

REH WEALTH ADVISORS LLC

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401k Fee and Expenses Study

Sources of Information

The Department of Labor issued a study in April 1998 (DOL Study). The principles of the study should still be relevant today. I would expect that some of the expenses would be lower now due to advances in technology. It appears the study is free from bias. It was submitted by Economic Systems from Springfield, VA.

Link <http://www.dol.gov/ebsa/pdf/401krept.pdf>

The Investment Company Institute presented a more timely analysis that whose primary audience was investment companies. The ICI is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). While ICI is considered to be very reputable, one should consider their might be some bias due to their members being investment companies. The intended audience for the report is investment companies. The study was done by Deloitte on behalf of ICI.

<http://www.ici.org/pdf/fm-v18n6.pdf>

Insurance Companies

Insurance companies offer some smaller companies 401ks that are wrapped in a variable annuity (VA). Some important notes about 401k's from insurance companies that offer it thru a variable annuity:

- 1) Tax preferences of VA's have no advantage in a 401k because it is already tax deferred (DOL Study 2.5.1).
- 2) It is exempt from the Securities Act of 1933 (DOL Study 2.5.1).
- 3) An advantage to the provider is this arrangement is that the fees are not subject to SEC rules that apply to other 401(k) products (DOL Study 2.5.1).
- 4) Often includes guarantees such as death benefits, annuity payout options.
- 5) Two types of fees. The first level is that individual funds will pay out 12b-1 expenses to the insurance companies and the second level is a wrap fee charged on the value of all instruments included in the group variable annuity. (DOL Study 3.3.5).
- 6) Annuities have unique expenses that apply to them. These are Mortality and Expense guarantees (M&E). They often range from:
 - a. 100-200 basis points (bps) for plans with less than 50 participants and 500k in assets

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- b. 75-150 bps >50 participants and > \$500k in assets.
- c. 30-75 bps >500 participants and > \$5M in assets
- d. <50 bps >1,000 participants and > \$15M in assets

Average 401k Fees and Costs From DOL Study

Major Proto-Type Plans

Table IV-5
Comparison of Estimated Total Plan Costs
401(k) Provider Directory and Butler Survey
Costs as Basis Points Applied to Plan Assets

Source	Butler Survey	401(k) Provider Directory	Butler Survey	401(k) Provider Directory
Plan Size	100 Participants \$2 million assets	100 Participants \$3 million assets	4,000 Participants \$20 million assets	2,000 Participants \$60 million assets
Average Cost	132 basis points	140 basis points	99 basis points	110 basis points

(Sources: Butler, Pension Dynamics Corporation, as reported in Wang, *Money*, April 1997; H.R. Investment Consultants, 401(k) Provider Directory Averages

As you can see, the DOL report shows that fees for 401k plans with 100 participants and >\$2M in assets is approximately 1.32%. For larger plans, the cost can drop to 99 basis points. Therefore, these costs should be representative.

However, the range is very high as demonstrated below:

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Table IV-6
Projected Total Annual Plan Fees
100 Participants, \$2 million Assets
(17 major service providers)

Total Annual Fees As:

	Total Fees	Dollars per Participant	Percentage of Plan Assets
Lowest	\$11,375	\$114	0.57%
Mean	\$26,435	\$264	1.32%
Median	\$25,600	\$256	1.28%
Highest	\$42,775	\$428	2.14%

(Source: Butler, Pension Dynamics Corporation, in Wang, *Money*, April 1997)

The study shows that some plans can be quite expensive and the range of fees can be quite extensive.

ICI and Deloitte's Fee Study

The first major finding to note is that their Survey indicates that many fee arrangements exist which make it very difficult to compare plans and comparisons are not very straightforward (p. 5)

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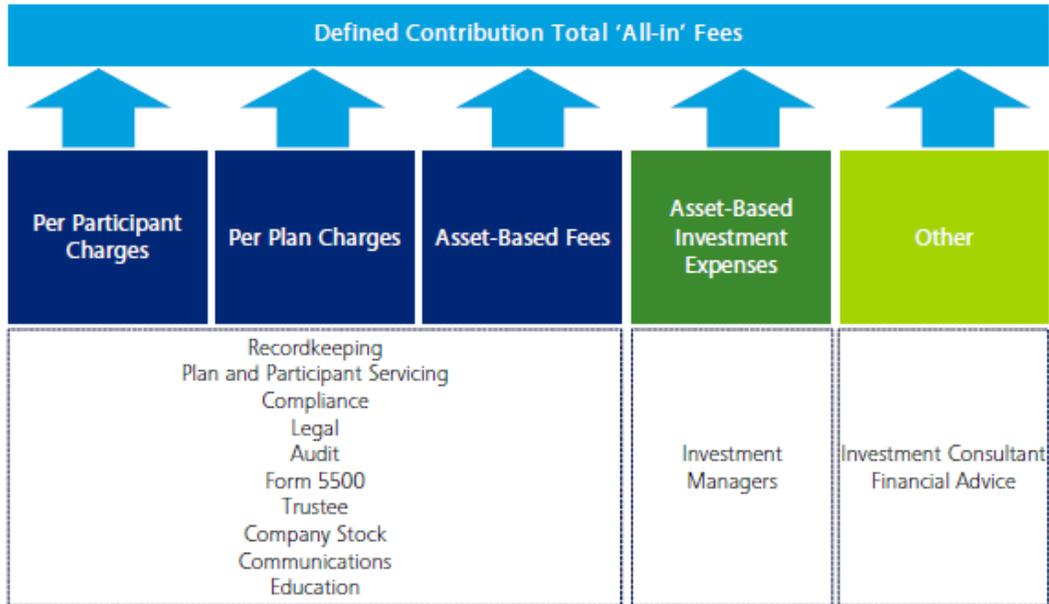


Exhibit 1

(from p5 of ICI / Deloitte study)

All-In fee Estimates from ICI Study

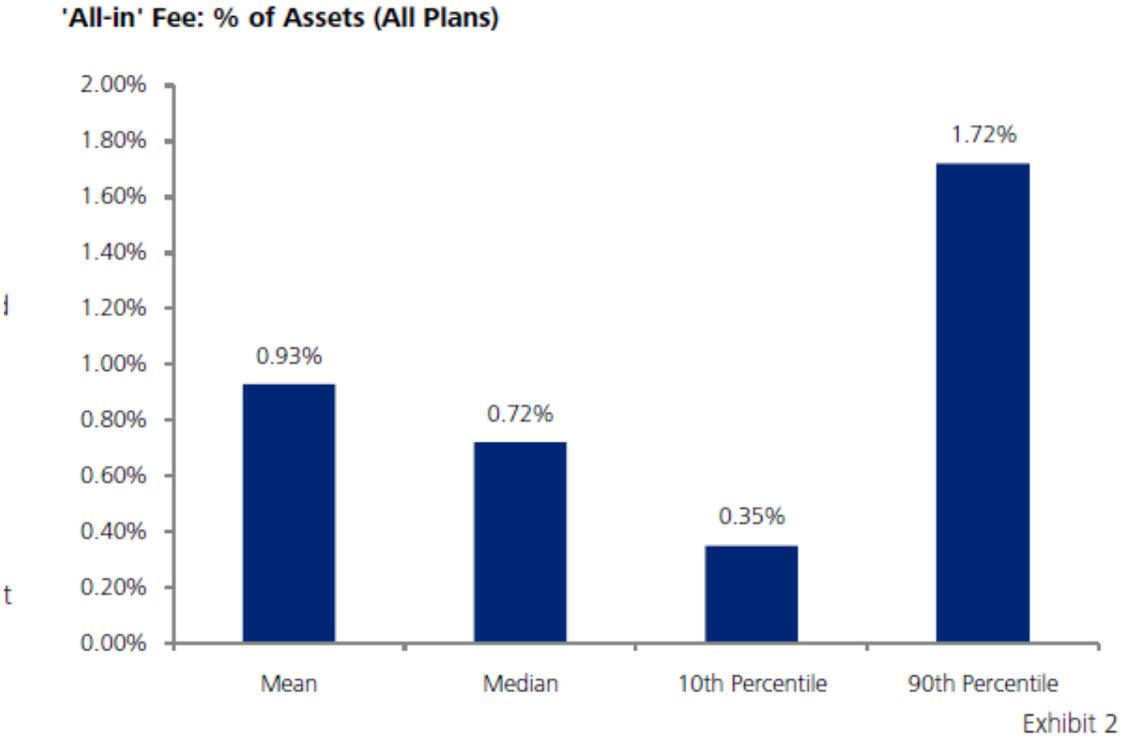
The study attempted to find all the fees that participants might pay and took it against the plan asset size to reach an “all-in fee”.

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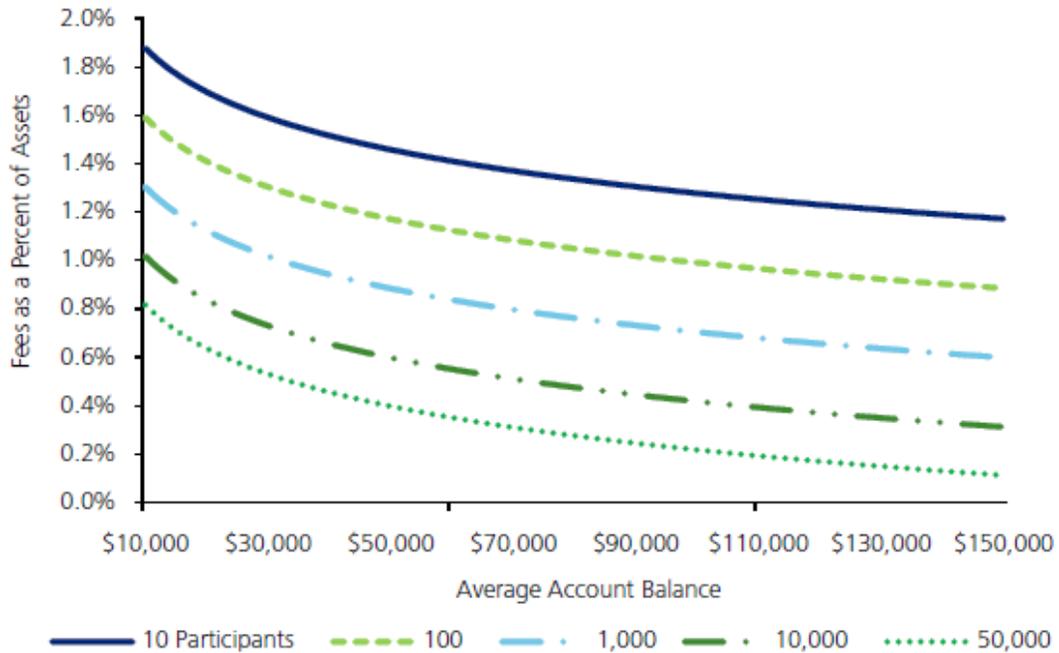


As the chart indicates, most plans are between 0.35% and 1.72%.

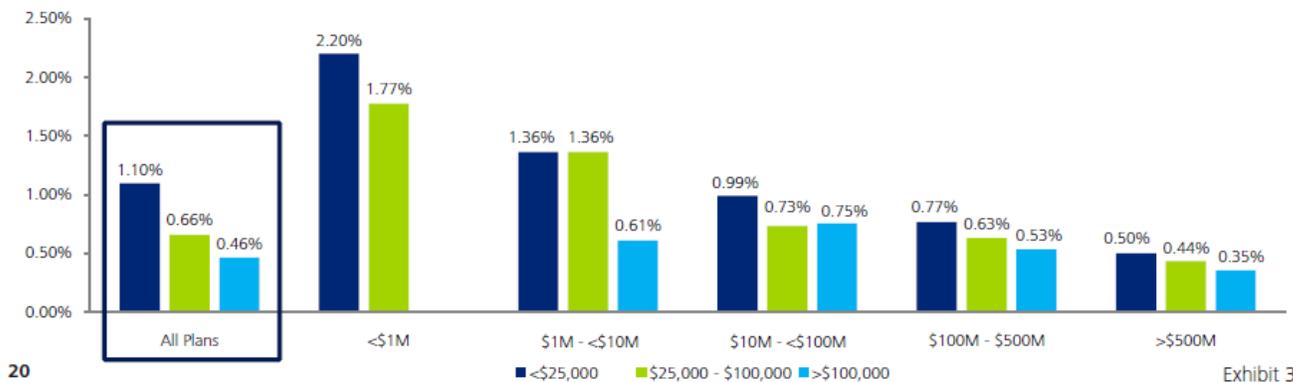
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Predicted Fees as a Percent of Assets by Average Account Size and Number of Participants (All Other Explanatory Variables = Means)



Median 'All-In' Fee vs. Average Account Balance by Asset Segment (% of Assets)



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Exhibit 31

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Criticism Against ICI Study

Brightscope, a 401k rating company, claims that the ICI/Deloitte study is flawed. The primary complaint is that it is not representative of the actual market and that due to the sample not being representative, it understates the fees. It should be noted that BrightScope appears to receive compensation from Etrade and other IRA rollover companies. (<http://www.brightscope.com/blog/2009/05/13/reconciling-the-401k-fee-estimates-of-the-ici-and-its-critics/>)