

Harkin /Kohl 401(k) Fee Disclosure Act of 2007

As employers increasingly shift away from defined benefit pension plans, 401(k) plans are fast becoming a major portion of Americans' retirement security portfolios. As a result, the federal government must pay careful attention to the availability and adequacy of these plans. Recently, the General Accountability Office (GAO) issued a report detailing how the fees charged by 401(k) plan administrators can eat away at people's retirement savings in ways they may not understand. Indeed, it is often difficult for participants to access and understand what they are being charged and the effect it will have on their final account balance.

GAO example: A 45 year old who leaves \$20,000 in an account earning 6.5% interest will earn \$70,500 at retirement if he pays .5% in fees. If the fee is increase 1.5%, he will end up earning only \$58,400, a difference of more than \$12,000, which can make a big difference in the level of retirement security. This problem is compounded as balances grow, and over longer time periods.

The Harkin/Kohl fee disclosure bill will address this problem in several ways:

- Dramatically increase the information given to fiduciaries. Typically participants are only allowed to choose from a handful of 401(k) options their employer is offering. Therefore, the people who are responsible for selecting the plan should have a comprehensive list of all of the fees participants are paying and why.
- Give participants information at the time they choose investment options, and again on their quarterly statements, about the overall levels of fees they are paying. This information must be delivered in a form that is easy read and understand.
 - The pre-election notice will include other critical information in plan selection such as historical returns, the level of risk, and basic investment guidance
 - The quarterly statement will help people to understand over time how much they have paid in fees, and help them to compare fees against returns
 - In addition to simple, easy to read statements, participants will also be given information about where to find more comprehensive information
- Require disclosure of relationships between all parties with financial interest in the plan. The GAO found that "Labor and plan sponsors also may not have information on arrangements among service providers that could steer plan sponsors toward offering investment options that benefit service providers but may not be in the best interest of participants." Increasing disclosure of these business arrangements is key to consumer protection.
- Require the Secretary of Labor to provide assistance to small employers, plan sponsors, participants, and beneficiaries about how fees work and how to comply with this new requirement