

*The Honorable Charles B. Rangel, Chairman
The Honorable Jim McDermott, Chairman Subcommittee on Income
Security and Family Support*

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Are Workers Getting A Good Deal?

*Committee on Ways and Means examines
the appropriateness of retirement plan fees*

WASHINGTON, D.C. – Today the House Committee on Ways and Means held a hearing to determine whether workers' retirement savings are being eroded by undue or costly administrative and investment fees assessed by pension plan managers.

"More and more American workers are forced to carry the entire weight of securing their retirement savings," Chairman Charles B. Rangel said today. "As we move away from a system where the responsibility for retirement savings is shared by the employer and employee, Congress—and this Committee in particular—owe it to our workers to ensure that their ability to maintain a high quality standard of living once they stop working."

This hearing was held in response to the explosive growth over the last two decades of defined contribution plans—the most popular of which is the 401(k) plan—which today serve 55 million workers and hold almost \$3 trillion in assets.

"It is critically important for people to consider the cost to administer a 401(k) plan, and who pays the cost," said Rep. Jim McDermott, Chairman of the Income Security and Family Support Subcommittee. "Let me re-iterate, a shift in our economy to personal plans dramatically emphasizes the need to make every invested dollar count – and grow."

The majority of workers who participate in these plans are responsible for making sure they set aside adequate savings to finance their retirement years. This includes making wise investment choices and monitoring account activity to ensure efficient use of funds. These funds can be easily eroded through excessive investment costs and administrative fees.

"Excessive fees can undermine retirement security by reducing the accumulation of assets," according to written testimony submitted by Assistant Secretary of Labor Bradford P. Campbell. "It is therefore critical

that plan participants directing the investment of their contributions, and plans fiduciaries charged with the responsibility of prudently selecting service providers and paying only reasonable fees and expenses, have the information they need to make appropriate decisions.”

Some studies have indicated that some providers who service 401(k) plans are charging as much as 1 percent (100 basis points) in fees and expenses over the prevailing average rates. These excessive expenses and fees directly reduce the value of the workers’ total retirement savings.

Many participants are not aware that they pay any fees and those who are may not know how much they are paying, according to testimony submitted by Barbara D. Bovbjerg of the Government Accountability Office.

“Participants need fee information to make informed decisions about their investments—primarily, whether to contribute to the plan and how to allocate their contributions among the investment options the plan sponsor has selected,” Bovbjerg testified.

As assets in defined contribution plans grow, so does the Federal subsidy for the savings held in these plans. The Committee is charged with the task of ensuring that these Federal tax subsidies are used as intended under the Internal Revenue Code.

“If the Federal government is going to subsidize these efforts,” Rangel said, “We have a fiduciary responsibility to safeguard the Federal dollars we commit and ensure that they are efficiently and effectively working for the benefit of our workers.”