

The True Cost of Zero



The hidden ways “zero-fee”
Individual Retirement Accounts (IRAs)
make money



A Note on Independence and Disclosure

This white paper was commissioned by PensionBee, a U.S. IRA provider offering target-date and risk-rated portfolios with market-leading ETFs. PensionBee has a commercial interest in the retirement savings market and operates in the same market as the types of platforms and products discussed in this research.

The estimates presented in this report were provided by a Chartered Financial Analyst and Actuary retained by PensionBee. The third-party provider designed the methodology and calculated the figures referenced throughout this report. PensionBee provided the research brief, additional modeling and is responsible for the analysis, interpretation and conclusions presented in this paper.

PensionBee commissioned this research because it believes the cost structures of “zero-fee” retirement accounts are not adequately understood by or communicated to the customers they serve. Readers are encouraged to review the full methodology, which appears at the end of this document.

All information provided is compiled from publicly available data and research at the time of posting or PensionBee’s privately commissioned research obtained through third-party providers. They are not audited results and do not constitute financial or investment advice.

Foreword

Financial services come at a cost — or so you’d assume. Yet browse the websites of major brokerages, and you may notice free investment accounts tucked away among traditional options.

No trading commissions. No platform charges. No overt fees. So what’s the catch?

This white paper examines the charging mechanisms of “zero-fee” Individual Retirement Accounts (IRAs). Our research concludes what many readers will likely suspect: “zero-fee” accounts are incredibly complex, but not truly free. Some hidden expenses are buried in fine print while others remain fully invisible to the customer.

The result is a marketplace that grows more difficult to understand and compare by the day. The problem for everyday savers is that putting money away for retirement should be simple.

Modern careers rarely follow a linear path. The same is true for modern retirement. Americans job-hop often and younger generations are likely to navigate a career that swings between traditional and gig employment. Most workers are making critical retirement decisions at several points throughout their career, and [many will do so with little to no guidance.](#)

Given the complex reality of modern retirement, PensionBee finds that “zero-fee” investment products introduce additional confusion at a moment when trust in financial institutions is at an [all-time low.](#)

This paper does not purport to identify the appropriate level of charges: financial products differ in quality and service. Many aspects of a financial product, especially human support, can be worth paying for.

Instead, our research sets out to provide the information that every customer seeing advertisements promising free accounts deserves to know: If zero is not what it seems, then what does the account really cost?



[PensionBee](#) (LON:PBEE; OTCQX:PBNYF) is a leading retirement savings provider, helping people easily consolidate, manage, and take control of their retirement savings. The company manages over \$11 billion in assets and serves nearly 330,000 customers globally, with a focus on simplicity, transparency, and accessibility. PensionBee offers Traditional, Roth, SEP, and Safe Harbor IRAs with ETF-backed portfolios from State Street Investment Management, one of the world's largest asset managers. PensionBee is publicly traded on the London Stock Exchange (PBEE) with U.S. shares available on OTCQX (PBNYF).

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Executive Summary

“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.

¹Reflects 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 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.

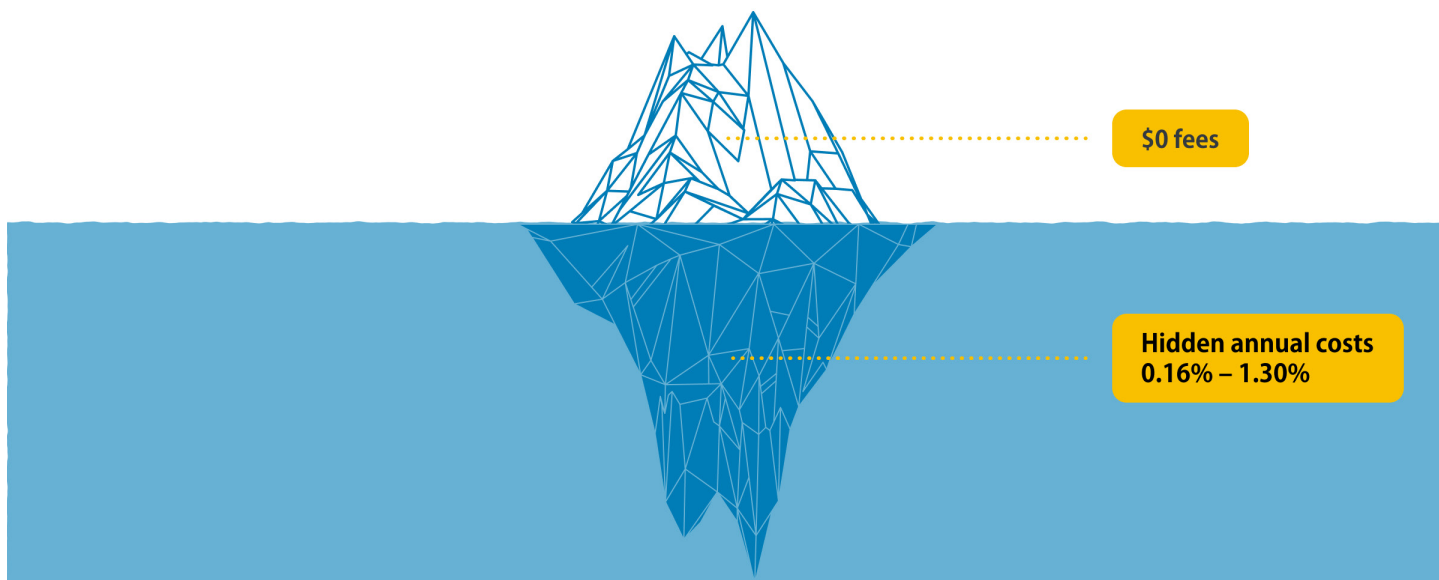
Under a cost-optimized approach, free accounts translate to an annual baseline of between 0.16% and 0.32% extracted through hidden fees.³ On the modeled balance of \$107,000, that translates to between \$160 and \$340 per year. However, customers can quickly click their way to a much higher bill.

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.



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. While 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.



²Estimated 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.

⁴Factors 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.

The calculus of investment fees

Fees are how the financial services industry makes money. Brokers, banks, credit unions, asset managers and retirement providers all take a cut to cover costs and generate profit.

Fee information helps investors make prudent decisions. For example, actively managed funds may charge a higher fee in exchange for active oversight, while passive funds are lower cost but largely leave investments to track the market on its own. Investors may prefer one or the other depending on their goals.

Financial institutions generally issue fee schedules at account opening, upon any fee change and through periodic disclosures, providing investors a standardized overview of their fee picture. These documents help inform decision making, especially as small percentage-based fees can add up over time — though strong returns or additional services may make higher fees worthwhile.

The problem for retirement investors is that many don't understand the disclosures they are given. The Government Accountability Office (GAO) [found](#) that 40% of Americans do not fully understand 401(k) fee information, while 41% are unaware that they pay fees at all.

And “zero-fee” marketing claims complicate this picture.

Popularized by newer digital-first investment platforms and accepted by legacy institutions, “zero-fee” marketing is accelerating. Yet, as the financial industry has shifted to embrace low or “zero-fee” accounts, the transparency rules may be outdated.

Federal regulations, like the [Investment Advisors Act of 1940](#) generally require firms to inform investors what they charge, but are not designed to capture the revenue a platform earns behind the scenes. Several charging mechanisms identified in this report fall into that gap:

- **Cash sweep spreads** are disclosed only on one side of the equation: the saver can see what they earn, but not what the platform earns on the same cash and whether the saver could therefore get a better deal elsewhere.
- **Payment for Order Flow (PFOF)** is disclosed only in aggregate. Brokers' quarterly [Rule 606\(a\)](#) reports show average payments by venue, leaving investors without a figure for what PFOF cost them on their own trades. More granular data is available on request, though it still stops short of a dollar figure.
- **Securities lending economics** aren't disclosed as a usable figure. The raw inputs, like gross lending revenue and associated fees, may be found in disclosure statements, but the investor must translate them into an opportunity cost on their own. Meanwhile, the risks of this practice generally remain difficult to quantify for any saver.

The rise of “zero-fee” accounts reflects the next frontier of structural information asymmetry that systematically favors platforms over savers — deepening the rift between those in the know and those out of it.

The rise of digital-first platforms

For most of the 20th century, buying a stock meant [calling a human being](#). That broker sat at a desk, had a seat on an exchange and charged customers hefty commissions that could run [as much as hundreds or thousands of dollars](#) per trade.

The relationship was human and personal, the fees were visible, and the industry was built on the assumption that ordinary people needed a professional intermediary to participate in markets at all. This structure was expensive and broadly inaccessible.

In 1975, the New York Stock Exchange (NYSE) responded to pressure from the Securities and Exchange Commission (SEC) and [abandoned fixed commissions per trade](#). Commissions fell, but the broker-led structure remained firmly in place. Fees continued to drop over time, and by the early 1990s, online retail trading became directly available to anyone with an internet connection.

As the idea of “democratizing finance” gained force, new digital-first retail investment platforms arrived on the scene, broadening market access through automated and low-cost portfolios. Marketing directly to customers soon became the new status quo. Platforms introduced zero-commission trading, and “low” or “no” fees emerged as a common selling point even among major institutions.

PensionBee’s findings suggest that fee revenue didn’t disappear. Instead, it moved to the machinery beneath the account, surfacing in how idle cash is held, how orders are routed and how information is presented to consumers.

V. Analysis

How to profit off “zero”

The independent analysis conducted for this report reveals six charging methods through which “zero-fee” IRAs generate revenue. Each one is legal and loosely disclosed, but most of them remain largely invisible to the saver footing the bill.

Here’s how platforms profit off “zero”:

1. Cash sweep spreads

IRAs generally hold idle cash as a component. Some platforms “sweep” the cash into interest-bearing accounts, but it is often the provider, not the customer, who profits from the yield.

The analysis reveals that providers generally employ one of two models: bank deposit or money market sweeps. Providers that invest customer cash into bank deposit accounts retain the spread between the rate paid by the bank and what is passed on to customers. In this model, the platform often captures most of the return generated by the customer’s own savings, while customers in the money market model generally retain more of the underlying yield. Providers that direct cash into money market funds largely profit from a management fee.

The analysis estimates a net spread of approximately 3% on swept cash in the bank deposit model, roughly the difference between a gross bank deposit yield of 4 to 5% and the 0 to 1% paid to customers. IRAs are particularly vulnerable, with a substantial portion remaining in cash for [years](#) following a rollover. What should be a transitional holding can, for a significant share of savers, persist for the better part of a decade. Unintentional cash positions like this, where money sits uninvested due to confusion or lack of clear understanding, are common and can be especially profitable for providers.

Providers who lean on the money market approach invest customer cash into in-house money market funds, from which the platform then earns a management fee of approximately 0.42% on the swept balance. Because money market funds return higher yields, this model is comparatively more favorable to savers.

Even after the fee, providers that use this model may pass on a more meaningful return.

For years, sweeping idle cash into money market funds was common practice across the industry. However, over the past decade, [many providers quietly changed their default](#), moving away from that model and toward bank deposit sweeps, which allow the platform to keep a more substantial spread.

When interest rates were low — near 0.5% — there was little for banks to earn or share with customers. But between 2022 and 2023, when rates reached 5%, the gap between what they earned and what they passed along widened considerably. The same structures and disclosures that covered a 0.5% gross annual interest yield now apply to nearly 5%.

2. Securities Lending Revenue

Stocks and bonds held in an IRA can be temporarily loaned out to large financial institutions, who pay a fee to borrow them. This is a routine and broadly beneficial practice when the proceeds are shared between the provider and its customers. In some cases, the platform can earn revenue through keeping a disproportionate share of this profit.

The structure of this arrangement varies by product type. Within the IRA itself, some platforms offer opt-in lending programs where economics are disclosed but heavily weighted toward the platform. One provider’s program, for example, is estimated to retain 85% of net lending fees — after borrower rebates to notionally compensate them for the return on deposited collateral — with the remaining 15% paid to the customer. However, the platform then also captures the full actual interest earned on the borrower’s collateral deposit assets.

But the platform isn't the only one that takes a cut.

Securities lending doesn't stop at the account level. It also happens inside the funds themselves. The ETFs and mutual funds that make up a typical IRA portfolio routinely lend out their underlying holdings to institutional borrowers, and the fund manager takes a share of the fee. For one prominent ETF provider used across the platforms analyzed, the fund manager retains approximately 37.5% of net lending fees, with the remainder flowing back to investors. Platforms that rely on proprietary in-house mutual funds tend to keep a higher share of this revenue [to offset costs](#).

The analysis estimates securities lending generates between 0.02% and 0.06% in annual revenue, with higher values associated with business models that place a greater emphasis on this revenue stream.

Lending these securities out isn't risk-free, and [those risks fall on the investor](#), not the platform. If a borrower fails to return them, or if the collateral backing the loan is reinvested and loses value, it's the customer who takes the hit — something that happened to a number of lending programs during the 2008 financial crisis. These risks are rare but well documented, and not something an everyday saver is likely to consider.

3. Payment for Order Flow (PFOF)

Payment for Order Flow (PFOF) is a controversial and increasingly restricted practice globally. When customers buy or sell a share, bond or ETF inside their retirement account, the broker doesn't necessarily send that transaction directly to the market exchange.

Instead, it routes the order to a middleman, who pays the broker for the right to execute it. That middleman can make money by either filling the trade at a slightly worse price than the market offers, pocketing the difference, or matching the trade against orders from its other customers, taking the bid-offer spread. In either case, the platform profits, but the customer may end up with a slightly worse deal.

PFOF was prohibited in the United Kingdom and is now restricted across Continental Europe under [MiFID II](#). The rationale is straightforward: the practice creates a structural conflict of interest, incentivizing platforms to route orders to specific broker dealers for their own financial benefit rather than the customer's best execution.

In the United States, the practice remains legal and can be a meaningful revenue component for some platforms. It is most significant for commission-free, self-directed trading platforms, whose zero-fee models have historically been subsidized by PFOF and which have [faced regulatory scrutiny for it](#). This matters for retirement savers because the same platforms increasingly offer self-directed trading alongside managed portfolios: the more a saver trades on their own, the more of this revenue their orders generate. Platforms are thus incentivized to encourage retirement savers to trade on their own, and on average savers underperform the market when doing so.

Providers who do not route orders for payment instead may enlist broker-dealers who capture net exchange liquidity rebates, a related but distinct mechanism whereby rebates are earned for providing liquidity to exchanges, which under certain regulatory conditions can be retained by the corporate entity.

For managed, low-turnover portfolios, these rebates and trading internalization benefits — rather than PFOF itself — are the operative mechanisms.

It's well known that PFOF generates significant revenue for some platforms but is generally represented in aggregate, making it near impossible for an individual investor to accurately assess. For low-turnover, target-date index-tracking accounts, PFOFs may represent just 0.0025% annually, however it can be argued that 0.03% may be better representative of more actively traded accounts. In addition, this could possibly double to 0.06% annually for self-directed accounts investing more in the underlying equity securities. Liquid, high-volume ETFs tend to sit at the low end of this range, since heavy trading keeps spreads tight. Thinner or less-traded holdings can push the cost higher, even before accounting for how often they're traded.

These hidden transaction costs represent an additional layer which, in aggregate, redirects hundreds of millions of dollars from customer returns.

While in some cases substantial, this revenue stream will not appear in any marketing material and requires no customer consent.

4. Fund expense ratios and investing knowledge gaps

Like an investment portfolio, "zero-fee" IRAs can be thought of as a wrapper containing a mix of investments. The individual building blocks can contribute significantly to overall costs and can be difficult to locate, often appearing in footnotes which are notoriously difficult to interpret.

The difference between active and passive investments is a case in point. Some platforms offer both active and passive versions of the same fund family, and the difference in expense ratio can be significant.

According to [Morningstar's 2026 Fund Fee Study](#), the average actively managed fund charges 0.98% annually on an equal-weighted basis, against PensionBee's estimated 0.11% for the lowest cost funds tracking broad indexes, nearly a nine-fold difference. A customer who selects the active version of a fund rather than the passive equivalent unintentionally, a common occurrence and one that platforms have little incentive to prevent, may pay multiples of the necessary cost — all within an account they may think is free.

Active and passive management each have a role depending on a saver's time-horizon and goals, and strong performance can offset small cost differences. Savers with a long time horizon may be well served by low-cost passive funds, while a shorter horizon, a need for more risk management or further diversification may justify the higher cost of active oversight. The problem arises when a saver ends up paying for an active fund without intending to or benefiting from it.

Expense ratios are typically displayed and sortable on transactional platforms; what savers cannot easily judge is whether a difference in fund mandate justifies the difference in cost — and amid the noise of names, labels and past performance, a near-identical fund at a fraction of the price is easy to pass over.

5. Administrative and service charges

For the specific product analyzed in this report, IRAs, explicit administration charges are broadly zero across all platforms because it assumes a 20-year buy-and-hold target-date, index-tracking strategy. A few category-level nuances still merit attention, as in practice client circumstances and actions could incur tacked on charges.

Traditional providers often retain per-trade commissions — of the order of \$0.65 per options contract or \$1 per security on bonds and CDs — though these may be less common in IRAs.

The analysis identifies a wider layer of charges that can attach to an account depending on how a saver actually uses it, rather than showing up as a fixed cost of the product itself. Trading outside the core index-tracking building blocks, requesting a wire transfer or moving assets between institutions may incur additional charges.

Foreign exchange conversions are a particularly opaque example: rather than a disclosed line-item fee, the cost is often built directly into the exchange rate, quoted anywhere from 0.20% to 1.00% away from the market rate, invisible unless a saver checks it against an independent source. This charge is not built into our core model, as it only applies to the circumstance of a saver trading foreign securities — outside the domestic index and ETF building blocks assumed in the standard buy-and-hold IRA product this report is centered on.

6. The fine print

For some platforms, the “zero-fee” label can be conditional. Some platforms charge an annual advisory fee ranging from 0.25% to 0.27% for “zero-fee” accounts above a certain limit. Any balance that grows above the low-five figure threshold will trigger a management fee, and only a careful review of the fine print reveals the label is reserved for small balances only.

Unlike the obscure financial practices explained above, this approach is both simple and plausibly unintentional: advertise “zero” broadly and disclose the condition in the fine print.

In other cases, platforms nestle “zero-fee” accounts alongside traditional options, meaning an accidental click at sign-up could route customers into a full service account.

Advisory fees can come at a premium of [0.5% to 1.5%](#) annually and can climb higher for dedicated human guidance. The category alone describes a broad spectrum of service, ranging from an algorithmic automated service to full and dedicated human support.

Some fees may be beneficial on the net if they provide an investor with access to a financial advisor, human support, or additional tools. However, when selected accidentally, an investor can face an unnecessary and substantial fee, especially when the added services are not fully utilized.

In a market where most major providers advertise “zero-fee” accounts, the idea that an advisory service comes free of charge may appear may appear plausible.

Providers that advertise “zero-fee” next to expensive account offerings stand to profit off of customer confusion. Complexity throughout the sign up process or within the account itself may exceed the built-in financial practices infrastructure described in the first five pillars.

Two models at work

PensionBee’s findings suggest that the six pillars of “zero” tend not to operate in isolation. Instead, most platforms take a hybrid charging approach, combining some or all the mechanisms identified. Some lean more heavily in one direction or the other, leading to the conclusion that there are two primary models at play in “zero-fee” accounts: the asset management fee model and the financial infrastructure model.

- **The asset management fee model** earns revenue primarily through fund expense ratios and advisory charges: costs that are real but discoverable with effort.
- **The financial infrastructure model** earns through cash spread, securities lending and order routing: costs that are structurally immune to comparison shopping because they are never disclosed in a form that makes comparison possible.

Both models allow providers to profit off “zero” while making it nearly impossible for an everyday saver to determine how much these structures erode their balances over the long term. However, understanding which model a platform leans towards may provide insight into where the hidden costs are likely to be located.

VI. Financial Impact

How expensive “free” gets

The analysis models the impact of the six pillars on optimal customer behavior: optimized low-cost approach (e.g. target-date index funds selected), the best available cash option used, and cost-minimizing choices made throughout.

Even under low-cost assumptions, “zero-fee” accounts result in at least 0.16% to 0.32% of fees charged through structural and operational mechanisms. On the modeled \$107,000 balance, this will cost roughly \$160–\$340 a year.

But PensionBee estimates that typical customer behavior may lead to meaningfully higher costs, possibly around 1.3% annually (or more) including in hidden fees. On the same \$107,000 balance this represents around \$1,400 per year.

Most of the hidden charging approaches are never disclosed to the customer as an invoiced cost.

Cash sweep spread reduces yield directly, through foregone interest or lending income the platform retains instead. PFOF can reduce yield by reducing the saver's return, as the buyer of the order flow keeps as profit part of the spread that might otherwise have been passed back to the saver as a better price. As securities lending is a risk taken with customer money, the customer traditionally nets a significant portion of the revenue – here the observed providers kept a majority of the fee customers would have been paid elsewhere. Fund expense ratios and advisory fees, by contrast, are billed more explicitly, but are more difficult to locate than the headline “zero-fee” advertising would suggest.

Table 1: Annual hidden charges on a \$107,000 “zero-fee” account, by customer behavior

Hidden charging mechanism	Cost-optimized customer behavior	Common customer behavior
Cash sweep spread	0.02%–0.03%	0.30%
Securities lending	0.02%–0.06%	0.06%
Payment for Order Flow	0%–0.0016%	0.0025%–0.03% ^a
Fund building blocks (expense ratio)	0.11%	<u>0.98%</u> ^b
Platform, trading & admin fees	0.00% ^c	
Advisory fee	0.00%–0.27%	0.27%
Adjustment	—	(0.30)% ^d
Possible cumulative charge	~0.16%–0.32%^e	~1.3%
On a \$107,000 account	~\$160–\$340/yr	~\$1,400/yr

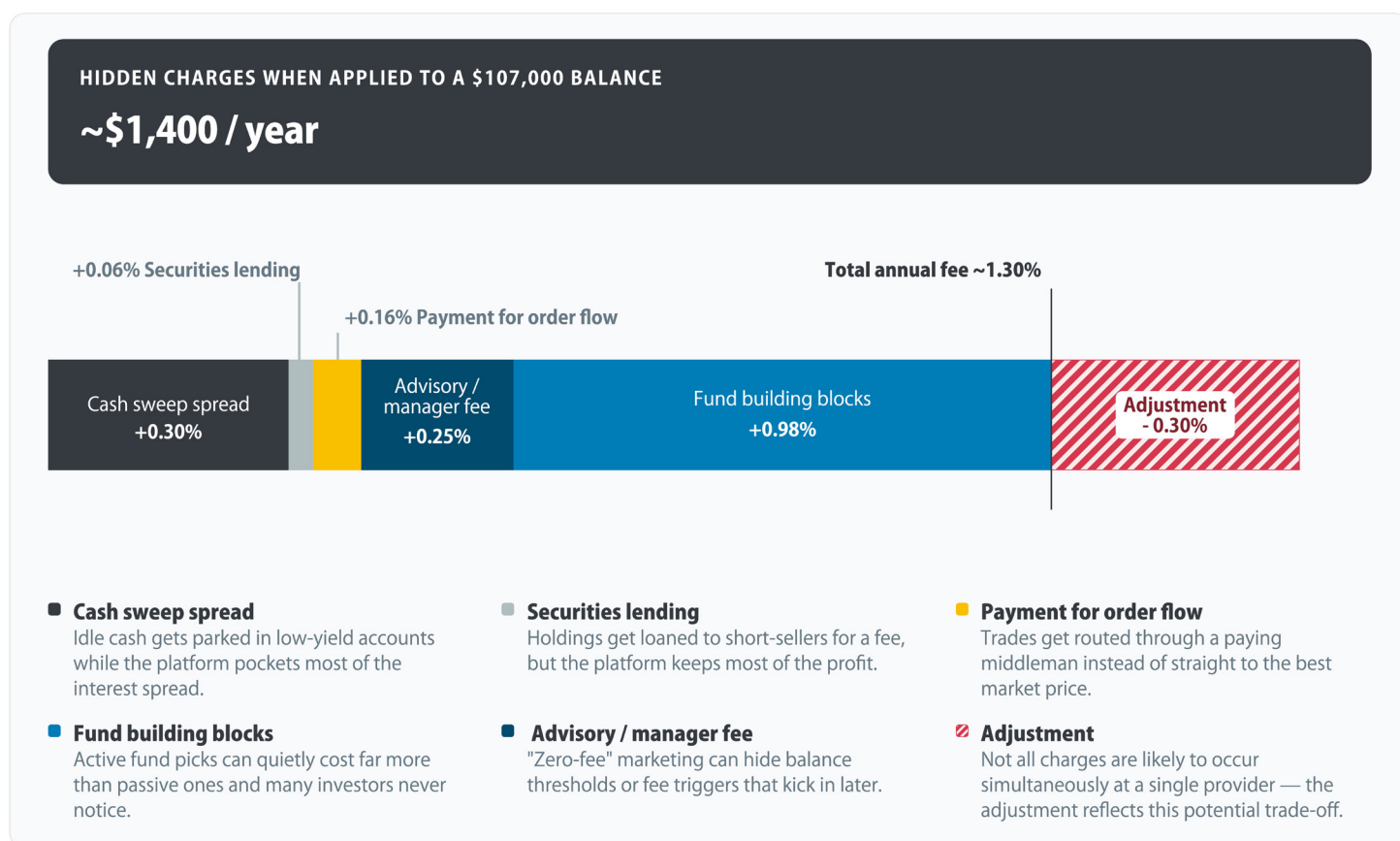
- Notes to Table 1: Contribution-matching charge reliefs, offered by a number of platforms and typically averaging around 5 bps per annum, are not included above and would act to reduce fees.
- ^a The PFOF / liquidity rebates / internalization figure of 0.0025% would be typical of a low-turnover, target-date index-tracking account, whereas 0.03% is representative of a more actively traded account. Our fee calculation applies a mid-range figure of roughly 0.016%, reflecting a moderately active account rather than either extreme.
- ^b Morningstar – equal weight average of all U.S. actively managed funds.
- ^c Administration fees may be applied as a flat dollar based charge; PensionBee's calculation therefore does not factor them in.

- ^d Not all charges are likely to occur simultaneously at a single provider. In particular, providers charging an advisory/robo fee tend to offset this by selecting lower-cost funds rather than reducing other charges --- the adjustment reflects this trade-off.
- ^e The 0.16%–0.32% range reflects observed totals across providers under cost-optimized behavior, rather than a sum of the maximum figures shown in each mechanism row above. Totals may include other forms of retained revenue, principally exchange liquidity rebates and internalized trading spreads.

At the low end, 0.16% in hidden fees assumes a chain of cost-optimized choices. Each category of invisible charging can cost far more, and even if accidental, platforms have little incentive to steer savers away from the expensive path.

One of the costliest factors is fund choice, or which building blocks are held inside the account. For example, selecting an expensive active fund instead of a low-cost option can carry a 0.87% higher annual drag.⁵ Over a 30-year horizon, that single choice could potentially cost an investor with \$107,000 more than \$171,000⁶ in lost returns — inside an account marketed as “zero-fee.” The findings suggest that the price tag for “zero” grows with the margin for error. And because customer confusion is predictable and profitable, it factors into the true cost of zero.

What “zero-fee” actually costs



Investing involves risk. This image visually represents the data compiled from the associated research and is provided solely for informational and educational purposes.

⁵Per Morningstar's U.S Fund Fee Study, the gap between the 0.11% expense ratio of a low-cost passive fund and the 0.98% charged by an active fund can lead to a difference of 0.87% annually.

⁶Assumes a \$107,000 starting balance held 30 years at a 7% gross annual return with no further contributions, comparing a fund charging 0.11% annually against one charging 0.98%, a difference of 0.87%.

The problem for retirement savers

America's retirement system is notoriously complex. The shift from defined benefit pensions to a defined contribution system didn't just create new account types, it left individual savers responsible for their own retirement.

For those who understand the system, it is now easier to maximize wealth through personalized options and tax-advantaged structures. For those who don't, even the basics can be difficult to grasp.

[Recent polling shows that nearly 40% of Americans](#) cannot define a 401(k), while research from LIMRA suggests [two-thirds \(66%\)](#) are not confident in their knowledge of IRAs. Despite low retirement literacy, more Americans are choosing to self-manage their assets, holding over [\\$18 trillion in IRA assets in 2026](#), up from \$5 trillion in 2010.

By 2030, Americans will roll over [\\$1 trillion into IRA accounts](#) annually. Unlike a 401(k), Traditional and Roth IRAs are self-directed investment accounts, allowing customers the flexibility to trade stocks, bonds, and mutual funds on their own. But research suggests the flexibility to fine tune portfolios may lead to risky outcomes.

- **Too much risk:** [Individual investors](#) appear to have historically underperformed the broader market's movement.
- **Too little risk:** Retirement accounts contain a specific mix of funds, stocks, bonds, and cash arguably tailored to the saver's timeline. However, research by the [Employee Benefit Research Institute \(EBRI\)](#) estimates that nearly a quarter (24%) of IRAs hold 90% cash, likely unintentionally.

The IRA market's growth is largely driven by rollovers, and given that a substantial portion remain in cash for [years following a rollover](#), savers may be particularly susceptible to cash sweep programs.

Retirement savers represent the broadest possible spectrum of financial literacy: everyone from financial analysts to teachers and firefighters will need to save for retirement. The "zero-fee" model quietly rewards expertise and penalizes the lack of it — and because the penalty is invisible, the saver least equipped to catch it is affected the most.

Key takeaways for retirement savers

Whether or not it is the provider's intention, customer confusion appears to be profitable as well as costly. As IRA adoption continues to accelerate, it is increasingly likely these self directed investment accounts will be held by those who are not necessarily armed with the necessary knowledge to avoid these pitfalls.

The reality is that many retirement savers don't know what they pay — or that they pay at all.

Forty-one percent of all retirement savers in 401(k) plans, not just those in "zero-fee" accounts, do not know they pay [fees](#). And zero fees does not mean they are paying nothing for the account, so further education is needed.

[The Department of Labor](#) estimates that on a \$25,000 balance, a one-percentage-point difference in annual fees can mean the difference between retiring with \$227,000 and \$163,000 over 35 years. And the differences are rarely small: all-in costs for 401(k) plans can range from roughly [0.3% to 2% a year](#). A saver who lands in the wrong product — a common and easy mistake — may pay multiples of the necessary cost for decades without noticing. And the mechanisms described in this report are largely invisible, structured to rarely surface in a statement.

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.

Here are the six issues to look out for:

- **Cash sweeps.** Pay attention to cash sweeps; if you want to allocate to cash, ensure it is in a product where you reap most of the return, not the platform. Distinguish intentional cash from unintentional cash — for example, IRA rollovers often sit uninvested by accident, so double check that any cash position is a deliberate choice, not an oversight.
- **Securities lending.** Ensure you understand securities lending and see if you can optimize your returns from it. Don't participate if you're not comfortable with the risk.
- **Payment for Order Flow (PFOF).** PFOF is likely present for many providers and its presence is hard to control. You may be able to reduce PFOF by choosing liquid, high-volume funds and trading them less frequently — each trade is a separate PFOF event, so a low cost per trade combined with few trades will tend to beat a high cost per trade combined with many.

- **Select your investments carefully.** If choosing a more expensive option, ensure you understand the benefits and risks, and how they align with your objectives. Good investments are important as performance may offset small cost differences.
- **Minimize transaction fees.** Read the fine print to see if they exist. Watch for per-trade commissions on options/bonds/CDs, wire transfer fees, costs on moving assets between institutions, balance thresholds that trigger advisory fees, and FX markups (0.20–1.00%) hidden in the exchange rate on foreign trades.
- **Pay for what you need.** Ensure you are buying the right service with the level of human support you require. Good human support is worth paying for, just make sure you understand what you get and what you pay.

In short, the complexity of IRA fee structures is not accidental. Platforms have economic incentives to keep certain revenue mechanisms opaque. Some platforms have built their entire brand on fee-free retirement savings, but these are businesses, not charities, and sophisticated ones.

The approaches described here represent a systematic and largely invisible transfer of wealth from savers to platforms.

“Zero-fees” make for a compelling story, but it is not an accurate one.

About the research

This white paper is based on independent analysis commissioned by PensionBee and conducted by a Chartered Financial Analyst and Actuary. The research specifically estimates the annual aggregate revenue earned by platform providers and their associates under their lowest charging target-date index tracking asset offerings. PensionBee commissioned the research; the analytical methodology, estimates and conclusions are those of the independent analyst. PensionBee additionally provides commentary and context, specifically separately determining the Hypothetical Customer Behavior charge estimate based on Morningstar statistics and other stated sources.

Methodology and limitations

The findings in this report are based on independent actuarial analysis conducted by a third-party Chartered Financial Analyst, commissioned by PensionBee. The methodology constructs bottom-up estimates of platform revenue for each fee mechanism, drawing on publicly available data sources including SEC Rule 606(a) disclosures, fund prospectuses and associated SEC filings, company websites and product fee schedules, listed company Reports and Accounts, and industry research from Vanguard, BlackRock, Morningstar and the Investment Company Institute.

Several estimates in this report are model derived rather than directly observed. Cash sweep spreads for platforms that do not disaggregate this revenue are estimated using disclosed interest rates offered, observable money market and bank deposit rates, industry comparables, and actuarial judgment. Payment for Order Flow figures are estimated making use of SEC Rule 606(a) filings, which disclose routing patterns but do not aggregate dollar amounts at the product level. Securities lending economics within fund building blocks are estimated from prospectus disclosures, with lending rates drawn from academic research and industry data.

Importantly, the analysis assumes optimal customer behavior throughout. Typical customer behavior—including actively managed fund selection, higher cash balances and failure to select the lowest-cost available option—would in most cases result in higher effective costs than those modeled. These estimates should therefore be read as a floor, not a ceiling, for actual costs incurred by typical savers.

Users of this analysis should note that it represents a point-in-time estimate based on available data as of March 2026. Platform fee structures, interest rates, and market conditions change over time. The structural mechanisms described—cash sweep spreads, securities lending retention and Payment for Order Flow—are unlikely to change materially, but the specific basis point estimates will vary with market conditions.

Disclaimer

Investing involves risk.

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