

**Opening Statement of Senator Herb Kohl
Special Committee on Aging Hearing
Hidden 401(k) Fees: How Disclosure Can Increase Retirement Security
October 24, 2007**

Good morning, I would like to welcome our witnesses and thank them for their participation. We are here today to bring attention to an important issue affecting the retirement security of millions of Americans.

More and more Americans are relying on 401(k) plans to provide their retirement income. Although these plans have only been around since the 1980s, they now cover over 50 million people and exceed \$2.5 trillion in total assets. Out of private sector workers that have any type of retirement benefit, two thirds have only their 401(k) savings to secure their financial well being in retirement.

Although 401(k)s have become the primary pension fund for most Americans, there are few requirements for fund managers to tell participants how much they are paying in fees. Most fees are either absent or obscured in participant statements and investment reports. Not surprisingly, we will hear today that fewer than one in five participants know the fees they are paying. Unfortunately, the lack of disclosure and the lack of understanding can have serious consequences for an individual's retirement savings.

The slightest difference in fees can translate into a staggering depletion in savings, greatly affecting one's ability to build a secure retirement. According to the Congressional Research Service, families who save their retirement funds in high fee accounts could have one quarter less in retirement than those who work for employers who offer low-fee accounts. For couples who save their entire lifetime, the CRS study found that an annual fee of 2% could reduce savings by nearly \$130,000 compared to a more reasonable fee of 0.4%.

Investigations by this Committee have found that fees at 2% or higher are not uncommon. One small business owner we talked to with contract fees around 2% and most of the plans assets in a money market account had a net return that was almost a negative 1% a year. The small business owner was distressed when he finally discovered the high charges and was ready to cancel his 401(k) plan altogether. Giving small business owners all the facts in an easy-to-understand manner will help them find

lower cost options and make it more likely that they will offer retirement savings plans to their employees.

Fees are not the only factor that 401(k) participants should consider when deciding how to invest their savings. A wise investor should diversify their portfolio and consider a funds risk and return. But while returns are unpredictable and will fluctuate from year to year, fees are something that are fixed, are known in advance, and could be easily controlled by plan enrollees. Furthermore, I believe there is a basic right for consumers to clearly know how much products and services are costing them.

This week, Senators Harkin and I are introducing the Defined Contribution Fee Disclosure Act of 2007. Our bill will help shed some light on these fees by requiring complete transparency to both employers and participants. This will allow employers to be able to negotiate with pension fund managers to get the lowest possible fees for their employees. Participants will be able to make informed choices between investment options and potentially increase their retirement savings by thousands of dollars. Ultimately, this legislation will help to lower costs for everyone by fostering competition among pension managers.

I want to welcome our witnesses as we discuss the importance of fee disclosure to employers and plan participants and consider its impact on the retirement savings of older Americans.