

**MEMO# 10103**

July 8, 1998

## **DEPARTMENT OF LABOR RELEASES INFORMATIONAL BROCHURE AND STUDY REGARDING 401(K) FEES**

[10103] July 8, 1998 TO: BOARD OF GOVERNORS No. 45-98 RE: DEPARTMENT OF LABOR  
RELEASES INFORMATIONAL BROCHURE AND STUDY REGARDING 401(k) FEES

The Department of Labor has released an informational brochure for 401(k) plan participants entitled, "A Look At 401(k) Fees" and a study on 401(k) fees prepared by an outside consultant for the Department. A copy of the brochure and study are attached. The brochure discusses the extent to which fees may impact on investment return and explains the types of fees that employers and participants might pay (including plan administration and recordkeeping fees, investment management fees and fees for individual services, such as plan loan processing). It also discusses factors, such as plan services and type of investment alternatives, that impact on the level and nature of fees charged. The brochure describes fees typically charged in connection with common 401(k) investments products, including mutual funds, collective investment funds, variable annuities and pooled guaranteed investment contract (GIC) funds. With regard to mutual funds, the brochure briefly describes investment management fees, sales charges and 12b-1 fees. The 401(k) fees study, conducted for the Department of Labor by consultants Economic Systems, Inc. and the HayGroup, examines the structure and magnitude of fees and expenses charged to 401(k) plans. Among the study's conclusions are the following: ` The cost of a "typical 401(k) plan compares favorably with retail investments when consideration is given to the ancillary services that such plans offer." ` The wide range of fees paid by 401(k) plans, especially in the small employer market, suggests that the market may be inefficient. ` There is a "small but distinct trend" for employers to pass fees and expenses on to plan participants, especially in the form of investment management fees. ` Employers and plan participants often do not obtain complete information regarding fees and expenses. The study notes a specific lack of disclosure of wrap fees and the expenses associated with stable value accounts. With regard to mutual funds, the study states that investment management fees of mutual funds are revealed in prospectuses "which are not always furnished to participants (and which may not be read in detail and with comprehension)." The level of mutual fund fees and expenses is discussed in the body of the study. The study finds that although there has been a "dramatic increase, 44% in the total expense ratio of the average diversified stock fund since 1980 . . . the cause has been the shifting of sales charges from a front-end load to the 12b-1 segment of the expense ratio", and concludes that the "real increase" in investment management expenses since 1980 is "closer to 17% than to 44%." Finally, citing Investment Company Institute and member testimony before the Department of Labor at a November 12, 1998 hearing, the study states the "mutual

fund industry appears to be solidly for a full disclosure of all fees and expenses to both plan sponsors and participants.” It also notes, however, that the industry’s position “may be somewhat self-serving”, because mutual funds are already required to make such disclosures while other pooled investment products are not. The Department is expected to continue to focus on 401(k) plans and is considering developing a similar informational brochure directed to employers and possible revisions to disclosure requirements under the ERISA section 404(c) safe harbor. We will keep you informed as this matter develops.

Matthew P. Fink President Attachments

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