



*Most 401k savers are unaware they are paying unnecessary marketing fees and advisors commissions, extracted from their 401k accounts. It's a national scandal --- and reduces the typical 401k value by nearly **\$155,000!***

For specifics please see pages 1, 6, and 8.

This notice added by Pension Systems Corporation

401(k) PARTICIPANTS' AWARENESS AND UNDERSTANDING OF FEES

February 2011



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Woelfel Research, Inc. of Dunn Loring, VA collected data for this study. Thanks go to the following AARP staff members who provided input for this study: Michael Herndon, Jay Sternberg, and Alejandra Owens. The report was reviewed by Jeff Love, AARP Strategic Issues Research. The report was written by Lona Choi-Allum, AARP Strategic Issues Research. For additional information, contact Lona Choi-Allum at (202) 434-6333.

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INTRODUCTION

401(k) plans are the primary way most Americans save for retirement. But successfully using a 401(k) plan to prepare for retirement requires knowledge of investment opportunities, types of plans and their mix of investments, knowledge of risk, and awareness of the costs associated with maintaining a plan.

Despite the need for knowledge, seven in ten (71%) are not aware that they pay fees to their 401(k) plan provider to maintain their account. When told of these fees, six in ten (62%) are not aware of the amount they pay in fees to maintain their account.

Specifically, lack of knowledge of what an investor pays in 401(k) fees could add up to significant costs over the life of a 401(k) plan. For example, for an employee who has been working for 35 years and contributes an estimated \$5,000 per year to his/her 401(k) plan, with an annual return of seven percent and no fees, would earn about \$469,000 over the 35 year period. However, with an annual fee of 1.5 percent of the account balance, the employee would earn only \$345,000 in a 35-year period.¹

Key Findings

-  ○ When plan participants were asked whether they pay fees for their 401(k) plan, seven in ten (71%) reported that they did not pay any fees while less than a quarter (23%) said that they do pay fees. Less than one in ten (6%) stated that they did not know whether or not they pay any fees.
-  ○ 401(k) participants may not have a clear understanding that there are fees associated with their plans. About three in five (62%) are unaware of how much they are paying in fees for their plans, and almost one-third (32%) report that they do not feel knowledgeable about the impact that fees could have on their retirement savings. However, about four in five (81%) believe that the fees charged for investments are *very important* or *somewhat important* in decisions about their 401(k) investments.
- While most plan participants (63%) say that have contributed money to their 401(k) plan, about one-fifth (22%) have withdrawn money or received payments from their 401(k) plan.
- Almost two-thirds (64%) stated that they prefer to make their own decisions about saving and investing. Some respondents reveal that they have taken steps to learn more about their investments such as using the summary information or prospectuses about mutual funds or consulting with a personal financial advisor.

¹ AARP Public Policy Institute. *Determining Whether 401(k) Fees are Reasonable: Are Disclosure Requirements Adequate?* (September 2008).

- When respondents were asked how confident they are about having enough money to live comfortably throughout their retirement years, almost three-quarters (74%) stated that they are *very confident* or *somewhat confident*. Not surprising since most respondents (64%) report that they have tried to calculate how much money they will need to have saved by the time they decide to retire so that they may live comfortably in retirement. However, when respondents were asked how knowledgeable they feel about the impact that fees could have on their total retirement savings, almost one-third (32%) said that they do not feel knowledgeable.

Implications

Although 401(k) participants seem to be taking initiative in making their own decisions related to their 401(k) plans, they are unaware of some of the basics related to their plans. Since most read the summary information about mutual funds or their plan's prospectuses, it's important that the information about fees is clear and easy to understand. In addition, for those who consult with a financial advisor, questions about fees related to 401(k) plans should be on a list of "important questions to ask." "AARP recommends that fee information be presented in a chart or graph that depicts the effect that the total annual fees and expenses can have on a participant's account balance in a year as well as over the long term."²

If plan participants are unaware of the impact that fees could have on their retirement savings, they could be in for a surprise once they decide to retire. Plan participants need to understand that fees should be considered when making calculations related to how much money they will need by the time they decide to retire so that they may live comfortably in retirement.

² AARP, *401(k) Participants' Awareness and Understanding of Fees* (July 2007).

II. BACKGROUND AND METHODOLOGY

In recent years, 401(k) retirement savings plans and other defined contribution plans have become increasingly common. According to a recent study, the number of participants in 401(k) plans grew from under 8 million in the mid-1980s to approximately 49 million by 2009, with the amount invested in these plans up to \$2.8 trillion by end of 2009.³ According to the GAO (2009), 401(k) plans are on the rise, encompassing over 85 percent of defined contribution plan participants. In addition, 401(k) participants are relying more on their 401(k) plans as their primary source for retirement savings.⁴

In December 2010, AARP commissioned a national survey of 803 401(k) plan participants ages 25 and older in order to gauge awareness and knowledge of fees and expenses charged by 401(k) plan providers. The survey was fielded from December 14 through December 30, 2010 by Woelfel Research, Inc. of Dunn Loring, Virginia, through an RDD sample of U.S. residents ages 25 and over living in telephone households. Respondents were screened to insure they currently held a 401(k) plan.

³ Investment Company Institute, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009," *Research Perspective*, vol. 16, no. 3 (2010).

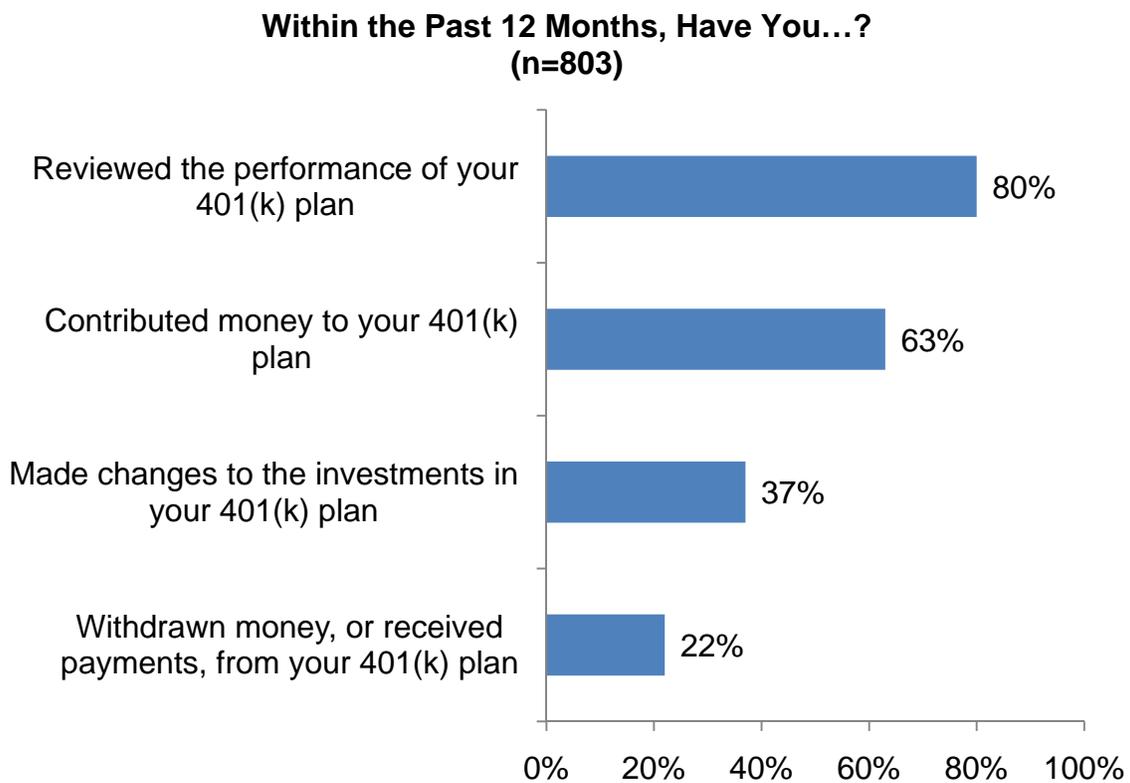
⁴ Government Accountability Office, *401(k) Plans: Several Factors Can Diminish Retirement Savings, but Automatic Enrollment Shows Promise for Increasing Participation and Savings* (October 2009).

III. DETAILED FINDINGS

401(k) Plan Participants' Activities within the Past 12 Months

A majority of plan participants (80%) report that they have reviewed the performance of their 401(k) plan. Those ages 50+ (83%) are more likely than respondents ages 25-49 (74%) to say that they reviewed the status of their 401(k) plan.

About three in five (63%) say that have contributed money to their 401(k) plan. And over one-third (37%) have made changes to the investments in their 401(k) plan. Only about one-fifth (22%) of plan participants say that they have withdrawn money or received payments from their 401(k) plan.



How Do 401(k) Plan Participants Make Decisions About Saving and Investing?

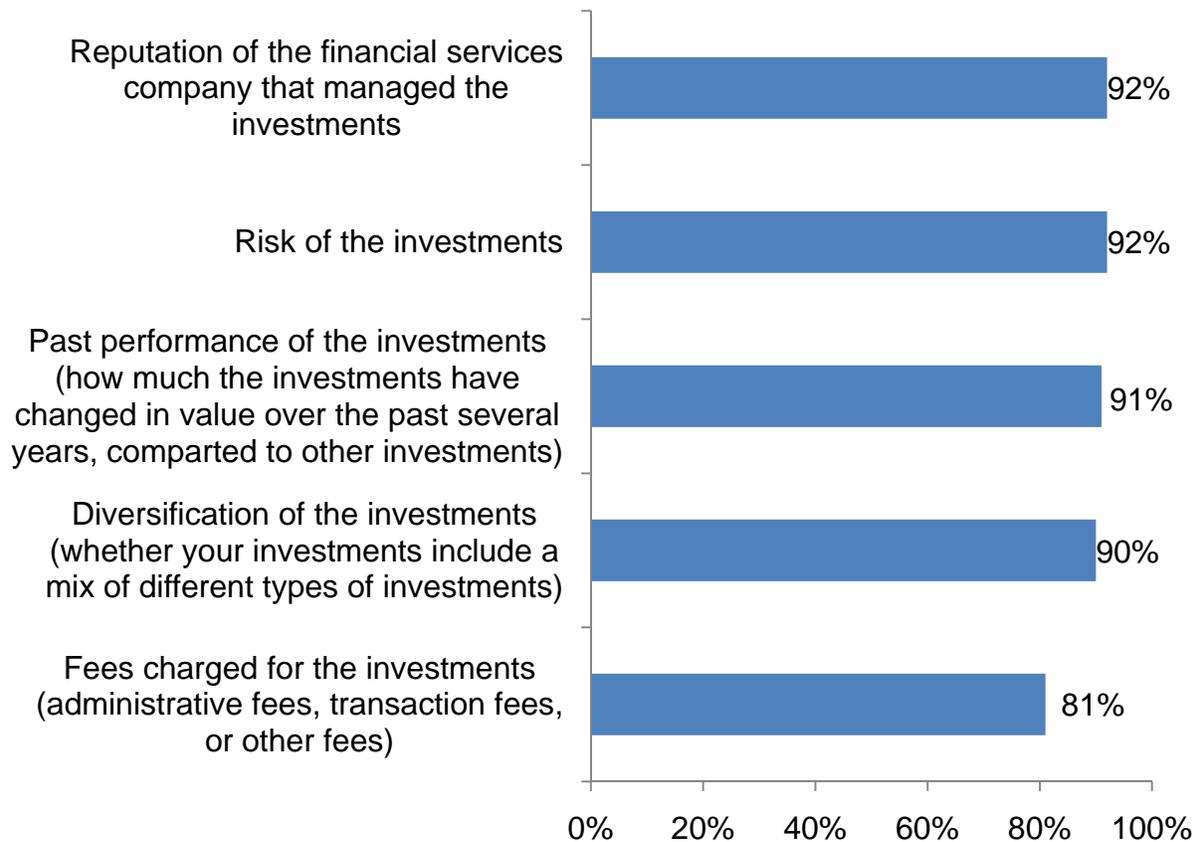
When respondents were asked about their preferred approach to making decisions about saving and investing, almost two-thirds (64%) stated that they like to make decisions on their own. Among those who make decisions on their own, about one-quarter (23%) reported that they made decisions without any suggestions from a professional. Over one-third (35%) said that they prefer suggestions from a professional, and most often use their recommendations or prefer to rely solely on the professional to manage their investments.

Important Factors in Making Decisions About 401(k) Plan Investments

When asked about the specific factors important to their investment decisions, the majority of respondents indicated that the reputation of the financial services company, the risk of investments, and past investment performance were very or somewhat important.

Eight in ten (81%) believed that the fees charged for investments were *very important* or *somewhat important* to their 401(k) investment decisions. Respondents ages 25-49 (85%) were more likely than those ages 50+ (80%) to state that the fees are *very important* or *somewhat important* in their decision-making.

How Important is Each of the Following Factors to You When Making Decisions About the Investments for Your 401(k) Plan? (Percentage of Respondents Who Said *Very Important* or *Somewhat Important*) (n=803)



Sources of Information and Advice

Respondents who indicated that the “fees charged for investments” were at least *somewhat important*, were asked where they obtain information about fees. About three in five (61%) report that they use the summary information about the mutual funds or the plan’s other investment choices. Almost half of respondents (49%) state that they use prospectuses for the mutual funds or a personal financial advisor not provided by their employer. Others find information through an employer provided financial advisor (46%), the Internet (43%), or financial magazine articles (32%).

Differences Found by Age

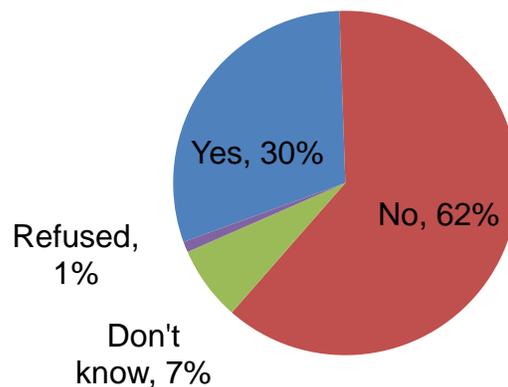
- Respondents ages 25-49 (53%) were more likely than those ages 50+ (37%) to find information about fees through the Internet.
- Respondents ages 50+ (55%) were more likely than those ages 25-49 (38%) to turn to a personal financial advisor (not provided through their employer) for advice on fees. However, those ages 25-49 (59%) were more likely than those ages 50+ (38%) to turn to a financial advisor provided by their employer.

Knowledge of Fees

When plan participants were asked whether they pay fees for their 401(k) plan, seven in ten (71%) reported that they did not pay any fees while less than a quarter (23%) said that they do pay fees. Less than one in ten (6%) stated that they did not know whether or not they pay any fees.

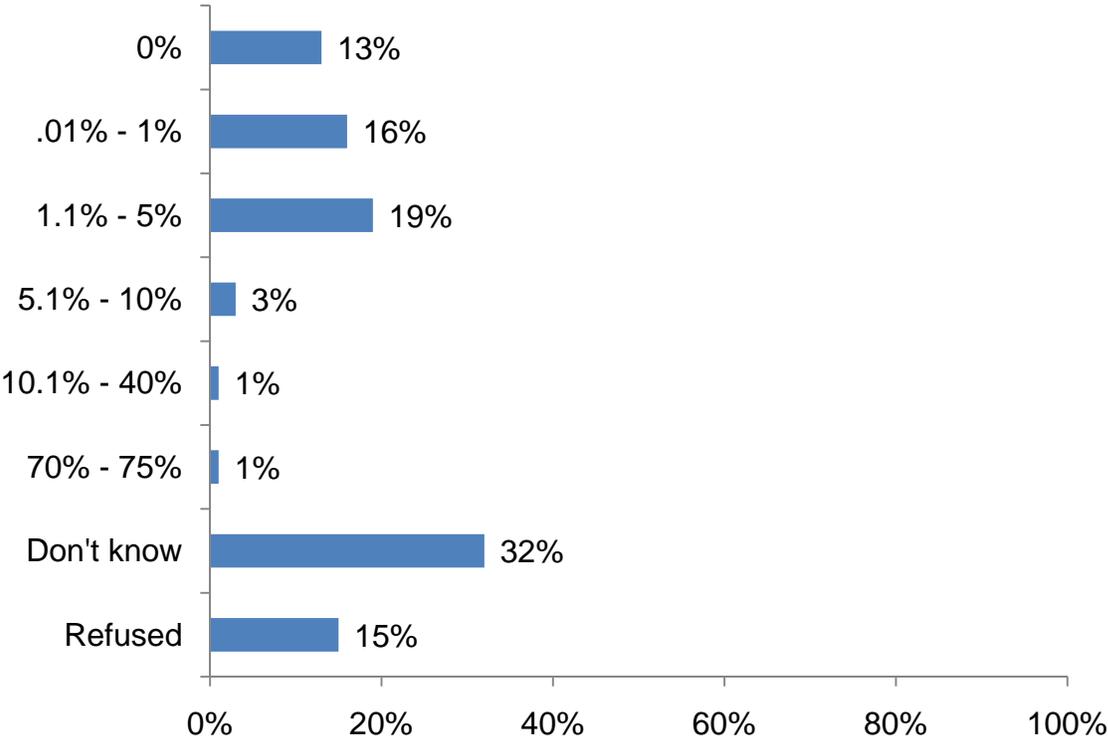
When respondents were told that financial services companies that manage 401(k) plans charge fees for administering and managing those plans, and that the fees are paid by the employer and/or the employees that participate in the plan, about three in five (62%) reported that they did not know how much they were paying in fees and expenses for their 401(k) plan. In fact, those ages 25-49 (68%) were more likely than those ages 50+ (59%) to report that they are unaware of how much they are paying in fees.

Do You Know How Much in Fees and Expenses You are Paying for Your 401(k) Plan? (n=803)



Results show that three in ten (30%) plan participants are aware of how much they are paying in fees and expenses for their 401(k) plan. Among these plan participants who are aware of the fees, about one in eight (13%) state that they are not paying any fees associated with their 401(k) plan. Over one in ten (16%) estimate that they are paying one percent or less of their account balance in fees. Almost one in five (19%) report paying between 1.1 percent and five percent in fees. Almost one-third (32%) say that they do not know the percentage of how much they are paying in fees.

**How Much in Fees and Expenses do You Pay Per Year?
(Based on Percentage of 401(k) balance)
(n=240)**



Base: Respondents who reported that they know how much in fees and expenses they pay for their 401(k) plan.

Also, when respondents were asked how knowledgeable they feel about the impact that fees could have on their total retirement savings, almost one-third (32%) said that they do not feel knowledgeable. Those ages 25-49 (39%) were more likely than those ages 50+ (27%) to report that they lack the knowledge to understand the impact of fees on their retirement savings.

Taking Steps to Change Fees



Respondents were asked if they could compare fees that they and others pay for administering and managing their 401(k) plan, what would they do if they found that the fees they paid were higher than the average for a specific type of investment. Over half (54%) report that they would speak to the company that provides the funds to lower the fees. About half say they would change their investments to lower fees (51%) or speak to their employer about trying to lower the fees (48%).

Confidence in Retirement Savings

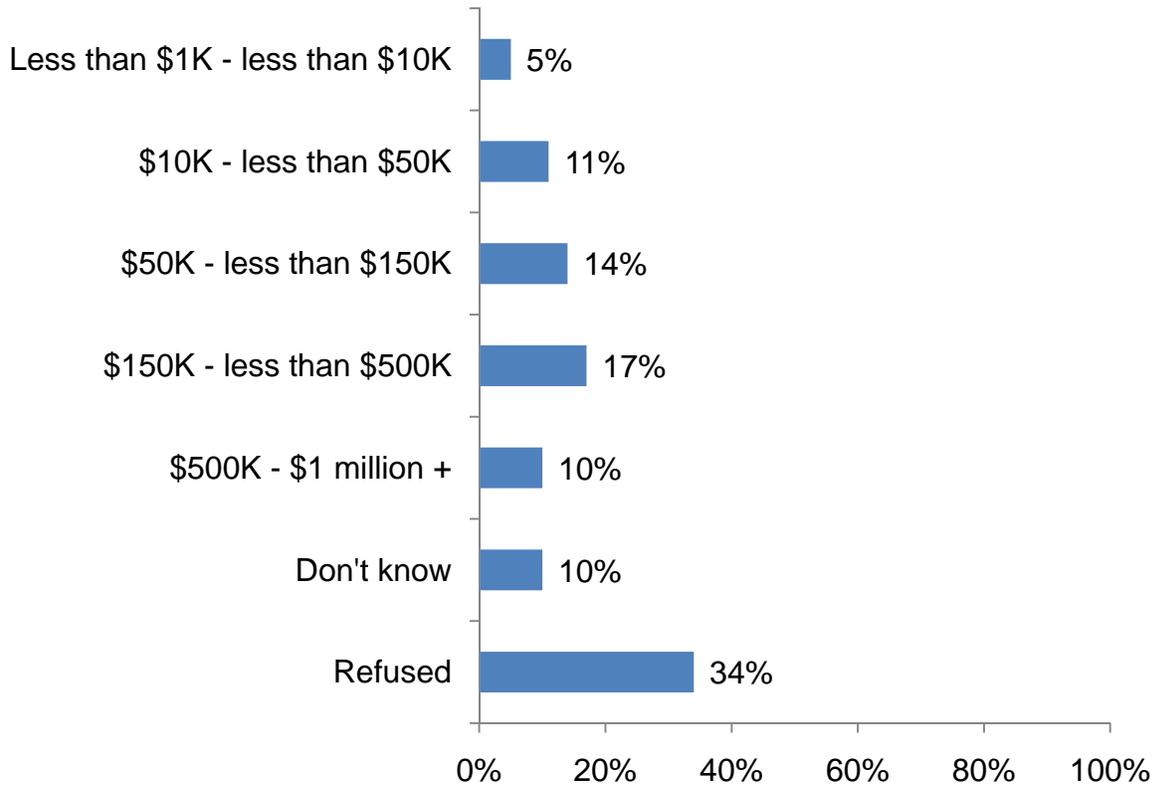
When respondents were asked how confident they are about having enough money to live comfortably throughout their retirement years, almost three-quarters (74%) stated that they are *very confident* or *somewhat confident* while one quarter (25%) report that they are *not too confident* or *not at all confident*.

Over three in five (64%) reported that they have tried to calculate how much money they will need to have saved by the time they decide to retire so that they may live comfortably in retirement.

Value of Current Savings and Investments

Respondents were asked to estimate how much money they currently had in savings and investments, not including the value of their primary residence. They were asked to include savings, certificates of deposits, stocks, bonds, mutual funds, employer-sponsored retirement savings plans, and other investments, but not to include the value of defined benefit plans. Over one in ten respondents (16%) have an estimated savings and investments worth up to \$50K. One in ten (10%) have savings and investments over \$500K. A small percentage (10%) are unaware of how much they currently have in savings and investments.

**Amount of Savings and Investments Among 401(k) Plan Participants
(n=803)**



Other Retirement Investments

Besides a 401(k) plan, respondents noted other types of retirement investments they currently have. Over half (53%) report having an individual retirement account or IRA. About two in five say they have a defined benefit plan (45%) or retirement savings invested outside of an IRA or employer-sponsored retirement savings plan (41%).