

Providers Lean on Tech to Lower Costs in Small 401(k) Plans

Automation allows for price relief for modest-sized companies that have been paying more to provide retirement benefits.

Reported by [JAMES VAN BRAMER](#) | Art by GREG CLARKE

In the retirement industry, few words hit harder than “fees.”

Whether a plan sponsor, a retiree or a plan participant, the word spells bad news and, in many cases, litigation.

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But while the threat of litigation might prevent employers from charging unduly high fees in larger plans, smaller retirement plans are less likely to face litigation over fees, no matter how high the fees participants pay.

“The lawsuits filed against plan fiduciaries by participants are almost always handled by contingent-fee attorneys,” says Fred Reish, a partner in law firm Faegre Drinker Biddle & Reath LLP, who represents plan sponsors and service providers. “As a result, they would be looking for losses in the millions. In that case, a settlement could be entered into for enough to pay their fees and expenses. There is very little chance of a small plan being sued for excess expenses.”

Smaller Plans, Bigger Problems

Yet for employers with less than \$10 million in assets, the fee balancing act, for many reasons, becomes more difficult.

According to a [Morningstar analysis](#), about 15% of small plans face annual 401(k) expenses of greater than 1.4% of plan assets, whereas bigger plans often keep their expenses to less than 1% of their assets.

Employees at smaller plans end up disadvantaged, as shown in [a 2024 study by the Consumer Federation of America](#), which found that workers participating in an average-cost plan with less than \$1 million in assets for 40 years could retire with approximately \$292,000 less than if the same worker participated in an average-cost plan with at least \$1 billion in assets. The small-plan worker would need to hold off retirement for an average of four and a half years to catch up because, as fees increase, the gap workers in smaller plans need to cover increases.

“Good retirement plans do three things well—accumulate, invest, and decumulate,” says Teresa Ghilarducci, a professor of economics and policy analysis at the New School in New York. “Defined benefit plans do this efficiently by pooling risk, lowering fees and hiring professionals to manage money. Defined contribution plans, by contrast, ask individuals to do the impossible: navigate markets alone, pay high retail fees and still somehow get decent returns. It’s absurd. And worse, it’s unequal. Workers at small firms—often with lower pay, smaller employer matches and less job security—face higher fees and fewer investment options. Our self-directed, commercial retirement system entrenches inequality. Without scale economies or policy to redistribute them, the well-off retire secure—and the rest are left behind.”

One solution intended to help smaller retirement plans is pooled employer plans, in which different employers can combine to outsource most fiduciary responsibilities, retirement plan management and associated administrative functions. Given the number of employers in a PEP, the larger amount of assets can lead to lower fees.

In fact, the Department of Labor put out a public input request on July 28 asking for suggestions on how to improve PEPs, which were made possible by the Setting Every Community Up for Retirement Enhancement Act of 2019.

However, while PEPs are a viable option for smaller employers looking to offer retirement benefits without excessive fees, industry experts say that opting for a PEP only works if the employer secures the right provider.

"While Congress has sought in recent legislation to allow small employers to address the issue of fees in small employer plans through tax credits and pooled employer plans, there are limitations on what legislation can accomplish," says Marcia Wagner, founder of the Wagner Law Group. "There are certain fixed costs associated with operating a tax-qualified plan. There could also be an additional test required under a small plan that would generally be unnecessary for a large employer: the top-heavy test."

Technology Options

For small employers unsure about a PEP but unwilling to pay exorbitant fees, a solution is to use automation to achieve lower fees.

Human Interest Inc. offers 401(k) services to more than 35,000 small businesses, with many containing assets of \$10 million or less. To lower its fees, which Chief Revenue Officer Rakesh Mahajan says helps attract more potential clients, Human Interest does not charge for plan loans and does not charge transaction fees.

Human Interest accomplished this, Mahajan says, by using technology.

"The difference is: I use technology every chance I can to automate," he says. "100% of our loans—fully automated. No human beings touch them."

According to Mahajan, the efficiency of automation has allowed Human Interest to lower and eliminate fees for small businesses. In doing so, the company is able to expand the investment options available to these small businesses.

Mahajan says Human Interest has up to 10,000 fund choices, and the company takes on the fiduciary role in nearly 98% of the plans it operates.

Mahajan says PEPs lack the customization that can be offered when working with a service provider and that PEPs charge "higher fees" than Human Interest.

"Several smaller PEPs have migrated their plans over to us because it's too expensive for them to keep going," he says. "PEPs may have made sense 20 years ago, but in a tech-forward world, we can offer more choice, more automation and better economics."

At 401Go Inc., which offers 401(k) plans to about 4,500 plans with less than \$10 million in assets, most of which have less than \$1 million in assets, technology is also the solution to the fees conundrum, says Co-Founder and Chief Operating Officer Jared Porter.

"You can set up your plan in 15 minutes," Porter says. "You legitimately can do that, because you get the automation between our connection with payroll providers and the data we get."

Porter says 401Go has a per-participant fee that varies based on the number of plan participants, and the firm also charges fees based on the plans' assets and then charges a monthly base fee. But by using technology, 401Go is able to lower costs and, most importantly, does not rely on outsourcing, which allows them to lower fees.

Porter says working with a provider like 401Go, rather than using a PEP, helps employers, since "PEPs remove control from the company, which can be good and bad."

"Small businesses can have an efficient and very cost-efficient solution on their own and don't have to chase a group plan solution, which is not a one size fits all," Porter says. "It's important to examine what the business needs and if the solution fits those needs in price, technology and services."

Another reason technology can lower fees for small employers, experts say, is that smaller employers have neither the time nor the resources to find the best providers or understand the fees they are paying.

According to Hunter Claxton, senior vice president of strategy at 401(k) provider Ubiquity Retirement + Savings, smaller employers are at risk of facing hidden asset-based fees, revenue-sharing arrangements and charges that stack up per participant, leading them to pay more and their participants to save less.

Ubiquity similarly uses technology to lower costs and make their prices more transparent, but it does not solely rely on automation.

“We absolutely believe in using technology to simplify the experience, but we don’t rely on automation alone,” Claxton says. “Small businesses often need that power from human connection, especially when they don’t have an internal HR or finance team.”

Adoption Could Tick Up

Industry experts mostly agree that technology can assist in lowering fees paid by smaller employers, but fees remains a burden for smaller employers considering retirement plans.

For example, while some pay high fees or attempt to find providers with lower costs, others simply do not offer retirement plans: [About one-third of private industry workers](#) do not have access to a 401(k) plan.

Lowering the costs could improve retirement security for workers, but it could also lead to greater retirement plan adoption. At the moment, however, smaller plans continue to face higher fees, which challenges how much their workers can save for retirement.

“The higher the costs of investments, the lower the return,” Reish says.

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