There are also 12b-1 fees for “marketing and distribution” expenses that pay either the advisor or the company that sells the shares.

Institutional funds usually have an “I” share class and have very low management fees and no 12b-1 fees. These funds are used by pension plans and fiduciaries because low fees are in the best interest of the client.

No longer are pension plans promising lifelong retirement income; workers are on their own. This proposed rule is attempting to protect workers. Since fees erode your retirement savings, don’t invest your retirement account without first understanding the investment fees. It’s your responsibility to know how much you are paying.

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