How Lower Fees Can Translate Into Additional Assets at Retirement

When it comes to operating or investing in a 401(k), there's one factor that plan sponsors and their participants need to seriously consider – fees.

Why the focus on fees? A study by the US Government Accountability Office (GAO) determined that fees can significantly impact the amount of money participants have in retirement. In fact, the GAO found that, over a 20-year period, a 1 percent reduction in fees can increase a participant's account balance by 17 percent (Source: US Government Accountability Office, *Increased Reliance on 401(k) Plans Calls for Better Information on Fees*, 2007). Projected over the course of an *entire* working career, the potential increase in the amount of money at retirement due to the fee reduction is even more compelling (see below).

A 1% Reduction in Fees May Increase Assets by 31%

Effect of 1 Percent Fee Differential on a 401(k) Balance Invested over 40 Years

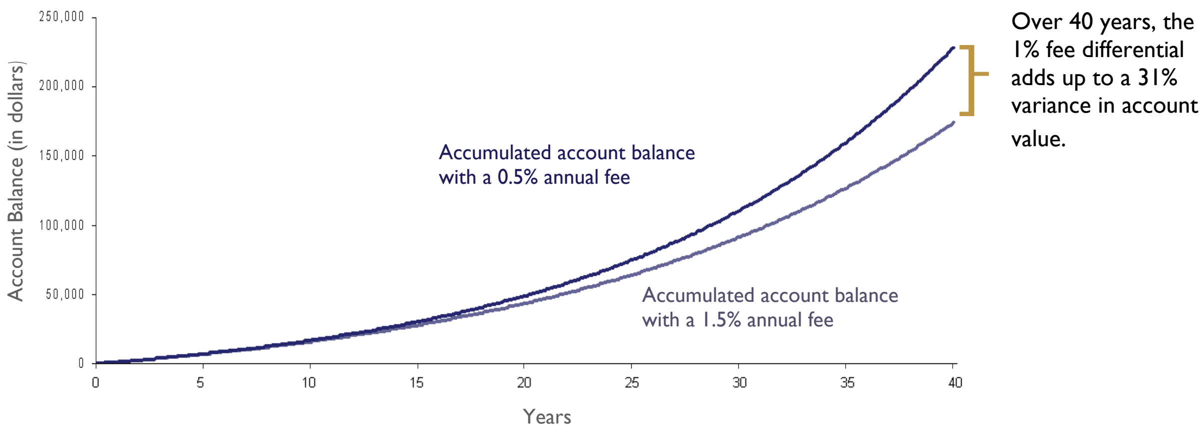

Illustration assumes an employee hired at 25 years of age invests $100 at the end of each month in a 401(k) account until retirement at age 65. If the average annual net return is 6.5 percent—a 7 percent investment return minus a 0.5 percent charge for fees—the account will grow to about $228,000 at retirement. However, if fees are instead 1.5 percent annually, the average net return is reduced to 5.5 percent, and the account will grow to only about $174,000. The additional 1 percent annual charge for fees would reduce the account balance at retirement by about 31 percent.

To find out more about how a reduction in fees may help your plan sponsor clients and their participants, call iSectors today at 800-473-2867 or send an email to info@isectors.com.

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