



## Retirement Plan Fees Disclosed in New Format

### Introduction

If you participate through your employer in a workplace retirement savings plan, such as a 401(k), each year you will receive important information about the fees associated with managing and servicing your employer's plan. [Under rules issued by the U.S. Department of Labor](#), you will receive an annual notice with an investment comparison chart, plan information and information about what fees you could be charged. This annual notice is intended to help you understand the many services provided to you by your employer's plan and see how much they cost.

You also will receive information on your quarterly statement showing any fees that are deducted from your account.

The following guide—which is in question and answer format—can help you understand the new information and the important terms.

The American Council of Life Insurers (ACLI) represents many life insurance companies that provide management and other services to retirement plans. We hope this information will assist you in learning about your plan and its costs. Our goal is to help you prepare for a financially-secure retirement.

### Why is it important to participate in an employer-sponsored retirement plan?

Employer-sponsored plans are among the easiest ways to save for retirement. Contributions to your 401(k) plan are deducted from your paycheck and placed in your account. Moreover, the amounts you contribute are not included in your taxable income, up to certain limits. This reduces your annual tax liability. If your employer offers matching contributions and you don't participate, then you are in effect leaving free money on the table. Participating in an employer-sponsored retirement plan also provides you with access to savings and planning tools, expert resources and investment protection not readily available in the marketplace. These are critical to helping you prepare for a secure retirement. Be informed. Read the disclosures. Don't stop saving through your plan.

### Why was the rule issued?

DOL issued the rule to make it easier for you to compare the fees and benefits associated with your investment choices with the fees and benefits of other investments under the plan. While this information has long been readily available, there was no standard format for how it should be presented. DOL's goal is to ensure that this information is given in a format that is useful and that allows for easier comparison of all of the investment choices. Investment decisions should be made based on a variety of factors, not just fees.

### **What is the standard format?**

The new annual disclosures will include three parts—fees and expenses, performance information and annuity options. Each of these sections will include a [chart](#) (on the next screen, click on “Model Comparative Chart”) that will allow you to compare the available options. The charts are explained in more detail below.

In addition to the charts, you will receive additional information about your plan, such as how you can change your investments, any restrictions on investment changes, and a description of any fees that could be charged to your account. Your plan may have a “brokerage window,” which is an arrangement that allows you to select investments beyond those designated by the plan. If so, information about the brokerage window will be presented in the standard format.

### **What information will I receive in the fee and expense chart?**

Your plan provides you with a variety of investment options for retirement. The chart will describe each investment option and present the expenses incurred and the fees charged. The chart will include:

- The type of investment (for example, whether it is a stock investment, a bond investment, or other).
- The investment option’s strategy (for example, international stocks, stable value funds or index fund).
- Total annual operating expenses (such as investment management fees). These expenses are presented as a percentage of your investment. This is often called the “expense ratio.” For example, if you have \$1000 in an investment with total annual operating expenses of 0.20 percent, \$2.00 will be charged to your account annually for your share of the total annual operating expenses. These amounts are not deducted directly from your account, but they reduce the return on the investment.
- Shareholder and shareholder-type fees (these include a variety of potential fees, such as sales charges, transfer and withdrawal fees).

Fees and expenses are only two of several factors that you should consider when making investment decisions. You should also look at investment performance and the specific benefits offered by each investment option.

### **What information will I receive on the performance chart?**

For each of the different options available under your employer’s plan, the investment performance chart will list:

- the different investment options;
- how each investment option is managed;
- the average annual rate of return over one-year, five-year and 10-year periods for each investment option;
- a comparison of the performance of the investment option against an appropriate benchmark, such as the Dow Jones Industrial Average or the Standard & Poor’s Index.

This information does not guarantee how each option will perform in the future, but it may help you decide how you want to invest your assets.

### **What information will I receive on the annuity options chart?**

If your plan offers annuities as an option, the disclosure will also include an annuity chart. Annuities are insurance contracts that allow you to receive a guaranteed stream of payments at regular intervals, usually when you retire, and lasting for your entire life. The annuity option chart will list:

- The annuity option's objectives or goals (for example, to provide a stream of fixed retirement income payments for life);
- The factors that determine the price of the guaranteed income payments (such as age, interest rates, the type of annuity payments);
- Restrictions on taking your money out or transferring it, and any fees that apply when you withdraw or transfer funds.

### **Why do I have to pay fees for my retirement plan?**

The fees cover the costs of managing the investments in your plan and providing necessary administrative services. These fees are commonly charged for any type of financial service, such as banking or buying and holding securities. In addition, 401(k) plans must comply with federal pension laws and regulations, which incur additional costs. Complying with regulations is complicated and requires expertise. These regulations are designed to protect you as an investor in the plan. Many plans find it cost-effective to turn to service providers, such as life insurance companies, with the expertise to help plan sponsors comply with federal laws and regulations. In addition, plans may look to service providers to help them enroll workers and answer their questions about the different investment options. Service providers also offer personalized education to help workers calculate how much they should be saving, their risk tolerance and long term goals. Providers charge a fee for these services, which are necessary to help your plan function properly and for employees to save effectively.

### **Are there any additional fees I should know about that are not presented in the chart?**

The chart presents investment-related fees and expenses. The annual disclosure also may list non-investment-related fees and expenses:

- Plan-level fees or administrative fees pay for plan services and are charged to all participants.
- Transaction fees pay for individual services such as taking a loan, and are charged directly against your plan account. For example, if you take a loan from the plan, you may be charged a loan fee that will be taken directly from your account.

The service and type of fees that may apply to your account must be disclosed annually, and the amount of non-investment-related fees that are actually charged to your account must be presented quarterly.

### **Should I always choose the investment options with the lowest fee?**

You should examine all the factors associated with an investment along with your overall retirement plan goals before making a decision. This includes fees charged, performance of the investment, benefits offered, and your personal diversification needs. For example, one investment may have higher fees than another investment, but it may also have a better performance history.

In general, investments with a higher risk—for example an international fund—are more expensive because it costs more to research and manage them. But generally, the higher the risk, the higher the potential for returns. Investments that are actively managed cost more than passively managed funds. An index fund is an example of a passively managed fund. You will have to decide whether the possibility of better performance is worth paying the higher fee.

Lowest cost may not always be the best choice for you based on your needs and comfort level for risk. An annuity, may offer you a benefit that you find valuable, such as guaranteed lifetime income, which carries an additional fee. Again, you will decide whether the value of this benefit justifies the extra cost.

You may want to discuss the different options with a financial professional to help you decide which investment options to choose and which additional benefits you want to have. The new information you receive from your employer's plan can help make it easier to compare different investment and benefit options. Base your investing decisions on what's right for you and above all, contribute early and consistently—generally the longer retirement savings stay in the plan, the greater the growth potential.

**When will I receive the disclosure?**

Participants of plans with a January 1 plan year will receive it on or before August 30, 2012, and annually after that.

**Where can I go to get more information?**

The administrator of your plan can provide more information on the investment options and the fees and expenses. You also may consider consulting an independent financial professional.