

While it's increasingly important to plan for retirement, it also seems increasingly difficult. With the demise of pensions and other defined-benefit plans, many individuals are left to fend for themselves. Defined contribution plans like 401(k)s are helpful - but often difficult to navigate. With this in mind, I was especially disappointed in reviewing a friend's 401(k) program.

After years of service to a company, a young man I know was finally given an opportunity to participate in his employer's 401(k) program. I was asked to review the investment options available and help him understand his asset allocation choices. As Shannon Investment Management suggests all investors pay close attention to fees at all levels, I was looking for thoughtful, low-fee options. This is especially important for a young investor with a long investment horizon and no complex collection of assets around which you need to structure a plan. For a young person with no financial assets, a low-fee index (passive) equity mutual fund or ETF might be a suitable choice. I was dismayed at his options. While there were all sorts of complicated funds listed (that might suit one with complex portfolios, liabilities or needs), there was only a single index fund - and it had a pricey 1.11% (**111 basis point or bps**) expense ratio!

Without getting into the debate about the merits of active versus passive investment management, there is an unquestionable market acceptance of index (a.k.a. passive) equity investment products (please see *Financial Jargon, Autumn 2015*). Part of the appeal of passive investments is the associated low management fee at the fund level. For example, some of the largest index funds include: the *SPDR S&P 500 ETF (SPY)* with an expense ratio of **9 bps**; the *iShares Core S&P 500 ETF (IVV)* which charges **7 bps**; and the *Vanguard 500 Index ETF (VOO)* charges **5 bps**.

Here is a young adult with a too-rare opportunity for tax-advantaged savings for future needs but the associated account custodian offers an investment fund that carries an expense ratio that is more than 10 times that of popular equivalent index funds! Over the course of a career, the difference is remarkable.

Assume an individual contributes a flat \$250 per month toward a 401(k) plan over a 35-year career. Also assume that the stock market provides an average annual return of 9%. (For context, the S&P 500 and its predecessor index provided an average annual return of 10.12% for the period between 1926 and 2014.) In an instance of funds with expense ratios of 7bps or 111bps, the lower fee option results in **38% more dollars** at the end of the period (**\$722,233 vs. \$559,040**), all else being equal.

Given the opportunity, vigilance on management fees could create a **\$163,000** improvement in projected future balances. Please contact SIM to see how we might help manage your investment fees at all levels.

