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EDUCATION & LABOR COMMITTEE
Congressman George Miller, Chairman

Strengthening America's Middle Class

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CHAIRMAN MILLER STATEMENT AT HEARING ON "ARE HIDDEN 401(K) FEES UNDERMINING WORKERS' RETIREMENT SECURITY?"

WASHINGTON, D.C. – *Below are the prepared remarks of U.S. Rep. George Miller (D-CA), chairman of the House Education and Labor Committee, for a full committee hearing: "Are Hidden 401(k) Fees Undermining Workers' Retirement Security?"*

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If you earn your income from a paycheck, chances are that one of the things you are concerned with is trying to put away enough money for your golden years.

If you use a 401(k) or similar plan to help you save some of that money for retirement, then you ought to have all the information you need to make a well-informed decision about which plans and investment options will give you the best deal.

That's the purpose of this hearing – to examine the growing role that 401(k)-style plans are playing in helping people pay for their retirements, and to find out if hidden fees are eating into workers' retirement savings account balances without them even knowing it.

During much of the twentieth century, two types of retirement income – Social Security and traditional employer-provided pensions – helped to lift older Americans out of poverty and allowed American workers to maintain a decent standard of living when their working years were over.

With traditional pensions, employers provide a guaranteed monthly benefit when a worker retires. For generations, these plans have been the backbone of the private retirement system. Today these plans cover 20 million active workers and 20 million retirees. But traditional pensions are becoming less and less common. Few new plans are being created. And since 2001, the number of Fortune 1000 companies that have frozen or terminated their traditional employee pension plans has more than tripled.

As employers – like United Airlines – have unceremoniously dumped their workers' pensions plans, leading to deep benefit cuts for many workers, the importance of Social Security has become ever more apparent.

Social Security is the sole source of retirement income for half of all retirees and the primary source of income for two-thirds of all retirees. Luckily, we have so far fended off attacks on the program from people would like to privatize it, turning it into a gamble for retirees instead of a sure thing.

Still, Social Security was not intended to be a primary source of retirement income for workers; it was meant to supplement workers' pensions and other retirement savings.

Here's the rub: 401(k)-style plans were never intended to be a primary source of retirement income, either. They, too, were designed to give workers a way to supplement their retirement income.

Today, the average 401(k) account balance among private sector workers is just $28,000. That would help retirees get through a year or two of retirement – but certainly not an entire retirement. That's why it's critical for us to examine two things: how we can best revitalize traditional pensions; and how we can make sure that workers with 401(k)s are getting the best bang for their buck.

Nearly 50 million active workers have 401(k)s. With 401(k)s, employers permit workers to set aside a portion of their wages. The employer often matches the employee contribution, up to a cap, but is not required to do so.

Most employers permit workers to direct where their contributions will be invested from a menu selected by the employer. The employer contracts with service providers, like a bank, to invest and manage the workers' retirement monies.

Both employers and service providers have an obligation under the law to manage these plans in the best interests of the plan beneficiaries. By law, any fees they charge must be reasonable.

This morning we will hear testimony about the services that are being provided and the fees that are being charged. Some of these fees are reasonable and necessary. But today, we will also hear a dizzying array of terminology: "Revenue sharing." "Wrap fees." "Finders' fees." "Shelf space." "Surrender charges." "Soft dollars." "12(b)(1) fees."

We have to ask whether all these fees are necessary, and we have to examine whether they are undermining workers' retirement security.

That's because even a seemingly small difference in the fees that workers pay can make an enormous difference in the overall size of their 401(k) account balance. As we will hear today, a 1 percentage point difference in fees can reduce retirement benefits by nearly 20 percent.

Just think about that for a minute. If you have a 401(k) account with a balance of $20,000, it will grow to about $70,500 in 20 years if it has a net return of 6.5 percent each year. But with a net annual return of 5.5 percent – a difference of just one percentage point in fees – that $20,000 balance would grow to just $58,400 after 20 years.

Today, because of weak disclosure rules, most workers don't even know how much they are paying in fees. They simply are not in a position to compare plans.

Improving 401(k) transparency is just the beginning of our efforts to ensure that all Americans have access to a secure retirement – a key part of our overall goal of strengthening America's middle class. After a lifetime of hard work, retirees ought to be able to move on to a new phase in their lives, where they are able to focus on family and friends without sacrificing their standard of living.