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?

- Yes: 17%
- No: 83%

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