



Highlights of [GAO-08-95T](#), a testimony before the Senate Special Committee on Aging

### Why GAO Did This Study

According to Labor’s most recent data, there are an estimated 44 million active participants in 401(k) plans. As participants accrue earnings on their investments, they also pay a number of fees, associated with 401(k) plans. Over the course of the employee’s career, fees may significantly decrease retirement account balances. For plan sponsors, understanding the fees they are being charged helps fulfill their fiduciary responsibility to act in the best interest of plan participants.

GAO’s prior work on 401(k) fees found that fee disclosures are limited and do not allow an easy comparison of investment options. GAO previously made recommendations to both Congress and Labor on ways to improve the disclosure of fee information to both plan participants and sponsors. 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 about the way fee information could be disclosed to benefit 401(k) participants and sponsors, focusing on 1) the information on fees that could be most useful for plan participants and plan sponsors and 2) how such information could be effectively presented. To complete this statement, GAO relied on previous work and also utilized information from Labor and from industry experts on the subject of fee disclosure to participants.

To view the full product, including the scope and methodology, click on [GAO-08-95T](#). For more information, contact Barbara D. Bovbjerg at (202) 512-7215 or [bovbjergb@gao.gov](mailto:bovbjergb@gao.gov).

## PRIVATE PENSIONS

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

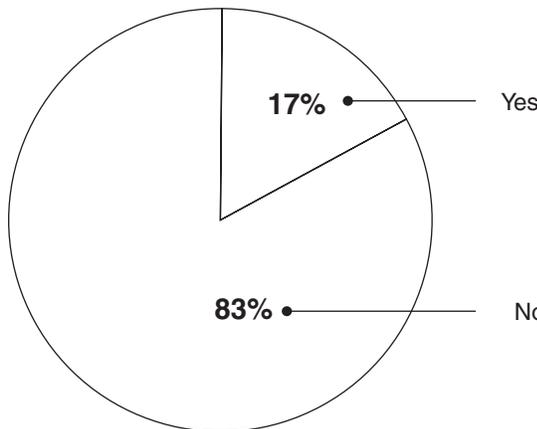
#### What GAO Found

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?



Source: AARP’S Survey of 401(k) Participants’ Awareness and Understanding of Fees, July 2007.