

## Why GAO Did This Study

Studies have been conducted to better understand the fees 401(k) plan sponsors and their participants pay. However, these studies focus on larger plans. Thus, uncertainty remains about the amounts paid by small and medium-sized plans and the level of knowledge and expertise these sponsors have to assess the fees charged by service providers.

GAO addressed the following related to small, medium-sized, and large plans: (1) amounts plan sponsors and participants pay for services, (2) challenges sponsors face in understanding how fees are charged, and (3) actions Labor has taken to help sponsors better understand and monitor the fees charged by service providers. GAO reviewed relevant federal laws, regulations, and retirement research, and interviewed federal officials and industry experts. GAO also conducted a survey of 1,000 401(k) plans to collect information about fees paid for plan services. The response rate allowed GAO to generalize to the population of 401(k) plans for most of the survey questions. The survey instrument and most results can be viewed at [GAO-12-550SP](#).

## What GAO Recommends

GAO recommends that Labor develop and implement more proactive approaches to sponsor educational outreach, improve public access to annual Form 5500 data, and examine the definition of a fiduciary to determine if it captures the current relationship between sponsors and providers. In response, Labor generally agreed with the findings and will explore ways to implement these recommendations.

View [GAO-12-325](#). To view the e-supplement online, click on [GAO-12-550SP](#). For more information, contact Charlie Jeszeck at (202) 512-7215 or [jeszeck@gao.gov](mailto:jeszeck@gao.gov).

## 401(K) PLANS

### Increased Educational Outreach and Broader Oversight May Help Reduce Plan Fees

## What GAO Found

Plan sponsors and participants paid a range of fees for services, though smaller plans typically paid higher fees as a percentage of plan assets. For example, the average amount sponsors of small plans reported paying for recordkeeping and administrative services was 1.33 percent of assets annually, compared with 0.15 percent paid by sponsors of large plans. Larger plans were more likely to pass recordkeeping fees along to participants, but when fees were passed along to participants in small plans, those in large plans paid lower fees than those in small plans. Participants also paid for investment and plan consulting fees—through fees deducted from their plan assets—in more instances than sponsors.

GAO's survey and review of plan documents showed that some sponsors faced challenges in understanding the fees they and their participants were charged. Some sponsors did not know if their providers used complex fee arrangements, such as revenue sharing, or if their plans paid certain fees under an insurance contract, such as a group annuity contract. In addition, some sponsors reported knowing about arrangements, but did not fully understand how these fees were charged. For example, one relatively large plan underestimated recordkeeping fees by more than \$58,000, because the sponsor did not include the fees charged to participants' accounts under its revenue sharing arrangement.

### Revenue Sharing Example: Sponsor Awareness of Third-Party Payments to Their Providers for Services

Revenue sharing generally refers to indirect payments made from one service provider to another service provider in connection with services provided to the plan, rather than payments made directly by the plan sponsor for plan services. If sponsors do not understand these arrangements, it could result in the plan sponsor and participants paying more for services as assets grow, although the level of service provided tends to remain the same. A short video illustrating a hypothetical example of how revenue sharing arrangements can work is available at [http://www.gao.gov/multimedia/video/#video\\_id=590296](http://www.gao.gov/multimedia/video/#video_id=590296).

The Department of Labor (Labor) has taken several actions to help sponsors understand and monitor fees charged by service providers. For example, Labor disseminates a number of publications and resources, including a 401(k) fees checklist that is available to sponsors on its website to help them better understand plan fees. However, according to GAO's survey results, more than an estimated 90 percent of sponsors either did not know about or have not used Labor's resources to compare and assess plan fees. Additionally, sponsors have access to the plan information of others, including some fees paid, through the Form 5500, but GAO's survey also shows that the information is not being used by sponsors. Finally, although Labor has recently taken on regulatory initiatives to enhance fee disclosures to sponsors, their effect remains to be seen. For example, Labor is in the process of revising a proposed change to the definition of the term "fiduciary," which may allow Labor to oversee a broader range of plan investment advisers. However, Labor's authority over other types of providers, who have considerable influence over sponsors and may charge sponsors and their plan participants excessive fees, is limited.