True cost of zero:
The hidden ways "zero-fee" accounts make money

"Free" is not just a marketing claim. It is a revenue model.
"Zero-fee" Individual Retirement Accounts (IRAs) are now widely available at most financial institutions, but there are complex revenue mechanisms that hide beneath the advertising surface. The way providers make money on these accounts is legal, but PensionBee's findings suggest that doesn't necessarily make them free for the customer.

The problem.

Providers who eliminate visible fees within "zero-fee" IRAs make structural changes that can continue eroding wealth beneath the surface. Instead of trading commissions, custodial fees and account maintenance charges, they shift how cash components of accounts are held and compensated, where trades are routed and how fund building blocks are priced and presented to customers.

The six hidden ways "zero-fee" platforms make money.

PensionBee identified six specific ways that "zero-fee" accounts may erode retirement balances, from structures built into the accounts themselves to marketing traps throughout the sign-up process.

6 hidden ways "zero-fee" IRA platforms make money

1

Cash sweep spreads

Idle cash gets parked in low-yield accounts while the platform pockets most of the interest spread. IRAs are particularly vulnerable, with a substantial portion remaining in cash for years following a rollover.

2

Securities lending revenue

Tradable financial assets within portfolios, known as securities, are loaned to institutional short-sellers for a price. Account holders take on the risk, but the platforms typically retain the majority of the reward.

3

Payment for Order Flow (PFOF)

Trades are not directly routed to the available market exchanges, but move through a middleman who pays the platform broker for information on the order flow and profits from resulting trading opportunities.

4

Fund building blocks

The expense ratio between an active and passive version of the same fund type can be significant. Making an active selection within a "zero-fee" IRA could raise the cost by as much as 0.87% annually.[1] Actively traded funds may be appropriate and beneficial, but customers often don't know the difference and may benefit equally from a passive fund.

5

Administrative and service charges

"No platform fees" does not necessarily mean account holders are exempt from flat fees or a wider layer of charges that can attach to an account depending on how a saver uses it: trading outside of core index-tracking building blocks, requesting a wire transfer, moving funds, or processing a foreign exchange conversion.

6

The fine print

"Zero-fee" accounts may be advertised alongside traditional advisory options, blurring which accounts the label actually covers. In other examples, advisory charges — disclosed in the fine print — apply once the balance surpasses a certain threshold.

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[1]Reflects the gap between the 0.11% expense ratio of a low-cost passive fund, per PensionBee analysis, and the 0.98% charged by an active fund, per Morningstar's US Fund Fee Study, a difference of 0.87% annually.

The problem for retirement savers.

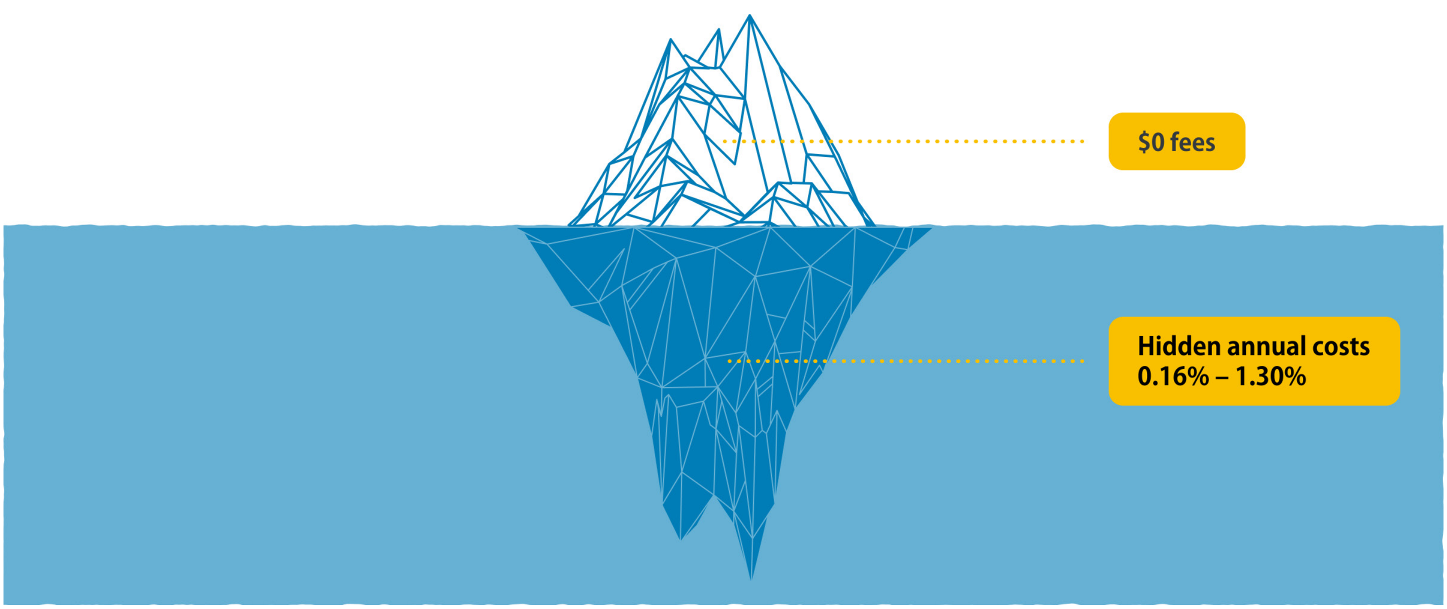
Many retirement savers don't know what they pay — or that they pay at all. 41% of all retirement savers in 401(k) plans do not know they pay fees. And that's in accounts that don't advertise otherwise.

The complexity of "zero-fee" IRA fee structures is not accidental. Confusion is profitable and platforms have economic incentives to keep certain revenue mechanisms opaque.

Meanwhile, platforms differ widely in what they provide. Some include human support, guidance and oversight; others offer little beyond execution. The relevant question is not whether a platform charges, but what savers receive in exchange for what they ultimately pay — visibly or not.

The bottom line

"Zero-fee" accounts are rarely free. They are a marketing claim that bears little resemblance to the true total cost of ownership. Although there is no optimal amount to pay for a retirement account, savers have a right to know exactly what they are paying — and how — for the financial services they consume.



The approach.

PensionBee partnered with a third-party Chartered Financial Analyst and Actuary to examine the cost infrastructure of current offerings of major platform providers, including traditional institutions and more recent new entrants, covering both active, self-directed and passive, robo-managed asset-allocation offerings. The associated costs of each charging element and their cumulative drag are modeled on a $107,000 account, the estimated median retirement balance for Millennial and Gen X.[2]

The true cost of zero.

Under a cost-optimized approach, free accounts translate to an annual baseline of between 0.16% and 0.32% extracted through largely hidden fees.[3] On the modeled balance of $107,000, that translates to between $160 and $340 per year. However, customers can quickly click their way to a much higher bill.

PensionBee estimates that typical customer behavior may lead to meaningfully higher costs, possibly around 1.3% annually (or more) including in hidden fees.[4] On the modeled $107,000 balance, this represents over $1,400 in hidden annual fees.

Disclaimer

[2]Estimated by combining 401(k) and IRA average balances for Millennial and Gen X clients, per a large retirement provider's year-end 2024 disclosure.

[3]"Cost-optimized" reflects the lowest possible cost of ownership, achieved through low-cost investments and "smart" cash choices, irrespective of performance or service outcomes.

[4]Factors in typical consumer behavior rather than the cost-optimized ideal. Fund selection is the largest single driver of the gap: substituting an actively managed fund for its passive equivalent may add 0.87% annually (0.11% vs. 0.98%), accounting for the majority of the difference between the two scenarios.