PRIVATE PENSIONS

Changes Needed To Provide 401(k) Plan Participants and the Department of Labor Better Information on Fees

What GAO Found

Investment fees, which are charged by companies managing mutual funds and other investment products for all services related to operating the fund, comprise the majority of fees in 401(k) plans and are typically borne by participants. Plan record-keeping fees generally account for the next largest portion of plan fees. These fees cover the cost of various administrative activities carried out to maintain participant accounts. Although plan sponsors often pay for record-keeping fees, participants bear them in a growing number of plans.

The information on fees that 401(k) plan sponsors are required by law to disclose is limited and does not provide for an easy comparison among investment options. The Employee Retirement Income Security Act of 1974 (ERISA) requires that plan sponsors provide participants with certain disclosure documents, but these documents are not required to contain information on fees borne by individual participants. Additional fee disclosures are required for certain—but not all—plans in which participants direct their investments. These disclosures are provided to participants in a piecemeal fashion and do not provide a simple way for participants to compare plan investment options and their fees.

Labor has authority under ERISA to oversee 401(k) plan fees and certain types of business arrangements that could affect fees, but lacks the information it needs to provide effective oversight. Labor collects information on fees from plan sponsors, investigates participants’ complaints or referrals from other agencies on questionable 401(k) plan practices, and conducts outreach to educate plan sponsors about their responsibilities. However, the information reported to Labor does not include all fees charged to 401(k) plans and therefore has limited use for effective oversight and for identifying undisclosed business arrangements among service providers. Without disclosing these arrangements, service providers may steer plan sponsors toward investment products or services that may not be in the best interest of participants and may cause them to pay higher fees. Labor has several initiatives underway to improve the information it has on fees and the various business arrangements among service providers.

Effect of a 1-Percentage Point in Higher Annual Fees on a $20,000 401(k) Balance Invested over 20 Years

<table>
<thead>
<tr>
<th>Account balance</th>
<th>20,000</th>
<th>30,000</th>
<th>40,000</th>
<th>50,000</th>
<th>60,000</th>
<th>70,000</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>80,000</td>
<td></td>
<td></td>
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<td></td>
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</tbody>
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Source: GAO analysis.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara Bovbjerg at (202) 512-7215 or bovjergb@gao.gov.