What Fee Disclosure Means for Plan Participants

More detailed information may help retirement investors make better choices.

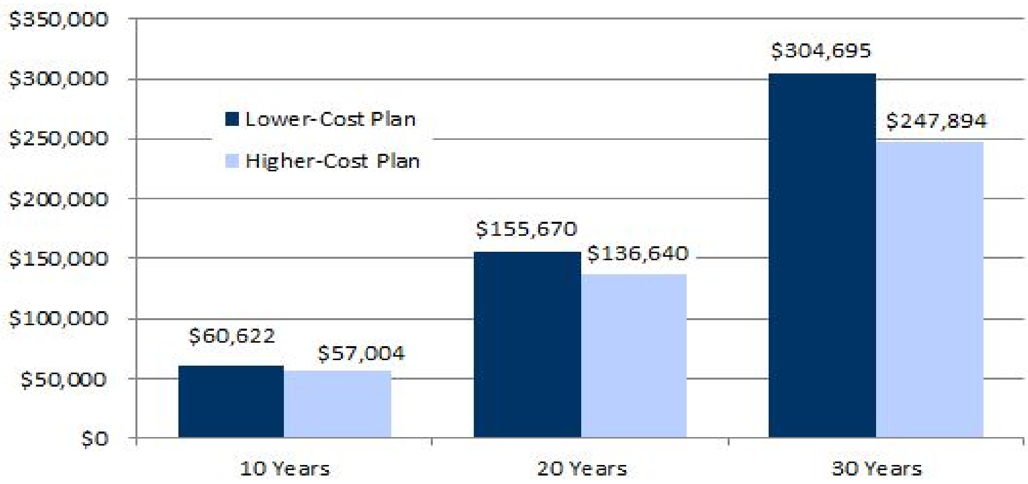
Retirement plan participants will soon be able to see the specific costs involved with administering and participating in their plan.

Many workers who participate in 401(k) plans or 403(b) plans mistakenly believe that their plans are free. While these plans provide a convenient way to invest for retirement, they come with a cost. It is important to understand the fees and expenses that you pay because, over time, these costs detract from investment returns.

New rules imposed by the U.S. Department of Labor require plan sponsors to communicate plan fees and expenses on an ongoing basis. No later than August 30, 2012, plan sponsors are required to present plan participants with a detailed document that lists all the plan's investment options, returns compared with benchmarks, expenses associated with all investments, and descriptions of the expenses.

In addition, quarterly statements will contain more information than they have in the past. The statements will present expenses relating to plan administration, such as recordkeeping and accounting; individual elections, such as loans and withdrawals; and investment fees, including sales charges and investment management.

The Impact of Fees on Retirement Plan Returns



Source: S&P Capital IQ Financial Communications. Assumptions: Participant contribution of $200 per biweekly pay period; 5% annual rate of return; lower-cost plan annual fee = 0.40% of account balance; higher-cost plan annual fee = 1.60% of account balance. These results are hypothetical and are for illustrative purposes only. Your results will vary.

Points to Consider

When reviewing the expenses associated with your employer-sponsored retirement plan, keep the following in mind:

- Investment expenses typically are the largest component of retirement plan fees.[1] Certain strategies, such as opting for low-cost index funds instead of actively managed funds, can help to keep investment expenses lower. Administrative costs, such as charges for recordkeeping, accounting, and legal services, are necessary to maintain the plan.
- Retirement plan fees and expenses are not new. Plans have always incurred fees that have been netted against plan expenses. But rules imposed by the U.S. Department of Labor require retirement plan sponsors to disclose these fees for the first time, starting in 2012.
- Remember the benefits associated with your plan. The convenience of payroll deduction, tax deferral for a traditional 401(k), the potential for an employer match (when available), and the ability to roll over assets to another qualified retirement plan when you change jobs or retire could help you build wealth over the long term.
- Keep in mind that all managed investments, such as mutual funds in a taxable account, entail fees of some sort. These fees typically cover services such as investment selection and trading, meeting regulatory requirements, and general administration expenses, among other costs.
- When reviewing investments and their corresponding fees, consider your risk tolerance and time horizon. The lowest-cost investment option within your plan may not be the most suitable for your situation.
- Limiting trades within your employer-sponsored plan may help to keep your expenses low. In many instances, an annual investment review, and rebalancing of your assets if necessary, is adequate to keep your investment mix on track.
- If you elect an optional service such as a loan, withdrawal, investment advice, or a self-directed brokerage account, ask about the fee associated with your choice.
- Fees and expenses are important factors when choosing investment options and reviewing plan performance. But they should be considered within the context of your overall retirement planning strategy.

For many workers, their employer-sponsored retirement plan is their largest financial asset. Fees and expenses are important elements within an employer-sponsored plan, but they should not override the importance of investing for retirement. Be sure to weigh both the benefits and the costs when evaluating your plan.

[1]Source: 401ksource.com, *401k Averages Book*, 12th edition, January 2012.