Fees Have Been Disclosed, but are they Understood?

April 19, 2013

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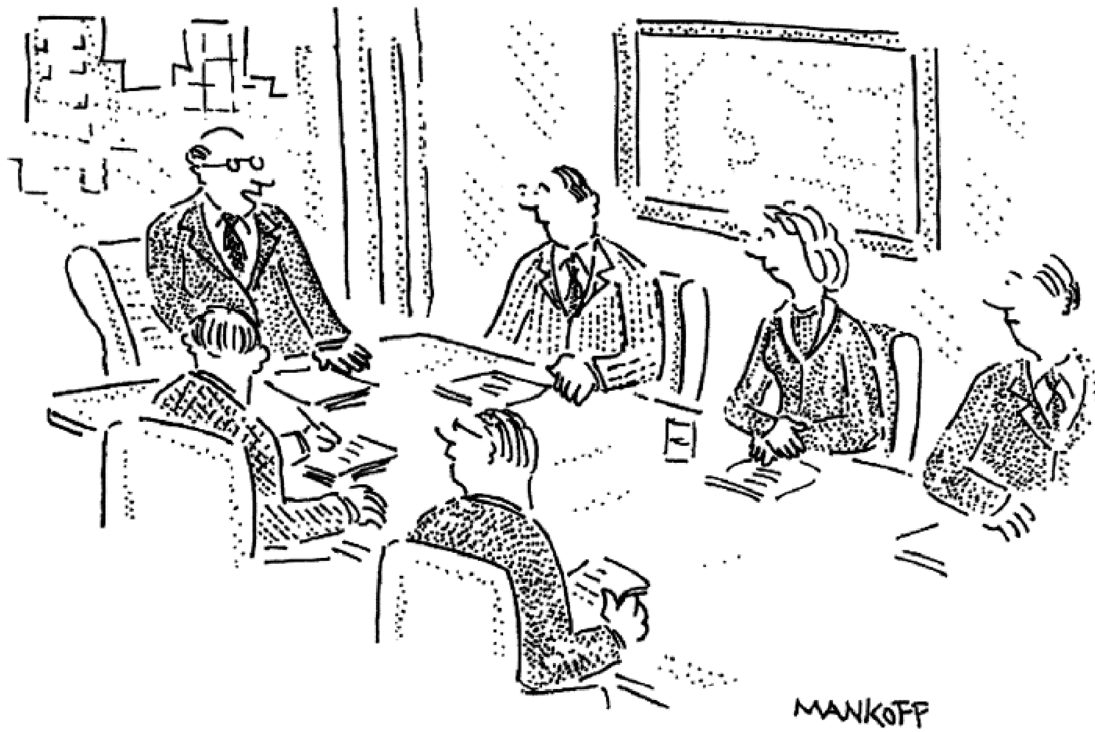
The ERISA Fiduciary Cannot Be Conflicted and Must Be Transparent



"Let's never forget that the public's desire for transparency has to be balanced by our need for concealment."

Final Regulation Relating to Service Provider Disclosures Under Section 408(b)(2)

Fact Sheet

U.S. Department of Labor
Employee Benefits Security Administration
February 2012

Final Regulation Relating to Service Provider Disclosures Under Section 408(b)(2)

The Employee Retirement Income Security Act (ERISA) requires plan fiduciaries, when selecting and monitoring service providers and plan investments, to act prudently and solely in the interest of the plan's participants and beneficiaries. Responsible plan fiduciaries also must ensure that arrangements with their service providers are "reasonable" and that only "reasonable" compensation is paid for services. Fundamental to the ability of fiduciaries to discharge these obligations is obtaining information sufficient to enable them to make informed decisions about an employee benefit plan's services, the costs of such services, and the service providers.

What Does all that really Mean?

The goal of the fee disclosure, which was mandated by the U.S. Department of Labor, was intended to help employers and employees better understand the fees they pay.

So How Effective Were We at Meeting That Goal?

Study: 401(k) fee disclosure leaves small firms puzzled

Tue, Sep 11 2012

By Jessica Toonkel

NEW YORK (Reuters) - A recent rule that requires companies that service 401(k) plans to disclose what they are charging employers for their services is leaving many small business owners with more questions than answers, according to a new study.

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Why 401(k) Fee Disclosures May Fall Short

Column By ANTHONY KIPPINS
Nov. 8, 2012

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abcnews.go.com

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How Much Are You Paying in Fees?

Quarterly 401(k) statements have always been vague at best regarding the fees that are being deducted from your accounts.

New federal rules concerning these fee disclosures were supposed to change all this, creating new clarity so that employees could easily see just how much they're paying to whom for what.

But, as is often the case with new regulations, the federal rules aren't having the intended effect — at least not yet. Instead, the large companies that provide these plans are testing the regulatory waters by disclosing fees in account statements in less-than-transparent ways, making it extremely difficult for employees to figure them out.

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So How Effective Were We at Meeting That Goal?

THE WALL STREET JOURNAL.
WSJ.com

JOURNAL REPORTS | Updated February 23, 2013, 8:36 a.m. ET

LAURA STOVER

Uncovering the Hidden Fees in Retirement Plans

By LAURA STOVER

Financial advisers understand there are undisclosed fees on employee-sponsored retirement plans, but an alarming number of our clients don't. In fact, according to a recent AARP study, seven out of 10 participants in such plans have no clue what they're paying in fees—or how those costs can eat into their retirement savings.

Some Examples!

Fund Code	Fund Name	Underlying fund	Underlying fund Fund Expense Ratio (FER)	Underlying fund Recordkeeping Expense	AMC	Sales and Service Fee (SSF)	Expense Ratio [FER + AMC + SSF]
			Information is current as of Sep/30/2011				
	AGGRESSIVE GROWTH						
FGA	Fidelity Advisor Gold Fund [93]	Fidelity Advisor Gold Fund	0.84	*0.00*	0.50	0.37	1.71
REF	Real Est. Securities Fund	John Hancock II Real Estate Sec	0.80	*0.50*	0.00	0.37	1.17
	GROWTH						
SPO	Small Cap Opportunities Fund	John Hancock II Small Cap Opp	1.07	*0.50*	0.00	0.37	1.44
SSV	SSgA Mid Value Index Fund	JHFII - Mid Cap Value Index Fund	0.65	*0.50*	0.00	0.37	1.02
AOM	Aston/Fairpointe Mid Cap Fund	Aston/Fairpointe Mid Cap Fund	1.15	*0.30*	0.20	0.37	1.72

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The Fine Print!

Administrative Maintenance Charge (AMC) is deducted from the unit value of the Sub-accounts (also referred to as "Funds") made available by John Hancock.

[e] Estimates shown reflect the charges set out in your Contract with John Hancock applicable as of the date this report was generated. Unless otherwise specified, charges for any plan year are determined in accordance with asset charge scales set out in your Contract.

[f] Sales and Service Fee, also known as Sales Expense Recovery Charge, represents the cost of compensation agreed to between the plan trustee and a financial representative, and paid to the latter for services provided to the plan. The charge may also be used to pay for other plan expenses that are negotiated between the plan trustee and the plan's other service providers for services provided to the plan. To the extent that the charge can be used to offset the cost of recordkeeping services, it is incorporated as part of the estimated Recordkeeping Charges in Section 2A or Recordkeeping Portion of the Sales and Service Fee in Section 2B of this document.

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What about Stable Value?

Fund Code	Fund Name	Underlying fund	Information is current as of Sep/30/2011 Underlying fund Fund Expense Ratio (FER)	Underlying fund Recordkeeping Expense	AMC	Sales and Service Fee (SSF)	Expense Ratio [FER + AMC + SSF]
	CONSERVATIVE						
MSV	John Hancock Stable Val N19	John Hancock Stable Value Fund	1.08	*0.50*	0.00	0.37	1.45

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[N19] As of March 31, 2012, John Hancock USA or John Hancock New York, depending on which company issues a group annuity contract to your Plan, receives a 0.24% subtransfer Agency / Other fund fee for recordkeeping services described in your Contract documents from the manager of the John Hancock Stable Value Fund, John Hancock Life and Health Insurance Company, an affiliate of John Hancock USA and John Hancock New York. In addition, John Hancock Life and Health Insurance Company pays John Hancock USA 0.34% for investment management services, out of which investment management fees are paid to certain affiliated and unaffiliated sub-managers as described in the John Hancock Stable Value Fund 408(b)(2) Service Provider Compensation Supplement which has been provided to you in a separate communication. These fees are deducted from the net asset value of the Underlying fund and forms part of the Underlying fund's expense ratio. Refer to the John Hancock Stable Value Fund Offering Memorandum that was previously provided to you for more details.

Does it Really Matter?

One Good Thing About Fee Disclosure

Posted By NAPA Net Staff On January 14, 2013 @ 10:43 am In Regulatory Compliance | 2 Comments

The prevailing wisdom about the DOL's fee disclosure rules is that they were ineffective and failed to move the needle on participant behavior.

Numerous studies and polls have confirmed this perception. According to a Plan Sponsor Council of America survey, for example, nearly all (95.6%) plan sponsors reported no change in participant behavior as a result of the fee information. And a recent LIMRA study suggested that two-thirds of Americans with DC plans or IRAs spend less than five minutes reading the disclosures they've been receiving — and one in five say they completely ignore the paperwork.

How Did Some Firms Do?

FROM THE JANUARY 2013 ISSUE OF RESEARCH MAGAZINE • SUBSCRIBE!

401(k) Fee Transparency: Best & Worst Providers

As the DOL's fee transparency rules take effect, Research and Dalbar rank retirement plans on their compliance

BY JANE WOLLMAN RUSOFF
December 20, 2012 • Reprints

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Service Provider Transparency Ranking

Disclosures from the following recordkeepers were evaluated for the Transparency Analysis. Firms are ranked by the overall usefulness of their disclosures.

Rank	SERVICE PROVIDER	Quality of Disclosure Scores (out of 100)				
		OVERALL USEFULNESS	ESTIMATE OF COST	DESCRIPTION OF SERVICES	FIDUCIARY STATUS	CONFLICTS OF INTEREST
1	BB&T	95.5	100.0	100.0	83.3	98.6
2	Great-West	94.8	100.0	100.0	83.3	95.8
3	John Hancock	87.3	87.5	87.5	93.8	80.6
4	Fidelity	86.5	95.8	96.7	66.7	86.9
5	TIAA-CREF	84.6	91.7	90.0	75.0	81.5
6	T Rowe Price	84.4	100.0	100.0	50.0	87.5
7	Merrill Lynch	84.2	81.3	81.7	83.3	90.5
8	Schwab	73.3	75.0	71.9	75.0	71.4
9	Paychex	71.9	47.2	62.5	100.0	77.8
10	Hartford	68.2	58.3	56.3	75.0	83.3
10	Principal	68.2	80.6	68.8	58.3	65.3

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What are some typical violations?

Some Examples:

- Failure to provide adequate disclosures such as failing to identify all of the service provider's indirect compensation
- Failure by some providers to acknowledge fiduciary status based on the definition under ERISA
- Failure to disclose information in a way that enables the plan sponsor to easily evaluate the information
- Failure to understand the types of changes that require subsequent disclosures

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What’s Next with 408(b)(2)?

A Summary Disclosure Document

Targeted Release – May 2013!

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What is Summary Disclosure?

The DOL had originally planned this as a new feature of the Final 408(b)(2) rule but chose to tackle the summary disclosure in a separate notice.

The Summary Disclosure is a type of common summary or roadmap that would have been **required**, not voluntarily elected by service providers

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What Might We Expect This to Include?

One of two approaches:

- The provision could require that covered service providers must separately furnish to the responsible plan fiduciary a guide that specifically identifies the document, section and page number where specific information, as applicable to the contract or arrangement, is located.
- This would require service providers to identify page numbers across a wide range of documents from service contracts to investment prospectuses.

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What Might We Expect This to Include?

Second of two approaches:

- The second option identified in the Preamble was a chart – based approach as defined by the DOL as:
- “Alternatively, a regulatory provision could require some or all of the required disclosures to be included in a chart or similar summary format.” *This was used by the DOL as a sample guide with the final 408(b)(2) rule.*

Stay Informed about Summary Disclosure

The Summary Disclosure requirement has the potential to dramatically impact the current 408(b)(2) disclosure procedures of nearly every service provider.

How Does/Should this Impact Your Value Proposition?

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Quarterly 401(k) statements have always been vague at best regarding the fees that are being deducted from your accounts.

Does your plan have an independent advisor who can sit down with you and look at your fall account statement? If so, take advantage of his or her services to get a handle on your fees. If your plan doesn't have an independent advisor, why not? After all, employee education and assistance is an important part of your employer's responsibilities concerning these plans. This should also be a matter of concern to your HR department because the DOL requires companies to assure that fees are reasonable for the services being provided.

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While the fee-disclosure law is a step in the right direction, it will be helpful only if plan participants can decipher the information. That's where advisers come in. They have a duty to stay on top of the fee issue and teach clients how hidden costs affect retirement savings.

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How are You Helping Your Plan Sponsor and Participants?

Plan Sponsors

- Provide guidance to assist them in meeting their fiduciary responsibility.
- Help them understand the sponsor level and participant level disclosures. ***Be the expert!***
- Educate them that fees in the absence of value mean nothing.
- Assist with fee benchmarking to provide the basis for the prudent evaluation of plan services, expenses, and providers.
- Educate and emphasize the importance of programs to help their employees make the right decisions.
- Change the dialog to improving outcomes for participants and away from investment performance.

How are You Helping Your Plan Sponsor and Participants?

Participants

- Offer programs (Lunch and Learn, Webinars) for participants to help them understand fee disclosures.
- Help participants understand the value of proper investment diversification.
- Assist the participants to determine how much money will be needed in retirement.
- Help them focus more on improving their outcomes (adequate benefit) than worrying about investment performance.

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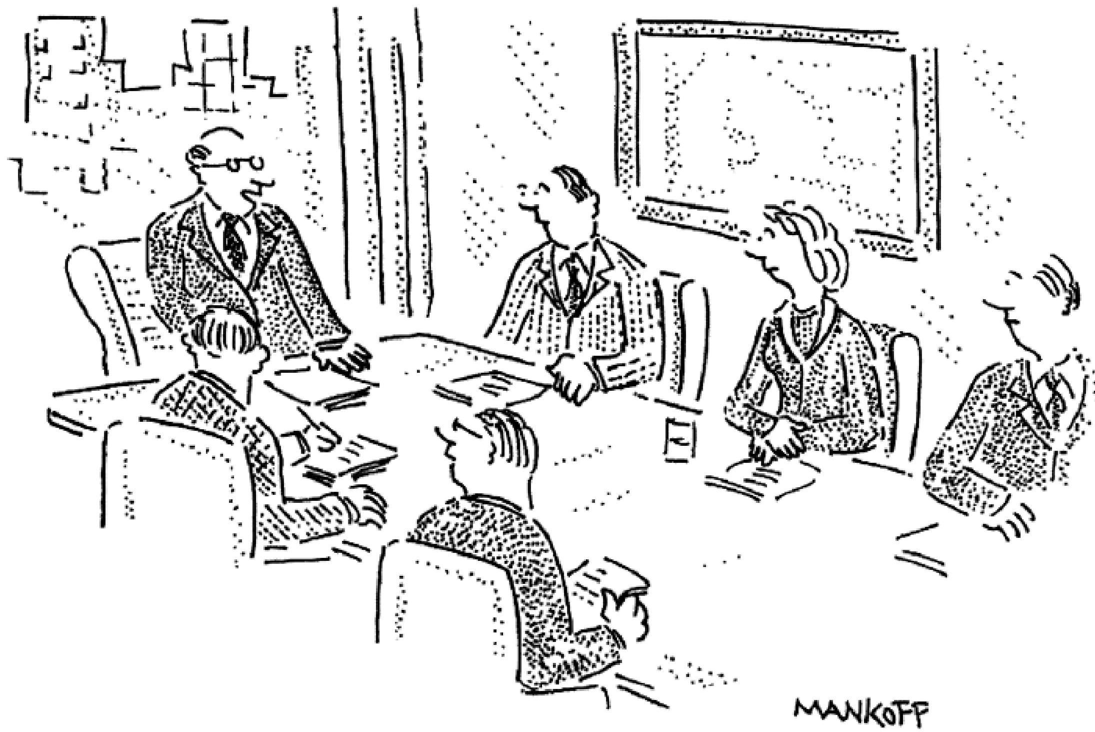

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Questions?

Disclosures

1. The UnifiedPlan reporting tool helps investors understand whether they are on course to achieve a successful retirement. The UnifiedPlan uses “asset liability” matching. The asset is the money forecast to be accumulated and the liability is the amount of money needed to pay for the retirement. For investors who are planning for retirement, the tool estimates the amount of funds required to meet their retirement spending goals and provides alternatives such as delaying retirement or lowering retirement spending for those who may not be able to save the required amount.

2. For investors who are already retired, the tool estimates the confidence that their portfolio will be able to sustain their desired spending throughout retirement. The tool uses a combination of deterministic methods and Monte Carlo simulation that consider factors that include saving and spending levels, long-term market expectations associated with the risk profile selected, pre- and in-retirement time horizons, and other sources of outside income.

3. The UnifiedPlan limitations relate to the large number of assumptions used in the analysis. The accuracy of these assumptions directly impacts the quality of the tool's assessment. Potential problems may include, but are not limited to, the use of inaccurate financial data by the investor, the selection of a risk tolerance by the investor that does not represent how their portfolio is actually invested, long term market expectations of risk, return, and inflation that are not achieved in the modeled time frame, the inclusion future income that is never received, and unforeseen life emergencies that require decreased saving before retirement, force an earlier retirement, or increase spending needs during retirement.

4. The UnifiedPlan is highly dependent upon assumptions of annual income and annual savings. Any variances or changes in the figures used should be reported immediately by the plan participant. Unified Trust is not responsible for any discrepancies in the data, or output from the UnifiedPlan tool.

5. All mutual fund and collective investment fund data was gathered from publicly available sources of information such as Standard & Poor’s, Morningstar, Zephyr or vendors’ own websites. We take reasonable care in collecting the data, and believe the data are accurate, but reserve the right to correct any errors. Individual mutual fund or collective fund performance data throughout the document are net of underlying fund expense ratios but gross of add-on expenses such as Trustee fees, administration fees, or advisory fees. The performance histories reported are simply dollar-weighted historical returns for the proposed funds and do not reflect the effects of rebalancing or fund replacements.

Disclosures

6. Any past performance information for the illustrated investment selections is not indicative of future returns but is merely a snapshot of historical performance. Past performance is not a guarantee of future performance. The investments are not FDIC insured.

7. Differences will probably exist between prospective and your actual results because events and circumstances frequently do not occur as expected, and those differences may be material, especially when making estimates over extended time periods. All figures are shown in current (inflation adjusted) dollars. The estimated inflation rate used in this analysis may vary over time.

8. The UnifiedPlan portfolio changes and time line changes for each participant are governed by the Plan Document, the Investment Policy Statement and the Benefit Policy Statement for their Plan.

9. The calculated 70% income replacement goal includes the estimated Social Security benefit. The actual Social Security benefit may be different from the estimated value.

10. Compensation in excess of the IRC 415 limit is excluded. All figures reported in current (inflation-adjusted) real dollars.

11. The projections or other information generated by the tool regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Projected growth of assets is based Unified Trust Company's Projected Future Modeled Returns and the asset allocation of your portfolio for this goal. The graphical representations are an approximation taken from the direct path between the pertinent events tied to your goal. Indices are unmanaged, do not incur management fees or expenses, and cannot be invested in directly.

12. Neither the Plan Sponsor nor Unified Trust can guarantee that any participant will achieve a successful retirement. The UnifiedPlan reporting tool helps investors understand whether they are on course to achieve a successful retirement. The UnifiedPlan uses “asset liability” matching. The asset is the money forecast to be accumulated and the liability is the amount of money needed to pay for the retirement. For investors who are planning for retirement, the tool estimates the amount of funds required to meet their retirement spending goals and provides alternatives such as delaying retirement or lowering retirement spending for those who may not be able to save the required amount.

13. Projections are made based upon expected asset transfers. Actual transfer amounts may be different and may require a new retirement solution.

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