



Revenue Sharing Leads To Murky and Unfair 401(k) Fees

CG Financial Services is your independent retirement plan advisor specializing in workplace plans.

It's no secret that 401(k) fees can be complex and confusing. A common hidden fee in a retirement plan is revenue sharing (also known as a 12b-1 fee, a distribution fee, or shareholder services fee, for example). This fee is paid for by participants and is built into the expense ratio of the mutual funds offered in a retirement plan, like a 401(k).

Unfortunately, revenue sharing obscures a plan's full cost and can impose an unfair allocation of fees for employees that are participating in the retirement plan. It is important to note that revenue sharing is becoming more unpopular, mostly thanks to a significant increase in fiduciary lawsuits around excessive 401(k) plan fees.

Below are three reasons why plan sponsors should not consider revenue sharing for the retirement plan:

- Revenue sharing is hard to forecast and predict. Different mutual funds will charge varying amounts of revenue sharing to participants. Another challenge is disclosing the fees due to their lack of transparency.
- Revenue sharing often limits the types of investments that are held in the retirement plan. Actively managed mutual funds typically incorporate revenue sharing depending on the share class. If a retirement plan is paying fees out of the expenses of the investments, it's common for passively managed index funds to be absent from the investment lineup. These types of funds can play a crucial role in employees' retirement accounts.
- Revenue sharing can lead to employees paying different amounts of fees. For example, if an employee is invested solely in mutual funds that charge revenue sharing versus an employee who is invested in index funds, the first employee is paying more in plan fees because of the revenue sharing.

The best way to increase transparency in retirement plan fees is to eliminate revenue sharing altogether. Partnering with a retirement plan advisor who specializes in workplace retirement plans can be crucial. The retirement plan advisor should be an independent advocate whose goal is to assist with increasing fee transparency. CG Financial is independent and acts as a true partner and advocate in your best interest.

Interested in a retirement plan fee analysis?

Get in touch with our experienced team.

Monday - Friday 8:30 am - 5:00 pm EST

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