

July 23, 2007

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5669
U.S. Department of Labor
Washington, DC 20210

Re: RIN 1210-AB07, Fee and Expense Disclosures to Participants in Individual Account Plans

The Committee on Investment of Employee Benefit Assets (CIEBA) commends the Department of Labor for issuing the *Request for Information on Fee Expense Disclosure to Participants in Individual Account Plans*. By seeking input from a wide spectrum of plan participants, plan sponsors, plan service providers and members of the financial community, DOL should get information that will help identify actions to encourage fee disclosure that is most helpful to participants.

CIEBA is the voice of the Association for Financial Professional (AFP) on employee benefit plan asset management and investment issues. CIEBA is a nationally recognized forum for ERISA-governed corporate pension plan sponsors on fiduciary and investment matters. CIEBA represents 120 of the nation's largest retirement funds. Its members are the senior corporate financial officers who individually manage and administer corporate retirement plan assets. CIEBA members manage \$511 billion in defined contribution plan assets on behalf of 5.5 million participants.

CIEBA members have long acknowledged that good disclosure of costs associated with defined contribution plans is especially important, since participants' retirement security is dependent on how much a participant saves, how contributions are invested and the performance of those investments (net of costs). Recognizing that clear and understandable information about defined contribution plan fees is vital to employees in these plans, CIEBA released "*Defined Contribution Fee Disclosure Best Practices*," in April 2006. This primer was designed to help plan sponsors evaluate effective ways to provide important fee information to defined contribution plan participants. The primer was not designed to give plan sponsors and fiduciaries legal advice. Rather it was developed by practitioners – CIEBA members – as a practical guide for use by plan sponsors and plan advisors.

On June 25, 2007, CIEBA released an updated version of "*Defined Contribution Fee Disclosure Best Practices*." The revised primer outlines principles on fee disclosure, general guidelines and investment-specific information for sponsors to consider when developing fee disclosure



materials for 401(k) and other types of defined contribution plans. The booklet also contains *sample* disclosure statements for different types of plan services and/or investments. A copy of the revised primer is attached to this letter.

The CIEBA primer on fee disclosure addresses some of the questions posed in the Request for Information (RFI) in general terms. However, in considering future rulemaking and/or guidance in this area, CIEBA urges the Department of Labor to consider the following principles distilled from our fee disclosure primer.

- ERISA fiduciaries have a clear responsibility to ensure that costs associated with defined contribution plans are both appropriate and reasonable. Plan sponsors and fiduciaries have a responsibility to effectively communicate information on costs associated with defined contribution plan investments to participants. *However, no single template or format will meet the needs of all participants.*
- Plan participants should have access to concise and meaningful information on the fees and expenses that affect their account balances associated with each investment option offered in their plan, and the cost associated with participant-initiated transactions.
- Fees should be disclosed and communicated at a level that will assist participants in making informed investment decisions. A level of specificity in fee breakdowns that does not help participants make decisions should be avoided.
- Plan sponsors should tailor their disclosure to participants regarding plan expenses and fees to best meet the needs of their particular plan participants.
- Fee disclosure practices should be re-evaluated on an ongoing basis, particularly as regulatory requirements evolve, and as plan design and provider arrangements change.
- Other measures of plan effectiveness should also be regularly communicated to plan participants, such as investment manager performance relative to a specific benchmark.

As DOL reviews responses to this RFI, we urge you to keep in mind the diversity that exists among plans, plan sponsors and participants. The ways in which CIEBA members (and other plan sponsors) communicate with plan participants are as different as the defined contribution plans they offer. In light of these differences, flexibility is vital. The type of plan, services provided, and investment options offered will result in cost and/or fee differences, as will asset size and number of participants. Plan sponsors must have the flexibility to provide fee information in ways that are most effective in reaching *their* plan participants. DOL should avoid actions that would prevent plan sponsors from responding to the needs of their unique workforce and/or adapting to changes in the diverse marketplace. Flexibility in designing plans and developing fee disclosure will continue to lead to more effective defined contribution plans and greater retirement security for defined contribution plan participants.

If you have any questions about this submission, please contact me at 301.961.8682.

Sincerely,

A handwritten signature in black ink that reads "Judy Schub". The signature is written in a cursive, flowing style.

Judy Schub
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Defined Contribution Fee Disclosure Best Practices

June 2007


CIEBA is a Special Committee of the *Association for Financial Professionals*[®]

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Introduction

The Committee on Investment of Employee Benefit Assets (CIEBA) is the voice of the Association for Financial Professionals (AFP) on employee benefit plan asset management and investment issues. CIEBA represents nearly 120 of the largest corporate pension and savings plans in the United States. CIEBA members are responsible for the investment of \$1.4 trillion in assets regulated by the Employee Retirement Income Security Act (ERISA) in both defined benefit (DB) and defined contribution (DC) plan assets on behalf of 14.6 million plan participants and beneficiaries. Of this total, \$511 billion are defined contribution assets covering 5.5 million plan participants and beneficiaries.

The Association for Financial Professionals serves more than 16,000 individual members throughout all stages of their careers in treasury and financial management. Located in Bethesda, MD, AFP provides professional certification, continuing education, research, development of industry standards, financial tools and publications, training and career development and representation to legislators and regulators. AFP's global reach includes *AFP of Canada*, a Toronto-based membership organization and *gtnews*, a London-based, on-line resource for the treasury and finance community

This fee disclosure primer is intended to provide a framework for plan sponsors to use as they evaluate the ways to disclose fees to participants in defined contribution plans. This document is not intended to provide a mandated set of rules for disclosing these fees and does not necessarily describe current industry standards and practices but rather sets goals to work toward for the future. CIEBA believes the disclosure approaches outlined below describes practices that will, in many instances, exceed current legal requirements.

Section I of this primer outlines CIEBA's position and guiding principles on the important issue of defined contribution fee disclosure to participants. Section II of the primer discusses general guidelines for plan sponsors to consider, and the exhibits provide specific disclosure examples.

CIEBA wishes to thank Groom Law Group, Chartered for its contributions in developing this primer. *The primer is general in nature and is not intended to constitute legal advice.*

Section I - CIEBA's Disclosure Position and Guiding Principles

Disclosure Position

ERISA fiduciaries must make decisions in the best interest of plan participants and beneficiaries, and ensure that the costs associated with defined contribution plans are both appropriate and reasonable. This principle is paramount to all CIEBA members. It is especially important to defined contribution plans since employees' benefit security and retirement income is dependent on how much a participant contributes, how the contributions are invested, and performance of these investments net of all costs to the participants.

As plan sponsors and fiduciaries, CIEBA members understand that defined contribution plan participants should have clear information on the costs associated with investing through their defined contribution plans. However, the ways CIEBA members (and other plan sponsors) communicate with plan participants are as different as the defined contribution plans that they offer. In light of these differences, flexibility is vital. The type of plan, services provided, and investment options that are offered will result in cost and/or fee differences. The asset size of the plan and the number of participants will also play a role in determining expenses. Plan sponsors must have the flexibility to provide fee information using the format that they believe is most effective in reaching their defined contribution plan participants. A mandated format will prevent plan sponsors from responding to their unique workforce requirements and adapting to changes in the diverse marketplace. Flexibility in designing plans and developing fee disclosure will continue to lead to more effective defined contribution plans.

Guiding Principles

- Plan participants should have access to concise and meaningful information on the fees and expenses that affect their account balances associated with each investment option offered in their plan, and the cost associated with participant-initiated transactions.
- Fees should be disclosed and communicated at a level that will assist participants in making informed investment decisions. A level of specificity in fee breakdowns that does not help participants make decisions should be avoided.
- Plan sponsors should tailor their disclosure to participants regarding plan expenses and fees to best meet the needs of their particular plan participants.
- DC plan costs should be reasonable and appropriate, as compared to DC plans of similar size, structure and service levels.
- Plan sponsors should evaluate all relevant information regarding fee arrangements with potential providers, including compensation the provider may receive from third parties (e.g., revenue sharing, 12b-1 fees).

- Plan sponsors should thoroughly document decisions regarding the types of fees that are charged to the Plan.
- Fee disclosure practices should be re-evaluated on an ongoing basis, particularly as regulatory requirements evolve, and as plan design and provider arrangements change.
- The disclosure of fees should comply with applicable regulatory requirements.
- Other measures of plan effectiveness should also be regularly communicated to plan participants, such as investment manager performance relative to a specific benchmark.

Section II - General Guidelines

CIEBA recommends that plan sponsors follow the guidelines below:

1. Identify the types of expenses a participant in the plan bears. These expenses may include:
 - Investment Management Expenses: The fees associated with the management of the plan's investments, including all types of investments -- separate accounts, commingled funds, mutual funds and company managed assets.
 - Plan Administration: Generally includes cost for recordkeeping, trustee, custody, communications, legal and audit, oversight of investment managers, and if applicable, investment advice services.
 - Other Fees: Generally, the expenses or charges assessed against a particular participant relating to participant-initiated actions such as redemptions, loans, qualified domestic relations orders (QDROs) or brokerage accounts.
2. Disclose the fees/costs charged to participants as a percentage of assets and/or dollar amount, as appropriate. This recognizes that fees may be determined on a different basis. For example, Investment Management Fees typically are based on asset size; however, Plan Administration Fees may be assessed on a per-participant basis, based on asset size or some combination of these methods.
3. Disclosure of *any fees paid by the plan sponsor* should be voluntary, since it may impact the sponsor's ability to negotiate these fees and does not directly impact a participant's account value.
4. At a minimum, plan expense information helpful to participant decision-making should be disclosed to participants on an annual basis. Best practices may suggest more frequent disclosure.
5. Fees associated with participant-initiated actions, such as loans, should be disclosed at the time of the transaction.

Section III - Investment-Specific Considerations and Exhibits

Investment Specific Considerations

Mutual Funds

- Plan sponsors should not be required to provide beyond what is contained in the applicable mutual fund prospectuses.
- Plan participants should consult individual mutual fund prospectuses for investment related costs for specific investment options.

Separate, Commingled, and Internally Managed Accounts

- Just as mutual funds report all-in costs via the expense ratio, plan sponsors should provide expense information that includes all direct costs charged to a particular separate account, commingled or internally managed investment option.

Mutual Fund Windows

- Direct administrative costs should be disclosed (i.e. annual service charge).
- Participants should be referred to the fund prospectuses for the expense ratios charged by individual mutual funds in the window.

Brokerage Accounts

- Plans that offer full brokerage accounts should disclose administrative costs, give examples of costs charged by the brokerage account provider, and encourage participants to read fund/investment information provided by the brokerage provider.

Company Stock Funds

- As with all other investment options, plan sponsors should disclose the total direct costs of their company stock funds. In some instances, this may include commission costs charged for participant transactions (buying and selling shares). However, many company stock funds are unit-valued, where commission costs are netted against fund returns. In these cases, fee disclosure should be similar to that of the plan sponsor's other [unit-valued] investment options.

Stable Value Funds

- Since there is no consistently applied convention for reporting fees at the total fund level, plan sponsors must decide whether to report fees net or gross of [underlying] portfolio management, wrap-provider and trust/custody fees. If the "net" approach is followed, investment management fees will consist of only those fees associated with the overall management of the fund. If the "gross" approach is followed, investment management fees will consist of overall fund management fees plus [underlying] portfolio management, wrap-provider and, if applicable, trust/custody fees.

Exhibits

CIEBA’s Fee Disclosure Best Practices document, and the related exhibits that follow, are intended to provide plan sponsors with a suggested framework to refer to as they consider the ways to disclose defined contribution fees to their participants. It is important for plan sponsors to consider the unique nature of their respective plans as they determine whether the following examples are appropriate for their specific communication needs.

Exhibit I. SAMPLE DISCLOSURE FOR UNBUNDLED SERVICES. The defined contribution plan is structured using independent providers for recordkeeping, trustee and investment management services. Generally, each vendor charges fees separately for their services, although investment management fees may be used to pay for other services (recordkeeping, trustee fees, etc.).

The examples below are designed to help you understand the various costs you would bear as a participant in the Company XYZ 401(k) plan. As you can see, the costs vary depending on the investment options you choose. The following table summarizes all costs relating to the investment management and administration of the 401(k) plan.

Estimated Cost to Participant (as a percentage of assets invested in each option):

Type of Fee	Option A	Option B	Option C	Option D
Implicit Fees				
Investment Management	0.45%	0.45%	0.75%	0.95%
Plan Administration	0.05%	0.05%	0.05%	0.05%
Expense Reimbursement ¹	(0.20%)	N/A	(0.20%)	(0.20%)
Expense Ratio(% of assets)	0.30%	0.50%	0.60%	0.80%
Total Estimated Annual Cost (\$ per \$1000)	\$3.00	\$5.00	\$6.00	\$8.00
<i>The above fees are borne by plan participants and netted out of the reported returns of the investment options.</i>				
Participant Initiated Fees				
Redemption Fee ²	2% /30 days	N/A	1% / 60 days	N/A
Loan Fee ³				
Brokerage/Mutual Fund Window ⁴				

¹ Expense Reimbursement: This is a credit provided to the plan by the investment manager [or recordkeeper]. Just as the investment manager [or administrative] fee is netted against the individual fund performance, this credit is added back to fund performance.

² Redemption Fee: Any fee associated with selling an investment option that will be charged directly to a participant’s account. The fee – as noted above for each investment option – is charged as a percent of assets sold, and is usually assessed when a minimum holding period for the investment option (identified as a number of days,) is not met. The policy for each option may be different.

³ Loan Fee: A one-time fee of \$_XX_ will be charged directly to a participant account if the participant takes a loan from their account.

⁴ Brokerage / Mutual Fund Window: An annual fee of \$_XX_ will be charged directly to a participant’s account if the participant invests a portion of their assets in the brokerage / mutual fund window offered by the plan. Please refer to the specific fund prospectus for the expense ratio associated with the fund.

Please note that all amounts shown are estimates. Actual costs may be higher or lower and will change as fees are adjusted.

Additional information about these fees, as well as plan-specific information may be found by logging onto the website or contacting the service center.

Exhibit II. SAMPLE DISCLOSURE FOR BUNDLED SERVICES. The defined contribution plan is structured using one provider for recordkeeping, trustee and investment management services. Generally, all fees for all services are included in investment management fees and may be difficult to isolate.

The examples below are designed to help you understand the various costs you would bear as a participant in the Company XYZ 401(k) plan. As you can see, the costs vary depending on the investment options you choose. The following table summarizes all costs relating to the investment management and administration of the 401(k) plan.

Estimated Cost to Participant (as a percentage of assets invested in each option):

Type of Fee	Option A	Option B	Option C	Option D
Expense Ratio (% of assets)¹	0.30%	0.50%	0.60%	0.80%
Total Annual Cost (\$ per \$1,000)	\$3.00	\$5.00	\$6.00	\$8.00
Administrative Fee²: \$24/year				
Participant Initiated Fees:				
Redemption Fee ³	2% /30 days	N/A	1% / 60 days	N/A
Loan Fee ⁴				
Brokerage/Mutual Fund Window ⁵				

¹ Expense Ratio: The fee for investment management and certain administrative fees associated with each investment option. These fees are borne by plan participants and netted out of the reported returns of the investment options.

² Administrative Fee: There is an annual fee of \$24 per participant account for recordkeeping and custody, regardless of the number of options used by the participant.

³ Redemption Fee: Any fee associated with selling an investment option that will be charged directly to a participant's account. The fee – as noted above for each investment option – is charged as a percent of assets sold, and is usually assessed when a minimum holding period for the investment option (identified as a number of days,) is not met. The policy for each option may be different.

⁴ Loan Fee: A one-time fee of **\$_XX_** will be charged directly to a participant account if the participant takes a loan from their account.

⁵ Brokerage / Mutual Fund Window: An annual fee of **\$_XX_** will be charged directly to a participant's account if the participant invests a portion of their assets in the brokerage / mutual fund window offered by the plan. Please refer to the specific fund prospectus for the expense ratio associated with the fund.

Please note that all amounts shown are estimates. Actual costs may be higher or lower and will change as fees are adjusted.

Additional information about these fees, as well as plan-specific information may be found by logging onto the website or contacting the service center.

Exhibit III: SAMPLE DISCLOSURE (IN TEXT FORMAT).

Plan participants pay the following expenses associated with the 401(k) plan:

Investment management fees – These fees vary by investment option and include the costs of administering the investment options. They may include investment manager fees, loads and 12(b)-1 fees. These fees are included in the fund prospectus (total expense ratio) and are netted against fund performance (fund performance is always reported after paying all fees associated with operating the fund). Some fees associated with operating the fund, such as trading fees, may not be included in the expense ratio, but are also netted against fund performance. Some fund expenses may be used to pay recordkeeping or other plan expenses or may be rebated or credited back to the plan to be used for expenses or allocated to participant accounts.

Recordkeeping fees – These fees are paid out of the participant's account. The fee is **YY%** of the account OR **\$ XX** and netted against total fund performance.

Custody fees – These fees are paid via a flat **\$ XX** fee charged to each participant account each quarter.

Loan fees – A flat **\$ XX** fee is charged to a participant's account when that participant takes out a loan.

Qualified Domestic Relations Order (QDRO) fees – The fee for administering a qualified domestic relations order is charged to the account of the participant who submitted that order.

Company stock fund fees – (Transaction fees charged to plan participants should be disclosed. The following are examples on how this may be handled.)

- 1) A **\$.xx** per share commission is charged for all market purchases and sales of Company Stock resulting from netting contributions, distributions or fund transfers. The total commissions are paid out of the Company Stock Fund's plan assets (charged against the performance of the fund) on a daily basis.
- 2) A **\$.xx** commission is charged for all net purchases or sales (contributions and transfers into the fund minus distributions and other transfers out) for the Company Stock Fund. Each day, these fees are calculated and are charged directly on a prorated basis to the accounts of all participants who executed any transactions on that day.

Brokerage fees – An annual fee of **\$ XX** will be charged directly to any participant who invests any of their assets in the brokerage window.