

Mutual Fund Industry Testifies in Favor of Full Disclosure of All 401(k) Fees, November 1997

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Washington, DC, November 12, 1997 - The president of the national association of the mutual fund industry in [testimony](#) today told the Department of Labor that the fund industry supports full disclosure of all 401 (k) plan fees to both employers and participants.

Testifying before a [hearing](#) of the Pension and Welfare Benefits Administration, Investment Company Institute President Matthew P. Fink said that the Department of Labor "should take steps to assure that employees will be provided with full disclosure about all expenses they will bear ¾ both disclosure as to expenses associated with investment options, similar to disclosure already required in mutual fund prospectuses, and disclosure of plan administration fees."

The ICI president observed that the shift from defined benefit to defined contribution plans is perhaps "the most significant pension development since ERISA was enacted in 1974."

At the end of 1996, defined contribution assets totaled \$1.8 trillion, the majority of which are invested in guaranteed investment contracts, insurance company separate accounts, bank collective funds and employer stock. According to [1996 Institute estimates](#), mutual funds constitute about one-third of defined contribution plan assets, including about 39 percent of 401(k) plan assets.

Mr. Fink stated that the employer, in its role as a 401 (k) plan fiduciary, is responsible for prudently selecting and monitoring both investment options and plan service providers, including assuring that the costs of both are reasonable.

More importantly, since most employees in 401(k) plans make their own investment decisions, they are "entitled to full information about fees and expenses," according to Mr. Fink. These include both expenses associated with investment options and fees charged in connection with the administration of the plan.

In the case of mutual funds, Mr. Fink observed, all fees and expenses associated with investing in the fund are required by law to be set forth in a standardized fee table at the front of each fund's prospectus. The fee table includes the fund's overall expense ratio, individual categories of fees, and the effect of fund expenses on a hypothetical investment.

Mr. Fink noted, however, "Employees may not receive comparable information in the case of many other investment alternatives that are not subject to the Securities Act and, thus, are not required to prepare a prospectus." He therefore suggested that employers provide to employees similar fee information with respect to all investment vehicles.

The ICI president went on to say that any plan administrative expenses that are borne by participants should also be disclosed to them.

Mr. Fink concluded his remarks by stating that issues relating to 401(k) fees are best dealt with through disclosure: "As Justice Brandeis said, 'Publicity is justly commended as a remedy for social and industrial diseases. Sunlight is said to be the best of disinfectants; electric light the most efficient policeman.'"

The Investment Company Institute is the national association of the American investment company industry. Its membership includes 6,661 open-end investment companies ("mutual funds"), 443 closed-end investment companies, and 10 sponsors of unit investment trusts. Its mutual fund members have assets of \$4.160 trillion, accounting for approximately 95 percent of total industry assets, and have over 59 million individual shareholders.
