PRIVATE PENSIONS

401(k) Plan Participants and Sponsors Need Better Information on Fees

What GAO Found

Fee disclosure serves different functions for plan participants and sponsors. Studies have shown that 401(k) participants often lack basic knowledge about the fees associated with their plan. Participants need information about the direct expenses that could be charged to their accounts. As we previously recommended and most experts agree, the expense ratio—a fund’s operating fees as a percentage of its assets—is a fundamental piece of information for participants. Plan sponsors, in contrast, need a range of fee information to fulfill their fiduciary responsibilities. Sponsors need additional information on service providers, investment options, and revenue sharing arrangements to assist them in monitoring plan fees and determining whether they continue to be reasonable in light of the services provided. Labor has ongoing efforts designed to help participants and plan sponsors understand the importance of plan fees and the effect of those fees on retirement savings.

Whether participants receive only basic expense ratio information or more detailed information on fees, presenting the information in a clear, easily comparable format can help participants understand the content of the disclosure. GAO’s prior reports found that certain practices help people understand complicated information. For example, using clear language and a straightforward layout in a brief document can enhance the accessibility of financial information. Also, providing graphics and less text can both attract recipient attention and make detailed information more quickly and easily understandable.

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?

<table>
<thead>
<tr>
<th>Yes</th>
<th>17%</th>
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<tbody>
<tr>
<td>No</td>
<td>83%</td>
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Source: AARP’s Survey of 401(k) Participants’ Awareness and Understanding of Fees, July 2007.