

Fee Disclosure

3 Pronged Regulatory Initiative



1. Form 5500 Schedule C
2. 408(b)(2) Fiduciary disclosures
3. Participant Directed disclosures

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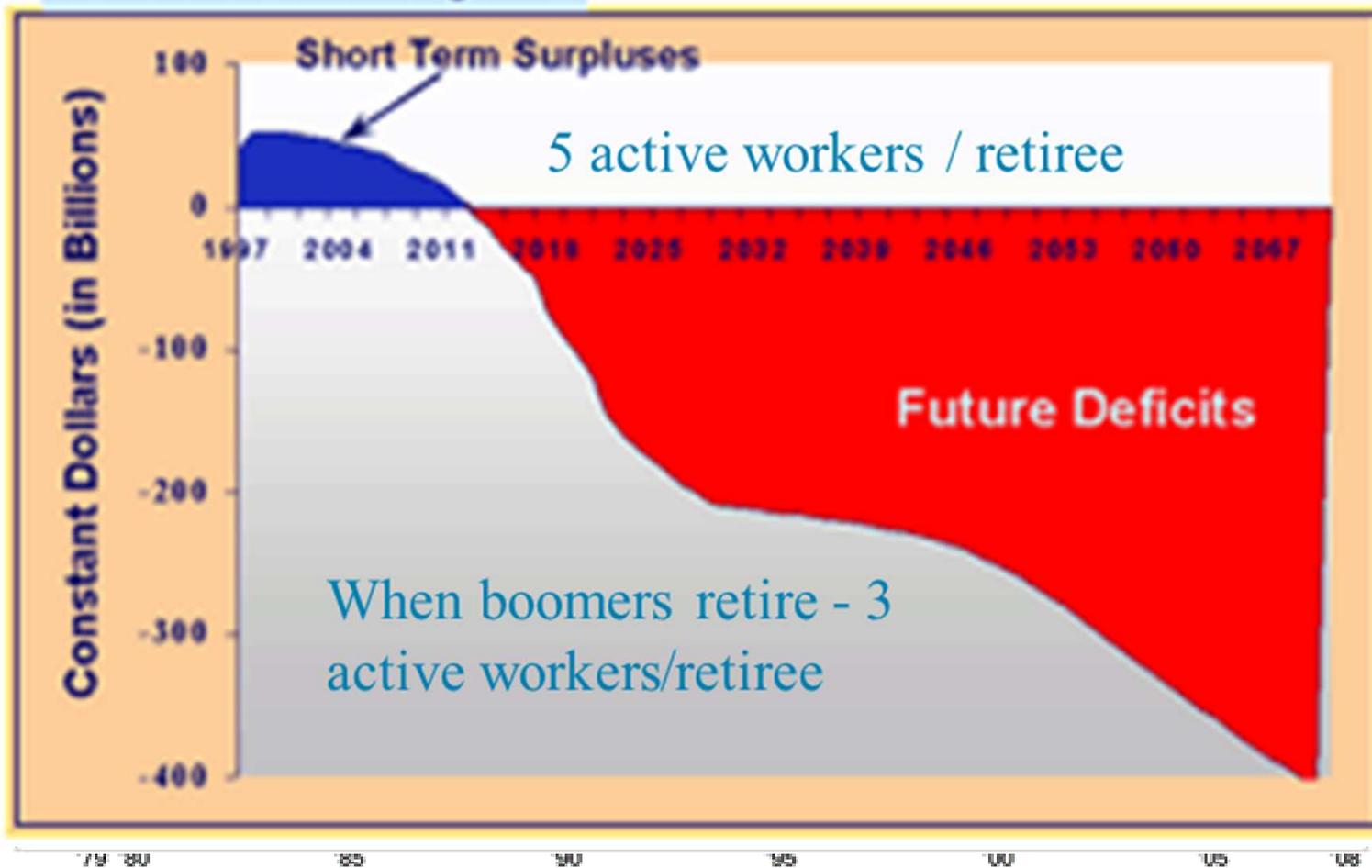
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March 29, 2012

Why is Disclosure Important?

The New American Retirement

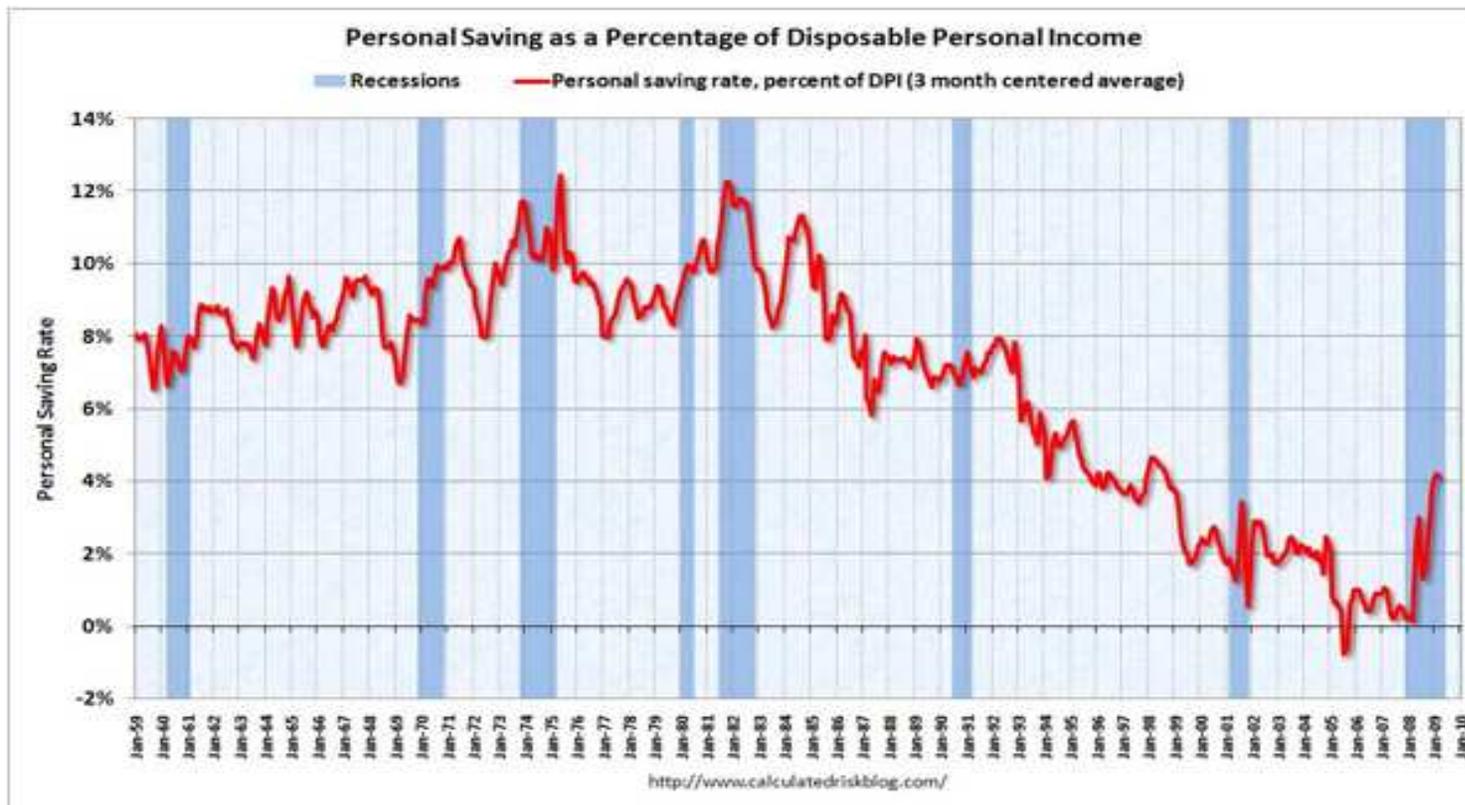
- Social Security's Bleak Future



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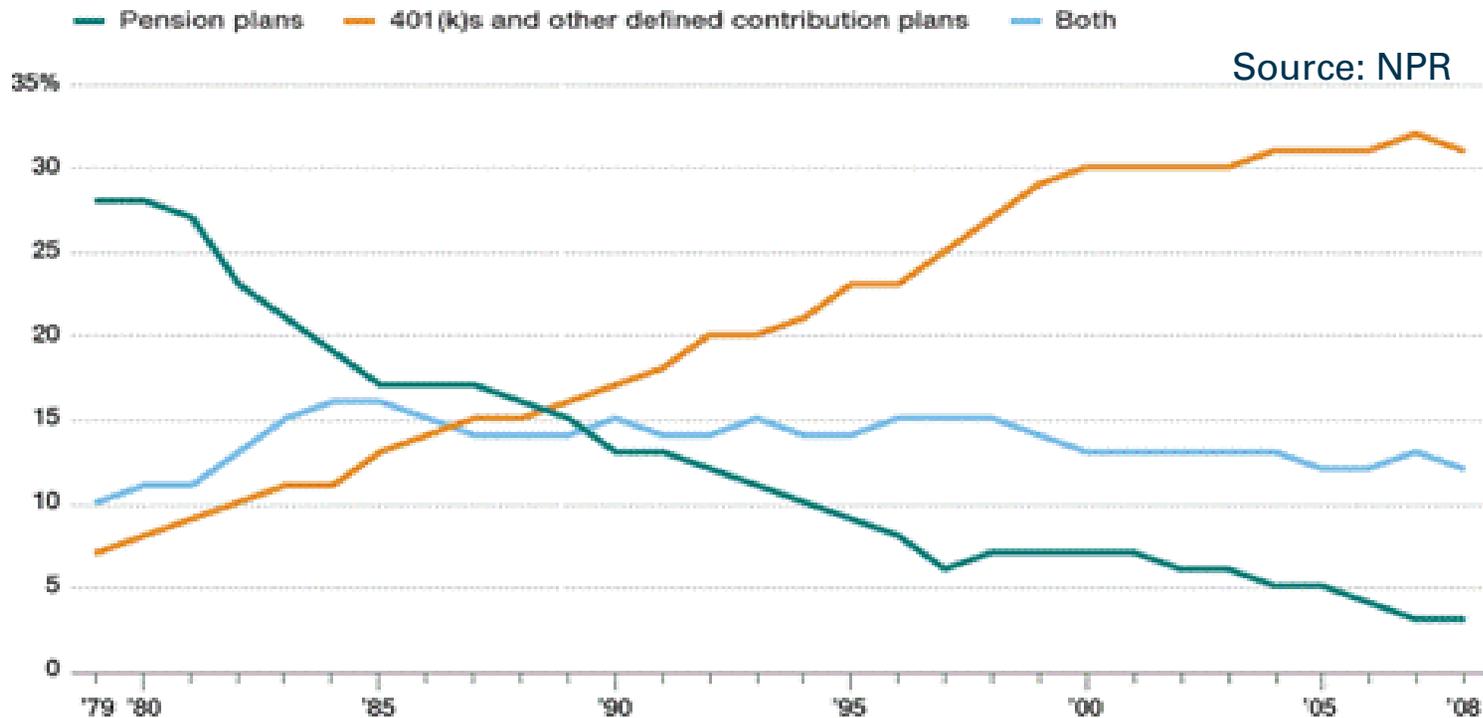
- Social Security's Bleak Future
- Decline in Savings Rate



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The New American Retirement

- Social Security's Bleak Future
- Decline in Savings Rate
- Shift from DB to DC Plans



Why is Disclosure Important?

The New American Retirement

- Social Security's Bleak Future
- Decline in Savings Rate
- Shift from DB to DC Plans
- ➔ Decline in Employer Contributions
- ➔ Proliferation of Participant-Directed Individual Account Plans
 - 483,000 Plans
 - 72M Participants
 - \$3 Trillion

Why is Disclosure Important?

401(k) Roadblocks

America's Lost Decade

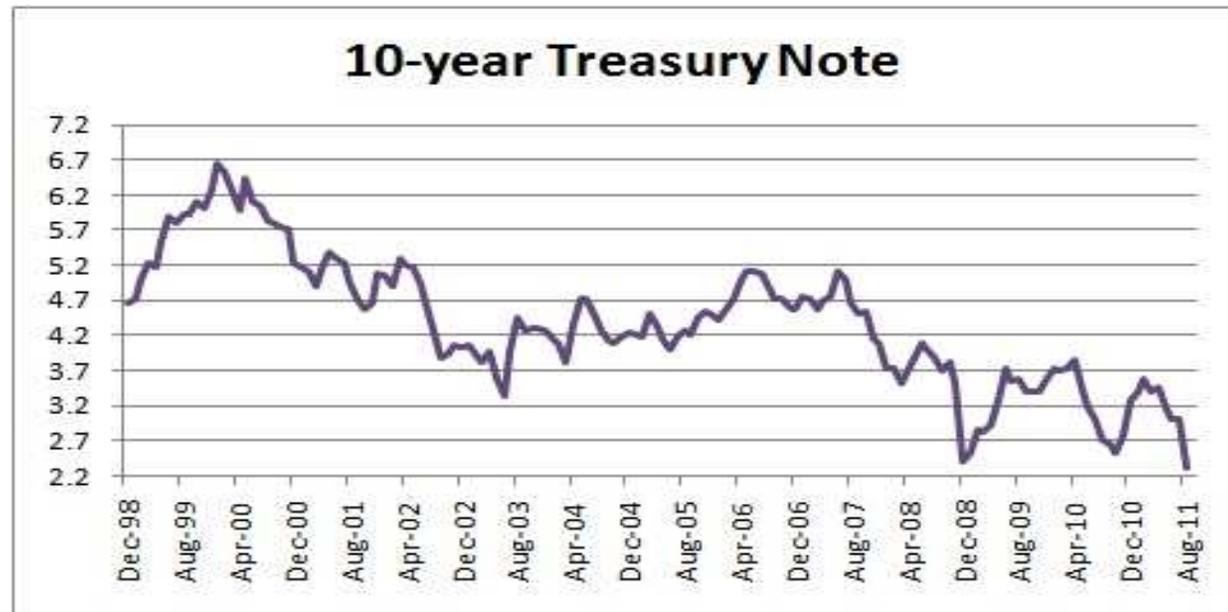


Why is Disclosure Important?

401(k) Roadblocks

America's Lost Decade

Interest Rate Decline – Cost of Lifetime Income



DOL's Goals for Participant Disclosures

Performance Disclosures

Facilitate
Comparative Review
of Alternatives

Increase Informed
Decision-Making

Improved
Performance

Fee Disclosures

Strengthen
Competition Between
Investment Products

Drive Down Fees

Where's the fee?

U.S. Rep. George Miller (D-CA), chairman of the House Education and Labor Committee authored the **401(k) Fee Disclosure and Pension Funding** provisions of HR 4213–



“Workers should have the right to know how much Wall Street intermediaries siphon off from their savings. Just a 1-percentage-point in excessive fees can reduce a worker’s 401(k) account balance by as much as 20 percent or more over a career”

Overall Plan Costs



How to Disclose

Quarterly Dollar Disclosures

“fees and expenses...that are actually charged (whether by liquidating shares or deducting dollars)”

Administrative Expenses -

Legal, accounting, recordkeeping

Individual Expenses -

Loans, QDROs, Investment Advice, Brokerage window, front & back-end loads, redemption

Annual Percentage Disclosures

Total Annual Operating Expense (Expense Ratio)

Expenses as Percent of Assets

Effect on Account Balances

Participant Subsidies - PIMCO Total Return A							
<<< Account Balance >>>							
			Large		Medium		Small
Account Balance		\$	500,000	\$	50,000	\$	10,000
Fund Expenses	0.85%		4,250		425		85
Subsidies							
12b-1	0.25%		-1,250		-125		-25
Sub T/A	0.15%		-750		-75		-15
Total Subsidies		\$	-2,000	\$	-200	\$	-40
Asset Mgmt Fees		\$	2,250	\$	225	\$	45

***The higher the Participant's balance, the higher their expenses.
The higher the Plan's average balance, the higher the Plan's expenses.***

Mutual Fund “Hidden” Subsidies

Share Classes

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Expense Ratio</u>
PIMCO Total Return A	5.83%	9.51%	7.90%	0.85%
PIMCO Total Return R	5.56%	9.24%	7.64%	1.10%
PIMCO Total Return Instl	6.25%	9.98%	8.38%	0.46%

Morningstar Annual Returns and Expense Ratios as of 2/29/2012

Mutual Fund Subsidies

<u>Share Class</u>	<u>A</u>	<u>R</u>	<u>Institutional</u>
Expense Ratio	0.85%	1.10%	0.46%
12b-1	-0.25%	-0.50%	0.00%
Sub Transfer Agent	<u>-0.15%</u>	<u>-0.15%</u>	<u>0.00%</u>
Mutual Fund Net	0.45%	0.45%	0.46%

***Fees paid to Investment Manager are basically identical.
Advisor and Admin subsidies vary and offset plan/participant fees.***

Shifting Subsidies

In preparation for the Quarterly Dollar Disclosure, many providers have altered their subsidy arrangements.

Prior Fee Arrangement

A Share Class

25 bps 12b-1

15 bps Sub-T/A

46 bps Mgmt Fee

+ 50 bps Contract Charge

1.36 Total Expense

New Fee Arrangement

R Share Class

50 bps 12b-1

15 bps Sub-T/A

46 bps Mgmt Fee

+ 25 bps Contract Charge

1.36 Total Expense

Differences in Disclosures



Broker Model

- 12b-1 fee
- Internal to Expense Ratio
- No Separate Disclosure

RIA Model

- Asset Fee
- Reduction in Shares
- Separate Dollar Fee Shown Quarterly

Differences in Disclosures



Disclosure favors

Broker Model

Differences in Disclosures

Broker Model					Annual Operating Expense	
Fund	Beginning Balance	Investment Earnings	Quarterly Expenses	Ending Balance	As a %	Per \$1000
PIMCO TOTAL RETURN R	\$500,000.00	\$4,187.50	\$0.00	\$504,187.50	1.10%	\$11.00
PIMCO TOTAL RETURN R	\$50,000.00	\$418.75	\$0.00	\$50,418.75	1.10%	\$11.00
PIMCO TOTAL RETURN R	\$10,000.00	\$83.75	\$0.00	\$10,083.75	1.10%	\$11.00

0.15% Sub-T/A; 0.50% 12b-1

RIA Model					Annual Operating Expense	
Fund	Beginning Balance	Investment Earnings	Quarterly Expenses	Ending Balance	As a %	Per \$1000
PIMCO TOTAL RETURN INSTL	\$500,000.00	\$5,000.00	(\$812.50)	\$504,187.50	0.46%	\$4.60
PIMCO TOTAL RETURN INSTL	\$50,000.00	\$500.00	(\$81.25)	\$50,418.75	0.46%	\$4.60
PIMCO TOTAL RETURN INSTL	\$10,000.00	\$100.00	(\$16.25)	\$10,083.75	0.46%	\$4.60

0.15% Admin Fee + 0.50% RIA fee

Insurance Provider Model					Annual Operating Expense	
Fund	Beginning Balance	Investment Earnings	Quarterly Expenses	Ending Balance	As a %	Per \$1000
PIMCO TOTAL RETURN R	\$500,000.00	\$4,187.50	(\$312.50)	\$503,875.00	1.10%	\$11.00
PIMCO TOTAL RETURN R	\$50,000.00	\$418.75	(\$31.25)	\$50,387.50	1.10%	\$11.00
PIMCO TOTAL RETURN R	\$10,000.00	\$83.75	(\$6.25)	\$10,077.50	1.10%	\$11.00

0.25% Contract Charge

0.15% Sub-T/A; 0.50% 12b-1

DOL's Goal for Participant Disclosures

Performance Disclosures

Facilitate
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Designated Investment Alternatives

What is a DIA?

“any investment alternative designated by the plan into which participants and beneficiaries may direct the investment of assets held in, or contributed to, their individual accounts. ”

What is not a DIA?

“the term ‘designated investment alternative’ shall not include ‘brokerage windows,’ ‘self-directed brokerage accounts,’ or similar plan arrangements that enable participants and beneficiaries to select investments beyond those designated by the plan.”

Designated Investment Alternatives

What is a DIA?

Mutual Fund

Bank Collective Fund

Insurance Company Separate Accounts

Employer Securities

Designated Investment Alternatives

Is this a DIA?

Models and Fund of Funds

Trusteed account

CD option

Unitized Insurance Products

Considerations for Plan Administrators

What Should I Do Now?

- Make Sure Fees are Reasonable
- Address Uncertain DIAs
 - Eliminate Alternatives
 - Compile Performance Data and create websites to comply
- Evaluate Number of Alternatives
- Consider Number of Providers
- Delegate Compliance Duties

Participant Fee Disclosure

Questions



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