



July 24, 2007

Office of Regulations and Interpretations
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, DC 20210

[Submitted Electronically]

Attention: Fee Disclosure RFI

Dear Department of Labor:

As the officers of Interlake Capital Management, LLC, we are pleased to provide the following comments in response to the Department's Request for Information concerning fee and expense disclosure to participants in individual account defined-contribution plans.

In broad terms, we support the current trend toward clearer disclosure of fees and expenses in defined contribution plans. In addition, we hope currently pending class-action litigation concerning fees and disclosure will effect positive change along these same lines. In the context of ERISA's core principles, it's important for plan sponsors and participants to understand what they're paying—and what they're getting for what they pay.

We think it's exceptionally difficult for most people to understand the value of their 401(k) plans, in part because of hidden, opaque, and inappropriate fee structures and in part because self-directed plans force participants to act as their own money managers. Most status quo plans charge too much for things of dubious value (e.g., actively managed mutual funds) and fail to deliver things of enduring value (e.g., a high level of investment discipline that protects participants against emotional decision-making).

Improved disclosure of fees and service arrangements is important in and of itself. But the fundamental problem in defined contribution plans is the assignment of the most important task (ongoing asset management) to plan participants. Additional information about flawed plans will only do so much for participants. Much more important is the opportunity to *improve defined contribution plans in the first place*. We think much of the responsibility for bringing such improvements to the marketplace should fall to the financial services industry, whose professionals should welcome—and live up to—the implicit and explicit fiduciary duties of managing ERISA assets. We think the current arrangement, in which essentially all risk is pushed to participants, is, again, inconsistent with ERISA's core premise.

We have provided answers to several of the Department's 19 questions below.

QUESTION 1

We believe participants should understand the full expenses of the investment options available through their plans. In a typical plan featuring a menu of mutual funds, participants have relatively easy access to

fund expense ratios, but the true costs of fund ownership include certain “implicit” costs such as trading costs (i.e., commissions paid out of fund assets to make changes to the fund’s portfolio) and market impact (i.e., any price-changing effects of buying and selling fund assets). Often available only in a fund’s “statement of additional information,” trading costs are known only in retrospect, of course, but annual portfolio turnover can be a useful proxy for trading costs, so we would support rules that require clear disclosure of a fund’s recent trading costs. Market impact is difficult to measure with any precision, but we have seen fund managers make reasonable estimates.

We think annuity products are ill-suited for ERISA plans, but where they are offered, we would encourage the Department to mandate full disclosure of their costs—and the long-term, return-reducing effects of those costs relative to less-expensive alternatives.

QUESTION 2

Better disclosure practices would help participants understand the effects of “bundled” service arrangements in which most or all explicit costs are paid through mutual fund expense ratios, then distributed to providers of services such as investment management, plan administration, and participant education through mechanisms such as 12b-1 fees and Sub-Transfer Agent (Sub-TA) arrangements. We think 12b-1 fees are often excessive in light of what’s actually provided in return for them (i.e., occasional enrollment meetings and periodic—often annual—update or “progress report” presentations).

But the bigger problem is the potential for excessive costs through the Sub-TA mechanism, the core drawback of which turns on the distinction between charging for administrative services on a percentage rather than a per capita basis. Consider the implications of the typical arrangement, in which participants pay for “bundled” administrative services through the expense ratios of their mutual fund shares (whose expense ratios, as the *Wall Street Journal* reported earlier this year,ⁱ are often inflated relative to standard retail rates paid by investors outside 401(k) plans). The obvious and inevitable effect of such a Sub-TA arrangement is that participants with larger accounts—and plans with larger *average* accounts—pay much more for basic administrative services than they would if such expenses were assessed on a per capita basis.

The Interlake retirement plan solution takes the per capita approach, which keeps overall administrative expenses low as individual accounts and average account sizes grow *and* makes it easy for plan sponsors to pay for administrative expenses rather than passing them on to participants (which is unavoidable under the typical Sub-TA arrangement). This is straightforward and imposes only the most minor implementation (i.e., time) costs, costs that pale in comparison to the benefits of this arrangement.

For rule-making purposes, we think the Department should consider ways in which it might encourage the unbundling of administrative services and expenses from other plan components (e.g., investment management and participant education/sales). We also think plan sponsors should have easier access to a wide range of service providers’ (unbundled, ideally *per capita*) prices for plan administration. In the absence of such a comparative framework, sponsors are often unaware of prevailing price points, and in many cases may be unaware that unbundled and/or per capita alternatives are available.

QUESTION 8

We think investor education is exceptionally important, and we do not object to the publication and provision of “glossaries” of investment-related terms. But we will add a note of caution concerning the utility of such documents. In general, we think that typical participant-directed plans are inconsistent with ERISA’s core principles of maximizing participants’ likelihood of income security in retirement. Given what we know about investor behavior, leaving participants to serve as their own money managers simply isn’t consistent with ERISA’s fiduciary principles. Glossaries of terms are fine, but they are unlikely to help investors achieve—and thus are no substitute for—pension-caliber investment discipline.

QUESTION 10

As we noted in our response to Question 2, we believe participants should have ready access to information about the implications of bundled service and Sub-TA arrangements.

QUESTION 17

We think providing additional information concerning fees and expenses—and the services provided in return for those payments—would encourage greater competition in the marketplace as sponsors and participants enjoy a more-level playing field in their interactions with the financial services industry. In addition, we think greater disclosure would compel plan providers to focus on providing services of meaningful value.

SUMMARY

Value, as always, is a function not just of price paid to the vendor but of quality returned to the customer. Retirement plans incur costs, and our point is not that service sponsors and participants should force the industry into a “race to the bottom” in which cost alone becomes the differentiating factor in selecting service providers. Inevitably, at some point such an environment would impair plan quality.

In thinking about these issues, we always return to first principles, which in this case concern the immensely important objective of *improving participant outcomes*. In our view, fuller disclosure of fees and expenses is important for its own sake. But the true significance of disclosure lies in the possibility of delivering better plans at lower cost, which in turn will generate better long-term outcomes, and thus better standards of living for the millions of Americans who now rely on defined contribution plans for financial security in retirement.

Regarding Section 404(c) compliance, we encourage regulatory changes and industry efforts to improve participant outcomes by combining the flexibility of the defined contribution plan with the investment discipline of the defined benefit plan.

Reducing expenses, improving disclosure, simplifying participant choices, and ensuring long-term investment discipline in *all* such choices will improve our retirement plans and our retirees’ lives.

We would be happy to provide additional information upon request.

Sincerely Yours,



Kevin S. Price
Chief Investment Officer



Chad W. Snell
Chief Marketing Officer

ⁱ Eleanor Laise, “What Is Your 401(k) Costing You? As Congress, Regulators Scrutinize Hidden Charges, Employers Begin to Ditch High-Cost Plans, Negotiate Lower Fees,” *The Wall Street Journal*, March 14, 2007