

Gearing up for more 401(k) fee disclosure

By [Lisa Shidler](#)
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CHICAGO — As the Department of Labor considers improving fee disclosure to retirement plan participants, some vendors and advisers are racing to offer more information to 401(k) participants, while most are content to wait for a directive.

The Labor Department asked for comments on this issue in April. The comment period ends July 24.

“What do the people really care about in their investment performance? They care about how much they get to keep,” said Daniel S. Peterson, managing director of

G Fiduciary LLC of Tualatin, Ore., and an architect of the G Index, a benchmark tool that helps participants understand how much they’re paying for their 401(k) investments.

“The guys on Wall Street are a lot smarter than the regulators, who will never be able to keep up with Wall Street in terms of hiding fees,” he said.

Although most in the industry agree that disclosure needs to be improved, some are wary about releasing more information to participants.

“The reception is largely — but not totally — positive to this concept,” said Chris Lyon, a principal at Rocaton Investment Advisors LLC in Norwalk, Conn.

That’s an understatement, according to James Olson, a principal of 401K ASP Inc., a Tampa, Fla.-based record-keeping business.

“The issue on fee disclosure will really tear into this industry,” he said. “It’ll be the civil war for our industry.”

A number of industry leaders worry that offering fee disclosures to participants will cause havoc, especially if participants don’t have a benchmark to compare their fees with those of others in the industry.

“A lot of [advisers] have hesitancy to disclose the fees, because they’re concerned the participants will think they’re being paid more than they’re worth,” said Michael Kitces, director of financial planning for Pinnacle Advisory Group Inc. of Columbia, Md.

Stepping up

While he thinks fee disclosure is a great idea, Mark Gutrich, president and chief executive of Denver-based ePlan Services Inc., doesn't plan to be first to offer information to plan participants.

"There's zero benefit to be the first mover," he said. "If you do it one way, and others do it another, it can put you in a competitive disadvantage."

The problem with offering fee disclosures now is that companies might be forced to spend more money to change their systems after the Labor Department issues its guidelines, said Bob Reiter, client relations manager for Kansas City, Mo.-based DST Systems Inc., a record keeper.

"I don't sense that anyone's quite ready until they receive the guidance," he said. "People aren't stepping up. Whenever they step up, we're prepared to do it."

Mr. Gutrich worries that participants might be angered if he introduced cost information each quarter.

That fear is not completely without merit, said Mr. Olson, whose company offers itemized costs for 401(k) plans on demand. One employer began offering expenses on its quarterly statements, he said, and employees were furious because they thought they were being overcharged.

Gratified participants

Regardless, Mr. Olson believes that participants should see this information. His company provides record keeping for the G Index, which compares an investor's quarterly returns with an industry benchmark and compares the participant's costs with an industry standard.

Others agree that more information should be provided. About two years ago, John Moynihan, president of St. Louis-based Diversified Financial Advisors, began to offer fee breakouts to participants.

"The response was quite a surprise," he said. "The participants thanked us."

The Principal Financial Group of Des Moines, Iowa, and ING U.S. Financial Services of Atlanta have released statements saying that they are in full support of fee transparency.

Offering more disclosure could also be used as a marketing tool, said Luis Fleites, a research partner with Boston-based Financial Research Corp.

"It'll be a competitive edge for these companies, and a marketing piece for them," he said.

Elizabeth Krentzman, former general counsel of the Investment Company Institute in Washington, favors disclosure that provides clear and concise information.

"Why can't we have a simplified disclosure for all products that includes the fees and performance?" asked Ms. Krentzman, now a partner at Deloitte & Touche USA LLP in New York and chief adviser to its investment management industry group's regulatory consulting practice.

She pointed out that insurance and bank products are not required to provide such information.

The key is providing data that participants will actually use, said Marilyn Collister, a national director of regulatory policy for Great-West Lifeco Inc. of Winnipeg, Manitoba,

"If you give them too much information, they won't read it," she said. "If it's too simplified, then it won't tell them enough."

That's true, said Dennis Simmons, a principal and attorney at The Vanguard Group Inc. of Malvern, Pa. "More disclosure is definitely better, but you want to make sure it's really helpful disclosure and that participants understand what it means," he said.