

# UNDERSTANDING 401(k) COSTS

**A guide to the important subject of 401(k)  
business costs and participant fees**

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# Understanding 401(k) Costs

## What will a 401(k) cost your business and your participants?

Answering this important question hasn't always been easy. Complex and hidden fees make actual costs difficult to calculate, and 401(k)s are usually priced for big businesses with large numbers of employees.

But there's good news: a few companies have designed Internet-based low-expense solutions for small businesses. To make sure that you get the best-priced 401(k) for your business, this guide provides straightforward education on fee structures and how to uncover hidden fees that we believe are all too common in the industry. Whether you're a sole proprietor or owner of a business with fifty or more employees, you deserve a fair-priced 401(k) plan that provides complete disclosure on exactly what you're paying.

## Table of Contents

<b>401(k) Business Costs</b>	<b>3</b>
<b>401(k) Participant Fees</b>	<b>4</b>
<b>Get a Fair Price on a 401(k) Plan:</b>	
3 Principles of Fee Transparency	<b>5</b>
6 Essential Questions to ask your 401(k) Provider	<b>6</b>
<b>Appendix A: The Cost to Your Business to Provide a 401(k)</b>	<b>8</b>
<b>Appendix B: Participant Fees Comparison</b>	<b>9</b>
<b>Appendix C: ShareBuilder 401k Full Pricing Disclosure:</b>	
ShareBuilder 401k Participant Fees and Expenses	<b>10</b>
ShareBuilder 401k Business Cost	<b>10</b>
ShareBuilder 401k Investment Options	<b>13</b>

# 401(k) Business Costs

Like healthcare or any benefit program, 401(k) services come with a cost to your business. But where healthcare costs can run between \$5,049 (for single coverage) to \$13,770 (for family coverage) per employee per year,\* a 401(k) costs only a fraction of that amount.

## Keep your costs low

401(k) charges typically include a one-time fee to establish your plan and an ongoing annual or monthly fee to manage your account. These costs cover record-keeping, personal support from an account manager, and product and service improvements.

The per-employee administration cost of a 401(k) varies dramatically across the industry. Most 401(k) providers concentrate on serving large businesses and are neither priced nor prepared to serve sole proprietors or businesses with fewer than 50 employees. To ensure you're getting the lowest possible prices, the chart below provides a general benchmark:

### You can offset some of your 401(k) costs: \$500 Tax Credit

If this is your first 401(k) plan and you have at least one employee, your business will qualify for a \$500 tax credit for the first three years of your plan.

### Business Tax Deductions

Your business' 401(k) administration fees, plus any matching or profit-sharing you do, are typically tax-deductible.

A business with ...	should pay less than ...
1 employee (self-employed)	\$200 per year.
2 to 10 participants	\$1,000 per year.
11 to 25 participants	\$1,500 per year.
26 to 50 participants	\$2,300 per year.
51 to 100 participants	\$3,300 per year.

If your company has more employees, costs will be a bit more based on the costs to support them. However, regardless of your employee size, if your company has a 401(k) plan and the program has grown to over \$500K or \$1M in total assets, you can expect to pay at least 25% less across the board.

## Watch out for surprise fees

Some providers “nickel and dime” small business owners with fees for common services like preparing tax forms, rolling over funds from a previous 401(k) plan provider, and more.

- Determine whether you will be charged by the number of employees at your company or the number of participants in your 401(k) plan (participants is preferable).
- You'll want to avoid paying excessive or additional charges for expected services like IRS form preparation, discrimination testing, or the transferring of assets from another 401(k) plan.
- Make sure you receive a fee schedule or quote that shows every fee your company could possibly be charged.

\*2010 Annual Employer Health Benefits Survey, Kaiser Family Foundation and Health Research Education Trust.

# 401(k) Participant Fees

The sad truth is that many 401(k) providers offer funds that have high expense ratios and charge additional, often hidden fees that can have a big impact on your and your employees' retirement savings.

## Low fees can save you a lot

John and Alan are two 401(k) participants. Each has \$50,000 invested in the same type of fund delivering the same 8% annual return. The only difference is that Alan's annual participant fees and expenses total nearly 2%, while John pays less than 1%.

The graph at right shows that after 40 years, John has **\$242,524 more** in retirement than Alan.

Participant fees really do impact how much you can potentially earn over time.

This hypothetical presentation is based on a fixed annual 8% return with no distributions or tax considerations, and does not imply future returns.



## Pay no more than 1% in participant fees

We strongly believe that for long-term investing, keeping total participant fees less than 1% makes the most sense. The lower the fee, the more money you have to put to work towards your retirement.

In most cases, employee fees are based on a percentage of the assets in the employees' accounts. They may include mutual fund management fees, 12(b)-1 fees, shareholder-servicing fees, sub-TA fees, mutual fund sales charges (sales load, CDSC, etc.), wrap fees, mortality & expense fees, investment management fees, transaction fees, or any other fee assessed to the participant's 401(k) account.

**Keep things simple.** We think that a low asset management fee, combined with a selection of investments that carry low expense ratios (preferably broadly-diversified index-based funds) is the best solution. The asset management fee should cover all your individual transactions, rebalancing of your investments, customer-care calls, and every other usual service needed to manage your contributions and investments.\*

Some 401(k) providers may claim that they charge no asset management fees or boast of low expense-ratio investments, or even that they will refund a portion of 12(b)-1 fees. Just be sure you know the sum total of all participant fees and other upfront loads or excessive charges that can make these claims irrelevant. ***The total cost applied against your contributions is what matters most!***

\* Please note that most providers do charge for participants that choose to take a 401(k) loan or decide to withdraw funds prior to retirement age. These tend to be nominal and are not included in the above guidelines.

# Get a Fair Price on a 401(k) Plan

## Three Principles of Fee Transparency

Here are three ways to make sure your 401(k) provider is controlling costs and minimizing the fees paid by employees out of their retirement savings:

**1** **If you have an existing 401(k) program, quantify your current plan's fees.** Simply ask your provider for a full accounting of ALL pricing your business pays as well as the fees paid from the employee's 401(k) savings. Identifying these fees is often very difficult and confusing. If a provider has difficulty in sharing this with you or is unwilling to take you through the fees, it's time to look at other providers.

**2** **Limit investment options to low-expense funds.** Switch the investments offered in your plan to low-expense index funds such as ETFs or no-load index mutual funds that track the major indexes (e.g., S&P 500, Russell 3000, Barclays Aggregate Bond Index, etc.). Because actively-managed funds often charge expenses that are 1–2% above those of their index-based fund peers, index-based funds can be tough to beat over the long run (see below).

**3** **Try to pay no more than 1% in total fees.** Limit the number and type of fees charged to an employee's retirement savings. Fund administration fees and investment management fees are the only fees employees should pay out of their 401(k) retirement account. Taken together, these two fees should total no more than 1% of assets annually. Larger 401(k) plans with more than 100 employees and/or \$5 million in assets should be able to ask and receive reduced asset management fees of 0.60% or less.

## Index Funds are Tough to Beat

Despite all efforts to the contrary, a large majority of actively-managed funds perform below their benchmark index. For example, over a five-year period ending in Dec 2012:

Fund Category	Comparison Index	Funds Underperforming the Index*
Large-cap core	S&P 500	78.10%
Mid-cap core	S&P MidCap 400	89.81%
Small-cap core	S&P SmallCap 600	79.65%
International	S&P 700	73.73%

\*Standard & Poor's Indices Versus Active Funds Scorecard, Dec 2012.

Costs can be a real drag on your fund's ability to produce outstanding results for you. The reason index-based funds are cost-efficient is that you're not paying for an expensive active fund manager or the extra costs associated with higher portfolio turnover that are more typical in actively managed funds.

See our [Indexing guide](#) to learn more.

# Get a Fair Price on a 401(k) Plan (continued)

## Six Essential Questions to Ask Your 401(k) Provider

The questions and guidance below will help you get the right-priced plan for your business and ensure your 401(k) investments have low fees so your money has the opportunity to work harder. For easy provider comparison, use our [free worksheet](#).

### 1. What fees are charged for our plan, as a percentage of a participant's savings?

- Administrative fees (typically paid by the employer)
- Recordkeeping fees (paid by employer or employees)
- Investment management fees (paid by employees out of 401(k) savings)
- All other fees (e.g. loans, distributions, etc.)

### 2. What are all of the components of the investment management fees paid by plan participants?

- Mutual fund expenses: sales loads, administrative fees, 12(b)-1 fees, shareholder-servicing fees, etc.
- All other investment management fees: wrap fees (common for variable annuity 401(k)s), investment advisory fees, transaction fees, etc.

### 3. What services do those investment management fees cover?

At a minimum, all 401(k) participants should receive the following services:

- Fund selection — fewer than fifteen high-quality, low-expense index funds that provide adequate diversification
- Model investment portfolios — risk-based or life-cycle
- Investment guidance — for example, online investment advice tools
- All brokerage services — unlimited purchases, sales, and exchanges
- Automatic account rebalancing — quarterly or annually
- Complete account services — on-demand custom statements, quarterly performance reports, and annual account statements
- A limited set of additional fees may be charged for participants seeking a loan or a distribution

### 4. What is the average “portfolio turnover” for the funds in our plan?

- The average actively-managed equity mutual fund turns over 85% of its portfolio each year, adding 0.70% or more in hidden transaction costs.\*
- Never offer any fund that's turning over its securities more than 25% in any given year. Ideally, turnover is less than 5%. Index funds tend to have extremely low turnover.

\*The Motley Fool, Mutual Fund Center, The S&P 500 Index Fund. <http://www.fool.com/mutualfunds/indexfunds/indexfunds01.htm>

## Six Essential Questions to Ask Your 401(k) Provider (continued)

### 5. What index-based funds do you offer in our plan?

- Switch out of actively managed funds into index funds (e.g., S&P 500, Russell 3000, Lehman Aggregate Bond Index, etc.)
- Provide an adequately diversified set of investment offerings: domestic equities (small-cap and large-cap), foreign equities (European and emerging markets), and fixed income (short-, medium-, and long-term bonds)
- Limit total investments to fifteen or fewer, and specialty offerings (like TIPs or REITs) to a few
- Provide model portfolios that help employees make appropriate investment decisions

### 6. Do you provide every participant with a complete listing of investment management fees?

- Make certain this important fee disclosure is available online and on demand to all employees
- Ensure that the fees are declared in a way that lets every employee fully understand what they're paying

## Appendix A:

# The Cost to Your Business to Provide a 401(k)

ShareBuilder 401k is different.

We are dedicated to meeting the needs of small businesses, and price our services accordingly. Compare the first-year cost of a ShareBuilder 401k for a 10-person company to typical industry pricing:

### First-Year 401(k) Cost Comparison

	ShareBuilder 401k	Typical Industry Pricing <sup>1</sup>
One-time setup fees	\$495	\$990
Administration fees <sup>2</sup>	\$960	\$1,173
Participant fees <sup>3</sup>	\$470	\$1,127
Total first-year fees <sup>4</sup>	\$1,925	\$3,290

1 Price estimates are based on quote requests, interviews and printed data from leading small business 401(k) providers in Q2, 2011 and other 2010 industry data, and is compared to ShareBuilder's Simplified 401k plan. Annual fund and asset management fees include average fund expense ratios and any additional 12(b)-1 fees, asset management fees, fund portfolio turnover fees, and wrap fees the provider charges.

2 ShareBuilder charges a simple monthly administration fee based on the number of participants only (\$80 per month or \$960 annualized in this example). Many providers charge an annual administration fee plus an annual eligible employee or participant fee!

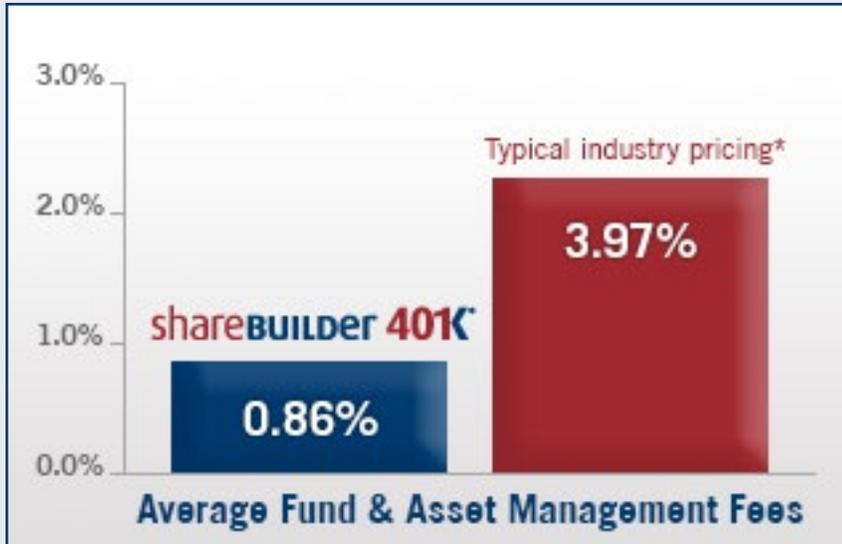
3 Participant fee savings are based on a plan with \$50,000 in total assets.

4 First-year fees are based on a company of 10, with 8 participating employees. ShareBuilder pricing is based on enrollment in a ShareBuilder Simplified 401k. As you'd expect, pricing and savings may vary depending on the number of participants.

## Appendix B: Participant Fees Comparison

For small businesses, ShareBuilder can blow away typical 401(k) providers.

ShareBuilder 401k assesses a 0.45% to 0.75% annual asset management fee and offers funds with an average model portfolio expense ratio of 0.17% keeping a total of 0.62% to 0.92%.



\* Price estimates are based on quote requests, interviews and printed data from leading small business 401(k) providers in Q2, 2011 and other 2010 industry data, and is compared to ShareBuilder's Simplified 401k plan. Participant fee savings are based on a plan with \$50,000 in total assets. Plan sponsors should contact plan providers directly to compare the most up-to-date costs of service for their plan size, assets, and needs.

## Appendix C:

# ShareBuilder 401k Full Pricing Disclosure

We work hard to keep your plan administration costs affordable and participant fees under 1%.

We're dedicated to providing you with simple and open pricing, making it easy to see what you'll have to pay. All of the fees that we could ever charge are plainly listed right here.

No other 401(k) provider that we've seen offers a complete, transparent fee schedule up front — in fact, if you can find one, we'll give you \$50 off your 401(k) plan setup charge!

Please review our pricing and let us know if you have any questions. We welcome your call at **800-943-6108**, option 1.

## ShareBuilder 401k Participant Fees and Expenses

These fees are applied to each person who participates in your company's ShareBuilder 401k plan:

- Our asset management fee is charged quarterly and amounts 0.45% to 0.75% of a participant's assets per year.
- Our portfolios' average investment expense ratio is 0.10%.

**Our total fees, on average, are under 1% of assets.**

There are only three other nominal fees a participant may incur:

1. a distribution or withdrawal fee,
2. a loan fee,
3. or a required minimum distribution fee.

## ShareBuilder 401k Business Cost

### How Automatic Price Discounts Work

ShareBuilder 401k wants to ensure your plan always delivers great value not only in features and services, but also in price. As your company's total plan assets exceed a pricing tier shown for a calendar quarter (based on an average of the daily balance), we automatically lower your administration and asset management fee for the next quarter and on-going. The reverse is also true. If for some reason employees, markets, or other events drop your average asset balance for your company plan below your current level, your administration and asset fee are adjusted up for the next quarter. All pricing is on a go-forward basis and is not retroactive.

# ShareBuilder 401k Plan Pricing

 **Individual 401k** — Solo Owner(s) looking to save \$5,500 or more per year

Assets	Employer Fees		Participant Fee
	One-time Setup	Monthly Administration per Participant	Asset Management
\$0 - \$249.9K	\$150	\$15	0.75%
\$250k - \$499.9K	no charge	no charge	0.75%
\$500k - \$1.9M	no charge	no charge	0.65%
\$2M - \$4.9M	no charge	no charge	0.55%
\$5M+	no charge	no charge	0.45%

Setup and annual administration fees may be eligible for a tax credit. Please consult your accountant or tax advisor for additional details.

These fees are applied to each person who participates in your company's ShareBuilder 401k plan:

- Our asset management fee is charged quarterly and amounts to 0.45% – 0.75% of a participant's assets per year. The amount is calculated on the average daily balance over the quarter.
- Our portfolios' average investment expense ratio is 0.17%.

Fees may be higher if you are working through a third-party investment advisor. Please contact your investment advisor for details.

 **Simplified 401k** — Maximize owner contribution and avoid IRS tests

Assets	One-time Setup	Employer Fees					Participant Fee	
		Monthly Administration (Estimated Participants)						Asset Management
		1 - 10	11 - 25	26 - 50	51 - 100	101 - 250	251+	
\$0 - \$499.9K	\$495	\$80	\$125	\$185	\$275	\$325		0.75%
\$500k - \$1.9 M	\$400	\$60	\$80	\$105	\$150	\$200		0.65%
\$2M - \$4.9M	\$250	\$35	\$45	\$55	\$75	\$100		0.55%
\$5M - \$7.9M	no charge	no charge	no charge	no charge	no charge	no charge		0.45%
\$8M+	We're here to help any size business save. Our pricing schedule goes on and on for those with larger plans. Just give us a call at 800.943.6108 x1 or visit <a href="http://sharebuilder401k.com">sharebuilder401k.com</a> to start your custom quote.							

 **Customized 401k** — Flexible matching, vesting or profit sharing options

Assets	One-time Setup	Employer Fees					Participant Fee	
		Monthly Administration (Estimated Participants)						Asset Management
		1 - 10	11 - 25	26 - 50	51 - 100	101 - 250	251+	
\$0 - \$499.9K	\$750	\$100	\$150	\$210	\$300	\$400		0.75%
\$500k - \$1.9 M	\$600	\$75	\$90	\$125	\$180	\$240		0.65%
\$2M - \$4.9M	\$450	\$50	\$60	\$70	\$90	\$120		0.55%
\$5M - \$7.9M	no charge	no charge	no charge	no charge	no charge	no charge		0.45%
\$8M+	We're here to help any size business save. Our pricing schedule goes on and on for those with larger plans. Just give us a call at 800.943.6108 x1 or visit <a href="http://sharebuilder401k.com">sharebuilder401k.com</a> to start your custom quote.							

 **Tiered Profit Sharing 401k** — Reward employees by group, tenure or age

Assets	One-time Setup	Employer Fees				Participant Fee
		Monthly Administration (Estimated Participants)				Asset Management
		1 - 15	16 - 50	51 - 100	100 or More	
\$0 - \$499.9K	\$995	\$190	\$240	\$325	N/A	0.75%
\$500k - \$1.9M	\$750	\$150	\$185	\$225	N/A	0.65%
\$2M - \$4.9M	\$500	\$75	\$95	\$115	N/A	0.55%
\$5M+	no charge	no charge	no charge	no charge	no charge	0.45%
\$8M+	We're here to help any size business save. Our pricing schedule goes on and on for those with larger plans. Just give us a call at 800.943.6108 x1 or visit <a href="http://sharebuilder401k.com">sharebuilder401k.com</a> to start your custom quote.					



PARTICIPANT COSTS				
Distributions / Withdrawals	\$50 - \$60/event	\$50 - \$60/event	\$50 - \$60/event	\$50 - \$60/event
Loans	\$75 - \$138/loan	\$75 - \$138/loan	\$75 - \$138/loan	\$75 - \$138/loan
Required minimum distribution	\$100	\$100	\$100	\$100
Reissue of a check	\$12 - \$25	\$25	\$25	\$25
Stop payment of a check	\$25 - \$35	\$25 - \$35	\$25 - \$35	\$25 - \$35
Qualified Domestic Relations Order processing	Up to \$750/occurrence	Up to \$750/occurrence	Up to \$750/occurrence	Up to \$750/occurrence
PLAN SPONSOR COSTS				
Automated Clearing House (ACH) notice of change due to client error or non-sufficient funds	\$50	\$50	\$50	\$50
Determination letter filing	\$1,000	\$500 - \$1,000	\$500 - \$1,000	\$500 - \$1,000
IRS submission fee for the determination letter	\$2,000 - \$4,000	\$1,000 - \$4,000	\$1,000 - \$4,000	\$1,000 - \$4,000
DOL or IRS audits	\$600 base, plus \$100/hour over 6 hours			
IRS/DOL Correction Program	—	\$250/hour, plus \$900 government submission fee if required	\$250/hour, plus \$900 government submission fee if required	\$250/hour, plus \$900 government submission fee if required
Custom requests and extraordinary services	\$75/hour	\$75 - \$250/hour	\$75 - \$250/hour	\$75 - \$250/hour
Amended Form 5500	\$100	\$100	\$100	\$100
Federal filing extension	\$100	\$100	\$100	\$100
Plan design studies	—	\$500/study	\$500/study	\$500/study
Plan amendment	\$75 - \$100 unless otherwise noted	\$100 - \$200 unless otherwise noted	\$100 - \$200 unless otherwise noted	\$100 - \$200 unless otherwise noted
Plan migrations	\$250	\$250	\$250	\$250
Plan terminations	\$150 plus any applicable employee paid distribution fees	\$825 - \$1,000 plus any applicable employee paid distribution fees	\$825 - \$1,000 plus any applicable employee paid distribution fees	\$825 - \$1,000 plus any applicable employee paid distribution fees
Plan transfers	\$100	\$750 - \$1,000	\$750 - \$1,000	\$750 - \$1,000
Plan Restatement required by IRS due to regulation changes (infrequent)	Fee will vary based upon requirements mandated by the IRS. The last restatement price was \$100.	Fee will vary based upon requirements mandated by the IRS. The last restatement price was \$400.	Fee will vary based upon requirements mandated by the IRS. The last restatement price was \$400.	Fee will vary based upon requirements mandated by the IRS. The last restatement price was \$400.
Distribution Benefits for death, disability or retirement	\$50	\$50	\$50	\$50
Manual conversion of data (electronic conversion is included at no charge)	—	\$10/participant; \$500 minimum	\$10/participant; \$500 minimum	\$10/participant; \$500 minimum
414(s) Compensation Ratio testing	—	—	\$225/hour	\$225/hour
Average Benefits testing	—	—	\$225/hour	\$225/hour
Multiple business/plan testing	—	\$225/hour, if outside plan data is included	\$225/hour, if outside plan data is included	\$225/hour, if outside plan data is included
Age-weighted or New Comparability Contribution Calculations with cross-testing	—	—	—	\$225/hour, beyond the first 3 included hours
Asset certification letter	—	\$150	\$150	\$150
Employer calculation	—	\$500/calculation, if performed by Recordkeeper	\$500/calculation, if performed by Recordkeeper	\$500/calculation, if performed by Recordkeeper

# ShareBuilder 401k Investment Options

Our selections are index-based investments called Exchange-Traded Funds (ETFs). These market-efficient products offer low expense ratios and diversification. Our 401(k)s allow ETF purchases and trades with no transaction fees!

The following chart illustrates annual expense ratios on our ETF selections as of 6/30/2015:

Equity Funds			
Symbol	Fund	Category	Ratio
SPY	SPDR S&P 500 ETF Trust	Large-Cap Blend	0.10%
VUG	Vanguard Growth Index Fund ETF Shares	Large-Cap Growth	0.09%
QQQ	NASDAQ 100 Trust Shares	Large-Cap Growth	0.20%
DIA	SPDR DJIA Trust	Large-Cap Value	0.17%
VTV	Vanguard Value Index Fund ETF Shares	Large-Cap Value	0.09%
KLD	iShares KLD Select Social Index	Large-Cap Blend	0.50%
IJH	iShares Core S&P MidCap ETF	Mid-Cap Blend	0.12%
DVY	iShares Dow Jones Select Dividend Index	Mid-Cap Value	0.39%
IWM	iShares Russell 2000 Index	Small-Cap Blend	0.20%

Fixed Income Funds			
Symbol	Fund	Category	Ratio
IEF	iShares Barclays 7–10 Year Treasury	Intermediate-Term Government Bond	0.15%
BND	Vanguard Total Bond Market ETF	Intermediate-Term Bond	0.08%
TIP	iShares Barclays TIPS Bond	Inflation Protected Bonds	0.20%
SHY	iShares Barclays 1–3 Year Treasury Bond	Short-Term Government Bond	0.15%
BWX	SPDR Barclays Capital International Treasury Bond	World Bond	0.50%
PCY	PowerShares Emerging Markets Sovereign Debt	Emerging Markets Bond	0.50%

Specialty Funds			
Symbol	Fund	Category	Ratio
VNQ	Vanguard REIT ETF	Real Estate	0.12%
VWO	Vanguard Emerging Markets ETF	Diversified Emerging	0.15%
VEA	Vanguard FTSE Developed Markets ETF	Foreign Large Blend	0.09%
DBC	PowerShares DB Commodity Index	Commodities Broad Basket	0.93%
IAU	iShares Gold Trust	Commodities Precious Metals	0.25%

Stable Value Funds			
Symbol	Fund	Category	Ratio
DGCXX	Dreyfus Government Cash Management	Money Market	0.20%

Diversification does not guarantee a profit or protect against market losses.

*You should carefully consider information contained in the fund's prospectus, including investment objectives, risks, charges and expenses. For a prospectus containing this and other important information, please visit the fund's detailed quote page or contact us. Please read the prospectus carefully before investing.*

Although the money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. An investment in the money market fund is not a deposit in a bank, and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.