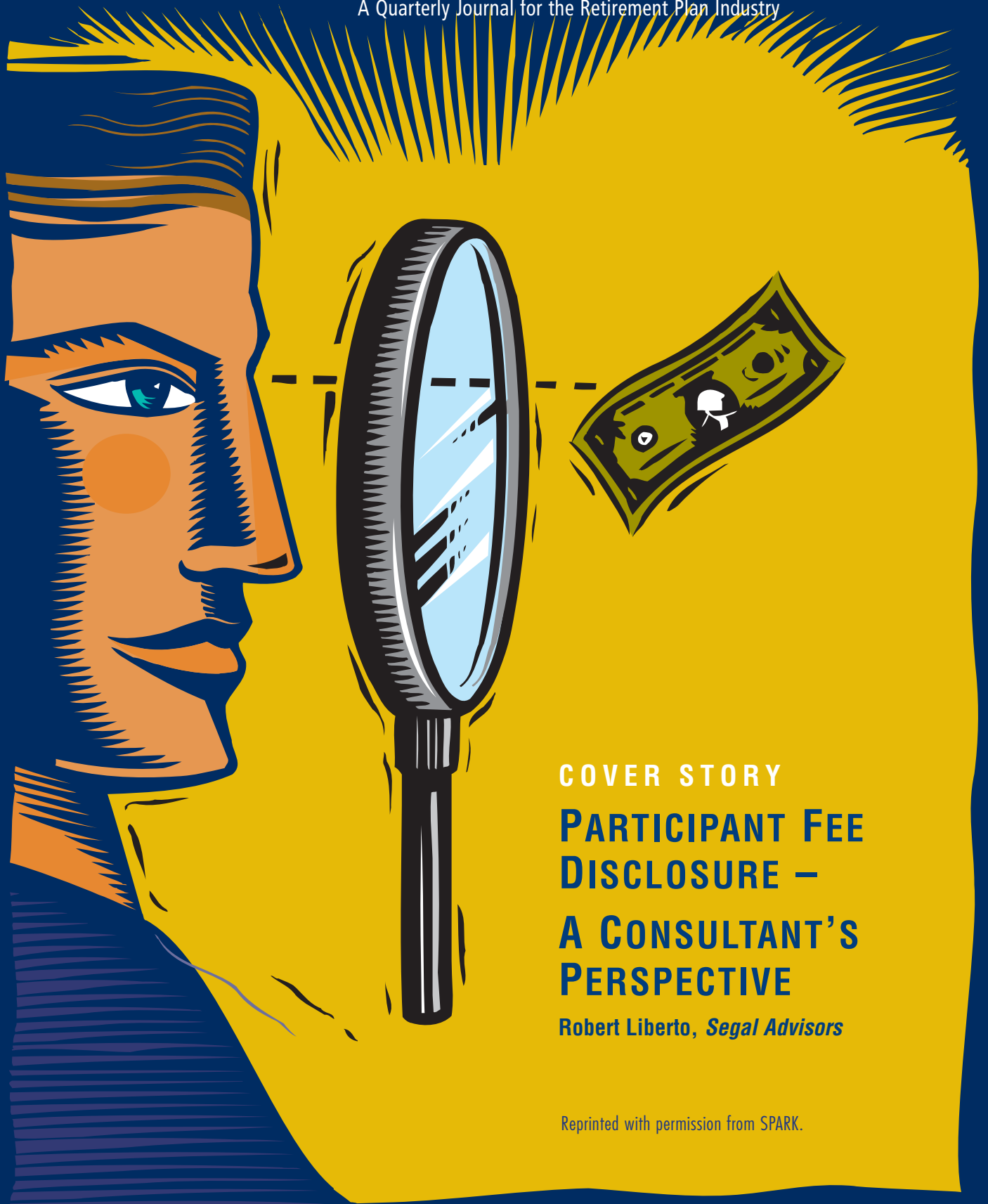


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COVER STORY  
**PARTICIPANT FEE  
DISCLOSURE –  
A CONSULTANT'S  
PERSPECTIVE**

Robert Liberto, *Segal Advisors*

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# PARTICIPANT FEE DISCLOSURE – A CONSULTANT'S PERSPECTIVE



**Robert Liberto**  
Senior Vice President  
Segal Advisors

Mandatory disclosure of fees associated with participant-directed defined contribution (DC) retirement plans will soon be a reality. Effective with plan years beginning on or after November 1, 2011, the costs of participant-directed plans must be shared with plan participants in a way that fosters understanding and enables them to make informed decisions about their investment choices. Although the burden clearly falls on plan sponsors to shine a light on their plan investment options and underlying fees and expenses as well as communicate them to participants, service providers also have a critical role to play as supportive partners in the disclosure effort.

There is no doubt that participant fee disclosure will require extra attention and

additional effort. However, by providing the structure and support that enables plan sponsors to navigate the labyrinth of the regulations and wade through and understand the information associated with their plans, service providers have an opportunity to both gain competitive advantage and cement relationships for the long term. The key is to consider participant fee disclosure from the plan sponsor's perspective and be proactive in supporting their needs. Service providers also must show their clients they are preparing their organization, their systems and their staff for this new transparency.

## Preparing for the New Regulations

As a service provider, you must ensure your firm is in compliance and ready to provide any needed information, and then you must assure plan sponsors that your firm is equipped to support them in all capacities – as they prepare for participant fee disclosure and as they manage the form and flow of information to participants. You can do this by explanation (i.e., telling them), but even more importantly, through demonstration (i.e., showing them). Let clients see that you will be providing the necessary information about plan costs in a form that is usable and understandable. Give them updates on how the participant fee disclosure process will work and what it will look like. Demonstrate that you are able to educate and communicate through multiple channels, including clearly written definitions and descriptions, summaries of frequently asked questions (FAQs), phone support and website access.

To understand the needs of the plan sponsor, keep their fiduciary obligations in mind, but then go a step further and consider their objectives for providing a DC plan and determine how you can supply information in a form and format that supports those objectives. For example, competitive positioning is

often a chief reason employers provide participant-directed retirement plans. As a partner to the plan sponsor, you should understand their hiring profiles. What attracts and motivates that type of employee and encourages them to build their career within the company? How does the retirement plan fit in with the sponsor's employee value proposition (the set of extrinsic and intrinsic rewards an employer offers to its workforce)?

It is important to understand that the retirement plan is pivotal to the employer's workforce planning efforts to promote talent renewal and an orderly transition to retirement. Think about how to communicate and educate — not just disclose — plan information in a way that benefits the plan sponsor and, more importantly, plan participants.

As consultants, we advise our clients to follow four key steps as preparation for participant fee disclosure: communicate and educate, explain the cost structure, provide plan benchmarks and renegotiate fees if appropriate. Your organization should get out in front of this issue and help plan sponsors implement these critical actions.

## Communicate and Educate

By educating plan sponsors on participant fee disclosure now and helping them communicate with their participants, you can demonstrate true partnership and competitive advantage. Participant-directed plans, by nature, require emphasis on communication and education. Plan sponsors are responsible for providing information in a clear and easy-to-understand manner that shows and explains terms such as expense ratio and basis points.

As a provider, you should be in a position to explain concepts clearly and draft the communications. Let the plan sponsor know you are prepared to explain fees, address issues and answer participant questions. Providers need to:

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- ▶ Work with the sponsor to establish a project plan with dates and accountability,
- ▶ Prepare an “Answers to FAQs” document to guide participants through fee disclosure,
- ▶ Demonstrate, in advance of the effective date, that you have enhanced your systems to provide the appropriate information that is required under the regulations,
- ▶ Prepare an annual fee disclosure statement that plan sponsors can give to new participants, and
- ▶ Allocate necessary resources to answer questions and provide information for plan sponsors and plan participants.

Most major service providers have the communication staff and internal capability to fulfill sponsors' needs for communication. Smaller firms and third party administrators have to compete in this same arena. Consequently, you need to remain sensitive to clients' requirements and, as necessary, allocate resources to enhance systems and be prepared to educate and field participant questions.

## Explain the Cost Structure

The Department of Labor (DOL) regulations are clear about the type of information that must be disclosed to participants. In addition to disclosing fees to participants, new regulations effective January 1, 2012 require that service providers disclose to plan sponsors certain plan-related information. The table below summarizes these required disclosures.

While the focus of this article is on participant fee disclosure, engaging the plan sponsor early about the new regulations may ultimately drive the discussion towards the application of all fees and charges. Knowing that participants will be seeing this information in a more consolidated, usable format, plan sponsors may take pause and choose to embark on reassessing or evaluating the application of fees and expenses. Put yourself in the best position to aid in this discussion and, if necessary, help plan sponsors choose the best approach for their plans.

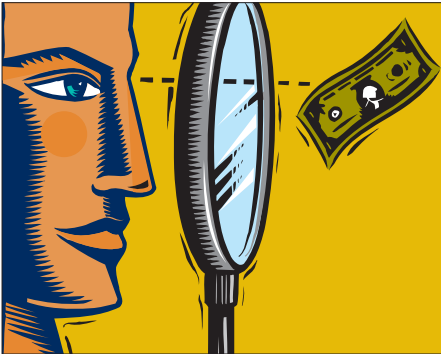
If you provide just enough fee/plan information to be compliant, you are doing your clients a disservice. Cost structure should be explained in a readable, usable format that provides not just the data, but also the context. It is not enough to tell what the investment options and costs are. You must also convey data in helpful exhibits, charts and comparisons that go beyond the DOL provisions.

Anticipate the participant questions and issues and address them upfront. For example, what is the cash cost of a managed account service? What are the participant investment advisory services fees? It goes back to understanding the client's employee profile and the type of information and questions they need to understand and communicate to their participants. Basic information may not be enough.

## Provide Plan Benchmarks

In addition to considering the application and allocation of fees, to fulfill their fiduciary obligations, plan sponsors may use the participant fee disclosure regulations as an opportunity to make sure the costs associated with their plan are in line with similar plans. To help them conduct their comparative analysis, be prepared to provide benchmarking information (investment options and fees associated with administration and

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record keeping) versus other plans in their industry or trade.

Every DC plan is unique with its own set of rules governed by the plan document and its own participant demographics. Characteristics such as contribution rate, average account balance, cash flow, active participants and age of participants all have an impact on the pricing of the plan. When benchmarking fees, sponsors must consider their demographics. You can be of enormous benefit to the plan sponsor by providing them with competitive information. Furthermore, workforce characteristics will affect the readability and comprehension of the targeted audience.

It is always helpful to provide

information in a way that will help the sponsor assess reasonableness of the fees. If they are getting a good deal, deliver the data and context that underscores that advantage.

### Renegotiate Fees if Appropriate

Participant fee disclosure and fee transparency may usher in questions about administrative fees, record keeping fees and the availability of share classes for plan investment options. It may also bring to light issues around common terms such as sub-TA and 12b-1 fees. If the comparisons show things are not as competitive as they might be, plan sponsors may feel obligated to conduct an independent review or search for alternatives as part of their due diligence.

Faced with this prospect, it makes sense to be proactive in fee negotiations. You have to put your best foot forward and work with the sponsor. Give them the information to help them assess and benchmark their plan and then negotiate or renegotiate if appropriate. Demonstrate partnership and think for the long term.

### Conclusion

Participant fee disclosure will shift the tone and tenor of how plan sponsors view fee allocations. Service providers have a role to play in helping plan sponsors communicate and educate participants through FAQs and phone and website information centers, providing necessary investment and fee information to the sponsor, participating in – or even jumpstarting – sponsors’ disclosure planning and being amenable where it makes sense to renegotiate fees.

To position your firm as a partner for the long haul, show plan sponsors that you understand their issues and can prepare them to meet their fiduciary responsibilities in a way that benefits their company and the plan participants. ■

#### Disclosures Required of All Service Providers, Unless Otherwise Noted

Disclosure	Description
Services	Services to be provided under the contract or arrangement
Status	Statement the covered service provider, an affiliate or subcontractor will provide or reasonably expects to provide the service to the plan under the contract or arrangement as either a fiduciary or a registered investment adviser (if applicable)
Compensation	All direct and indirect compensation (either in the aggregate or by service) that the covered service provider reasonably expects to receive
Record Keeping Services	All direct and indirect compensation that the covered service provider reasonably expects to receive for record keeping, including a good-faith estimate of the cost of record keeping services provided without explicit compensation
Manner of Receipt	How payment is made (i.e., billed directly or deducted from plan accounts)
Investment Information for Fiduciary Services <i>(only required of providers acting as a direct plan fiduciary)</i>	Compensation, annual operating expenses or ongoing cost, in addition to annual operating expenses, for each investment contract, product or entity that holds plan assets
Investment Information for Certain Record keeping and Brokerage Services <i>(only required of providers that perform record keeping and brokerage services for individual account plans)</i>	Each designated investment vehicle available to an individual account plan that permits participants or beneficiaries to direct the investment of their account (A covered service provider may satisfy this requirement by providing the current disclosure materials of the issuer of each designated investment alternative.)

Source: The Segal Company