



**TESTIMONY BEFORE THE
SENATE SPECIAL COMMITTEE ON AGING**

ON

HIDDEN 401(k) FEES

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Mr. Chairman and members of the Committee, I am Jeffrey Love, Research Director at AARP. Thank you for convening this hearing. AARP appreciates the opportunity to discuss the important findings of our recent survey of 401(k) participants' awareness and understanding of fees.

In recent years, 401(k) retirement savings plans and other defined contribution plans have become the mainstay of many Americans' retirement security. More than 60 percent of workers with pension coverage have only a 401(k) or other defined contribution plan compared to under 20 percent of workers with such plans a generation ago. All evidence suggests that worker reliance on defined contribution will continue to escalate.

In light of the prevalence of 401(k) plans and the critical role that 401(k) plans can play in an individual's retirement security, AARP commissioned a nationally representative survey of 1,584 401(k) plan participants ages 25 and older in order to gauge awareness and knowledge of fees and expenses charged by 401(k) plan providers. The survey was fielded from June 8th through June 24th, 2007, by Knowledge Networks of Menlo Park, California, to members of its nationally representative online panel. The report of the survey findings, ***401(k) Participants' Awareness and Understanding of Fees*** is available on the AARP website (aarp.org) and copies have been made available at today's hearing.

What this survey reveals is that many 401(k) participants lack even basic knowledge of the fees associated with their plans, including whether they pay fees at all and, if so, how much they pay.

When asked whether they pay any fees for their 401(k) plan, nearly two in three (65%) 401(k) plan participants surveyed reported that they pay no fees and only about one in six (17%) stated that they do pay fees. Another 18 percent admitted that they do not know whether or not they pay any fees.

After being told that 401(k) plan providers often charge fees for administering their plans and that these fees may be paid by either the employer that sponsors the plan or the employees who participate in the plan, the vast majority (83%) of respondents acknowledged that they do not know how much they pay in fees. Only about one in six (17%) 401(k) participants reported that they know how much they pay in fees and expenses for their plan, but over half (54%) are not too or not at all knowledgeable about the impact fees can have on their total retirement savings.

Few can identify the different types of fees assessed by plan providers. When given possible definitions of three types of fees, about half can identify an administrative fee; 38% can identify a redemption fee; and only 14% can correctly choose the definition of an expense ratio.

We know that 87 percent of all 401 (k) plans are participant-directed -- participants make decisions about how their money will be invested. We also know from our survey that eight in ten 401 (k) participants consider information about fees to be important in their investment decisions, and that most participants sense that fees have the potential to reduce their return on investment.

Lack of participant knowledge about fees coupled with the expressed desire for a better understanding of fees suggests that information about plan fees should be distributed regularly and in plain language to current and prospective plan participants. Six in ten (61%) feel that information about fees should be distributed on a regular basis, and almost eight in ten (77%) prefer this information in written form on paper. AARP recommends that fee information be presented in a chart or graph that depicts the range of possible effects that the total annual fees and expenses can have on a participant's account balance in a year and over the long term.

Providing such information about fees will help current and prospective plan participants make better comparisons and more informed choices about their investments. If workers don't start getting around understanding 401(k) fee information, they risk seeing a sizable portion of their retirement savings eaten up by fees of which they are unaware.