

401(k) Buyers Beware: Group Annuity Contracts Often a Bad Fit for Retirement Plans

When it comes to 401(k) plan fees, research shows that participants in smaller plans often pay much more than they should – sometimes as much as 2% - 5% over and above what industry experts believe is reasonable. The impact those excessive fees have on participants' 401(k) balances over time can be devastating.

Insurance companies – who typically sell plans built around pricey and complex group annuity contracts – are often the biggest offenders when it comes to excessive fees and hidden costs. In fact, one need only read some of the recent articles in the financial press to get a better sense of just how bad a fit group annuity contracts can be.



"Insurance providers' 401(k) plans tend to be comprised of their own proprietary funds that often carry higher expense ratios versus those from mutual fund and ETF providers. These costs can really add up and, over the course of a career, can siphon tens if not hundreds of thousands of dollars from a retirement plan. A quick read through the SEC's site on annuities, and its clear to see why they are not a good fit in 401(k)s."

- "Why Variable Annuities Have No Place in Your 401(k) Plan"
Forbes.com, February 2012



"You can be looking at annual charges of 3% to 5.5%, and that's just sucking away the life of these participant accounts. If people wonder why they can't seem to get ahead, that's why."

- "Annuities Load 401(k)s with Fees" , **MSN Money**, November 2004



"The overall realized expense [in an annuity-based 401(k)] to the client could be anywhere from 2.5% to 5%. After you factor in inflation, it's no wonder some participants in these plans feel they aren't getting the most bang for their buck."

- "401(k)s: The Hidden Fees", **BusinessWeek**, April 2007



"... Lots of mostly small companies are finding out the hard way that the 401(k) plans they bought from insurance companies, usually set up as 'group annuities,' came with a variety of hard-to-find charges and lockups ..."

- "Retirement Plans From Hell", **Forbes.com**, July 2009



"Many smaller plans are built around pricey group annuity contracts issued by insurance companies ... The retirement savings of millions of Americans are being seriously eroded because of the high fees ..."

- "Big Fees Hit Small Plans", **Wall Street Journal**, October 2004



"There is a raging debate over placing variable annuities in 401(k) plans. To the insurance industry, it's a great idea; to critics, it's an outright scam ... Plan Sponsors need to be armed with the facts so they can resist the temptation to fall for an aggressive sales pitch."

- "A Bad Marriage: Variable Annuities and 401(k) Plans",
Workforce Management, May 2006

When it comes to 401(k) plans, why not consider a lower cost, more transparent and compliant solution that puts the needs of plan participants first? For more information, call iSectors today at 800-473-2867 or send an email to info@isectors.com.

