

**Oral Testimony of
Matthew D. Hutcheson
Independent Pension Fiduciary**

on

**“Are Hidden 401(k) Fees Undermining
Employee Retirement Income Security?”**

before the

**Committee on Education and Labor
U.S. House of Representatives**

March 6, 2007

Chairman Miller, Congressman McKeon, members of the Committee, from personal experience and research as an independent fiduciary, I believe the retirement income of America's workforce has been unnecessarily reduced due to confusion caused by blending fiduciary and non-fiduciary practices.

Many billions more should be available for health care and prescription drugs, home repairs, and basic living necessities. Instead, these sums line the pockets of others.

Conventional 401(k) plans now cost around 3% of plan assets per year to manage; some are even as high as 5%. In my experience that is 1.5 to 3.5% more than is reasonably necessary.

To put this into perspective, just 1% in excess costs to Plan participants having \$2.5 Trillion in 401(k) assets, represents a wealth transfer of \$25 billion to others—each and every year.

A large portion of the costs of conventional 401(k) plans relate to services that have little or nothing to do with building and protecting retirement income security, and hence are excessive.

Take an average participant with a thirty thousand dollar account balance, contributing \$150 per pay period. If this person earns an average return of 8% over a twenty-five year time period, he or she will have accumulated over \$500,000.

However, add another 1% in annual fees and the account balance drops nearly \$85,000. Add 1% more, and the balance drops by \$150,000.

This translates into approximately \$540 per month in retirement income lost. This loss can be prevented, and it begins by enlightening Plan Sponsors about the realities of 401(k) economics.

When we buy bread, we know exactly how much it costs. One dollar buys one dollar's worth of bread. However, when it comes to 401(k) plans, the "sticker price" is advertised at fifty cents, yet the actual cost may be closer to three dollars. Fiduciaries simply can't make good decisions when the cost of services is undisclosed.

There are at least seven types of hidden fees or costs borne by Plan participants. These range from brokerage fees shared between the broker and an investment fund, to record keeping subsidies between a mutual fund and a third party administrator.

Contrary to fiduciary principles, some of the fees borne by participants are for services they do not receive. It is costly and unnecessary to offer a wider variety of investment alternatives than is absolutely necessary to construct a prudent, low cost portfolio.

The more fund choices offered, the more mistakes participants make.

Employees tinker with the investments within their accounts, incurring hidden trading costs that reduce their returns. The current 401(k) environment encourages mistakes—for no good or necessary reason.

The brokerage and investment fund industries understand and count on participants making imprudent investment decisions; they rely on fiduciary ignorance to generate revenue. This is a substantial and hidden cost about which participants are almost universally unaware.

An efficient, low-cost, market-tracking portfolio could easily and fairly be put in place for all participants.

To my astonishment, the industry persists in the assertion that without higher fees, they cannot deliver the desired services.

This is the heart of the matter: It is the services or plan options that are excessive, and those services or options are not always necessary for protecting retirement income.

Because 401(k) participants own stocks and bonds constituting \$2.5 trillion, it is essential that Plans be managed by individuals who understand and uphold standards of fiduciary care and loyalty.

Conclusion

It is incumbent upon us to be absolutely certain there are no unnecessary obstacles (whether intentional or unintentional) to the long-term success of our private retirement system.

American workers deserve proper protections for the hard-earned savings they have set aside in their 401(k) plans. But those protections have largely been denied in the current state of the industry.

I believe in implementing simple solutions. Change will require exposing and confronting powerful economic interests that support the current system.

It is daunting to tackle this vital issue, affecting millions now and in generations to come.

Despite the forces arrayed against change, America's workers deserve better than they have received to-date from the providers of 401(k) services.

Thank you.

Matthew D. Hutcheson is an Independent ERISA Pension Fiduciary, well known for his research and work in the areas of retirement plan governance, fiduciary prudence, and results-based practices. His clients include companies of all sizes, governmental entities, and legal and accounting firms. He has worked closely with Federal Legislators to develop Bills that protect society's hard-earned retirement funds. Mr. Hutcheson is a Certified Pension Consultant, an Accredited Investment Fiduciary Auditor®, and holds various other professional retirement plan related credentials. He can be reached at matt@erisa-fiduciary.com.