

Does Your 401(k) Use High-Cost Funds?

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Investors have a new reason to take a close look at the funds in their 401(k) plan, in the wake of a decision Monday by the U.S. Supreme Court.

The court kept alive a closely watched case involving 401(k)-plan fees, overturning a lower-court ruling that the suit was filed too late.

The case, *Tibble et al. v. Edison International et al.*, now returns to a lower court to address the allegations that California utility company Edison International breached its duty to plan participants by using high-cost

shares of some mutual funds when lower-cost alternatives were available. In court filings, the company has noted that workers could choose from dozens of funds, with their fees fully disclosed.

The court case highlights some key questions that 401(k) savers around the country can ask about their own plans:

- Are the mutual funds in my 401(k) available in share classes that come with lower expense ratios?
- How do the fees of the mutual funds in my plan compare with other funds that invest in the same assets?
- What fees am I being charged in my plan, besides the expense ratios of the funds?

Here's how to get a start at finding some answers.

Lower-cost shares?

Many mutual funds have multiple "share classes." That means that while the fund has a single portfolio of securities, different groups of investors pay varying fees to buy a piece of that portfolio. The charges can include varying blends of continuing fees and one-time charges that are due either at the time of purchase or when fund shares are redeemed.

The 401(k) participants suing Edison International allege that the company violated its duty by using fund shares that were available to ordinary individual investors rather than lower-cost shares for institutional investors. The Supreme Court didn't weigh in on that in its decision.

To see if a fund has multiple shares classes, look at the prospectus and/or the fund company's website. The language used by fund companies varies, but the standard shares for individual investors are sometimes labeled as "A" shares or "Investor" shares, while the lowest-cost variety may be "I" or "Institutional." Some fund companies offer multiple share classes for use by retirement plans, with a range of expenses.

Fees vs. averages?

Investors can also look at how the expenses of their plan's funds compare with those of other funds that invest in similar securities.

One place to look is Morningstar.com. Investment researcher Morningstar categorizes a fund's expenses as low, average or high relative to funds that invest in similar securities and that are distributed in a similar way. You can use a ticker symbol to look up the share class you own and then click on the "Expense" tab for more detail comparing the fund's expense ratio with its overall Morningstar category (say, large-growth stock funds) as well as with the median of funds in that category that are sold similarly (which can include being marketed to small or large retirement plans).

What other fees do I pay?

Retirement-plan fees are not a simple subject. A key thing to know is that fees paid by participants in small-company 401(k)s are typically higher than those for workers at large companies, because large companies can spread some of their retirement-plan costs across more workers.

And at companies of all sizes, there are different ways that plan costs can be passed along to workers. For instance, a company can use low-cost funds and charge certain administrative fees separately, or it can use higher-cost funds in which some of the fees paid by investors help pay plan costs. Your bottom line is determined by the total costs.

In the Tibble case, the plaintiffs said the fund shares used by the plan included "revenue sharing" with the plan record-keeper that was used to defray the costs of plan administration. Edison's court filings say this revenue-sharing program was disclosed.