



Comments to the US Senate Committee on Health, Education, Labor and Pensions

401(k) Fee Disclosure: Helping Workers Save for Retirement

September 17, 2008

The American Society of Pension Professionals & Actuaries (ASPPA) and the Council of Independent 401(k) Recordkeepers appreciates the opportunity to submit our comments for the record to the US Senate Committee on Health, Education, Labor and Pensions (HELP) on the very important issue of 401(k) fee disclosure.

ASPPA is a national organization of more than 6,000 retirement plan professionals who provide consulting and administrative services for qualified retirement plans covering millions of American workers. ASPPA members are retirement professionals of all disciplines, including consultants, administrators, actuaries, accountants and attorneys. ASPPA's large and broad-based membership gives ASPPA unusual insight into current practical problems with ERISA and qualified retirement plans, with a particular focus on the issues faced by small to medium-sized employers. ASPPA's membership is diverse, but united by a common dedication to the private retirement plan system.

CIKR is a national organization of 401(k) plan service providers. CIKR members are unique in that they are primarily in the business of providing retirement plan services as compared to larger financial services companies that primarily are in the business of selling investments and investment products. As a consequence, the independent members of CIKR, many of whom are small businesses, make available to plan sponsors and participants a wide variety of investment alternatives from various financial services companies without bias or inherent conflicts of interest. By focusing their businesses on efficient retirement plan operations and innovative plan sponsor and participant services, CIKR members are a significant and important segment of the retirement plan service provider marketplace. Collectively, the members of CIKR provide services to approximately 70,000 plans covering three million participants holding in excess of \$130 billion in assets.

Background

ASPPA and CIKR strongly support the Senate HELP Committee's interest in examining issues relating to 401(k) fee disclosure and the impact of fees on a plan participant's ability to save adequately for retirement. We are encouraged by the introduction of

legislation by Congress on this issue. In particular, on December 13, 2007, Senate Special Committee on Aging Chairman Herb Kohl (D-WI) and Tom Harkin (D-IA) introduced S. 2473, the “Defined Contribution Fee Disclosure Act of 2007,” in addition to the two 401(k) fee disclosure bills previously introduced in the House of Representatives in 2007: (1) H.R. 3185, the “Fair Disclosure for Retirement Savings Security Act,” sponsored by House Education and Labor Chairman George Miller (D-MA) and passed out of the full committee on April 16, 2008; and (2) H.R. 3765, the “Defined Contribution of Plan Fee Transparency Act,” introduced on October 4, 2007 and sponsored by House Ways and Means Committee Subcommittee on Select Revenue Measures Chairman Richard Neal (D-MA) and co-sponsored by Rep. John Larson (D-CT).

We support all three bills’ even-handed application of new disclosure rules to all 401(k) plan service providers and encourage the Senate HELP Committee to take the same path towards uniform disclosure requirements. Further, we also encourage you to strike the right balance between disclosure information appropriate for plan sponsors versus plan participants. To demonstrate how both of these goals can be accomplished, we have attached to these comments two sample fee disclosure forms for your consideration—one for plan fiduciaries and another for plan participants. Each is tailored to provide plan fiduciaries and plan participants with the different sets of information on fees that are needed to make informed decisions.

As you know, the Department of Labor (DOL) currently has one final and two ongoing 401(k) fee disclosure projects: (1) A revised Form 5500, including a revised Schedule C, which is now finalized and effective beginning on January 1, 2009; (2) a proposed ERISA §408(b)(2) regulation, which provides sweeping changes on what constitutes a reasonable contract or arrangement between service providers and plan fiduciaries; and (3) a proposed ERISA §404(a) regulation setting forth a complex set of new participant fee disclosure requirements. The DOL has publicly announced that they plan to have both the 408(b)(2) regulation and the participant fee disclosure regulations finalized by the end of 2008, with effective dates projected for sometime in 2009.

ASPPA and CIKR submitted comprehensive comment letters to the DOL on both the 408(b)(2) and participant fee disclosure proposed regulations.¹ In both of these comment letters, we recommended an extension of the proposed effective date(s) because of the significant implementation and compliance issues/costs involved, made a number of significant recommendations to improve each of the disclosure regimes in order to ensure that understandable and meaningful disclosure is provided, and stressed the need for uniform disclosure requirements—among all types of service providers.

¹ We note that House Education and Labor Committee Chairman George Miller (D-CA), Senate HELP Committee Chairman Kennedy (D-MA), Special Aging Committee Chairman Herb Kohl (D-WI), Senate HELP Committee Member Tom Harkin (D-IA) and House Education and Labor Subcommittee Chairman Rob Andrews (D-NJ) also submitted joint comment letters to the DOL on both the 408(b)(2) regulation and participant fee disclosure regulation. These comments expressed concerns about the DOL’s approach to these disclosure initiatives and requested additional actions be taken to protect plan participant and beneficiaries.

ASPPA and CIKR strongly support the premise that plans and plan participants should be provided all the information they need about fees and expenses in their 401(k) plans—in a form that is clear, uniform and useful—to make informed decisions about how to invest their retirement savings plan contributions. This information is critical to millions of Americans’ ability to invest in a way that will maximize their retirement savings so that they can achieve adequate retirement income. We support your efforts to craft legislation that will accomplish this goal.

Plan Sponsor 401(k) Fee Disclosure – Need for Uniform Requirements

The 401(k) plan industry delivers investments and services to plan sponsors and their participants using two primary business models—commonly known as “bundled” and “unbundled.” Generally, bundled providers are large financial services companies whose primary business is selling investments. They “bundle” their proprietary investment products with affiliate-provided plan services into a package that is sold to plan sponsors. By contrast, “unbundled,” or independent, providers are primarily in the business of offering retirement plan services. They will couple such services with a “universe” of unaffiliated, non-proprietary, investment alternatives. Generally, the costs of the bundled and unbundled arrangements are comparable or even slightly less in the unbundled arrangement. Under current business practices, bundled providers disclose the cost of the investments to the plan sponsor but do not break out the cost of the administrative services. Unbundled providers, however, disclose both, since the costs are paid to different providers (*i.e.*, administrative costs paid to the independent provider and investment management costs paid to the managers of the unaffiliated investment alternatives).

Bundled and unbundled providers have different business models, but for any plan sponsor choosing a plan, the selection process is exactly the same. The plan sponsor deals with just one vendor, and one model is just as simple as the other.

Plan sponsors must follow prudent practices and procedures when they are evaluating service providers and investment options. This prudent evaluation should include an “apples to apples” comparison of services provided and the costs associated with those services. The only way to determine whether a fee for a service is reasonable is to compare it to a competitor’s fee for that service.

The retirement security of employees is completely dependent upon the business owner’s choice of retirement plan service providers. If the fees are unnecessarily high, the workers’ retirement income will be severely impacted. It is imperative that the business owner have the best information to make the best choice.

While the DOL’s proposed ERISA §408(b)(2) rules (relating to whether a contract or arrangement is reasonable between a service provider and plan fiduciary) *would* require enhanced disclosures for service providers to 401(k) plan fiduciaries, the proposed regulation would require only an aggregate disclosure of compensation and fees from bundled service providers, with narrow exceptions, and would not require a separate, uniform disclosure of the fees attributable to each part of the bundled service

arrangement. While we appreciate the DOL’s interest in addressing fee disclosure, we do not believe that any requirement that benefits a specific business model is in the best interests of plan sponsors and participants.

Without uniform disclosure, plan sponsors will have to choose between a single price business model and a fully disclosed business model that will not permit them to appropriately evaluate competing provider’s services and fees. Knowing only the total cost will not allow plan sponsors to evaluate whether certain plan services are sensible and reasonably priced and whether certain service providers are being overpaid for the services they are rendering.

In addition, if the breakdown of fees is not disclosed, plan sponsors will not be able to evaluate the reasonableness of fees as participant account balances grow. Take a \$1 million plan serviced by a bundled provider that is only required to disclose a total fee of 125 basis points, or \$12,500. If that plan grows to \$2 million, the fee doubles to \$25,000, although the level of plan services and the costs of providing such services have generally remained the same.

The bundled providers want to be exempt from adhering to uniform disclosure rules and regulations. Simply put, they want to be able to tell plan sponsors that they can offer retirement plan services for free while independents are required to disclose the fees for the same services. Of course there is no “free lunch,” and there is no such thing as a free 401(k) plan. In reality, the costs of these “free” plan services are being shifted to participants through the investment management fees charged on the proprietary investment alternatives, in many cases without their knowledge.

The uniform disclosure of fees is the only way that plan sponsors can effectively evaluate the retirement plan they will offer to their workers. To show it can be done, attached is a sample of how a uniform, plan sponsor disclosure would look. By breaking down plan fees into only three simple categories—investment management, recordkeeping and administration, and selling costs and advisory fees—we believe plan sponsors will have the information they need to satisfy their ERISA duties.

Plan Participant 401(k) Fee Disclosure – Need for Uniform and Understandable Requirements

The level of detail in the information needed by 401(k) plan participants differs considerably than from that needed by plan fiduciaries. Plan participants need clear and complete information on the investment choices available to them through their 401(k) plan, and other factors that will affect their account balance. In particular, participants who self-direct their 401(k) investments must be able to view and understand the investment performance and fee information charged directly to their 401(k) accounts in order to evaluate the investments offered by the plan and decide whether they want to engage in certain plan transactions.

The disclosure of investment fee information is particularly important because of the significant impact these fees have on the adequacy of the participant’s retirement savings.

In this regard, studies have shown that costs related to the investments account for between roughly 87 percent and 99 percent of the total costs borne by participant accounts, depending on the number of participants and amount of assets in a plan.²

ASPPA and CIKR urge that any new disclosure requirements to plan participants also be uniform, regardless of whether the service provider is bundled or unbundled. On July 23, 2008, the DOL issued proposed regulations on participant fee disclosure that required the annual disclosure to plan participants and beneficiaries of identifying information, performance data, benchmarks and fee and expense information in a comparative chart format, plus additional information upon request. The proposed regulation further required an initial and annual explanation of fees and expenses for plan administrative services to plan participants and beneficiaries (disclosed on a percentage basis) *except* to the extent included in investment-related expenses.

The effect of this exception will be to highlight administrative costs for one business model (unbundled) over another (bundled), which would result in a disparity of treatment and confusion.

In most plans, the administrative costs of recordkeeping, reporting, disclosure and compliance are borne, at least to some extent, by the investments. For bundled providers, the entire administrative cost is generally covered by investment-related fees charged on proprietary investments. For an unbundled provider, however, those costs are often paid through revenue sharing received from unrelated investments, which, in many instances, is not sufficient to offset the entire cost. Accordingly, for unbundled providers, there would be a direct administrative charge assessed against participants' accounts.

In effect, the DOL's requirement to disclose administrative expenses *except* to the extent included in investment-related expenses would impose an additional and burdensome disclosure requirement on unbundled service providers, whereas there would be no such disclosure in the case of a bundled service provider. This would be misleading to most plan participants. In only the unbundled case would participants see separate administrative costs charged against his or her account, while with bundled providers, participants would be given the impression there were no administrative costs at all as the administrative costs would be imbedded in the investment costs.

Accordingly, as the Senate HELP Committee considers any legislation in this area, ASPPA and CIKR recommend that the disclosure of administrative and investment information be provided on a uniform basis. We believe that administrative fee information provided on the same annualized basis as investment costs would provide participants a more complete picture of the total costs of the plan at a single time, regardless of the business model of a service provider.

It is important to recognize that there is a cost to any disclosure, and that cost is most often borne by the plan participants themselves. To incur costs of disclosure of information that will not be relevant to most participants will unnecessarily depress the

² 2007 edition of the *401(k) Averages Book*, published by HR Investment Consultants.

participants' ability to accumulate retirement savings within their 401(k) plans. Thus, appropriate disclosure must be cost-effective, too. The result of mandatory disclosure should be the provision of all the information the plan participant needs, and no more. To require otherwise would unjustifiably, through increased costs, reduce participants' retirement savings. Those participants who want to delve further into the mechanics and mathematics of the fees associated with their investment choices and other potential account fees should have the absolute right to request additional information—it should be readily available on a Web site, or upon participant request. This will take care of those participants who feel they need more detailed information.

For the Committee's consideration, ASPPA and CIKR have attached a sample fee menu to the testimony that we believe would contain, in a clear and simple format, all the information a plan participant would need to make informed decisions about his or her plan. It is consistent with the recommendations ASPPA and CIKR provided to the DOL on July 20, 2007 (in response to their request for information regarding fee and expense to disclosures in individual account plans) and on September 8, 2008 in a joint comment letter on the recent participant fee disclosure regulations.³

Summary

The retirement system in our country is the best in the world, and competition has fostered innovations in investments and service delivery. However, important changes are still needed to ensure that the retirement system in America remains robust and effective into the future. By enabling competition, and supporting plan sponsors through uniform disclosure of fees and services, American workers will have a better chance at building retirement assets and living the American dream.

ASPPA and CIKR applaud the Senate HELP Committee's leadership in exploring issues related to 401(k) plan fee disclosure. The Committee's consistent focus on retirement issues over the years has advanced improvements in the employer-sponsored pension system and led to an increased concern about the retirement security of our nation's workers. ASPPA looks forward to working with Congress and the Administration on ensuring that both plan fiduciaries and participants receive complete and consistent 401(k) plan fee disclosures from *all* plan service providers.

Attachments: Sample fee disclosure form (plan sponsors)
Sample fee menu (plan participants)

³ ASPPA and CIKR have also submitted the sample participant fee disclosure form to the House Education and Labor Committee (October 4, 2007), the Senate Special Committee on Aging (October 24, 2007) and the House Ways and Means Committee (November 1, 2007).

ABC Company 401(k) Plan
XYZ Service Provider Disclosure -- Expected Plan Expenses
For Plan Year Beginning January 1, 2008

The following expenses may be charged to to the plan. Some of these expenses may reduce the value of participant accounts. Some plan expenses may be paid by the plan sponsor.

I. Investment Expenses - The investments offered by the plan have related expenses. The amounts listed below are the annual percentage that will be charged based on the amount the participant placed in the particular investment.

EXAMPLE: If the fee is 0.50% and a participant placed \$1,000 in that investment for one year, the participant's account would pay \$5 for that type of expenses for that investment.

Investment Option	Investment Management Fees ¹	Administrative & Recordkeeping Fees ²	Selling Costs & Advisory Fees ³	Total
AAA Investment	0.50%	0.20%	0.25%	0.95%
BBB Investment	0.42%	0.20%	0.25%	0.87%
CCC Investment	0.20%	0.20%	0.25%	0.65%
DDD Investment	0.60%	0.20%	0.25%	1.05%
EEE Investment	0.35%	0.20%	0.25%	0.80%

II. Other Asset Based Fees - These fees are assessed on the total assets in the plan and are not investment specific.

Type of Fee	Investment Management Fees	Administrative & Recordkeeping Fees	Selling Costs & Advisory Fees	Total
Plan Level Fee		0.20%		0.20%
Investment Advisory Fees			0.40%	0.40%
- Plan Expense Reimbursement		-0.20%	-0.25%	-0.45%
Net Fees on Total Plan Assets		0.00%	0.15%	0.15%

III Fees Paid Directly by Plan Sponsor - These fees are paid by the plan sponsor and are not paid out of plan assets.

Type of Fee	Investment Management Fees	Administrative & Recordkeeping Fees	Selling Costs & Advisory Fees	Total
Plan Sponsor Paid Fees		\$1,000		\$1,000

IV. Total Fees - These are the total fees based on estimated assets of \$1 million and 20 participants. The fees assessed on investments are based on the allocation of investments by the 20 participants in the plan as of 90 days prior to the date of this notice. These amounts do not include transactional expenses (see below).

Type of Fee	Investment Management Fees	Administrative & Recordkeeping Fees	Selling Costs & Advisory Fees	Total
Total Expenses on Investments	\$4,140	\$2,000	\$2,500	\$8,640
Total Asset Based Fees			\$1,500	\$1,500
Total Fees Paid by Plan Sponsor		\$1,000		\$1,000
Total	\$4,140	\$3,000	\$4,000	\$11,140

V. Transactional Expenses - These fees are only charged when participants request the services described below.

Service	Fee
Brokerage Account	\$60 per year
Participant Loan Origination Fee	\$50 per loan
Distribution	\$35 per distribution (including rollovers)

VI. Conflict Statement

All of the investments are provided by unaffiliated parties. XYZ Service Provider receives revenue sharing from all investments for recordkeeping and administrative services, and for advisory services, which is used to offset fees otherwise charged for such services as disclosed in Section II. above.

¹ Investment management fees are the portion of the expense ratio allocated to investment management expenses.

² Administrative and recordkeeping is the portion of the expense ratio attributable to administration and recordkeeping plus any additional administrative and recordkeeping charges attached to the investments.

³ These include 12b-1 fees and other related selling costs and advisory fees attached to the investments.

ABC Company 401(k) Plan

Direct Participant Expenses

As of January 1, 2007

The following estimated expenses may be charged to your account, depending on the investments you select, the types of services received by the plan and the types of transactions you request. Fees are just one issue to consider when selecting an investment option, and you should consult other information provided by the plan sponsor regarding plan investment options before making a decision.

I. Investment Expenses - The investments offered by the plan have related expenses. The amounts listed below are the annual percentage that will be charged based on the amount you placed in the particular investment. A portion of the fee will be charged if you change your investments during the year. The expense ratio reflects the percentage of fund assets that are used for administrative, management, advertising and promotion (12b-1 fees), and all other expenses and directly affect the returns of your investment options. It does not include sales loads or brokerage commissions.

EXAMPLE: If the Expense Ratio is 0.5% and you placed \$1,000 in that investment for one year, you would pay \$5 for these types of expenses for that investment. Additional expenses, such as a wrap fee, redemption fee and/or surrender charge may also apply.

Investment Option	Expense Ratio (as a percentage)	Investment-Specific Wrap Fee	Redemption Fee ¹	Surrender Charge ²
AAA Investment	0.30%	0.00%	0.00%	0.00%
BBB Investment	0.50%	0.10%	0.00%	6.00%
CCC Investment	0.40%	0.20%	2.00%	0.00%
DDD Investment	0.25%	0.00%	1.50%	0.00%
EEE Investment	0.35%	0.00%	0.00%	3.00%
FFF Investment	0.40%	0.10%	0.00%	4.00%
GGG Investment	0.50%	0.00%	1.00%	0.00%
HHH Investment	0.55%	0.25%	1.25%	0.00%

II. Fees on Total Plan Assets³ - These fees are assessed on the total assets in your account and are not investment specific. Wrap fees are for various expenses, such as sales commissions, administrative expenses, and/or recordkeeping fees.

Type of Fee	Amount of Fee
Wrap Fee	0.35%
Registered Investment Advisory Fees	0.50%
- Estimated Plan Expense Reimbursement Offset	-0.30%
Net Fees on Plan Assets	0.55%

III. Administrative and Transactional Expenses - The Annual Administrative and Recordkeeping Charge is paid by all participants. However, the remaining fees (i.e., transactional expenses) are only charged when you request the service.

Service	Amount of Fee
Annual Administrative and Recordkeeping Charge	\$50 per year
Brokerage Account	\$60 per year
Participant Loan Origination Fee	\$50 per loan
Annual Loan Charge	\$25 per year
Distribution	\$35 per distribution (including rollovers)
Domestic Relations Orders	\$100 per order

¹ May be imposed by provider as a result of changing your investments multiple times in a given period. See the investment provider's redemption fee policy for additional information.

² May be imposed if you sell or withdraw money from the investment within a given number of years after you invest. This fee may be reduced based on the length of time your money has been invested. You should consult your plan sponsor for more information before engaging in any transactions with respect to this investment.

³ Wrap fees and investment advisory fees are charged at the plan level. Some plans use expense reimbursements, such as revenue sharing, to offset these costs.