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MARKETS

House tackles 401(k) fee disclosure

A House committee examines whether workers receive detailed information on charges to their accounts.

By Jonathan Peterson, Times Staff Writer
March 7, 2007

WASHINGTON — A political push for greater disclosure of fees in 401(k) retirement savings plans gathered steam Tuesday, as an influential Democratic lawmaker said he planned to shine light on whether an array of service firms were "dipping into other people's money" without good cause.

"We have to ask whether all these fees are necessary, and we have to examine whether they are undermining workers' retirement security," said Rep. George Miller (D-Martinez), chairman of the House Education and Labor Committee.

A committee hearing Tuesday focused in part on the lack of information available to many workers about the fees that are automatically charged to their 401(k) accounts.

Pension experts said that those charges could take a serious toll on workers' nest eggs over time.

Straightforward fee disclosure could have the opposite effect, some experts said, enabling employers to set up more economical plans and forcing 401(k) investment providers to clamp down on costs — to workers' benefit in the long run.

"This will create competition, ultimately leading to reduced costs" for workers, said Stephen J. Butler, president of Pension Dynamics, a Northern California firm that designs 401(k) plans.

But a representative of private industry cautioned that new mandates on fee reporting could backfire.

"If a new regimen is overly complicated, overly costly, some employers will drop their plans," said Robert Chambers, chairman of the American Benefits Council.

Although there is "room for improvement" in disclosure, he said, "Let's make sure our efforts to reduce costs do not in the end reduce savings."

Tax-deferred 401(k) accounts and similar savings plans are drawing greater government scrutiny because they have become the most common workplace retirement benefit.

More than 47 million employees now participate in plans that have assets of about $2.5 trillion.

The plans have become a huge business for the mutual fund industry, other Wall Street companies and related financial-services firms.

A November 2006 report by the Government Accountability Office found that fee disclosures for the plans often are supplied in a piecemeal fashion that make it difficult for employees to compare investment options or even have a clear idea of the costs they are incurring.

The fees include investment management charges automatically paid to mutual fund companies, as well as service charges paid annually to trustees, auditors, lawyers and consultants involved in the plans.

Disclosure can be more opaque for some 401(k) investment options, such as insurance products and employer-stock accounts, experts say.

Directly or indirectly, the costs can have a significant effect on workers' balances in the plans, witnesses said Tuesday.

"Many billions more should be available for healthcare and prescription drugs, home repairs and basic living necessities. Instead, these sums line the pockets of others," said Matthew Hutcheson, an independent pension expert and critic of the retirement-plan industry.

"A large portion of the costs of conventional 401(k) plans relate to services that have little or nothing to do with building and protecting retirement-income security, and hence are excessive," he asserted.

Overall, Hutcheson said, 401(k) plans typically cost about 3% of assets annually to manage, or about $30 for every $1,000 in workers' accounts.

He said the job often could be done for substantially less.

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