# The 401(k) Fair Disclosure for Retirement Security Act

## *Myths v. Facts*

**Myth:** Too much disclosure will confuse 401(k) participants.

> **Fact:** H.R. 3185 would require service providers to disclose their fees in terms that are clear and easily understandable, so that plan participants can make sound investment decisions for themselves. The biggest problem facing workers with 401(k) plans is that there is too little disclosure of fees, not too much. Plan participants should be presented with the facts and then allowed to make their own decisions.

**Myth:** Fees on 401(k)s are already adequately disclosed.

> **Fact:** There is no one place that 401(k) plan participants can go to find out about the fees they are paying. Information that is available is difficult to find and difficult to read. And some fees are simply not disclosed *at all*. As a result, a 2007 survey by the AARP found that roughly 80 percent of plan participants were not aware of fees they were paying on their 401(k)s.

**Myth:** More fee disclosure will dramatically increase costs to plan participants.

> **Fact:** Most experts agree that while there may be a small initial cost involved with disclosing the fees that participants are charged, continuing to hide fees puts Americans' retirement security at risk. It is reasonable that large financial services firms should have to tell their customers how much they charge for their services. And giving the investing consumer better information will encourage greater competition among financial service providers and help reduce fees.

**Myth:** Actively managed investments provide better returns than index funds.

> **Fact:** Over the full twenty-year time period from 1983 to 2003, depending on the sector, index funds outperformed 89 percent to 97 percent of mutual funds. Index funds are not actively managed and therefore carry lower costs. While many 401(k) plans have made strides to include lower cost retirement options, index funds are still not available to workers in 30 percent of 401(k) plans.

**Myth:** Service providers that "bundle" their services will be required to unbundle them.

> **Fact:** H.R. 3185 does not require service providers to unbundle their services. If a service provider sells investment management services, administrative services, and record-keeping together as a package, it may continue to do so. H.R. 3185 simply requires service providers to disclose the costs of the components of its bundled products.

**Myth:** H.R. 3185 mandates one investment option for every 401(k) plan.

> **Fact:** H.R. 3185 would simply require all 401(k) plans to offer at least one index fund. It does not limit other types of investment options that 401(k) plans may offer; it does not tell 401(k) plans which specific index funds they must offer; and it does not require plan participants to invest in index funds. It simply ensures that participants are able to invest in an index fund if they choose to do so.

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