

STATEMENT OF SENATOR GORDON H. SMITH

U.S. Senate Special Committee on Aging “Hidden 401(k) Fees: How Disclosure Can Increase Retirement Security” October 24, 2007

Good morning and thank you for being here today.

I'd like to thank Chairman Kohl for calling today's hearing on the important topic of Hidden 401(k) Fees: How Disclosure Can Increase Retirement Security.

One of my priorities on this Committee has been to ensure that Americans are financially secure in retirement. With uncertainty surrounding Social Security and the shift from employer-sponsored defined benefit plans to defined contribution plans, more and more of the responsibility for preparing for retirement rests on our own shoulders.

Unfortunately, though, Americans' retirement savings rate for 2006 was negative one percent. This is the lowest rate since 1933 during the Depression.

Clearly, Americans need to save more for retirement. And I've been working over the past few years on ways to help Americans do just that.

For example, I pushed for legislation that would encourage employers to adopt automatic enrollment in 401(k) plans. This is a simple idea that has been shown to increase plan participation significantly. I was very pleased that we were able to enact automatic enrollment as a part of PPA. And I'm confident that provision is helping to increase participation rates in 401(k) plans.

And now, I'm pushing for other proposals to increase Americans' retirement savings. For example, one of my bills would require employers to allow long-term, part-time employees to make contributions to their 401(k) plans.

However, the goals of these proposals may be undermined by excessive 401(k) plan fees. Fees are one of many factors – such as investment risk and diversification – that participants should consider when investing in a 401(k) plan. But excessive fees can undercut Americans' retirement security by reducing their savings.

In light of this, I was very disturbed to hear about AARP's recent survey results on 401(k) participants' awareness and understanding of fees. About two-thirds of respondents stated that they do not pay fees. And when told that 401(k) providers typically charged fees for administering the plans and that the fees may be paid by either the plan sponsor or participants, 83 percent acknowledged that they do not know how much they pay in fees.

Clearly, 401(k) participants need additional information on plan fee and expenses. However, it is important that these disclosures be concise, meaningful and readily understandable. If we bombard participants with too much information, they'll do what most people would do – ignore it. And since any new disclosure requirements will carry costs for participants, overloading them helps no one.

I am pleased that the Labor Department has begun a series of regulatory initiatives to increase transparency and disclosure of plan fee and expense information. I look forward to hearing more about those initiatives today. And I'd like to continue to work with the Labor Department to ensure that participants have the fee information they need to make prudent decisions.

With that, I will turn it over to Senator Kohl.