

404(a)(5) Participant Fee Disclosure



**HELPING OUR PLAN SPONSORS MEET THEIR
FIDUCIARY RESPONSIBILITIES.**

Service Provider Fee Disclosure Rules



- Fee disclosure increases transparency of plan fees and investment expenses for participant-directed account balance plans.
- 408(b)(2) effective April 1, 2012
 - “Service Providers” including Recordkeepers and Advisors must provide Plan Sponsors with enhanced fee disclosure
 - Enables Plan Sponsors to compare service providers’ costs

Final Rule on Participant Fee Disclosures published 10/14/2010



- The final rule says that the investment of plan assets is a fiduciary act governed by the fiduciary standards of ERISA, and requires plan fiduciaries to act prudently and solely in the interest of the plan's participants and beneficiaries.
- When a plan allocates investment responsibilities to participants, the plan administrator must take steps to ensure, on a regular basis, that participants are aware of those rights and responsibilities, and are provided with sufficient information about investment options, including fee and expense information, to make an informed decision.

Participant Fee Disclosure Rules



- **404(a)(5) effective January 1, 2012 for December plans**
- **Plan Sponsors inform participants of fees and expenses in participant-directed account balance plans. Trustee-directed plans are exempt.**
- **Disclosures: annual/ quarterly/ change**
 - Initial/Annual Disclosure Document describes all fees that affect the Plan's account balances due March 12, 2012
 - Quarterly Statement from Recordkeeper shows fees impacting an individual due August 14, 2012 for June 30th quarter
 - Change Notice, if fees change, 30 days before effective date

Initial/Annual Disclosure Document



- **Disclosure of services and compensation, especially if any services are provided as a fiduciary to the Plan.**
 - Investment advisors reveal commissions paid
- **Investment instructions: an explanation of how the participant provides investment instructions**
 - Enrollment/investment election forms and protocols
- **Investment Options: a current list of all funds/choices in the Plan**
 - Showing a comparison to benchmark investments and benchmark expenses

Investment-related Disclosures



- **Name and type of investment option AND**
 - Performance, including 1-, 5-, and 10-year returns
 - Performance over same periods for Benchmark fund
 - Fees/expenses for each investment option
 - Required statements about impact of fees
- **Glossary of investment terms**
(www.investmentterms.com)
- **Information about plan annuity options, if any**
- **Information about self-directed brokerage, if any**
- **Web site address for each option**

Administrative and Individual Expenses



- **Plan-wide legal, accounting, and recordkeeping expenses:**
 - Disclosure must explain method of allocation:
 - Per participant, or percentage of account balance, etc.
- **Disclosure must show individual expenses that may be charged:**
 - Loan fees, fees for QDROs, Hardships, Brokerage accounts, etc.

Quarterly Statements must Disclose Fees Charged to Participant's Account



- **Administrative and Individual Expenses charged to the participant's account during the preceding quarter must be shown**
 - Statement must include an explanation that fees came out of one or more plan investments
- **Plan sponsors must describe services provided for these fees:**
 - Example: Loan initiation fee: \$150 charged pro-rata from all investment funds

Plan Sponsor Can Rely on Service Providers



- Plan Sponsor will not be liable for relying in good faith on service providers
- DOL has provided “Model Chart” to cover bulk of information.
 - Break to model chart

Multiple Vendors or Brokerage Window



- **Must Combine Information from All Vendors into one Comparative Chart**
 - This could make for a very long disclosure
 - Show administrative and individual expense information by Vendor on Initial/Annual Disclosure
 - Show similar funds together (equity vs fixed vs annuity) noting the Vendor
 - If you have one mutual fund family and allow brokerage accounts (not allowed in 403(b)), the transaction charges and special limitations for brokerage window must be itemized on the same Disclosure in its own place.

Quarterly Fee Disclosure



Quarterly Statement Section

4. Statements of Actual Charges or Deductions

EXPENSES

Certain fees and expenses are charged to your account for administrative services (e.g., legal, accounting, recordkeeping). These charges have been allocated to plan participants on a per capita basis. The amount of these administrative fees and expenses charged to your account for the quarter ending XXXXX/XXXXX was \$00.00.

Certain fees and expenses are charged to your account for individual services. The following amounts of these individual expenses were charged to your account for the quarter ending XXXXX/XXXXX:

Individual Expenses	
Plan Loans	\$00.00
Investment guidance or advice	\$00.00
Managed account name services	\$00.00
QDRO service	\$00.00