



# Bridging the Gap Between Employers' and Workers' Understanding of 401(k) Fees

**TRANSAMERICA CENTER**  
FOR RETIREMENT STUDIES®

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# About The Center

- The Transamerica Center for Retirement Studies® (“The Center”) is a non-profit private foundation dedicated to educating the public on emerging trends surrounding retirement security in the United States. The Center’s research emphasizes employer-sponsored retirement plans, issues faced by small to mid-sized companies and their employees, and the implications of legislative and regulatory changes.
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- Although care has been taken in preparing this material and presenting it accurately, The Center disclaims any express or implied warranty as to the accuracy of any material contained herein and any liability with respect to it.

# About The Survey

- Since 1999, the Transamerica Center for Retirement Studies® has conducted a national survey of U.S. business employers and workers regarding their attitudes toward retirement. The overall goals for the study are to illuminate emerging trends, promote awareness, and help educate the public.
- Harris Interactive was commissioned to conduct the Eleventh Annual Retirement Survey for Transamerica Center for Retirement Studies®. Transamerica Center for Retirement Studies® is not affiliated with Harris Interactive.

# Methodology – Worker Survey

- A 21-minute, online survey was conducted between December 3, 2009 – January 18, 2010 among a nationally representative sample of 3,598 for-profit workers using the Harris online panel. Respondents met the following criteria:
  - All U.S. residents, age 18 or older
  - Full-time workers or part-time workers in a for-profit company employing 10 or more people
- Data were weighted:
  - To account for differences between the population available via the Internet versus by telephone
  - To ensure that each quota group had a representative sample based on the number of employees at companies in each employee size range
- Percentages were rounded to the nearest whole percent. Differences in the sums of combined categories/answers are due to rounding

# Methodology – Employer Survey

- A telephone survey was conducted among a nationally representative sample of 601 employers. Potential respondents were targeted based on job title at for-profit companies and met the following criteria:
  - Business executive who make decisions about employee benefits at his or her company
  - Employ 10 employees or more across all locations
- 16-minute telephone interviews were conducted between December 1, 2009 and January 8, 2010.
- Quotas were set for large and small companies and results were weighted as needed using weighting targets from the Dun & Bradstreet database to ensure each quota group had a representative sample based on the number of companies in each employee size range. A full methodology is available.
- Percentages were rounded to the nearest whole percent. Differences in the sums of combined categories/answers are due to rounding.
- The base size was 301 for large companies (500+ employees) and 300 for small companies (10 – 499 employees). Other reduced bases have been noted throughout the report.

# Bridging the Gap Between Employers' and Workers' Understanding of 401(k) Fees

# Executive Summary

- In recent years, the topic of 401(k) fee disclosure has received much scrutiny in Washington D.C. and the media.
- Policymakers have raised concerns over transparency and potential hidden costs due to inconsistent reporting and disclosure of 401(k)-related fees among retirement plan providers.
- In 2010, it is likely that the outcome of this policy debate will finally result in new legislation and/or regulations.
- A consistent set of reporting and disclosure requirements will help employers and workers evaluate and make informed decisions about their company-sponsored retirement plans.
- The 11<sup>th</sup> Annual Transamerica Retirement Survey offers insights into how success may be achieved through a new consistent set of requirements.



# Executive Summary

- Many of the legislative and regulatory proposals that have been introduced are designed to offer summarized information and electronic delivery. Based on the survey's findings, both of these design features should be well-received by workers:
  - A majority of workers prefer some type of summary in regards to fee information (55 percent).
  - Workers have a strong preference for electronic delivery of fee information – 74 percent would like it to be available on the plan provider's website and/or electronic statements.
- However, the survey also found significant impediment to any new legislation or regulation's potential effectiveness in informing workers. 401(k) plan sponsors, who make decisions about the plan and who are a key link in plan-related communications to their employees, do not seem to be concerned with the issue. The survey found:
  - Most plan sponsors are not interested in receiving more information about fees.
  - Most plan sponsors think their employees are aware of fees, however most workers are not aware.
  - A majority of employers and workers agree that workers are receiving the right information to make decisions about the plan.

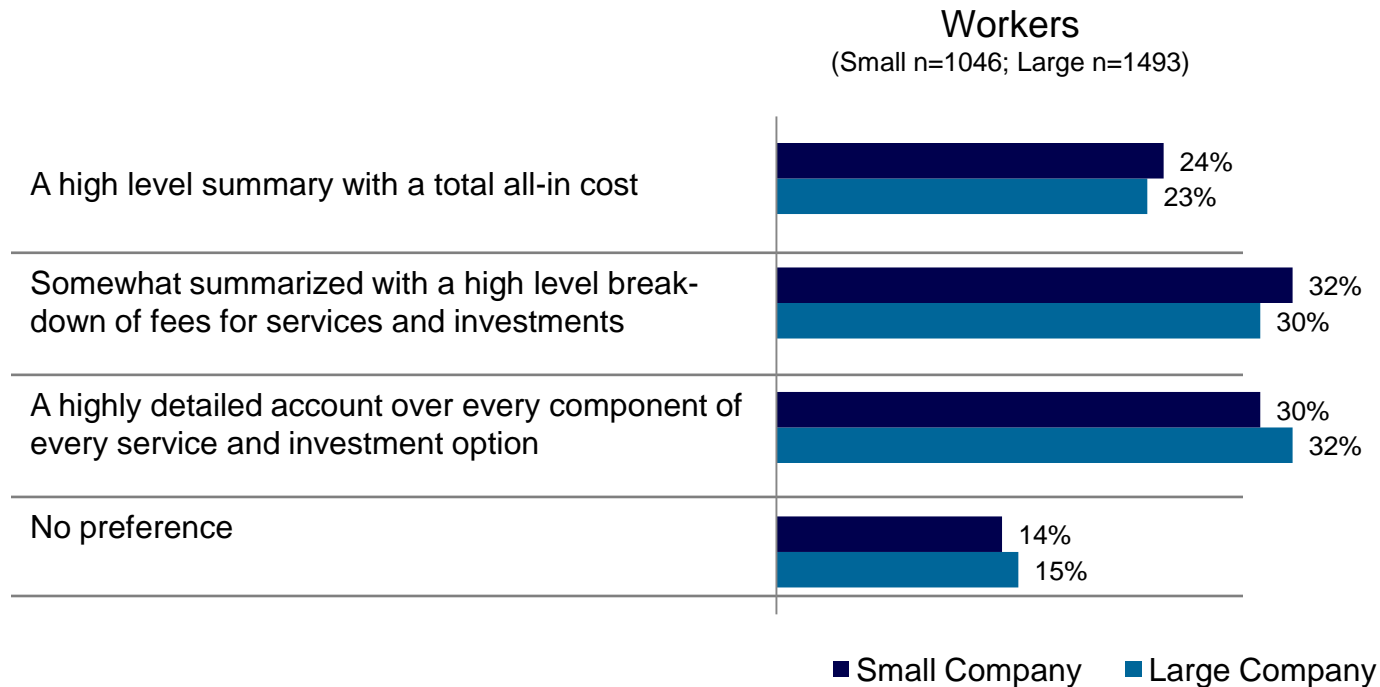
# Executive Summary

- Successfully educating workers about 401(k) fees may prove to be a challenge as evidenced by lack of general knowledge surrounding other aspects of saving and planning for retirement. Despite extensive educational efforts by retirement plan providers, the government, and the media:
  - Most workers agree that they do not know as much as they should about retirement investing (68 percent).
  - Very few workers know “a great deal” about asset allocation (6 percent).
  - Many workers guessed at their retirement savings needs (51 percent).
- Yet, the survey offers some promising insights on where to focus communication efforts to help raise levels of awareness and education:
  - A large percentage of workers rely on financial websites, family and friends, financial planners/brokers, retirement plan provider websites, and print newspapers and magazines.
  - Workers also state that larger tax-breaks and educational material that is easier to understand would motivate them to learn more about saving and investing for retirement.
- New regulations on 401(k) fee disclosure will promote consistency among retirement plan providers and help both employers and their workers make more informed decisions about their retirement plans. However, it is paramount that employers recognize the importance of communicating fees and that workers take responsibility in educating themselves regarding fees and planning for retirement.

# DETAILED FINDINGS

# Worker Fee Disclosure Preferences: Level of Detail

Many workers prefer some level of summary for fee disclosure. This preference is consistent with workers of both small and large companies.



Worker Survey: Q638. What level of detail would you prefer when receiving information about any fees that may be charged to your participant account?

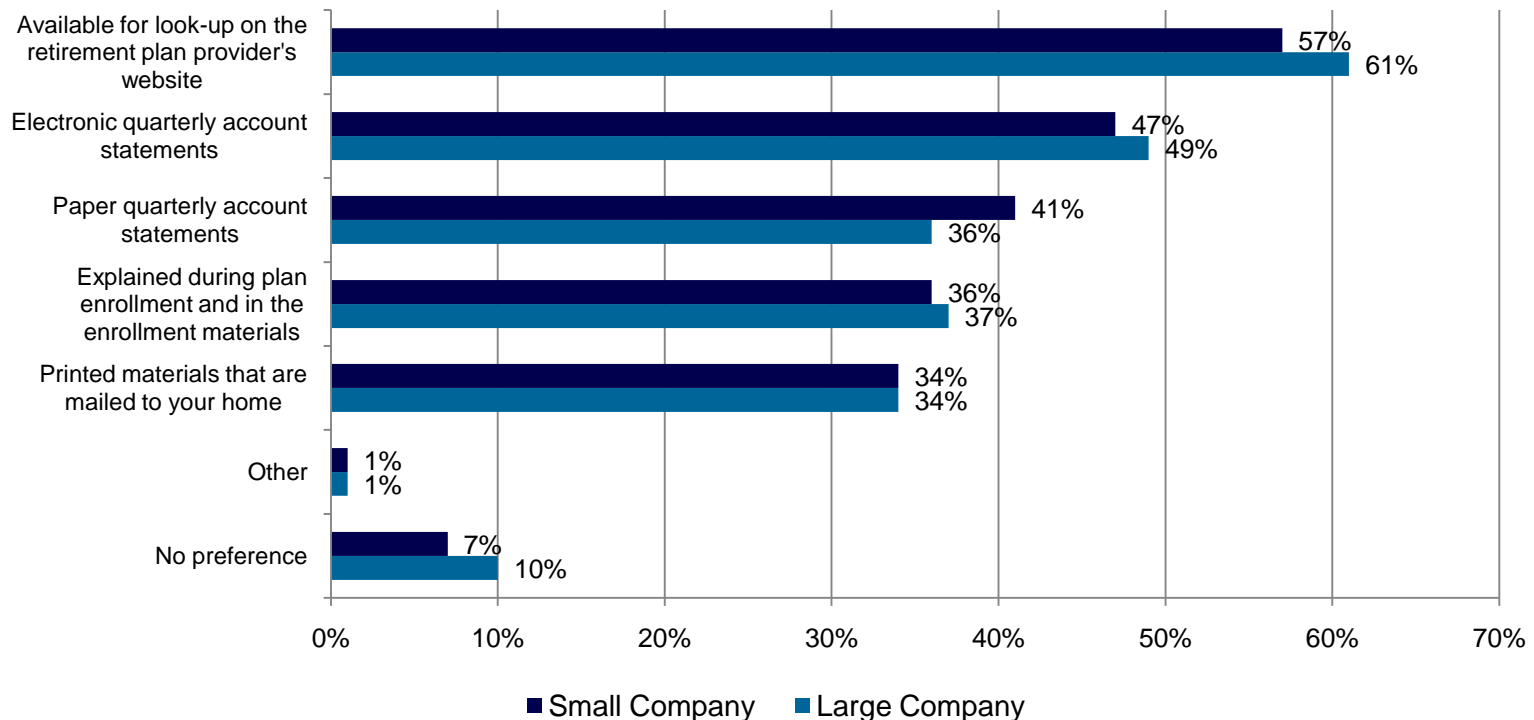
Base: Full and part-time workers at for-profit companies who offer a 401(k) or similar plan.

# Worker Fee Disclosure Preferences: Delivery Means

The vast majority of workers prefer to receive fee information through an electronic method, either through the provider's website or electronic quarterly account statements. Workers' preference for a fee summary and electronic access is in line with the proposed legislation and regulations.

## Workers

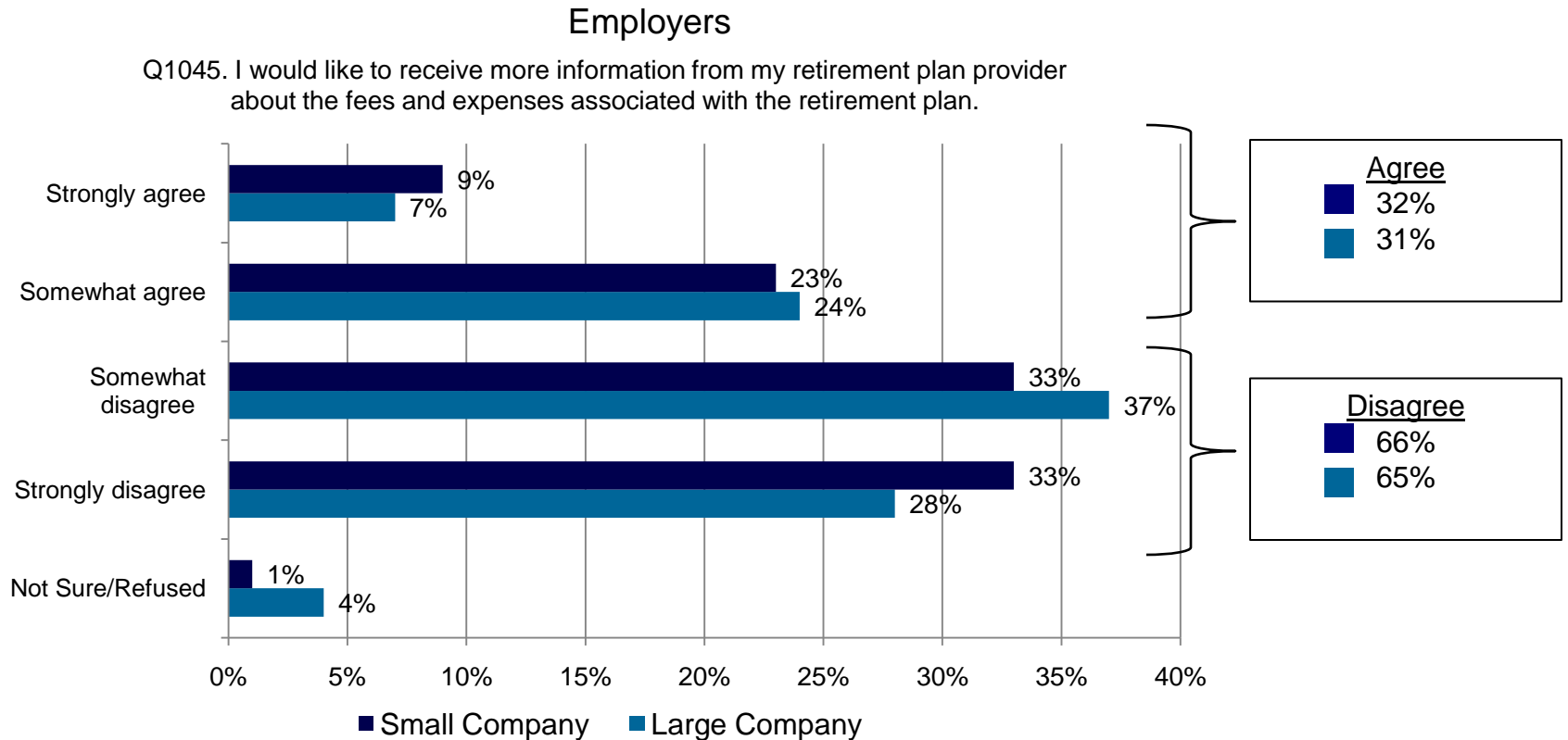
Q637. How would you like to access information about the fees associated with participating in your company's retirement plan? (Select all that apply)



Base: Full and part-time workers at for-profit companies who offer a 401(k) or similar plan. Small Company n=1046; Large Company n=1493

# Employers: A Potential Impediment

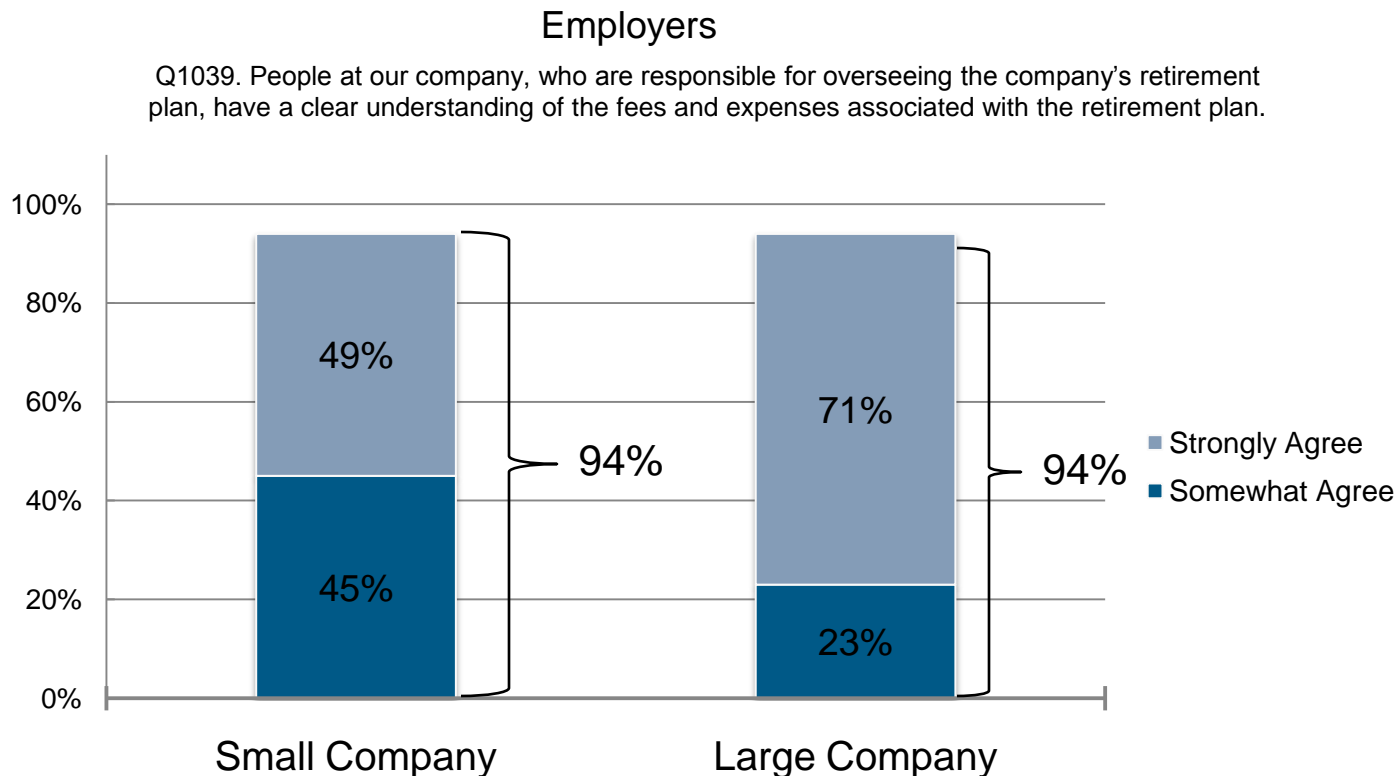
Employers are a key link in plan-related communications to their employees. However, the survey findings suggest they may not be aware or concerned with the issue. Regarding fees disclosed at the plan sponsor level, most plan sponsors are not interested in receiving more information about fees, implying that they are satisfied with the current level of disclosure.



Base: For-profit companies who offer a 401(k) or similar plan. Small Company n=256; Large Company n=277

# Employers' Understanding of Fees & Expenses

Employers also agree that the people in the company responsible for overseeing the company's retirement plan have a clear understanding of the fees and expenses associated with the retirement plan. Large companies were more likely to strongly agree.



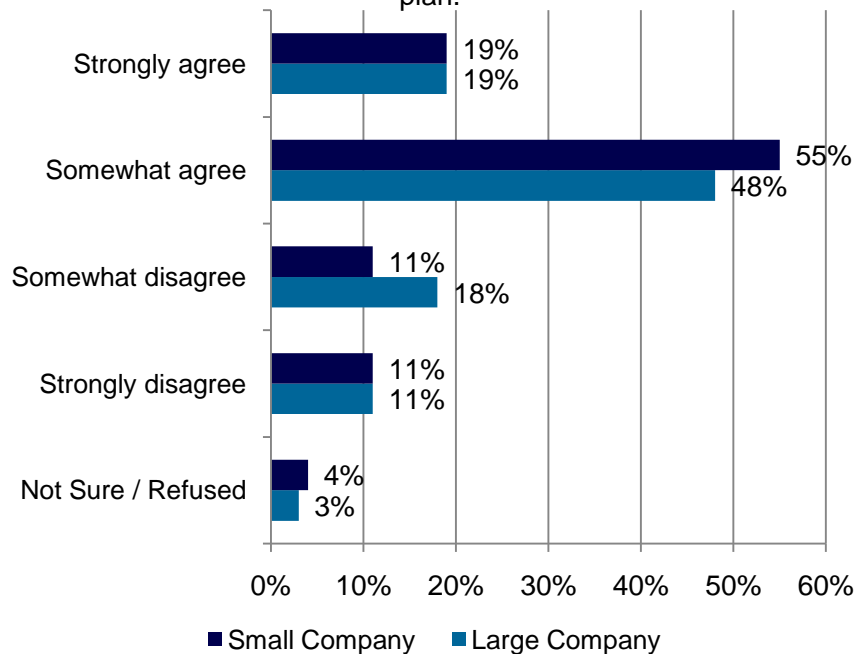
Base: For-profit companies who offer a 401(k) or similar plan. Small Company n=256; Large Company n=277

# The Worker Awareness Disconnect

While the majority of employers believe their employees have a clear understanding of fees associated with participating in the retirement plan, only 26 percent of workers are aware of any fees. This is a clear indication of the disconnect that exists between employers' perceptions and workers' actual understanding.

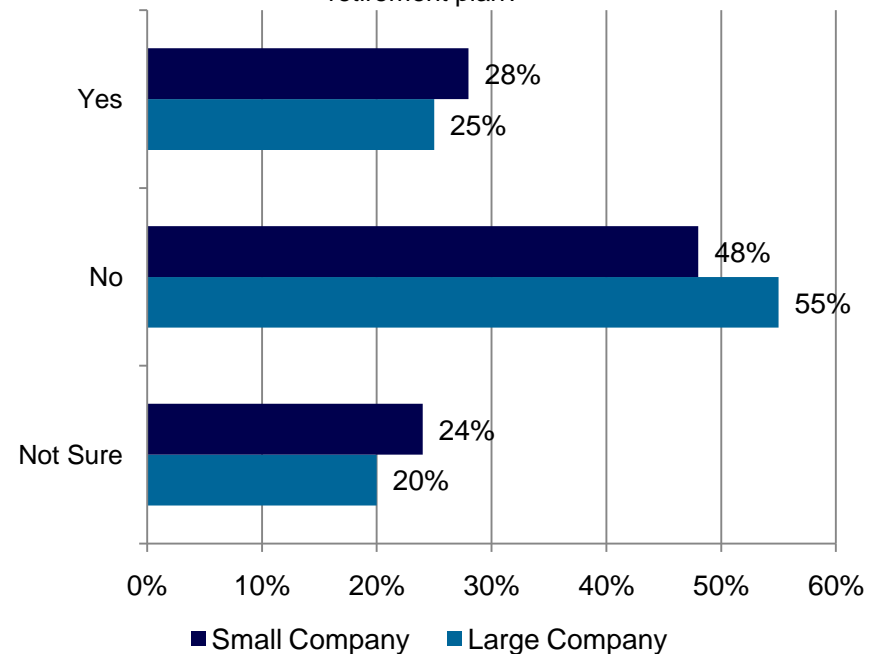
## Employers

Q1041. Our employees have a clear understanding of the fees associated with participating in the retirement plan.



## Workers

Q634. Are you aware of any fees that may be charged to your participant account associated with your company's retirement plan?



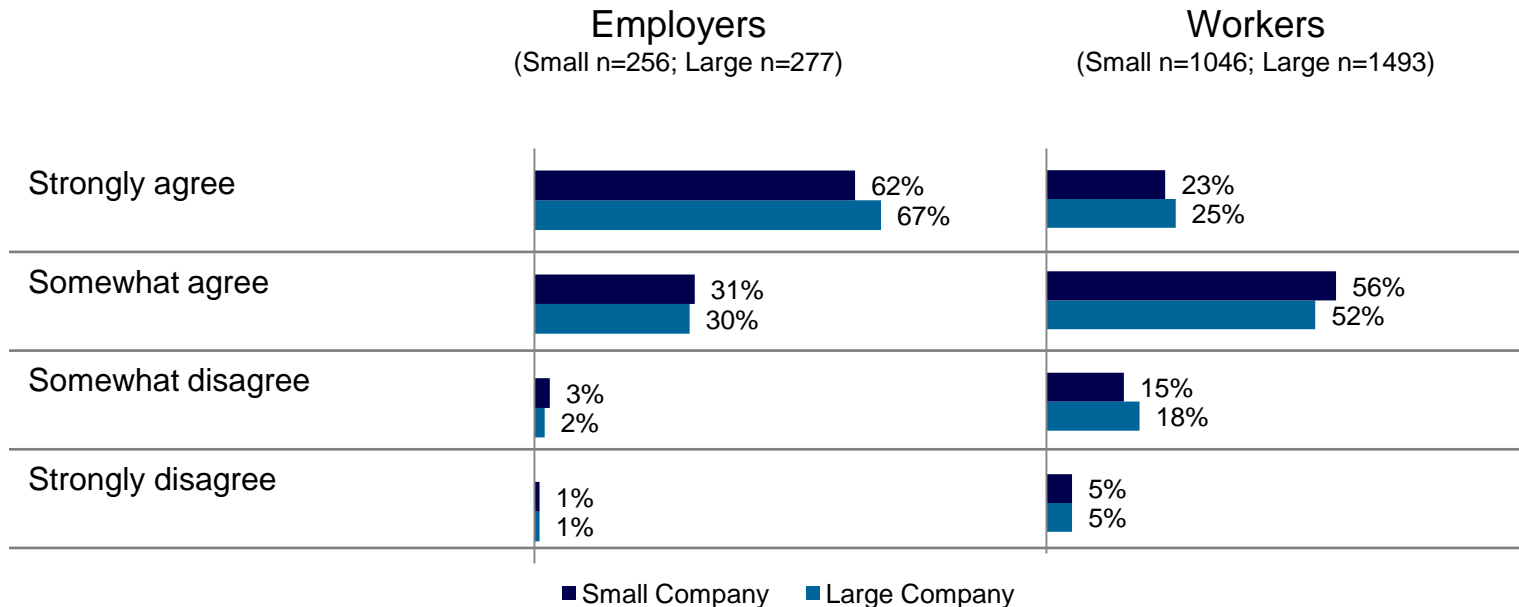
Base: For-profit companies who offer a 401(k) or similar plan. Small Company n=256; Large Company n=277

Full and part-time workers at for-profit companies who offer a 401(k) or similar plan. Small Company n=1046; Large Company n=1493



# Further Disconnect: Retirement Plan Information

Both employers and workers generally agree that employees receive the right information to make decisions about the plan – which may be contributing further to the disconnect about fees. However, the majority of employers “strongly agree” compared to the majority of workers who “somewhat agree.”



Employer survey included additional responses for “Not Sure / Refused”, small company 4%, large company 1%

Employer Survey: Q730. Our company gives employees the right information they need to make decisions about the retirement plan.

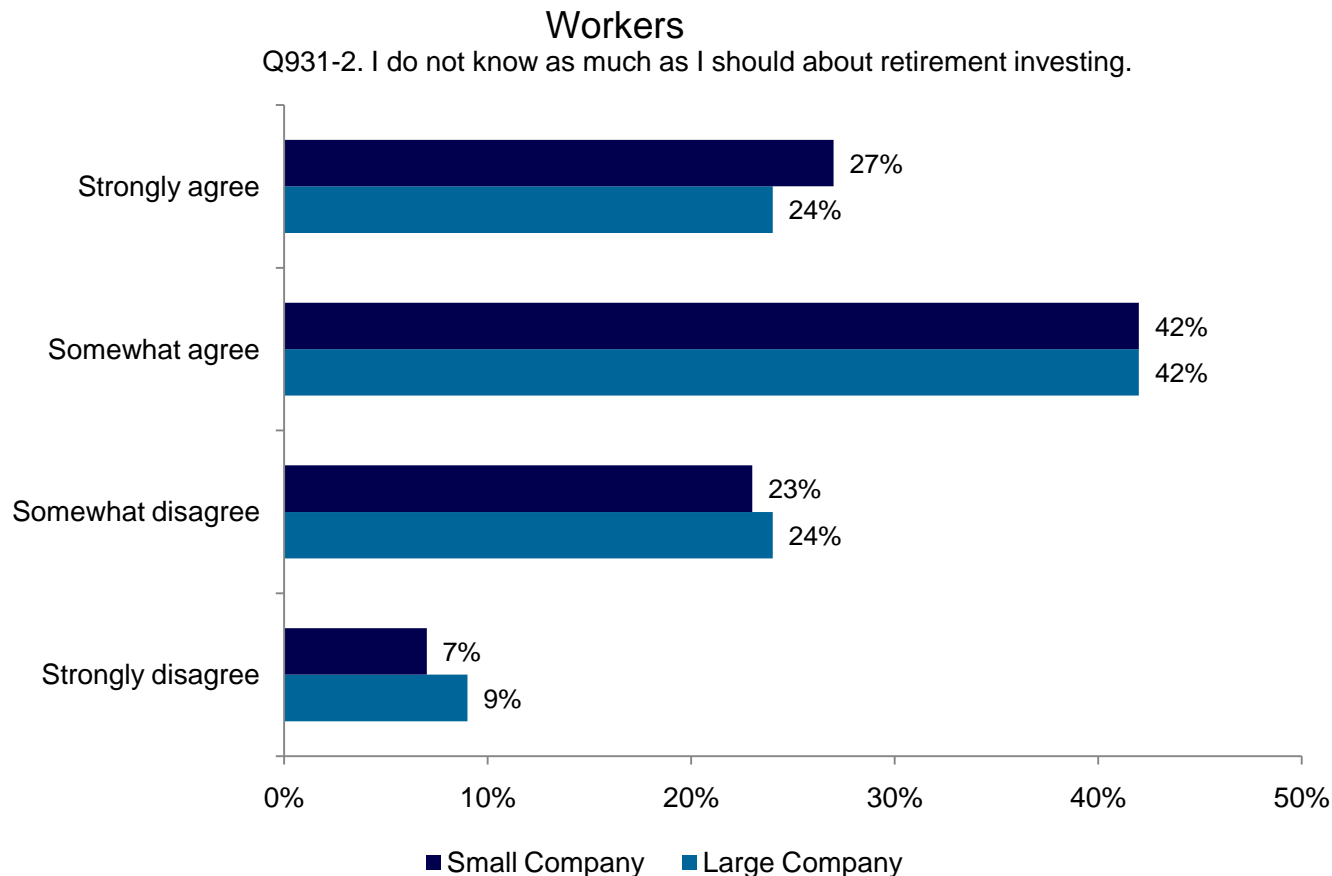
Worker Survey: Q701-3. My company gives me the right information I need to make decisions about the retirement plan.

Base: For-profit companies who offer a 401(k) or similar plan.

Full and part-time workers at for-profit companies who offer a 401(k) or similar plan.

# Workers' Retirement Knowledge in General

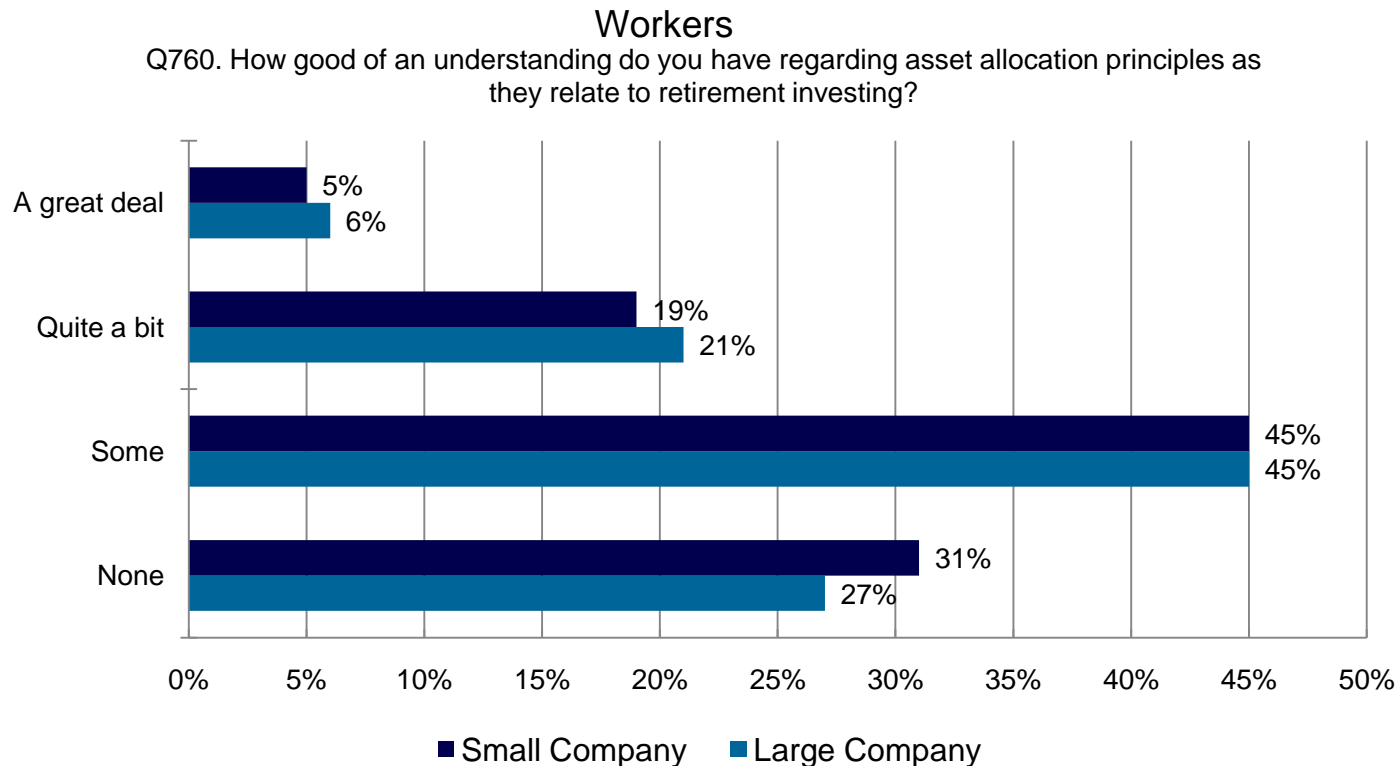
Another potential obstacle – despite efforts by the government, the retirement industry, and the media - is that most workers still feel they do not know as much as they should about retirement investing.



Base: For-profit, full and part-time. Small Company n=1699, Large Company n=1899

# Worker Knowledge: Asset Allocation

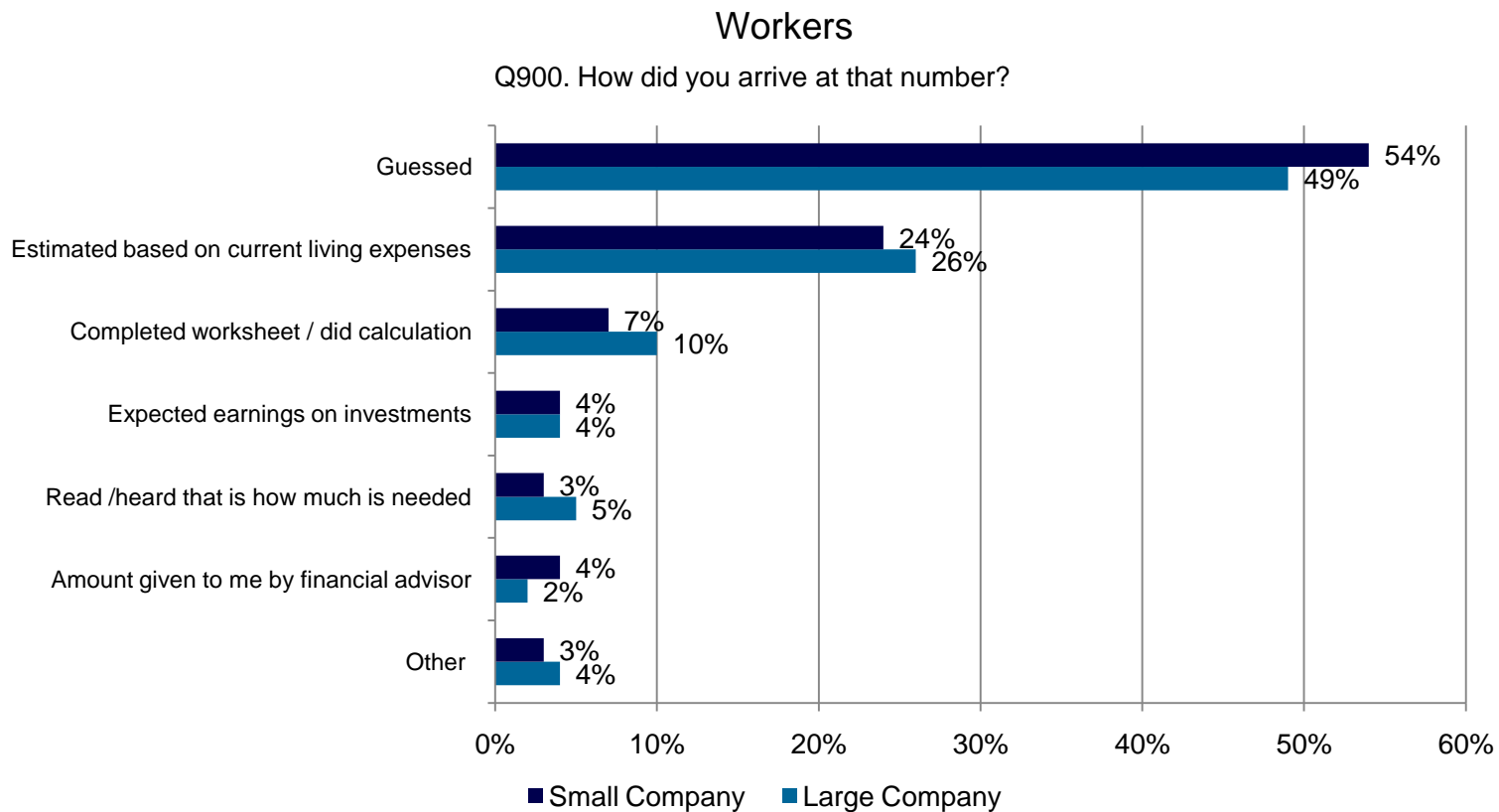
Additionally, few workers indicate they know “a great deal” about asset allocation principles. Again, company size does not appear to make a difference.



Base: For-profit, full and part-time. Small Company n=1699; Large Company n=1899

# Worker Guesswork

When asked to determine the amount of money they think they will need to feel financially secure in retirement, a majority of workers guessed. While there are clear benefits in having a consistent set of fee disclosure regulations to help workers make informed decisions, it is also apparent that they continue to require assistance in other areas of retirement planning.



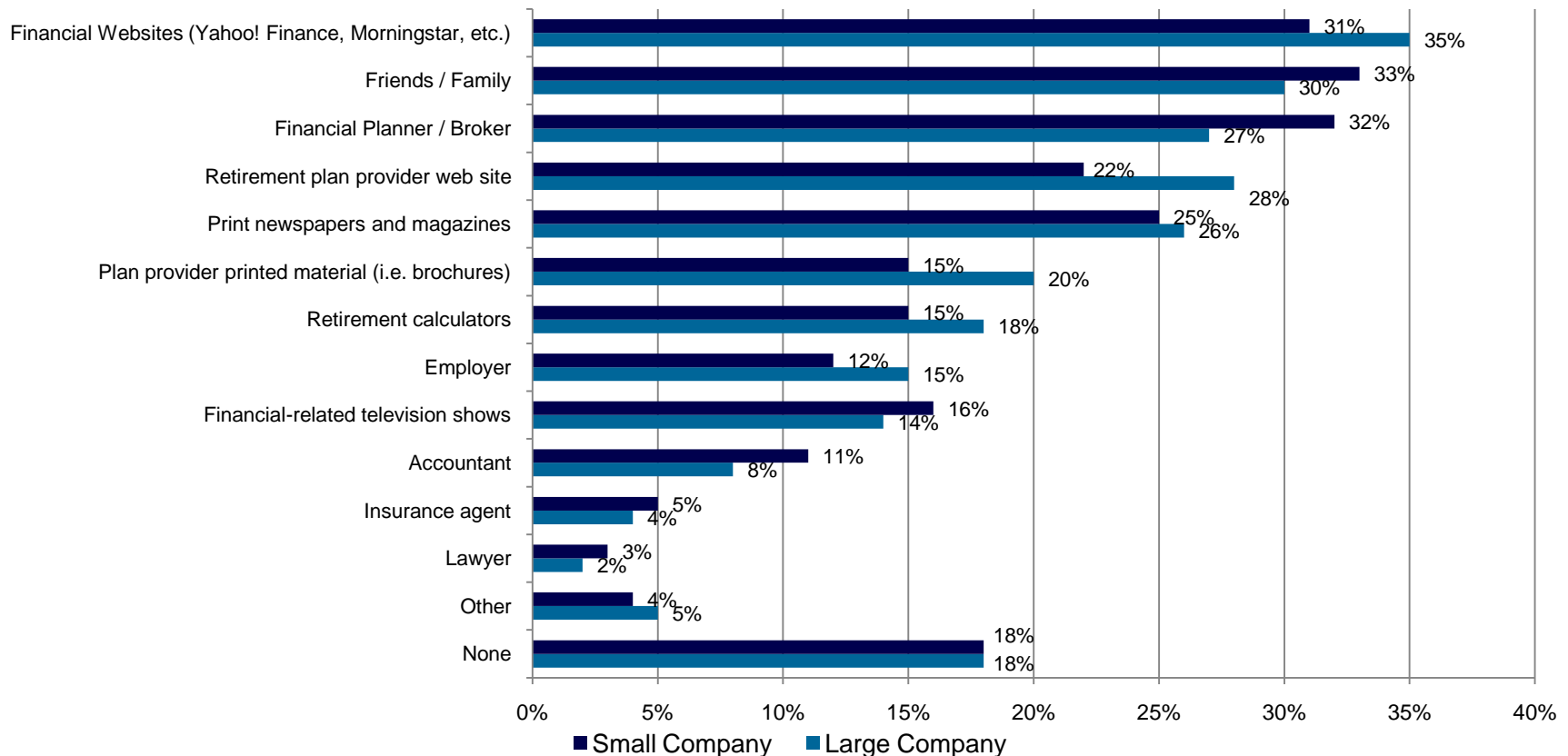
Base: For profit, full & part-time. Small Company n=1699; Large Company n=1899

# Worker Preferences: Sources of Information

A key link in helping workers bridge this divide is by encouraging the retirement industry, government, and the media to communicate through a variety of channels that workers rely on for retirement planning and investing.

## Workers

Q825. What sources of information do you rely on for retirement planning and investing? (Select all that apply)



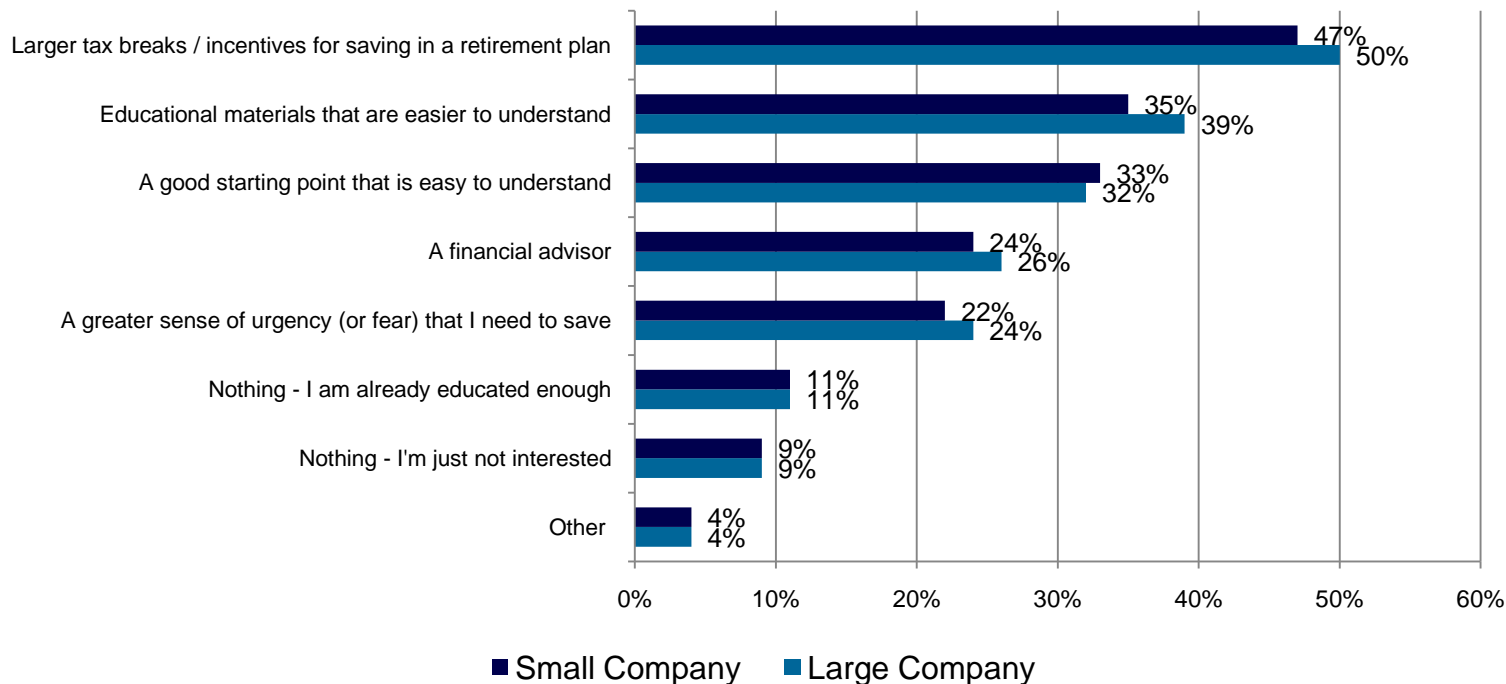
Base: For profit, full & part-time. Small Company n=1699; Large Company n=1899

# Worker Motivators

Additionally, about half of workers believe tax breaks and incentives would help motivate them to save more for retirement, while more than one-third would like educational materials that are easier to understand.

## Workers

Q2040. What would motivate you to learn more about saving and investing for retirement? (Select all that apply)



Base: For profit, full & part-time. Small Company n=1699; Large Company n=1899

# Conclusion

- New regulations for 401(k) fee disclosure will promote consistency among retirement plan providers and help both employers and their workers make more informed decisions about their retirement plans.
- However, in order for them to be effective, it's paramount that employers recognize the importance of communicating fees.
  - Generally, it is assumed that large companies have access to greater resources to help their employees plan and save for retirement. Yet, as the survey data shows, workers for both small and large companies can benefit from additional communication and education.
- It's equally important that workers take greater action in educating themselves regarding 401(k) fees as well as saving and planning for retirement in general.
- The government, industry, and media should also focus their communication and educational efforts through means that will help ensure their messages will be received. Specifically:
  - Financial-related websites
  - Retirement plan provider websites
  - Print newspapers and magazines
- In addition to asking for greater tax incentives, workers are seeking educational materials that are easier to understand.

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