TRIUNE

FinishStrong by Design™

A newsletter designed to help you tackle the most pressing issues in today's increasingly complex retirement plan world.

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Why 401(k) Fees Matter

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In our last issue, we began to explore why the **Pension Protection Act (PPA) of 2006** is causing such significant movement within 401(k)'s and other retirement plans. We learned that the PPA is a massive piece of legislation with far-reaching impact. We also pointed out that many of its regs won't be finalized until later this year - or even sometime in 2009.

However, one of its central components IS known: Fee Disclosure. For years, standard operating procedure was for 401(k) providers to mask fees and to sweep the entire discussion under the table. Some would argue that, at best, the industry has used evasive, incomplete or misleading language and, at worst, has been out rightly deceptive. PPA attempts to change this - overnight.

In December 2007, the U.S. Department of Labor announced a proposed rule that will enhance disclosure to fiduciaries of 401(k) and other employee benefit plans to assist them in determining the reasonableness of compensation paid to plan service providers and conflicts of interest that may affect a service provider's performance under a service contract or arrangement.

"One of the Department's top priorities is improved disclosure in order to ensure that participants and fiduciaries have the information they need to make informed decisions," said U.S. Secretary of Labor Elaine L. Chao. *"We are working quickly to implement regulations that foster fair, competitive and transparent prices for services as well as combat excessive or hidden plan fees."*
The proposed regulation would require that contracts between certain service providers and plans provide for <u>specific</u> and <u>detailed</u> information (so much for evasive or incomplete). It requires that <u>all services</u> furnished to a plan and <u>all compensation</u>, direct and indirect, to be received by the service providers <u>be disclosed in writing.</u> The proposal also requires the disclosure of possible <u>conflicts of interest</u> of the service provider that may affect the performance of plan services.

<u>How Does this Affect Me?</u> Two ways: first, as a participant, and secondly, as a fiduciary to your plan, which is one of the people responsible for safeguarding plan assets for the benefit of all plan participants.

1. Why you should care as a PARTICIPANT - I'll give you $175,000 reasons! Hefty fees drag down your investment returns. In turn, this costs you money, in the form of a smaller-than-need-be account balance upon reaching your retirement age.

Consider the following example of a 35 year old employee with gross earnings of $50,000 per year. Let's presume she has a $10,000 current account balance in her 401(k) and contributes 10% of her gross income per year, pre-tax. Let's further presume her employer kicks-in 3% of her gross wages in the form of matching contributions or profit sharing, so her total contributions equal thirteen percent of her gross pay. Let's project a moderately aggressive investor, over the long-term can earn an average annualized gross investment return (i.e. *before* any plan-level or fund fees) of 9% per year on her growing balance. IF her employer's plan carries expenses of 2.5% of plan assets, this means her investments are effectively growing at a net annual clip of 6.5% (9% gross return less the 2.5% expenses), thus her future value at her Social Security normal retirement age (67) equals $616,369.

Alternatively, what if her company provided a plan with lower fees - say 1.25% of plan assets? Thus, her balance would grow at a 7.75% clip, net of plan expenses. If so, her expected balance at age 67 equals $791,235. **A difference of $174,866 more in her account at retirement!**

2. Why should you care as a FIDUCIARY? - Because PPA says it is your obligation. And given this recent focus on fees and expenses, many employers - after close examination of their plans - have been able to negotiate fee REDUCTIONS.

The Bottom Line

The FIRST STEP is for you is for you to know the TOTAL annual fees charged against your retirement plan. If you need help, *Triune* has a proprietary tool called ***Full Fee Disclosure***® (FFD), where we condense the entirely of your plan's fees onto a single page, easily-understood report. We'd be happy to send you a complimentary copy of our template - JUST ASK. Then you can obtain the information from your current providers and simply "fill-in-the-blanks". To request your **free copy**, please email **finishstrong@triunefp.com** with **NEED FFD TEMPLATE** in the subject line or **call 913-825-6100.**

In our **Next Issue**, we'll explore the **TYPES OF FEES** contained inside various 401(k) and other retirement plans, and how to properly evaluate their reasonableness.

Until next time,

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