

MEMO# 33743

September 1, 2021

GAO Report on 401(k) Plan Participant Fee Disclosure

[33743]

September 1, 2021

TO: ICI Members
Pension Committee
Pension Operations Advisory Committee SUBJECTS: Disclosure
Fees and Expenses
Pension RE: GAO Report on 401(k) Plan Participant Fee Disclosure

On August 26, 2021, the US Government Accountability Office (GAO) released a report titled "401(k) Retirement Plans, Many Participants Do Not Understand Fee Information, but DOL Could Take Additional Steps to Help Them."[\[1\]](#) The report responds to a request from Senator Patty Murray (Chair of the Senate Committee on Health, Education, Labor and Pensions) and Representative Bobby Scott (Chair of the House Committee on Education and Labor) to assess the effectiveness of the Department of Labor's (DOL) fee disclosure regulations (29 C.F.R. § 2550.404a-5). According to the GAO, the report (1) assesses the extent to which 401(k) plan participants can understand and use fee information disclosed by plans; (2) describes practices used in selected countries that might help participants better understand and use fee information; and (3) examines additional steps, if any, that DOL could take to advance participant understanding and use of fee information.

Survey of 401(k) plan participants

The GAO commissioned a survey of 401(k) plan participants to assess their understanding of and ability to use fee information from disclosures. The survey asked participants questions relating to awareness and understanding of fees, based on content pulled from annual disclosures from among 10 of the largest 401(k) plans and a sample quarterly disclosure from a large service provider, among other things. It also asked about participant preferences regarding disclosures. Questions asked participants to identify fund expense ratios and other types of fees using different terminology, calculate asset-based fees for a hypothetical account balance based on a fee table example, and demonstrate understanding of the impact of investment fees on returns.

Based on survey responses, the report estimates that "many 401(k) plan participants do not fully understand the fee information they might receive from their 401(k) plans." For example, about a quarter of survey respondents answered 80 percent or more of fee-

related questions correctly, while about 40 percent of survey respondents answered fewer than 50 percent of the questions correctly. Also, the report estimates "that 64 percent of participants believe they are either not paying any 401(k) fees—administrative or investment fees—or do not know if they are paying these fees."

According to the report, the survey showed that participants prefer fee information in a narrative format (rather than a table format) and information showing the actual cost of investments (rather than a percentage or a dollar amount per \$1,000 invested). Responses also indicated a preference for accessing fee information electronically.

Disclosure practices in other countries

The report examines disclosure practices in Australia, Italy, New Zealand, and the European Union, selected in part for the presence of participant-directed account-based retirement plans. The GAO interviewed stakeholders in these jurisdictions and identified the following key strategies and practices that could help plan participants understand and use fee information:

- conducting consumer testing of disclosure practices (including content and format), to gauge both understanding of and preferences for disclosures;
- using simple language and layered information;
- conveying the importance of fees by providing examples of their cumulative impact on the growth of retirement savings over time;
- showing fee information as a monetary amount instead of a percentage and providing individualized information;
- creating a centralized, government-provided tool (such as a fund comparison tool or fee calculator) to help participants compare fees and make more informed investment decisions; and
- providing fee benchmarks to help participants understand how their plans' fund fees compare to the market.

The report lists several other practices, such as financial literacy education and use of visual elements in disclosure materials, as potential ways to improve disclosure and help participants.

Recommendations for DOL

Based on the survey results, examination of sample fee disclosures, and interviews of stakeholders in other jurisdictions, the report makes five recommendations to DOL intended to increase participant understanding of fee information:

- DOL should require that fee disclosures for "participant-directed individual retirement accounts" [\[2\]](#) use a consistent term for asset-based investment fees (e.g., gross expense ratio).
- DOL should require that quarterly fee disclosures for participant-directed individual retirement accounts provide participants the actual cost of asset-based investment fees paid.
- DOL should take steps to provide participants important information concerning the cumulative effect of fees on savings over time. These steps could include ensuring that disclosures cite a working, specific DOL web address where such information is shown and requiring that fee disclosures include the agency's graphic illustration on the cumulative effect of fees.

- DOL should require that participant fee disclosures for participant-directed individual retirement accounts include fee benchmarks for in-plan investment options.
- DOL should require that participant fee disclosures for participant-directed individual retirement accounts include ticker information for in-plan investment options, when available.

In a formal response to the recommendations, DOL acknowledged the complexities associated with trying to help plan participants understand the fees and costs they pay, but DOL did not commit to pursuing the report's recommendations at this time. DOL officials indicated that the agency will seek stakeholder input on the report and carefully consider each of the recommendations, with a focus on the potential practical impact of mandating such disclosures.

Elena Barone Chism
Associate General Counsel - Retirement Policy

endnotes

[1] The full report, highlights, and a summary of the recommendations are available here: <https://www.gao.gov/products/gao-21-357>.

[2] Based on the context of the report, this term appears to refer to employer-sponsored individual account plans, rather than IRAs.