

Speech of Assistant Secretary Ann L. Combs to the Northern Indiana ASPPA Benefits Council, American Society of Pension Professionals and Actuaries

January 6, 2006

Automatic Enrollment

I mentioned earlier that the pension reform bills pending in Congress encourage automatic enrollment in 401(k) plans. A study by Harvard, the Wharton School, and the Hewitt Associates consulting firm concluded that many workers are leaving money on the table by not taking advantage of matching 401(k) contributions from their employers. Studies indicate as many as a third of workers do not participate in 401(k) plans offered to them.

To address this concern, employers are stepping up their efforts to educate and make it easier for employees to effectively participate in their 401(k) plans. Almost half of the companies surveyed reported that they are likely to automate certain features of their 401(k) plan -- such as automatic enrollment, automatic contribution rate increase features, default investment options, and automatic rebalancing -- to increase participation and the quality of the participation.

We are very interested in facilitating default 401(k) plans and removing barriers to maximizing workers' ability to take advantage of savings opportunities. We are currently working on a proposed regulation that will create a fiduciary safe harbor for default investments in 401(k)-type plans. Historically, employers have been very conservative in choosing default funds -- typically using a money market fund.

With the move toward automatic enrollment, the choice of a default fund becomes critically important because many employees will be placed in the fund and are likely to leave their assets in the default. A money market fund is not a good long-term investment for a retirement plan. We are considering allowing employers to use more appropriate investment alternatives, such as life cycle or target-age funds, balanced funds, or professionally managed accounts as defaults.

Fees

Another issue that has received a lot of publicity in the last few years is plan fees. As you know, fees directly impact the retirement savings of America's workers and retirees. As the marketplace has changed and developed, the number and type of fee arrangements, including some undisclosed fees, has expanded. We take the issue of fee transparency, and our responsibility to improve it, very seriously.

We do not regulate the type or level of fees that are charged by various providers for various products. Instead, ERISA requires that a fiduciary cannot pay more than reasonable compensation for services. Therefore, it is incumbent on the fiduciary to understand what fees are being charged and to assess their reasonableness.

To assist fiduciaries in this process and ensure that workers have necessary information to make investment decisions, we are currently examining what changes should be made to the type or timing of fee disclosures. We are working to both clarify the fee disclosures that must be made to participants in individually directed accounts, and what information about fees that fiduciaries must obtain and service providers must furnish. We will also be improving the fee disclosure required on the annual report filed with the Department and made available to participants.