Understanding Retirement Plan Fees and Expenses – Disclosure Overview

As a participant in a retirement plan, you have made the decision to take steps now to help secure a comfortable financial future. Part of your responsibility is to make sure you understand the true costs of the services and investment options in your retirement plan, which will in turn allow you to make more informed decisions when managing your retirement account.

The Department of Labor's Employee Benefits Security Administration (EBSA) has released regulations designed to help you manage and invest the money you contribute to your 401(k)-type pension plans. The rule is designed to ensure: that participants in this type of plan are given, or have access to, the information they need to make informed decisions, including information about fees and expenses; the delivery of investment-related information in a format that enables employees to meaningfully compare the investment options under their pension plans; that plan fiduciaries use standard methodologies when calculating and disclosing expense and return information so as to achieve uniformity across the spectrum of investments that exist among and within plans, thus facilitating "apples-to-apples" comparisons among their plan's investment options; and a new level of fee and expense transparency.

The regulations require that plan sponsors – your employer – provide this disclosure document to participants (and to eligible employees and beneficiaries) on an annual basis.

The expenses detailed in the fee disclosure document are not new. What *is new* is the requirement these expenses be listed and provided to you in an annual fee disclosure document.

The regulations require the plan administrator (typically the plan sponsor, which is your employer) ensure participants receive the disclosure document. Plan Administrators, Inc. (PAi), which is the service provider for your plan, may prepare the document on your employer's behalf. Questions on the disclosure information in the document should be directed to a PAi specialist. Questions on the investment options should be directed to your employer, or the financial professional working with your plan.

What's in the fee disclosure?

The first category of information that must be disclosed is plan-related information. This general category is further divided into three subcategories as follows:

- General plan information consisting of information about the structure and mechanics of the plan and a current list of the plan's investment options.
- Administrative expenses information explaining any fees and expenses for plan services.
- Individual expenses information explaining any fees and expenses that may be charged to or deducted from the individual account of a specific participant.

The second category of information that must be disclosed is investment-related information. This category contains several subcategories of core information about each investment option under the plan, including:

- Performance data with specific information about historical investment performance.
- Fee and expense information for each investment option expressed as both a percentage of assets and as a dollar amount for each $1,000 invested, and any shareholder-type fees or restrictions on the participant's ability to purchase or withdraw from the investment.
- An Internet website address that is sufficiently specific to provide access to specific individual information.
- A general glossary of terms to assist in the understanding of the plan.

Social Security may not be enough to fully fund your retirement income. With a retirement plan, you save pre-tax dollars. Your employer may provide a contribution match, which can help to boost your savings. And, it's free money. You can also tap into the power of compounding interest. The money you save in your retirement plan earns interest. Then, you can earn interest on the money you saved *plus* on the interest you've accumulated. The more you save now, the longer your money has to grow to help provide you with a secure financial future.

What are the Types of Plan Fees and Who Pays for Them?
There are a variety of plan fees and expenses that may affect your retirement plan. All qualified plans include fees that are incurred by plan participants like you, or your plan sponsor (your employer). The expenses detailed in the fee disclosure document are not new. What *is new* is the requirement these expenses be listed and provided to you in an annual fee disclosure document, on or before the date employees can first direct investments in the plan.

The following is an overview of some of those fees and expenses and the different ways in which they may be charged. Plan fees and expenses generally fall into three categories:

Plan Administration Fees. The day-to-day operation of a plan involves expenses for basic administrative services -- such as plan recordkeeping, accounting, legal and trustee services -- that are necessary for administering the plan as a whole. In addition, a profit sharing or 401(k) plan also may offer a host of additional services, such as telephone voice response systems, access to a customer service representative, educational seminars, electronic access to plan information, daily valuation, and online transactions.

For some plans, the employer pays these costs. For others, the participant may be responsible for a portion of these costs (assessed through a participant fee deducted from your account). Ultimately, it's your employer who determines how these costs are covered. But if you pay a portion of these costs directly, the fee will be deducted from your account and shown on your account statement.

Investment Fees. By far the largest component of plan fees and expenses is associated with managing plan investments. Fees for investment management and other related services generally are assessed as a percentage of assets invested. They are paid in the form of an indirect charge against the participant's account or the plan because they are deducted directly from investment returns.

Expenses are reflected in a fund's "expense ratio" – or the percentage of a fund's assets that go toward operating and managing the fund. Because the fund's costs (as expressed by its expense ratio) are deducted before a fund's net investment return is calculated, they lower an investor's potential return.

This illustration is designed to help you understand expense ratios. It assumes a fund investment of $10,000.

Investment	Expense Ratio	Annual "Cost"
$10,000	0.25% (.0025)	$25.00
$10,000	0.75% (.0075)	$75.00
$10,000	1.25% (.0125)	$125.00

The example in the top row shows an expense ratio of 0.25%. If an investor has a $10,000 investment in a fund with an expense ratio of 0.25% and the fund experiences a gross return of 5% for the year, the investor would see a return of 4.75% in the account instead of the 5% return.

As the chart indicates, the higher the expense ratio the more of the investor's investment goes toward the cost of operating the fund, rather than earning the investor his or her return.

Individual Service Fees. In addition to overall administrative expenses, there may be individual service fees associated with optional features offered under an individual account plan. Individual service fees may be charged separately to the accounts of those who choose to take advantage of a particular plan feature. For example, fees may be charged to a participant for taking a loan from the plan and perhaps an annual fee to maintain that loan. Some plans may also charge a fee for an in-service withdrawal or other transactions.

If your plan imposes fees for these services, the fees will be deducted from your account and the deduction will be shown on your quarterly account statement.

For More Information:

- Access the "A Look at 401(k) Plan Fees" publication on the Department of Labor's Employee Benefits Security Administration website at http://www.dol.gov/ebsa/publications/401k_employee.html.
- Review your account statement for any transaction or service charges you may have incurred.
- Consult your Summary Plan Description to understand what fees your employer charges.

- Get a copy of your plan's Summary Annual Report. Under the section "Basic Financial Statement," look for total plan expenses and subtract the amount of benefits paid. The difference is the plan's net administrative expenses.
- Ensure you are invested in funds that are appropriate for your time horizon, risk tolerance and financial situation.
- Questions on the disclosure information in the document should be directed to a PAi specialist.
- Questions on the investment options should be directed to your employer, or the financial professional working with your plan.

Fee Disclosure and Fee Restructure Definition of Terms*

12b-1 Fee: A charge to shareholders to cover a mutual fund's shareholder servicing, distribution and marketing costs.

Administration/Recordkeeping Fee: Fee for providing recordkeeping and other plan participant administrative type services. For start-up or takeover plans, these fees typically include charges for contacting and processing information from the prior service provider and "matching up" or mapping participant information.

Annual Audit: Federal law generally requires that all ERISA-covered plans with more than 100 participants be audited by an independent auditor.

Back-End Load: Sales charges due upon the sale or transfer of mutual funds, insurance/annuity products or other investments, which may be reduced and/or eliminated over time.

Bundled Services: Arrangements whereby plan service providers offer 401(k) plan establishment, investment services and administration for an all-inclusive fee. Bundled services by their nature are priced as a package and cannot be priced on a per service basis.

Contract Administration Charge: An omnibus charge for costs of administering the insurance/annuity contract, including costs associated with the maintenance of participant accounts and all investment-related transactions initiated by participants.

Contract Termination Charge: A charge to the plan for "surrendering" or "terminating" its insurance/annuity contract prior to the end of a stated time period. The charge typically decreases over time.

Conversion: The process of changing from one service provider to another.

Distribution Expense: The costs typically associated with processing paperwork and issuing a check for a distribution of plan assets to a participant. May include the generation of IRS Form 1099-R. This fee may apply to hardship and other in-service withdrawals as well as to separation-from-service or retirement distributions.

Eligible Employee: Any employee who is eligible to participate in and receive benefits from a plan.

Expense Ratio: The cost of investing and administering assets, including management fees, in a mutual fund or other collective fund expressed as a percentage of total assets.

Front-End Load: Sales charges incurred when an investment in a mutual fund is made.

Installation Fee: One-time fee for initiating a new plan or initiating new services.

Loan Maintenance and Repayment Tracking Fee: Annual fee charged to monitor outstanding loans and repayment schedule.

Loan Origination Fee: Fee charged when a plan loan is originally taken.

Management Fee: Fee charged for the management of pooled investments such as collective investment funds, insurance/annuity products, mutual funds and individually managed accounts.

Mortality Risk and Administrative Expense (M&E Fee): Fee charged by an insurance company to cover the cost of the insurance features of an annuity contract, including the guarantee of a lifetime income payment, interest and expense guarantees, and any death benefit provided during the accumulation period.

Participant: Person who has an account in the plan.

Participant Education Materials/Distribution Expenses: All costs (including travel expenses) associated with providing print, video, software and/or live instruction to educate employees about how the plan works, the plan investment funds, and asset allocation strategies. There may be a one-time cost associated with implementing a new plan, as well as ongoing costs for an existing program.

Plan Document/Determination Letter Fee (Filing Fee): Fee charged for a written plan document. Fee can also include the costs associated with preparing and filing IRS required documentation, including the request for a determination letter (document issued by the IRS stating whether the plan meets the qualifications for tax advantaged treatment).

Plan Loan: The law allows participants to borrow from their accounts up to prescribed limits. This is an optional plan feature.

Product Termination Fee: Investment-product charges associated with terminating one or all of a service provider's investment products.

QDRO (Qualified Domestic Relations Order): A judgment, decree or order that creates or recognizes an alternate payee's (such as former spouse, child, etc.) right to receive all or a portion of a participant's retirement plan benefits.

Separate Account: An asset account established by a life insurance company, separate from other funds of the life insurance company, offering investment funding options for pension plans.

Service Provider Termination Charge: Plan administrative costs associated with terminating a relationship with a service provider, with the permanent termination of a plan, or with the termination of specific plan services. These may be termed "surrender" or "transfer" charges.

Signature Ready Form 5500: Fee to prepare Form 5500, a form which all qualified retirement plans (excluding SEPs and SIMPLE IRAs) must file annually with the IRS.

Start-up/Enrollment Expense: Costs associated with providing materials to educate employees about the plan, and enrolling employees in the plan. This may be part of, or included in, the education programs. There may be a one-time cost associated with implementing a new plan, as well as ongoing enrollment costs.

Trustee Services: Fees charged by the individual, bank or trust company with fiduciary responsibility for holding plan assets.

VRU: Voice Response Unit.

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