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Highlights

Highlights of GAO-07-530T, a testimony before the Committe on Education and Labor, House of Representatives

Why GAO Did This Study

Over the past two decades there has been a noticeable shift in the types of plans employers are offering employees. Employers are increasingly moving away from traditional defined benefit plans to what has become the most dominant and fastest growing type of defined contribution plan, the 401(k).

As more workers participate in 401(k) plans, they bear more of the responsibility for funding their retirement. Given the choices facing participants, specific information about the plan and plan options becomes more relevant than under defined benefit plans because participants are responsible for ensuring that they have adequate income at retirement. While information on historical performance and investment risk for each plan option are important for participants to understand, so too is information on fees because fees can significantly decrease participants' retirement savings over the course of a career. As a result of employees bearing more responsibility for funding their retirement under 401(k) plans, you asked us to talk about the prevalence of 401(k) plans today and to summarize our recent work on providing better information to 401(k) participants and the Department of Labor (Labor) on fees. My remarks today will focus on (1) trends in the use of 401(k) plans, and (2) the types of fees associated with these plans.

www.gao.gov/cgi-bin/getrpt?GAO-07-530T.

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

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PRIVATE PENSIONS

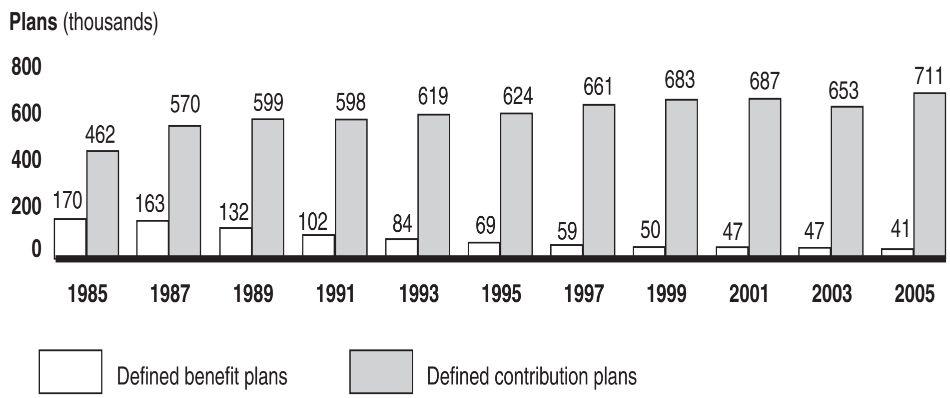
Increased Reliance on 401(k) Plans Calls for Better Information on Fees

What GAO Found

There are an increasing number of active participants in 401(k) plans than in other types of employer-sponsored pension plans, a trend that has accelerated since the 1980s. Now, 401(k) plans represent the majority of all private pension plans; they also service the most participants and hold the most assets. These plans offer a range of investment options, but equity funds—those that invest primarily in stocks—accounted for nearly half of 401(k) assets at the close of 2005. Most 401(k) plans are participant-directed, meaning that a participant is responsible for making the investment decisions about his or her own retirement plan contributions.

Inadequate disclosure and reporting requirements may leave participants without a simple way to compare fees among plan investment options, and Labor without the information it needs to oversee fees and identify questionable 401(k) business practices. The Employee Retirement Income Security Act (ERISA) of 1974 requires 401(k) plan sponsors to disclose only limited information on fees. Participants must collect various documents over time and may be required to seek out some documents in order to get a clear picture of the total fees that they pay. Furthermore, the documents that participants receive do not provide a simple way to compare fees—along with risk and historical performance—among the investment options in their 401(k) plan. The information reported to Labor does not identify all fees charged to 401(k) plans and therefore has limited use for effectively overseeing fees and identifying undisclosed business arrangements among consultants or service providers. As a result, participants may have more limited investment options and pay higher fees for these options than they otherwise would.

Comparison of Defined Benefit Plans with Defined Contribution Plans, 1985 and 2005.



Source: U.S. Department of Labor (1985 - 2003 data); Investment Company Institute (2005 estimates).