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July 24, 2007

Attention: Fee Disclosure RFI
Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5669
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, DC 20210

Re.: Fee and Expense Disclosures to Participants in Individual Account Plans

Ladies and Gentlemen:

Watson Wyatt is pleased to submit this response to the Employee Benefit Security Administration's April 24, 2007 Request for Information regarding disclosure of fees and other information in participant-directed retirement plans.

Watson Wyatt has attained our current position as a market leader in the human capital consulting field by consistently delivering top-quality services to our clients. We have been a consultant to hundreds of defined contribution retirement plan sponsors since the inception of 401(k) plans. In past years, we developed and maintained a defined contribution retirement plan recordkeeping system. Although we are no longer in the defined contribution plan administration business, we do have a strong working relationship with today's plan administration vendors and investment providers on behalf of our clients. As such, we are well aware of the environment in which plan providers operate their businesses and plan sponsors offer their retirement plans. This puts us in an excellent position to provide input to the Department of Labor on potential participant fee disclosure requirements.

Purpose of Disclosure

In participant-directed investment plans, ERISA Section 404(c) currently requires employers sponsoring participant-directed retirement plans to disclose the investment related fees charged within each fund offered in order to take advantage of certain fiduciary protections. The purpose of this fee disclosure is to assist participants in making fully informed choices on the cost of obtaining the funds' investment returns.

Under other sections of Title I of ERISA, disclosure of fees for all aspects of a retirement plan's expenses could be implied as a fiduciary responsibility but is not currently explicitly mandated. Disclosure of these fees would allow participants preparing to contribute to their employer's retirement plan to compare the costs of participation in the plan relative to other investment choices offered outside of the employment relationship, and would therefore assist them in making their decision to participate in the plan.

Complexity of Fee Disclosure

As the DoL contemplates mandated retirement plan fee disclosure, it should keep in mind that the current fee structure for managing retirement plan investments and administering retirement plans accounts is very complex. There are wide varieties of methods, and virtually every organization has a different nuance and a different name for essentially similar concepts. We have found getting a discussion off the ground for our clients usually requires spending significant initial efforts coming to common agreement on various investment and fee terms. Therefore, we think an important first step toward improving retirement plan fee disclosure would be issuing regulations with a standard set of definitions for these terms. This would put all mandatory fee disclosure efforts on equal footing.

Fee disclosure can be complex because investment and administration fees are typically very intertwined. Oftentimes, only a portion of investment management fees actually apply to investment management. Many organizations use portions of investment management fees to offset the cost of plan administration. As a result, fee disclosure is usually more transparent and complete when total fees are disclosed, and the portions that support investment, administration and other plan activities are separately identified.

Recommended Fee Disclosure

For maximum clarity, we recommend the DoL consider mandating fee disclosure at three levels: plan sponsor-paid fees, fees deducted from investment funds, and total plan administration fees paid from funds (and the proceeds of funds) contributed to the plan.

- **Plan sponsor paid fees** – Because plan sponsor paid fees are not paid out of plan assets, it should be sufficient disclosure to state that certain fees are paid directly by the plan sponsor from plan sponsor assets and therefore do not decrease the participant's funds available for retirement benefits. The statement would identify the specific activities for which expenses are paid but would not identify the amounts paid.
- **Investment fund fees** – Fee disclosure at the investment fund level should identify for each fund:
 - Investment expenses explicitly deducted from participants' accounts, and
 - Investment expenses that are netted out of investment returns before the returns are credited to participants' accounts.

In the case of investment expenses that are netted out, the amounts would be further broken down to identify:

- The portion that is used by the investment manager exclusively for generating investment returns; and
 - The portion that is redirected by the investment manager as an offset to its related entity's cost of plan administration services, or is actually transferred to an unrelated entity to offset the cost of the participants' plan's administration services.
- **Total plan administration fees** – Fee disclosure at the total plan administration level should report the aggregate of all administration fees not paid directly by the plan sponsor. These fees would include:
 - Plan administration expenses explicitly deducted from participants' accounts; and



- The portion of investment management fees netted out of investment returns of all the plan's investment funds that are either redirected by each investment manager as an offset to its related entity's cost of plan administration services, or are actually transferred to an unrelated entity to offset the cost of the plan's administration services.

These amounts would be reported to participants each year as a per participant amount. The amount would be calculated by dividing the total of the amounts determined above by the number of participants in the applicable year.

The attached Sample Participant Fee Disclosure shows an example of the investment-level and total plan administration-level fee disclosures we are recommending.

Disclosure to Plan Sponsor

Our recommended fee disclosures place the burden on the plan sponsor to identify all components of the disclosure. In the current vendor fee disclosure environment, it may not be possible for a plan sponsor to obtain all this information. We understand the DoL is currently considering changes to the information it will require vendors to provide to plan sponsors in the course of providing services to retirement plans. It will be critical for these new rules to require sufficient disclosure to plan sponsors so that they in turn can provide adequate disclosure to plan participants. Failure to do so will leave many potential plan participants either unable to determine if they are wisely investing for retirement, or unwilling to participate in the employer-sponsored retirement system due to lack of trust.

Watson Wyatt appreciates the opportunity to provide input to the Department of Labor on potential participant fee disclosure requirements. If you would like us to provide further clarification on any of our comments, please do not hesitate to contact us.

Sincerely,



Christine C. Kellogg, J.D.
Consultant

enclosure: Sample Participant Fee Disclosure

cc: Robyn Credico, Watson Wyatt Worldwide



Sample Participant Fee Disclosure

ABC Company 401(k) Plan Fund Level Disclosure December 31, 200x

Fund	Ticker Symbol	Plan Assets	Basis Point Fees				Flat Dollar Fees	
			Expense Ratio %	Investment Fee %*	Admin Fee %	Sub-TA Fee %	Finders Fee \$	Sub-TA \$/ppt
			(a+b+c)	(a)	(b)	(c)		(d)
Fund A - Bonds	XX	\$ 15,876,848	0.10%	0.06%	0.00%	0.04%	\$0	\$0
Fund B - Bonds	XX	\$ 34,040,508	0.70%	0.40%	0.00%	0.30%	\$0	\$0
Fund C - Real Estate Securites	XX	\$ 33,136,729	0.88%	0.63%	0.25%	0.00%	\$0	\$12
Fund D - Balanced	XX	\$ 13,965,965	0.59%	0.34%	0.25%	0.00%	\$3,778	\$12
Fund E - Equities	XX	\$ 69,428,887	0.63%	0.38%	0.25%	0.00%	\$18,782	\$12
Fund F - Equities	XX	\$ 29,340,599	0.91%	0.66%	0.25%	0.00%	\$0	\$12
Fund G - Equities	XX	\$ 28,209,202	0.71%	0.46%	0.25%	0.00%	\$7,631	\$12
Fund H - Equities	XX	\$ 37,404,525	0.76%	0.51%	0.25%	0.00%	\$10,119	\$12
Fund I - Equities	XX	\$ 19,101,352	0.10%	0.10%	0.00%	0.00%	\$0	\$0
Fund J - Equities	XX	\$ 25,365,543	1.97%	1.72%	0.25%	0.00%	\$0	\$12
STABLE VALUE FUND	N/A	\$ 54,077,927	0.55%	0.20%	0.00%	0.35%	\$0	\$0
Total		\$359,948,085						

* Investment fee % does not reflect reduction for flat dollar amounts of revenue sharing

Sample Participant Fee Disclosure

ABC Company 401(k) Plan Total Plan Administration Fees December 31, 200x

Funds Netted From Investment Returns									
			Calculated as a Percent of Assets			Calculated as a Flat Dollar		Total Expense	
Fund	Ticker Symbol	Plan Assets	Admin Fee %	Sub-TA Fee %		Sub-TA \$/ppt invested in fund*	Finders Fee \$		
		(a)	(b)	(c)	(d)=(a)*(b+c)	(e)	(f)	(d+e+f)	
Fund A - Bonds	XX	\$ 15,876,848	0.00%	0.04%	\$6,351	\$0	\$0	\$6,351	
Fund B - Bonds	XX	\$ 34,040,508	0.00%	0.30%	\$102,122	\$0	\$0	\$102,122	
Fund C - Real Estate Securites	XX	\$ 33,136,729	0.25%	0.00%	\$82,842	\$6,432	\$0	\$89,274	
Fund D - Balanced	XX	\$ 13,965,965	0.25%	0.00%	\$34,915	\$3,084	\$869	\$38,868	
Fund E - Equities	XX	\$ 69,428,887	0.25%	0.00%	\$173,572	\$10,236	\$4,320	\$188,128	
Fund F - Equities	XX	\$ 29,340,599	0.25%	0.00%	\$73,351	\$5,544	\$0	\$78,895	
Fund G - Equities	XX	\$ 28,209,202	0.25%	0.00%	\$70,523	\$3,660	\$1,755	\$75,938	
Fund H - Equities	XX	\$ 37,404,525	0.25%	0.00%	\$93,511	\$7,176	\$2,327	\$103,015	
Fund I - Equities	XX	\$ 19,101,352	0.00%	0.00%	\$0	\$0	\$0	\$0	
Fund J - Equities	XX	\$ 25,365,543	0.25%	0.00%	\$63,414	\$9,468	\$0	\$72,882	
STABLE VALUE FUND	N/A	\$ 54,077,927	0.00%	0.35%	\$189,273	\$0	\$0	\$189,273	
Total		\$359,948,085			\$889,874	\$45,600	\$9,271	\$944,745	
Funds Deducted From Participant Accounts									
			Per Participant Fee		Number of Participants		Total Expense		
			\$25		1400		\$35,000		
							Total Administrative Costs:		\$979,745
							Per Participant Cost:		\$287

*Per participant fee times number of participants investing in the fund