



Employers: Understanding Retirement Plan Fees

Introduction

If you sponsor a retirement plan such as a 401(k), you may have received more detailed information about the fees and expenses associated with your plan. Under [rules](#) issued by the U.S. Department of Labor, you will receive this information from your plan's service providers, which may include an insurance company, a bank, a mutual fund, or other professional.

We hope the following guide—which is in question and answer format—will help you understand the information and the important terms.

The American Council of Life Insurers (ACLI) represents many life insurance companies that provide outstanding management and other services to retirement plans. Our goal is to assist you in helping your employees prepare for a financially-secure retirement.

Why was the rule issued?

The Department of Labor (DOL) wants to ensure that all retirement plan sponsors are given the information they need to make the best decisions possible when selecting and monitoring service providers. The rule establishes a standard for disclosure of information that will help you determine the reasonableness of compensation paid to service providers, such as life insurers and mutual fund companies. In addition, service providers must disclose whether they have received compensation from a third party, which is called indirect compensation. For example, if the service provider receives a fee from one of the investment options available under your plan, that fact must be disclosed. Service providers already provide most of this information to the plan sponsor. However, you likely will receive more detailed information than you did previously.

Are all retirement plans subject to the rule?

Generally, all retirement plans that are subject to ERISA are covered by the rule. However, certain plans available to small businesses are exempt. These include simplified employee pension plans (SEPs), SIMPLE retirement accounts and IRAs. Check with your service provider whether your plan qualifies for the exemption.

Who will provide information to the sponsor?

The new rule requires certain service providers to disclose information to the sponsor. A “covered service provider” is a service provider that enters into a contract or arrangement with a plan and reasonably expects \$1,000 or more in compensation in connection with providing one or more of the following:

- services provided directly to a plan as a fiduciary, such as acting as an investment advisor or manager;
- services provided as a fiduciary by those who have custody of plan assets, such as a life insurance company separate account;

- services provided directly to a plan as a registered investment advisor;
- recordkeeping or brokerage services provided to an individual account plan;
- technical support (such as accounting, actuarial, insurance, legal, administration, investment advice) for which the covered service provider, an affiliate, or a subcontractor reasonably expects to receive *indirect* compensation;
- services provided by a financial advisor who is not a fiduciary or registered investment advisor.

What information will I receive?

The Labor Department rule requires disclosures, in writing, of *direct* and *indirect* compensation that certain service providers receive in connection with the services they provide. *Direct compensation* is compensation paid directly from the plan to the service provider. *Indirect compensation* generally is compensation received from any source other than the plan. As noted above, indirect compensation includes any fees paid to the service provider by one of the investment options in your plan.

The disclosures will include:

- A description of all of the services provided to the plan by the service provider.
- If applicable, a statement that the service provider will provide services as a fiduciary and, if applicable, a registered investment advisor.
- The amount of direct and indirect compensation that the service provider expects to receive from the plan, and a description of any revenue sharing arrangements or other arrangements, in which related parties share in compensation for services provided to your plan.
- How the amount is charged (whether billed to the plan or deducted directly from the plan's accounts or investments).
- For indirect compensation, the amount that will be paid, including a description of the compensation arrangement, and a description of the services to which the compensation relates.
- The cost of recordkeeping services, even if there is not a separate charge for the recordkeeping.
- Any additional information you need to comply with the plan fee disclosure requirements.

Will I receive information regarding the plan's investment options?

You will receive information on compensation received relating to the investment options in your plan.

These include:

- Any compensation charged directly against an investment that is not included in the annual operating expenses of the investment. These include commissions, sales loads, sales charges, deferred sales charges, redemption fees, surrender charges, exchange fees, account fees and purchase fees – if they are not already included in the annual operating expense calculation.
- Annual operation expenses.
- Ongoing expenses (which may include a mortality and expense fee, a charge similar to annual operating expenses. It pays for the extra services that an insurance company may provide, such as recordkeeping, participant education, compliance costs, etc.).
- For each of the investment options in the plan, investment information that can be provided to participants.

How can I compare different types of providers?

When you are comparing the prices of different service providers, it is important that you make an "apples to apples" comparison of the services that you will receive from that provider. For example, one 401(k) provider might provide a platform of investments, but not administrative services such as recordkeeping. Another provider may provide recordkeeping services to the plan as well as call centers, personalized educational meetings and materials to plan participants. To compare service providers, you

should evaluate the full range of services necessary to maintain your plan, including investment management, administration and personalized education such as providing one-on-one meetings with employees. A seemingly low-cost service provider that offers only limited services may not represent the best option for your plan and plan participants.

When will I receive the disclosure?

You should have received this information on or before July 1, 2012. At least annually, the service provider must disclose to you any changes to the investment information. Regarding information other than investment information, the service provider generally must disclose any changes within 60 days.

What happens if I don't receive this information?

If a plan fiduciary does not receive the required information from the service provider, under Department of Labor rules, the contract or arrangement will not be considered "reasonable." If the plan enters into a contract that is not reasonable, then a prohibited transaction occurs and an excise tax applies. In some instances, the plan fiduciary may need to terminate the contract.

For more information, contact your service providers.