American Federation of Labor and Congress of Industrial Organizations

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Sent via electronic mail: rule-comments@sec.gov

March 23, 2012

Ms. Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. 4-645, Comment Request for Study Regarding Financial Literacy Among Investors

Dear Ms. Murphy:

On behalf of the American Federation of Labor and Congress of Industrial Organizations (the "AFL-CIO"), I am writing to provide comment to the U.S. Securities and Exchange Commission (the "Commission") on financial literacy among investors that the Commission is studying as required by Section 917 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The AFL-CIO is the largest labor union federation in the United States and represents 12.2 million union members. Union-sponsored pension and employee benefit plans hold more than $480 billion in assets.

The Commission's study of financial literacy among investors comes at a time when Americans' confidence in their ability to achieve a secure retirement is at historically low levels. Just 14 percent of workers surveyed are very confident they will have enough money to live comfortably in retirement.[1] Moreover, the shift from traditional defined benefit pension plans to defined contribution 401(k) plans has transferred investment risk from employers to workers.

For the vast majority of workers, defined contribution 401(k) plans have failed to provide for a secure retirement. Less than half of all private industry employees participate in any form of employer-sponsored retirement plan.[2] For those workers who are able to participate in a 401(k) plan, the average 401(k) account balance was $60,329 and the median account balance

[1] Employee Benefit Research Institute, 2012 Retirement Confidence Survey, March 13, 2012.
[2] Bureau of Labor Statistics, National Compensation Survey, March 2011.

was $17,686 as of December 31, 2010.[3] Assuming a 4 percent annual withdrawal rate, the average 401(k) account balance will only provide $2,413 in annual income.

While there are many reasons that defined contribution 401(k) plans have failed to provide for a secure retirement for workers, high mutual fund fees and expenses are a contributing factor. Over a 30-year career, an extra 0.5 percent annual fee can cut a worker's savings at the time of retirement by 10 percent. A worker who saves $10,000 a year in a mutual fund with annual expenses of 1 percent could end up with $829,000 or $91,000 less than a worker paying only 0.5 percent in annual fees.[4]

The Department of Labor has recently issued new rules to provide defined contribution 401(k) plan participants better information about investment costs.[5] However, many workers also invest in mutual funds directly or through brokerage accounts, through individual retirement accounts, and through education savings 529 plans. For these reasons, we urge the Commission to study the following improvements in fee disclosure for all mutual fund investors:

- Mutual fund fees should be disclosed at least as prominently as performance information in all marketing materials;
- Mutual fund fee ratios should also be disclosed as a percentage of total returns;
- Mutual fund investors should receive a personalized, all-in annual expense report that shows the total fees paid in dollars;
- Mutual fund marketing materials should include industry average fees for their fund category, as defined by Morningstar; and
- Mutual fund fee disclosures should be made in plain English.

We appreciate the opportunity to comment on the Commission's study of investors' financial literacy. If the AFL-CIO can be of further assistance, please do not hesitate to contact me at 202-637-5152.

Sincerely,

Brandon Rees
Acting Director, Office of Investment

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[3] "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2010," EBRI Issue Brief, Employee Benefit Research Institute, December 2011.
[4] "401(k) Plans Step into the Sunshine," The Wall Street Journal, January 31, 2012.
[5] Employee Benefits Security Administration, Requirements for Fee Disclosure to Plan Fiduciaries and Participants— Applicability Dates, July 19, 2011.