Unless you work for a very large company, it's likely that your 401k or 403b plan is very costly. The average all in fee for plans with less than $10 million in assets is 1.27%. The average fee for a very large company with $500 million in plan assets is 0.37%. Look for "expense ratio" in your plan documentation or you can usually find it by clicking on the fund name within your account.

It's important to know what you're paying since there's a strong inverse relationship between cost and performance. In investing you get what you *don't* pay for. In other words, over a lifetime we'll all get market returns minus the cost of being in the market. This is true in theory as explained by Nobel Prize winning economist Bill Sharpe. It is also evident in practice when the performance of costly, actively managed funds which try to outperform the market are compared to low cost, passively managed index funds which simply track the market. The vast majority of actively managed funds don't outperform their benchmarks over extended periods. That said, at any given point in time there will be actively managed funds that are beating the market. However, studies that follow these funds find that they go on to underperform at some point and the investor ends up with market returns minus the higher cost.

The table below shows the impact of fees over 20 years if $10,000 were invested today. This assumes that the market returns 7% annually before fees.

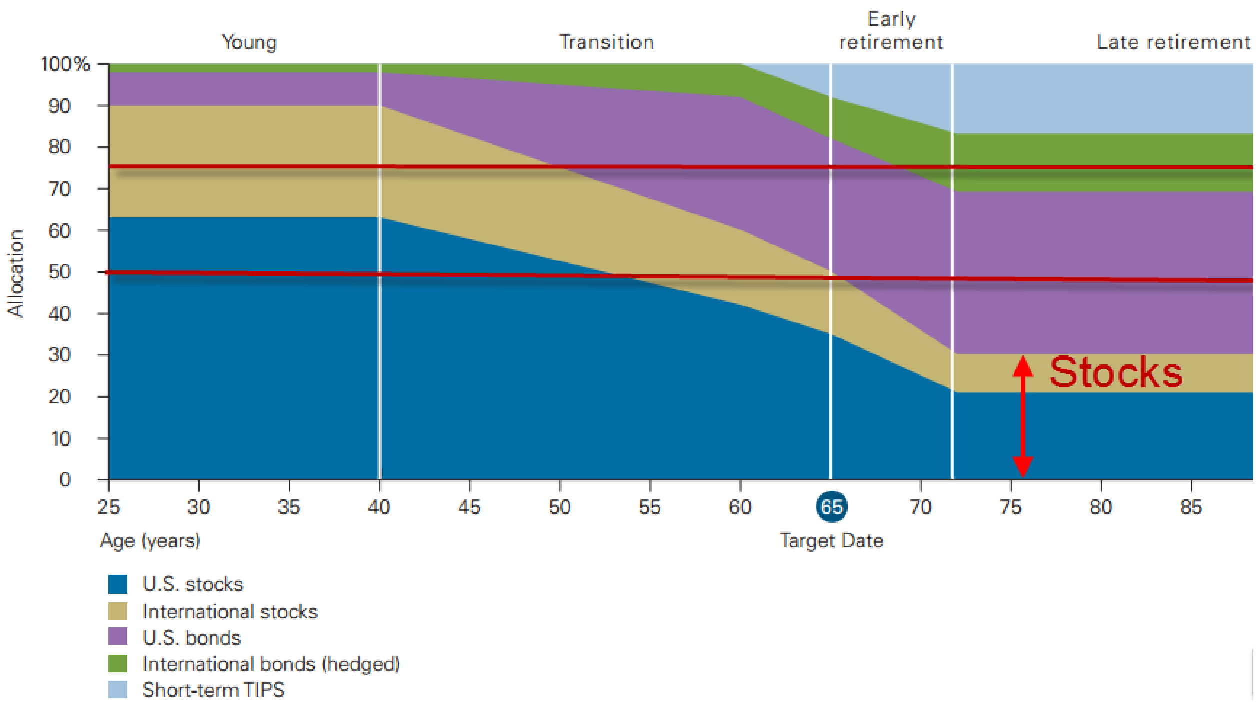
	Market	Vanguard IRA	Hi cost 401k
Gross return	7%	7%	7%
Expense	0%	-0.15%	-1.27%
Net return	7%	6.85%	5.73%
Value in 20 years	$38,697	$37,626	$30,476
Paid in expenses	$0	$1,071	$8,220

Below are some options to consider if you find that your old employer plan is expensive.

You can roll it into your current employer plan if that plan is low cost. This is almost always the best option for those starting or going back to a federal job. Federal employees have access to the Thrift Savings Plan with a miniscule 0.038% expense.

The next lowest cost option is to transfer the funds to an IRA at Vanguard. Vanguard has a unique ownership structure which keeps its costs very low. That is, its mutual funds own The Vanguard Group which, in turn, manages the funds at cost. An all-in annual expense may be 0.15%.

Vanguard's Target Retirement Funds are good choices for those with at least a few years to go before retirement. These funds invest in both US and international stock and bond markets. The bond portion of the fund gets progressively larger as the target date approaches. This reduces risk (and returns) and thereby helps to lessen declines. Below is a graph of how these funds allocate your dollars between stocks and bonds over time.



Notice that at the target date the allocation is 50% stocks and 50% bonds. Beyond that date, the fund gets progressively more conservative (more bonds) for another seven years and ends up 30% stocks and 70% bonds. This very conservative allocation is fine ***if*** you don't need to depend heavily on your savings during retirement (this would be the case for those with large pensions). However, if you do plan on following the 3% or 4% safe withdrawal rate methodology (see my paper: How Much Do You Need To Retire for an explanation of this methodology), realize that it's based on having 50% to 70% in stocks. So, the end state for the Target Retirement Funds will be too conservative. One simple fix to this issue is to switch into Vanguard's Life Strategy Moderate Growth Fund which is very similar to their Target Date Funds but the stock allocation is fixed at 60% stock the rest in bonds.

There is one disadvantage to an IRA vs. a 401k. If you withdraw funds from an IRA before age 59 ½ you will pay a 10% penalty. A 401k will allow penalty free withdrawals if you've retired, quit or were terminated from that employer ***after*** you've turned 55.

C. Ryan, CFP®