

Highlights of [GAO-12-328](#), a report to congressional requesters

Why GAO Did This Study

Service providers play important roles in the U.S. defined contribution (DC) retirement system since they provide services, such as administration and fund management, necessary for operating DC plans. Plan sponsors rely on such providers, yet it is unclear how much participants are paying in fees for these services. Other countries with well-established DC systems face similar issues and some use a variety of approaches to oversee DC plans and service providers and actively focus on fees charged to participants.

GAO was asked to examine, for selected countries' DC systems, (1) how are service providers overseen by regulatory agencies; (2) what key strategies are used to improve fee disclosure to participants; and (3) what key strategies are used to reduce fees? GAO selected Australia, Chile, Sweden and the United Kingdom based on, among other factors, the importance of the DC plans to the country's retirement system and the use of strategies to address service providers' fees. GAO reviewed research on DC plans; collected and analyzed available data; and interviewed government officials, pension experts, service providers, and other relevant representatives in the U.S. and selected countries.

What GAO Recommends

GAO is recommending that Labor consider other countries' experiences as it continues to improve its supervision and requirements related to fee disclosures. In commenting on a draft of this report, Labor generally agreed with the findings and noted that it will consider GAO's recommendations carefully.

View [GAO-12-328](#). For more information, contact Charles Jeszeck at (202) 512-7215 or jeszeckc@gao.gov.

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DEFINED CONTRIBUTION PLANS

Approaches in Other Countries Offer Beneficial Strategies in Several Areas

What GAO Found

In overseeing DC plans and service providers, regulatory agencies in the countries GAO reviewed use risk-based approaches to target practices deemed most likely to harm participants and to develop preventative measures. While the role of service providers varies, DC plans and service providers in the 4 countries GAO reviewed are overseen by multiple agencies—primarily a pensions regulator and a securities regulator. In each of these countries, the pensions regulator is the agency that regularly collects data on service provider fees, as well as other plan features, which are used to inform their oversight activities. In particular, in several of these countries, the pensions regulator uses these data as part of a risk-based approach to identify service provider practices that may harm participants, instead of relying only on a compliance-based approach. For example, in Chile, pensions agency officials evaluate key features of the DC system, such as the service providers' management of the individual accounts and the composition and role of the board of directors of the service provider. In both Chile and Australia, agency officials said using a risk-based approach enables the pensions regulator to take proactive measures to ensure the DC plans are operating in the best interest of participants. These countries have used risk-based approaches to oversee service providers for a number of years, while the U.S. Department of Labor (Labor) has just begun to develop a risk-based approach in its efforts to oversee U.S. DC plans and service providers.

Other countries have used key strategies to improve the disclosures participants receive about the fees they pay for their DC plans, including presenting disclosures in a consistent, summary format, which has increased transparency. In particular, these countries have made disclosures simpler and more uniform to facilitate comparisons, and one has required that providers highlight the long term impact of fees on participants' account balances. In addition, some countries require that participants receive personalized information about the total amount they pay in fees over a given time period. In Chile, participants not only receive personalized fee disclosures, but they also receive a statement that tells them what they would have paid had they chosen the lowest-cost option. Many of these requirements exceed Labor's disclosure requirements for U.S. DC plan participants.

Other countries use several targeted strategies—including consolidating and streamlining administrative services and establishing low-cost default funds—to keep the fees paid by their DC plan participants at reasonable levels. According to officials in the countries GAO reviewed, it was important to use these targeted strategies because many of their DC plan participants remain disengaged from retirement savings issues despite improved disclosures. For example, in Sweden and the United Kingdom, consolidating administrative functions eliminates the need for fund managers to maintain individual accounts. Representatives from service providers in both countries said this structure allows them to significantly lower their fees. In addition, for individuals who do not actively choose where to invest their contributions, some countries have established low-cost default options through a variety of measures, such as creating a nonprofit entity to run the default fund under a low-cost mandate, increasing the use of online services, and eliminating marketing costs. These countries also take other targeted approaches to lower fees, such as direct regulation of fees.