

New Fee Disclosure Rules Help Make Costs More Transparent

Ask most retirement plan participants how much they pay to participate in their workplace plan, and answer will probably be, "Nothing."

But your retirement plan isn't really free. While employees typically aren't charged any out-of-pocket costs to participate in their plans, participants do pay expenses, many of which are difficult to find and even more difficult to calculate. New regulations from the Department of Labor (DOL), which oversees qualified workplace retirement plans, should make it easier for participants to locate and comprehend how much they are paying for the services and benefits they receive.

The regulations take effect for plan years beginning on or after November 1, 2011, so most participants won't start receiving the new information until the beginning of 2012, probably with their 2011 year-end statements. The DOL will now require your employer and any other provider to the plan (such as the plan's financial advisor and recordkeeper) to ensure the distribution of the following information to you:

1. Investment-related information, including information on each investment's performance, expense ratios, and fees charged directly to participant accounts. These fees and expenses are typically deducted from your investment returns before the returns (loss or gain) are posted to your account. Previously, they were not itemized on your statement.
2. Plan administrative expenses, including an explanation of fees or expenses not included in the investment fees charged to the participant. These charges can include legal, recordkeeping, or consulting expenses.
3. Individual participant expenses, which details fees charged for services such as loans and investment advice. The new disclosure would also alert participants to charges for any redemption or transfer fees.

4. General plan information, including information regarding the investments in the plan and the participant's ability to manage their investments. Most of this information is already included in a document called the Summary Plan Description (SPD). Your plan was required to send you a SPD once every five years. Beginning in 2012, you will receive one annually.

The new regulations have been hailed by many industry experts as a much-needed step toward helping participants better understand investing in their company-sponsored retirement plans. Why should you take the time to learn more about fees? One very important reason: Understanding expenses could save you thousands of dollars over the long term.

Calculating Fees and Their Impact on Your Account

While fees shouldn't be your only determinant when selecting investments, costs should be a key consideration of any potential investment opportunity. For example, consider two similar mutual funds. Fund A has an expense ratio of 0.99%, while Fund B has an expense ratio of 1.34%. At first look, a difference of 0.35% doesn't seem like a big deal. Over time, however, that small sum can add up, as the table below demonstrates.

| | Expense ratio | Initial investment | Annual return | Balance after 20 years | Expenses paid to the fund |
|--------|----------------------|---------------------------|----------------------|-------------------------------|----------------------------------|
| Fund A | 0.99% | \$100,000 | 7% | \$317,462 | \$37,244 |
| Fund B | 1.34% | \$100,000 | 7% | \$296,001 | \$48,405 |

Over this 20-year time period, Fund B was \$11,161 more expensive than Fund A.¹ You can perform actual fund-to-fund comparisons for your investments using the FINRA Fund Analyzer (<http://apps.finra.org/fundanalyzer/1/fa.aspx>).

If you have questions about the fees charged by the investments available through your workplace retirement plan, speak to your plan administrator or your financial professional.

¹Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so you may lose money. Past performance is no guarantee of future results. For more complete information about any mutual fund, including risk, changes and expenses, please obtain a prospectus. Please read the prospectus carefully before you invest. Call the appropriate mutual fund company for the most recent month-end performance results. Current performance may be lower or higher than the hypothetical performance data quoted. The hypothetical data quoted is for illustrational purposes only and is not indicative of the performance of any actual investments. Investment return and principal value will fluctuate, and shares when redeemed, may be worth more or less than their original cost.

###

© 2011 McGraw-Hill Financial Communications. All rights reserved.

February 2011 — This column is provided through the Financial Planning Association, the membership organization for the financial planning community, and is brought to you by Paul Lemon, CPA/PFS, CFP®, a local member of FPA.