



Highlights of [GAO-08-222T](#), a testimony before the Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Employers are increasingly moving away from traditional pension plans to what has become the most dominant and fastest growing type of plan, the 401(k). For 401(k) plan sponsors, understanding the fees being charged helps fulfill their fiduciary responsibility to act in the best interest of plan participants. Participants should consider fees as well as the historical performance and investment risk for each plan option when investing in a 401(k) plan because fees can significantly decrease retirement savings over the course of a career.

GAO's prior work found that information on 401(k) fees is limited. GAO previously made recommendations to both Congress and the Department of Labor (Labor) on ways to improve the disclosure of fee information to plan participants and sponsors and reporting of fee information by sponsors to Labor. Both Labor and Congress now have efforts under way to ensure that both participants and sponsors receive the necessary fee information to make informed decisions. These efforts on the subject have generated significant debate. This testimony provides information on 401(k) plan fees that (1) sponsors need to carry out their responsibilities to the plan and (2) plan participants need to make informed investment decisions. To complete this statement, GAO relied on previous work and additional information from Labor and industry professionals regarding information about plan fees.

To view the full product, including the scope and methodology, click on [GAO-08-222T](#). For more information, contact Barbara D. Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

PRIVATE PENSIONS

Information That Sponsors and Participants Need to Understand 401(k) Plan Fees

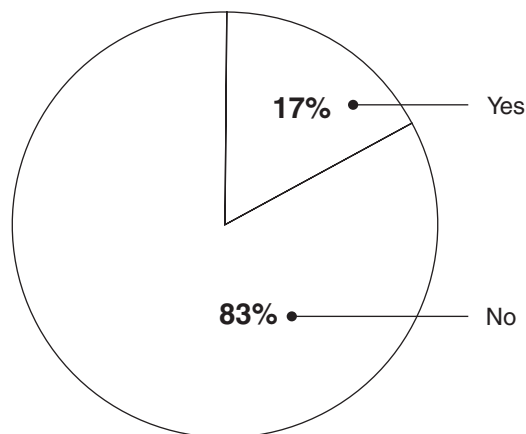
What GAO Found

Information on 401(k) plan fee disclosure serves different functions for plan sponsors and participants. Plan sponsors need to understand a broad range of information on expenses associated with their plans to fulfill their fiduciary responsibilities. Sponsors need information on expenses associated with the investment options that they offer to participants and the providers they hire to perform plan services. Such information would help them meet their fiduciary duty to determine if expenses are reasonable for the services provided. In addition, sponsors also need to understand the implication of certain business arrangements between service providers, such as revenue sharing. Despite some disagreements about how much information is needed, industry professionals have made various suggestions to help plan sponsors collect meaningful information on expenses. Labor has also undertaken a number of activities related to the information on plan fees that sponsors should consider.

Participants need fee information to make informed decisions about their investments—primarily, whether to contribute to the plan and how to allocate their contributions among the investment options the plan sponsor has selected. However, many participants are not aware that they pay any fees, and those who are may not know how much they are paying. Most industry professionals agree that information about an investment option's relative risk, its historic performance, and the associated fees is fundamental for plan participants. Some industry professionals also believe that other fees that are also charged to participants should be understood, so that participants can clearly see the effect these fees can have on their account balances.

Participants' Response to Survey Question on Awareness of Fees

Do you know how much in fees and expenses you are paying for your 401(k) plan?



Source: AARP's Survey of 401(k) Participants' Awareness and Understanding of Fees, developed and deployed by Knowledge Networks, July 2007.