Advanced Capital & Investments

ADVANCED CAPITAL & INVESTMENTS · ACI EDUCATION SERIES · CASE STUDY

The Rollover Turn

Twenty years of saving in a low-cost 401(k). Then retirement, a rollover to a local advisor, and a fee that doubles on the largest balance he will ever have, at the very moment the deposits and the company match stop.

01 The case

02 The working years

03 The rollover turn

04 Fees, year by year

05 After tax, and what to do

$568,546
in fees in 20 retired years, against $63,125 in 20 working years

$636,190
less at 85 than if he had simply stayed in the low-cost plan

$1,987,810
behind the benchmark by 85, before a dollar of tax

THE CASE

01 Twenty years in, twenty years out

A typical retail saver puts $10,000 a year, his own deposits plus the company match, into a 401(k) from 45 to 65, invested to track the S&P 500 in low-cost funds. At 65 he retires and rolls the account to a local advisor. He adds nothing after that and leaves it invested to 85.

Working years · 1980–1999 · ages 45 to 65

$10,000 a year in, including the match
Plan cost 0.75% a year, about average for plans under $2 million
S&P 500 total return averaged 17.9% a year

Retired · 2000–2019 · ages 65 to 85

No new deposits and no match
Retail advisor at 1.50% a year, common and often on the low side
S&P 500 total return averaged 6.1% a year

Three paths, same market	Working years	Retired
The benchmark	No fee	No fee
Stays in the plan	0.75%	0.75%
Rolls over	0.75%	1.50%

Why the timing matters. Retirement is when the account is at its largest, when new money and the match stop, and when there are no more years of deposits to make up for losses. It is also when most people are first sold a higher-cost account.

Deposits at the start of each year; fees taken at the end of each year on the balance. All tax is deferred until 85, then the full balance is taxed at 30%. The investor stays in the S&P 500 for all 40 years, which is unusual for an older investor; the point is the cost, not the allocation.

THE WORKING YEARS

02 Low cost while the money is going in

For twenty years the plan fee is modest and the deposits keep coming. At 0.75% the account still trails the no-fee benchmark, but the fee dollars are small because the balance is still building.

End of	Age	Benchmark, no fee	Plan at 0.75%	Rolls over later	Fee that year
1980	46	$13,242	$13,143	$13,143	$99
1984	50	$74,471	$72,660	$72,660	$549
1989	55	$277,292	$263,744	$263,744	$1,993
1994	60	$484,918	$448,036	$448,036	$3,386
1999	65	$1,811,384	$1,620,964	$1,620,964	$12,249

$200,000
deposited over 20 years, employee plus match

$1,620,964
in the plan at 65, after 0.75% a year

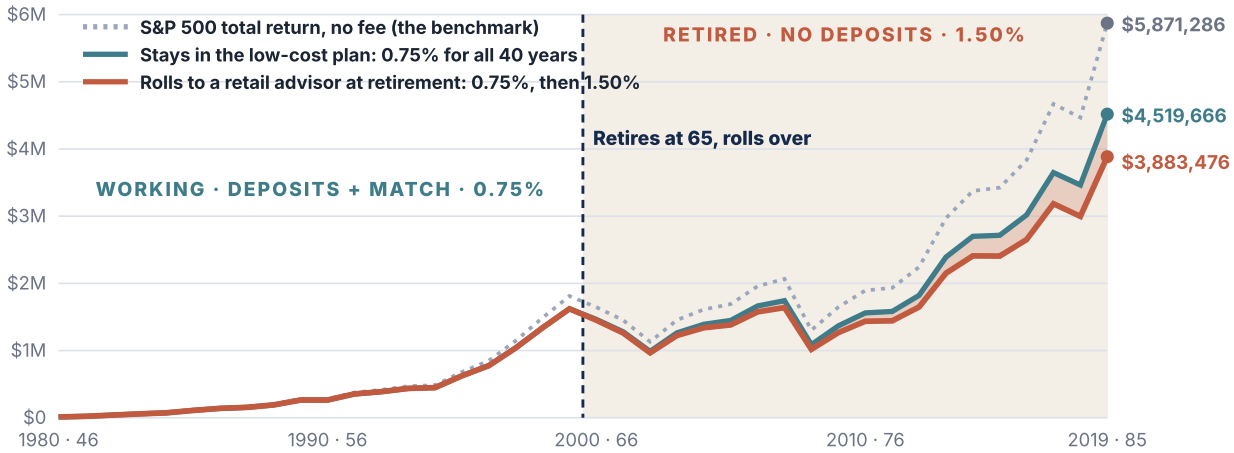
$63,125
paid in plan fees over all 20 working years

The cost is already $190,420 below the benchmark at 65: the fee plus what that fee would have grown to. That is the starting point for the rollover decision.

THE ROLLOVER TURN

03 The fee doubles on the biggest balance

At 65 the account rolls to a local advisor at 1.50%. The red shading is the cost of that single decision, compared with leaving the money where it was.

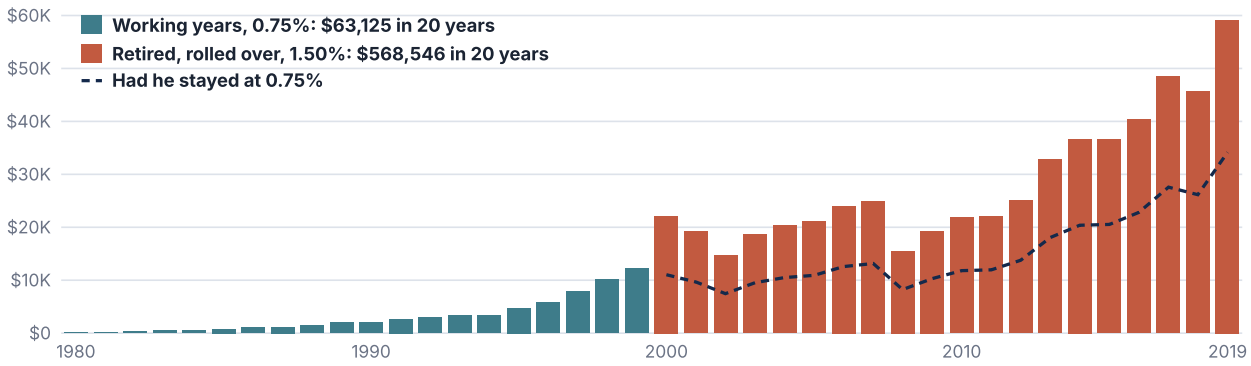


End of	Age	Benchmark, no fee	Stays at 0.75%	Rolls to 1.50%	Fee that year
2000	66	$1,646,548	$1,462,405	$1,451,354	$22,102
2002	68	$1,130,152	$988,761	$966,515	$14,718
2004	70	$1,612,506	$1,389,686	$1,337,966	$20,375
2009	75	$1,646,244	$1,366,351	$1,266,541	$19,287
2014	80	$3,376,932	$2,699,248	$2,408,954	$36,685
2019	85	$5,871,286	$4,519,666	$3,883,476	$59,139

He also retired just before the 2000–2002 and 2008 declines, with no deposits left to buy at lower prices. The fee was charged every year regardless.

FEES, YEAR BY YEAR

04 Twenty years of saving, twenty years of paying



$63,125
in fees during 20 working years, with deposits and a match

$568,546
in fees during 20 retired years, with no new money, about 9 times as much

$257,906
more in retirement fees than staying at 0.75% would have cost

The fee-to-asset turn. The S&P 500 averaged 6.1% a year in his retired years against 17.9% while he worked. Returns fell by more than half, yet the fees he paid rose about 9 times: a higher rate on a larger balance, every year, for twenty years.

AFTER TAX

05 What he keeps at 85

Every dollar in a traditional 401(k) or IRA is taxed as income when it comes out. Here the full balance is taxed at 30% at 85.

At 85	Value	Tax at 30%	After tax	Of the benchmark
S&P 500, no fee (benchmark)	$5,871,286	−$1,761,386	**$4,109,900**	70%
Stays in the plan at 0.75%	$4,519,666	−$1,355,900	**$3,163,766**	54%
Rolls over to 1.50%	$3,883,476	−$1,165,043	**$2,718,433**	46%

$1,987,810
lost to fees and their compounding, before tax, against the benchmark

$445,333
after tax, the cost of the rollover alone

$60,000
the tax saved on $200,000 of deposits, against $1,165,043 of tax due at 85

Before rolling over

- **Compare the total cost in dollars,** not the rate: at 1.50% on $1,620,964, the first year alone is about $24,314.
- **Staying in the plan is often allowed** after retirement, at institutional fund costs.
- **Ask what you get for the fee** that the plan or a flat-fee research service does not provide.
- **Plan the withdrawals and the tax,** not just the investments. This case taxes everything at the end; real distributions should be modeled year by year.

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