
Participant Disclosure Evaluation

Independent expert evaluation of
required participant
communications.

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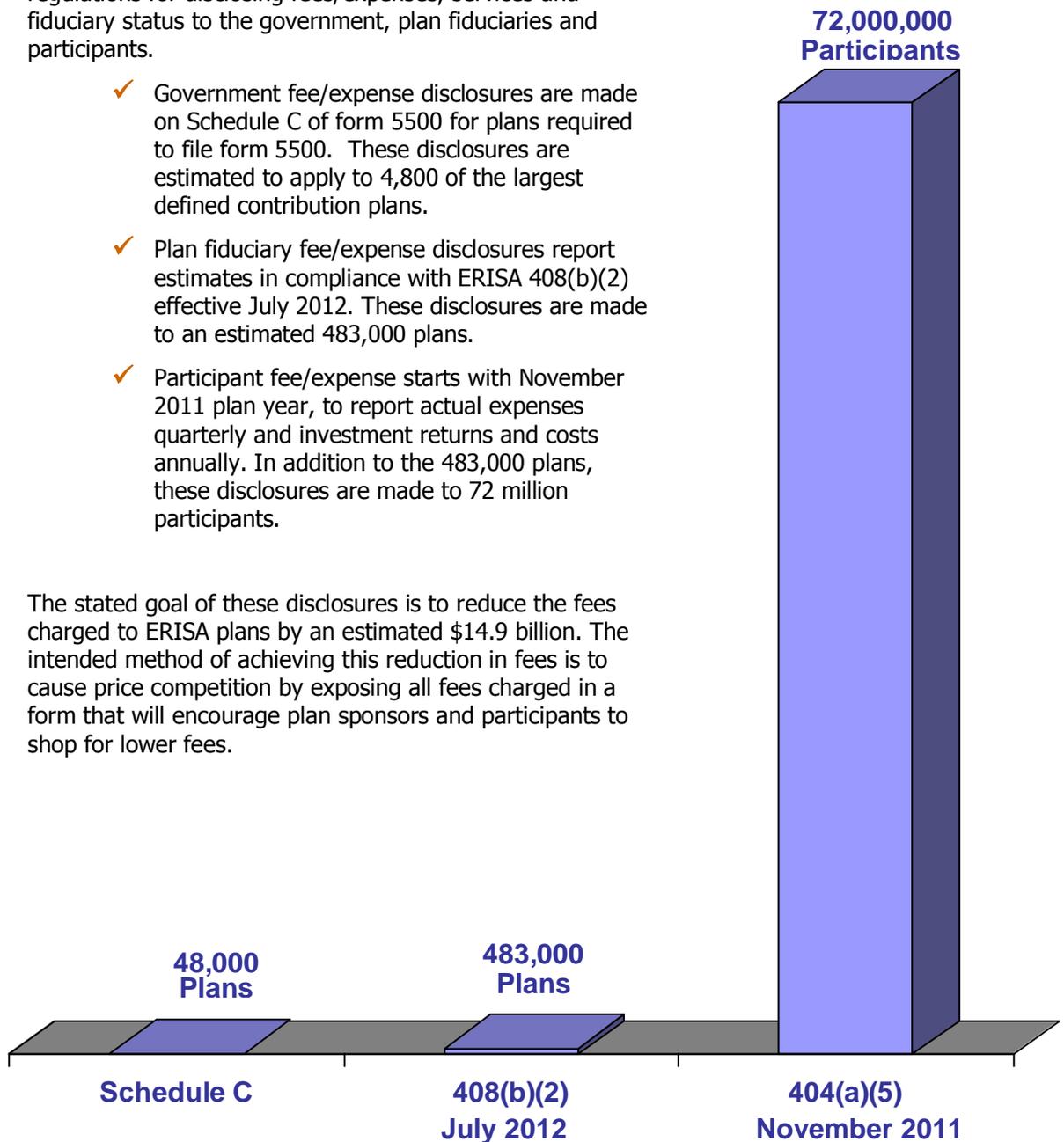
Introduction

What Are the Fee/Expense Disclosure Regulations?

The Department of Labor (“DoL”) has issued final regulations for disclosing fees/expenses, services and fiduciary status to the government, plan fiduciaries and participants.

- ✓ Government fee/expense disclosures are made on Schedule C of form 5500 for plans required to file form 5500. These disclosures are estimated to apply to 4,800 of the largest defined contribution plans.
- ✓ Plan fiduciary fee/expense disclosures report estimates in compliance with ERISA 408(b)(2) effective July 2012. These disclosures are made to an estimated 483,000 plans.
- ✓ Participant fee/expense starts with November 2011 plan year, to report actual expenses quarterly and investment returns and costs annually. In addition to the 483,000 plans, these disclosures are made to 72 million participants.

The stated goal of these disclosures is to reduce the fees charged to ERISA plans by an estimated \$14.9 billion. The intended method of achieving this reduction in fees is to cause price competition by exposing all fees charged in a form that will encourage plan sponsors and participants to shop for lower fees.



Overview of Participant Disclosure Requirements

The **fee disclosure to plan participants** requires two types of disclosures,

- a) **plan costs** borne by each individual participant and
- b) **investment costs** paid for each investment used

The **plan costs** are reported quarterly in explicit dollars and cents paid by each participant and includes the participant's share of the total plan costs and any other fees charged directly to the participant.

The **investment costs** are shown initially and annually thereafter. Investment costs are shown in basis points and in dollars and cents per \$1,000. The investment disclosure must also detail any other potential costs that participants might incur such as sales charges and penalties.

The DoL expects that the Participant Disclosure "*rule will be economically significant*". In terms of cost increases the DoL says "*The anticipated cost of the rule is \$425 million in 2012 (2010 dollars)*" and the cost reductions "*Over the ten-year period 2012-2021, EBSA estimates that the present value of the benefits provided by the final rule will be approximately \$14.9 billion and the present value of the costs will be approximately \$2.7 billion.*"

Evaluation of Participant Disclosures

Independent Evaluation

The presentation of fee disclosures is an opportunity to communicate a corporate message but it also has the potential to be disruptive or to inadvertently violate other regulations.

DALBAR's evaluation of disclosures used in participant reporting 404(a)(5) provides an important quality and compliance control.

Scope of Evaluations

The specific evaluations conducted are determined using an interview questionnaire that is completed at the start of the evaluation engagement. The following specific evaluations are available:

- ✓ Alignment with industry practices
- ✓ Complexity and readability (Calculated to be understood)
- ✓ Effectiveness in promoting a corporate message
- ✓ Potential for disruptive response
- ✓ Method of proof and reconciliation of all disclosures
- ✓ Potential for regulatory violations and consistency across disclosures
- ✓ DALBAR Certification and opinion letter, indicating regulatory compliance

Pre-Requisites

In order to complete disclosure evaluations DALBAR will require:

- ✓ An interview questionnaire that describes the goals and parameters
- ✓ Samples of each disclosure
- ✓ Any collateral material used to introduce the disclosure

Fees

Fees are determined by the number, scope and complexity of disclosures.

Typical fees range from \$500 for a single simple disclosure to \$15,000 for a complex set of disclosures.

404(a)(5) Disclosure Criteria

Compliant

Complete: All required disclosures are made.

Supportive: Tools are provided to aid plan fiduciary to comply with the regulations

Meets Objective

Help employees manage and invest the money they contribute to their 401(k)-type pension plans by facilitating "apples-to-apples" comparisons among their plan's investment options:

- **Comprehensive**: Providing the information needed to make informed decisions, including information about fees and expenses. Generally accepted investment standards identify four variables that represent the highest probability of achieving an investment goal. A comprehensive presentation includes these variables and the instructions regarding how they are used:
 1. Risk Tolerance
 2. Asset Class
 3. Time Horizon
 4. Expected Outcome
- **Comparative**: Delivering investment-related information in a format that enables employees to meaningfully compare the investment options under their pension plans. All the relevant information about each investment is presented in one place and in terms that can be directly compared to other investments.
- **Uniform**: Using standard methodologies when calculating and disclosing expense and return information so as to achieve uniformity across the spectrum of investments that exist among and within plans. For example, investment returns should be based on the same time frame as expenses and the expenses should always be net after reimbursements.

Calculated to be Understood

The information presented is understandable by the participants who are expected to use it:

- **Language:** Uses language suitable for the typical employee
- **Un-confusing:** Contains no confusing concepts
- **Unfamiliar:** Limits the use of unfamiliar terms to situations where they cannot be simplified
- **Length:** Is of a length that participants can be expected to read it entirely.
- **Readability:** Is sufficiently easy to read as measured by the Flesch reading test

Presentation Style

The presentation style should be inviting and encourage the participant to read the material. The elements of presentation style consist of:

- **Flow:** Information is presented in a sequence that attracts and holds the participant's attention and interest.
- **Fonts:** Size and style of font makes the document easy to read.
- **Graphics:** Graphics such as tables, charts, images, lines, bars, geometric shapes, etc. are used to enhance the communication to participants with whom visual cues are more effective.
- **Color:** Color is used to enhance the overall attractiveness and effectiveness of the presentation.

Participant Reaction

The distribution to an entire base of eligible and participating employees has the potential of being disruptive. These criteria address the primary triggers of participant behavior:

- **Expected:** The first words or images that the participant sees should create the expectation of what will follow and conversely should not set expectations for information that is not provided.
- **Unanswered:** The most likely questions that a participant is likely to have should be answered at the point that the question is likely to arise.
- **Concerns:** Statements that cause participants unnecessary concern should be avoided.
- **Positioning:** The overarching theme of the presentation should emphasize and underscore that the plan is a valuable benefit to the employee.

Summary of Requirements

| Disclosure Required | For each audience... | | | Important Implications |
|--|-----------------------------|------------------|-----------|--|
| | Audience | Initial | Freq. | |
| General plan information, such as how to give investment instructions, a current list of plan's investment options, and a description of any "brokerage windows" or similar arrangement and an explanation of fees and expenses: <ul style="list-style-type: none"> • For plan administration deducted from the plan as a whole (legal, accounting, recordkeeping). • That may be deducted from the participant account based on his/her actions (plan loans and QDROs). | Existing Eligible Employees | Date of Reg. | None | Need to identify all eligible employees not participating. |
| | New Eligible Employees | Upon Eligibility | None | Must distribute when new employees become eligible. |
| | Existing Participants | Date of Reg. | Annual | Can be integrated with first quarterly statement after effective date and then annually thereafter. |
| | New Participants | None | Annual | Included with quarterly statement once per year. |
| The dollar amount of the plan-related fees and expenses (whether "administrative" or "individual") actually deducted from participant accounts, along with a description of the services for which the deduction was made. | Existing Participants | Date of Reg. | Quarterly | New information must be obtained, calculated and effectively presented in the statement. Plan sponsors may elect different calculations. |
| | New Participants | Next Quarter | Quarterly | |
| Investment-Related Information for each plan designated investment: <ul style="list-style-type: none"> • Performance Data • Benchmark Information • Fee and Expense Information • Internet Website Address • Glossary | Existing Eligible Employees | Date of Reg. | None | Extensive information about each designated investment must be presented in a format that allows comparison. |
| | New Eligible Employees | Upon Eligibility | None | |
| | Existing Participants | Date of Reg. | Annual | |
| | New Participants | None | Annual | |