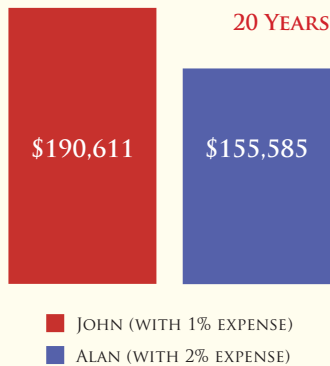


# FEES AND COSTS

## BIG STAKES – “LLEGARON LOS ABOGADOS!”



### FEES HAVE A CLEAR IMPACT ON INVESTMENT RETURNS



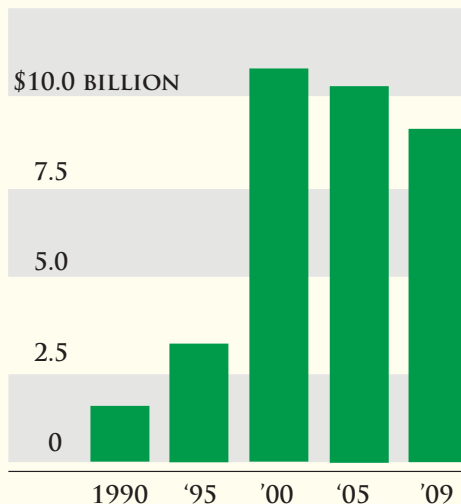
John and Alan are two 401(k) participants. Each has \$50,000 invested in the same type of fund delivering the same 8% return per year. Let's assume that they hold on to these funds for twenty years until reaching retirement age. The only difference is that John's annual participant fees and expenses total 1%, while Alan pays a total of 2%.

The graph shows that after 20 years, John has \$35,026 more in retirement than Alan. After 30 years John would have \$97,716 more than Alan. Clearly, participant fees impact how much you can potentially earn over time.

This hypothetical presentation is based on a fixed annual 8% return with no distributions or tax considerations, and does not imply future returns.

### LAND OF THE FEE

Mutual-fund 12b-1 fees have climbed sharply over the years. The charges, which are used to cover a variety of services that aren't always clearly disclosed, are drawing renewed attention from regulators.



SOURCE: INVESTMENT COMPANY INSTITUTE

### DECISION'S POTENTIALLY FAR-REACHING IMPACT

The excessive fees charged by both large and small 401K plans are finally coming under the scrutiny of the law. In *Tibble v. Edison International* (CV 07-5359), Judge Stephen V. Wilson ruled on a class action brought by participants in Edison's (EIX) 401(k) plan. The case was brought in the District Court for the Central District of California.

Judge Wilson ruled that the selection of three retail share classes for inclusion as investment options in Edison's 401(k) plan violated the company's "duty of prudence" because lower cost institutional share classes of the same funds were available.

In reaching this conclusion, he stated: "In light of the fact that the institutional share classes offered the exact same investment at a lower fee, a prudent fiduciary acting in a like capacity would have invested in the institutional share classes."

The ramifications of this decision could be far-reaching. Judge Wilson concluded the plan participants had suffered significant damages to be determined by computing the difference in cost of the two share classes over the relevant time period and the "lost investment opportunity" caused the participants having less money to invest.

"The Edison 401(k) plan is not an anomaly. In well over 90% of the 401(k) plans I have reviewed, retail shares are included as investment options, even though institutional shares are available at lower cost", says Daniel Solin of DailyFinance.

Selecting a 401(k) plan can be an intimidating process. There are a number of factors to take into consideration – investment selection, ease of use, support and pricing. Confusing language and financial double-speak leave many small business owners exasperated with the process before it even begins.

Below is a convenient list of questions to ask potential 401(k) providers – including us. Go the extra mile, complete the due diligence and make sure you find the right 401(k) or Retirement Plan.

### HERE ARE THE QUESTIONS TO ASK EVERY 401(K) PROVIDER

1. **Is this a group annuity or insurance service?**
  - a. If so, what is the asset or wrap fee?
  - b. If not, what share class are the mutual funds? Please lay out the load fee for each fund.

Don't pay excessive asset-based/wrap fees. You'll need to explain these fees to your client—find out what they are for.

2. **Please provide a list of the total operating expense ratios for each investment in the plan.**

Operating expense ratios for your investments should range from 0.40% to 2.00%. A reasonable average expense ratio should be no higher than 1.30%. Don't settle for anything higher in a 401(k) plan.

3. **Do you participate in 12(b)(1) sharing with mutual fund companies? If so, what is your level of participation per fund?**

Many 401(k) providers participate in a revenue-sharing arrangement with mutual fund companies. However, you need to know the extent of participation and what they do with the money. Full disclosure is key.

4. **Can you provide a list of all available investments? Find out what you're paying for! Make sure the investment options you and your clients want are available.**

# FEES AND COSTS: OVERHAULING 12(B)-1 AND SUB TA FEES

BELOW IS A SAMPLE OF WHAT A PLAN MAY LOOK LIKE

Figure 1: 401(k) Plan Costs

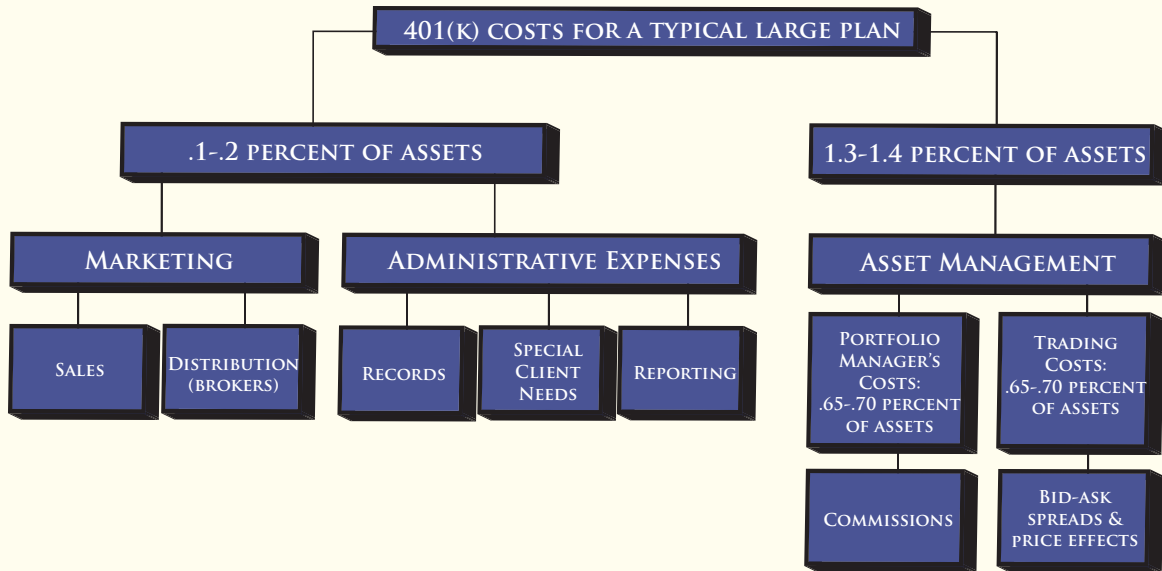


Figure 2: 401(k) Participant Fees

