# Are 401(k) advice fees headed to zero?

Vanguard's low-cost digital-only planning and investing tool will undercut many target-date funds and managed accounts

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Vanguard Group has thrown down the gauntlet on costs for 401(k) managed accounts.

InvestmentNews reported Wednesday that the asset manager plans to launch a digital-only financial planning and automated investing service for 15 basis points.

The service, Vanguard Digital Advisor, which will be available to 401(k) plan participants and retail investors, undercuts the cost of pretty much every 401(k) robo-adviser on the market, as well as that of many target-date funds.

That dynamic could drastically shift the market, experts said, perhaps pushing other providers to lower their fees and making it harder to compete

"You can't get it any cheaper than that," Philip Chao, principal and chief investment officer at advisory firm Chao & Co., said of 401(k) advice.

"Is zero-dollar advice in our future? I would say yes," he added.

Vanguard's move comes at a time when employers are laser-focused on the costs their employees pay for 401(k) services, in part due to a number of lawsuits filed against plan sponsors over allegedly high plan fees.

Financial services firms have tried to capitalize on a similar cost trend among retail investors. Fidelity Investments last year launched four zero-fee funds in a bid to win over retail investors.

And Charles Schwab switched to a subscription-based financial planning model in April for its hybrid robo-advice service, which leverages technology and a human adviser. Customers pay a flat $30-a-month fee instead of the previous 0.28% asset-based fee for the service, Schwab Intelligent Portfolios Premium.

Offering low-cost — even zero-cost — services may make sense for many large financial services companies that want to attract investors and then work with them in other, potentially more lucrative ways, Mr. Chao said.

"This trend has been coming," Larry Raffone, CEO of Edelman Financial Engines, said of Vanguard's robo. Edelman Financial Engines is the recently combined entity of registered investment adviser Edelman Financial Services and Financial Engines, a 401(k) managed account provider.

"The competitive landscape has seen a lot of change. This shouldn't surprise anybody," Mr. Raffone said, adding: "That's not a scary-low price point."

Vanguard's move also comes as an increasing amount of 401(k) money flows into TDFs, which provide employees with a professionally managed asset allocation based on their retirement age. Cerulli Associates projects TDFs will hold $2.1 trillion by 2021.

Managed accounts are essentially a personally customized version of a TDF, a fiduciary service that provides an asset allocation based on various investor data points. Many advisers regard them as the better choice, all else being equal, due to that personalization. However, managed accounts haven't gained as much traction because their costs are often higher than the cost for TDFs.

Vanguard Digital Advisor fees could change that value proposition, experts said. While details about the service are scarce, an SEC filing indicates that Vanguard, one of the biggest retirement-plan administrators, will offer automated investment management and a personalized, goals-based financial plan.

Participants in 401(k) plans who have a $5 minimum account balance can access the Vanguard service for 0.15% plus the cost of investment funds.

"That's crazy low," said Chris Brown, founder and principal of Sway Research, which studies asset management distribution in retirement plans.

By comparison, Financial Engines, the largest 401(k) managed account provider, charges participants up to 0.60% for discretionary investment management. Financial Engines has a roughly 57% share of the managed account market, according to Cerulli.

Costs can be much higher, though. For example, Nationwide charges a maximum fee of 1% for its ProAccount service.

Vanguard's digital tool also edges out actively managed and hybrid active-passive TDFs on cost. Active funds last year cost an average 0.67% on an asset-weighted basis, according to Sway Research, while hybrid funds cost an average 0.55%.

Some passive TDFs remain cheaper, however, such as the Schwab Target Index funds at 0.08% and the State Street Target Retirement funds at 0.09%. (The Vanguard Institutional Target Retirement funds also cost 0.09%.)

"It's going to be hard for Vanguard's competition to match, especially smaller record keepers," Mr. Brown said.

"Also, it's perhaps problematic for full-service advisers and brokerages down the road too," he added, if Vanguard's 401(k) clients roll over into the retail robo down the road.

However, dominance isn't a given — experts see a number of factors that could limit the success of Vanguard's new robo.

For one, the product will likely only be available to Vanguard's record-keeping clients. Vanguard must also overcome participant inertia and get them to select the product, since many managed accounts aren't used as a default investment option.

And just because Vanguard is the backer "doesn't mean it's conflict-free, or that there's better or worse advice. It just means it's low fee," Mr. Chao said. "There are still too many questions" about how well the program works, he added.

Mr. Raffone of Edelman Financial Engines also stressed his company's independence when compared with Vanguard. Financial Engines doesn't offer investment products, whereas Vanguard's managed account can, and plan sponsors value that degree of independence, he said.

"We think competition will continue to be out there," Mr. Raffone said. "Our job is to build the best client experience and technology platform."