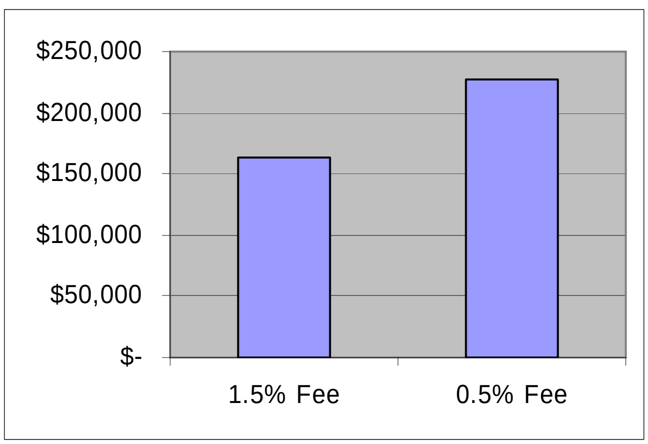
WHY DO FEES IN 401(k) AND 403(b) ACCOUNTS MATTER?

Today, twice as many workers have 401(k) plans than have lifetime pensions, a complete reversal from 25 years ago. 61 million individuals participated in 401(k) plans, with assets totaling $2.44 trillion, as of year-end 2005.

Unlike traditional pension plans, a 401(k) or 403(b) plan offers employees no set retirement benefit. Instead, the employee's benefit is whatever he or she manages to save in the plan account. Every dollar saved or earned matters. The monthly or yearly fees currently being withheld from the plan accounts may seem relatively small when compared to the total account value, but over time the fees end-up costing individual investors thousands, or even hundreds of thousands, of dollars.

Fees make a big difference. *For example:* Assume that you are an employee with 35 years until retirement and have a current 401(k) account balance of $25,000. If returns on investments in your account over the next 35 years average 7 percent and fees and expenses reduce your average returns by 0.5 percent, your account balance would grow to $227,000 at retirement, even if there are no further contributions to your account. However, if fees and expenses being withheld are 1.5 percent, your account balance would grow to only $163,000. The 1 percent difference in fees and expenses reduces your account balance at retirement by a whopping 28 percent.



WHY ARE SOME MUTUAL FUNDS IN THESE PLANS SO EXPENSIVE?

There is no shortage of inexpensive, top-performing mutual fund options for 401(k) or 403(b) plans. Familiar names, such as Vanguard or T.Rowe Price come to mind. You may find your self asking, "If this is a trillion dollar industry with individuals' retirement savings at stake, why don't all plans offer inexpensive funds?" After all, while investment performance cannot be predicted, the effect of fees on total return is easily computed. Cost calculators are readily available to investors. For example, see: **http://www.sec.gov/investor/tools/mfcc/get-started.htm**

Sometimes plans have expensive (and badly performing) funds because the employer is not paying adequate attention. More often, plans hire third-party service providers who claim to have special expertise administering small company retirement plans. These providers offer one-stop shopping. For a fee, a service provider will select the particular investment options offered by the plan. The devil is in the details, however, and the details often are hidden from the employer and, in turn, the employees.

Participants can find fund expense ratios in a prospectus. But there's typically no clear breakdown of how much each participant is paying for various plan services, such as accounting or custody of plan assets. Moreover, service providers sometimes enter into side deals with mutual fund companies. In these agreements, the mutual fund company will kick back to the service provider some of the fees it charges to participants – all at the expense of the individual plan participant.

Of course, this arrangement is often undisclosed to the employer and plan participants. Even when there is some disclosure, generally it is described in a way that is difficult to understand. In the end, employers end up offering funds that they think were chosen by service providers based on objective data – such as fund performance, the expense of the fund, its rating, etc. However, the funds may have really been selected by the service provider because the mutual fund company agreed to pay a kickback to the service provider.

WHAT PROTECTIONS DO EMPLOYEES HAVE?

Backroom deals that drain employees' retirement savings may violate our country's major pension protection law, the Employee Retirement Income Security Act (ERISA). Under ERISA, employers are held to a high standard of care and diligence and must discharge their duties solely in the interest of the plan participants and their beneficiaries. Among other things, this means that employers must:

- Establish a prudent process for selecting investment alternatives and service providers;
- Ensure that fees paid to service providers and other expenses of the plan are reasonable in light of the level and quality of services provided;
- Select investment alternatives that are prudent and adequately diversified; and
- Monitor investment alternatives and service providers once selected to see that they continue to be appropriate choices.

If you are a participant in a 401(k) or 403(b) plan and you are concerned by the fees being charged in your plan, we encourage you to contact an attorney with extensive experience in handling ERISA matters.