HOW EXPENSIVE ARE YOUR 401K AND IRA PLANS?

When you look at how your money is doing in these plans do you think about the fees that are paid to the investment advisors and plan custodians?

Does anyone think these people work for free?

Pamela Yellen has been doing some extensive research into the costs of maintaining plans and has come up with some surprising answers.

Here is what she found, figured as a percentage of the account value:

- PLAN ADMINISTRATION – 2%
- MUTUAL FUND / INVESTMENT ADVISOR FEES – 2%
- TAXES – 3% (will change if taxes go up in the future)

We have not included inflation in any of this and we are already up to about 7%!

That means that you have to make more than 7% on your investments in the account just to break even!

No wonder account values have gone down so much during the bad stock market! You have to pay these fees regardless of the performance of the investments.

The fees quoted above are all invisible unless you carefully read the annual reports and disclosures that are required to be given to you on an annual basis.

Congress is in the midst of holding hearings on how to change regulations so that people and companies can compare costs better.

In the past I have personally had IRA and 401k accounts that showed a loss even when the market was showing a gain. At the time I did not know why this happened. When I looked into it I found that I was not able to outrun the expenses that were paid from my account

This is an ugly situation that I hope you guys never have happen to you.

A situation like this will not happen with BOY. There are no separate expense charges for maintaining a whole life plan, unlike even Universal Life and Variable Life plans. Policy owners are part owners of the insurance company and share net company profits through the dividends they receive every policy anniversary on their plans. More importantly, they benefit from expense reductions experienced by the insurance company.

The more I study qualified plans, the more I think that they benefit the mutual fund managers, plan administrators and the IRS more than the person that actually owns them.

My wife and I have been in the process of liquidating our qualified plans for several years now. I want to get all the qualified plan money we have into our BOY plans as soon as I can so we can eliminate this problem and use the money for financing things now.

What is your end game strategy on your government sponsored qualified plans?

Please notice how I say “government sponsored” above. These plans cannot exist without the government granting you an exception to the tax code.

How much do you trust congress to leave these plans alone?

There are several proposals in congress right now to make big changes in these plans that are very negative.

Your comments and questions are always welcome!