



January 30, 2007

Office of Regulations and Interpretations  
Employee Benefits Security Administration  
Room N-5669  
U.S. Department of Labor  
200 Constitution Avenue, NW  
Washington, D.C. 20210

Attn: 401(k) Plan Investment Advice RFI

To whom it may concern:

AARP is writing to comment on the Employee Benefits Security Administration's (EBSA) Request for Information concerning disclosure of fee-related information. With more than 38 million members, AARP is the largest organization representing the interests of Americans age 50 and older and their families. Nearly half of AARP members are working either full-time or part-time, and they have a vital interest in participating in 401(k) and similar plans in order to save for a financially secure retirement and to maximize their savings in those plans. Moreover, requiring fee disclosure will give employees a better understanding of the costs of potential investment choices and the potential effect fees have on their ultimate account balances. Finally, requiring fee disclosure to employees will ensure that plan sponsors obtain fee information from their service providers.

**The Fee Disclosure Form Should Be Easy to Read and Understand.**

The fee disclosure form itself should be written in plain English. Hard-to-understand and complex investment jargon will be counterproductive and should be kept to a minimum. Terms should be explained in context, where possible, so participants do not have to refer to a separate page of definitions.

The form's design should be easy to read and understand. The font should be in a size that can be easily read. Colors can also be useful in differentiating sections. Graphic designers can be helpful in this task.

The organization of the information is crucial. Because the information would likely be presented on more than one page -- and some participants will only look at the first page -- the most important information, including each investment

option and its total costs, should be on the first summary page. A breakdown of the fees and any further explanation of terms should be displayed on subsequent pages.

**Participants Should Be Provided the Total Fees Of All Investment Options in One Document.**

Participants should know the total costs of buying, owning and selling an investment. As the GAO indicated in its report, currently the fee disclosure information is scattered among various documents – the Form 5500, the prospectus, the individual account statement, and the summary plan description. Some fees are not disclosed at all. Participants should receive a single document that discloses all of the fees and expenses for a given plan's investment options, including the total amount and a breakdown of each type of fee. For example, management and 12b-1 fees should be shown separately. The plan should also disclose revenue sharing and other soft-dollar fees.

Participants should also be provided the total fees and expenses for proprietary or in-house funds. Transaction fees for employer stock purchases, maintenance and sales should be disclosed in the same manner as other investment options. There should be an explanation of each fee and a statement stressing the benefits of diversification.

**Participants Should Be Provided Fee Information Comparing Each Plan Investment Option to Other Plan Investment Options .**

Participants need to know how expenses in a given investment option compare to the other investment options being offered by the participant's plan.

As part of the process for considering, negotiating and charging fees, the entity responsible for choosing the investment options should have reviewed information on the range of fees for similar investments.

**Participants Should Be Provided The Fee Disclosure Before They Choose their Investment Options.**

In order to be most meaningful, the disclosure of fees and expenses should be provided to participants at the time they are provided the opportunity to join the 401(k) plan – that is, before they select their investment options. Even if the plan

uses automatic enrollment, fee disclosure information should be disclosed to participants at the time they are informed about automatic enrollment.

**Participants Should Be Shown the Impact of Fees On Their Account Balances Over Time.**

Participants should be shown how total fees impact their account accumulation balance over time. The fee disclosure should show total fees as a percentage of each plan investment over time.

**Participants Should Be Given Basic Information About Fees And The Impact of Fees On Participant's Ultimate Account Balance.**

Participants need to have basic information concerning fees and the impact various fees may have on their ultimate account balance. Participants also need to know the specific fees they are being charged for each investment. This is particularly important because plan sponsors may pass through to participants many fees without violating ERISA's fiduciary duty rules. *Allocation of Expenses in a Defined Contribution Plan*, FIELD ASSISTANCE BULLETIN 2003-3 (May 19, 2003). Participants should know the total of all fees they are being charged, ranging from investment fees to administrative fees. Finally, the entity responsible for negotiating the fees – the plan sponsor, the trustee the plan administrator -- should attest that the fees were considered in choosing the investment options and are reasonable.

The Department of Labor has already done much of the work on basic information concerning fees and their impact on ultimate account balances in its pamphlets A LOOK AT 401(K) PLAN FEES and 401(K) PLAN FEE DISCLOSURE FORM, available at [http://www.dol.gov/ebsa/publications/401k\\_employee.html](http://www.dol.gov/ebsa/publications/401k_employee.html), and [http://www.dol.gov/ebsa/publications/401k\\_employee.html](http://www.dol.gov/ebsa/publications/401k_employee.html), respectively. Moreover, AARP Financial provides similar information to its investors. See LOOK FOR LOW FEES AND EXPENSES, available at <http://www.aarpfunds.com/content/why/content.cfm?id=lowfees>, and FEES AND EXPENSES, available at <http://www.aarpfunds.com/content/fundfacts/content.cfm?id=fees>. Other entities also provide this information which could be used as a basis for these fee disclosure forms.

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This basic information will enable participants to better understand the impact the cost of fees will have on their accounts.

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AARP appreciates the opportunity to comment on the proposed regulations to establish a qualified default investment alternative. If you have any questions or need further assistance, please do not hesitate to contact Frank Toohey at 202/434-3760 or Mary Ellen Signorille at 202/434-2060.

Sincerely,

A handwritten signature in black ink, appearing to read "David Certner". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

David Certner  
Legislative Counsel and  
Director of Legislative Policy  
Government Relations and Advocacy

## CONSIDER THESE FEES BEFORE YOU CHOOSE YOUR INVESTMENT OPTIONS\*

### TOTAL FEES AND EXPENSES FOR EACH PLAN INVESTMENT OPTION

Fees and expenses are one of the factors that will affect your investment returns and will impact your retirement income. Accordingly, the total fees and expenses for each investment option of your plan are as follows:

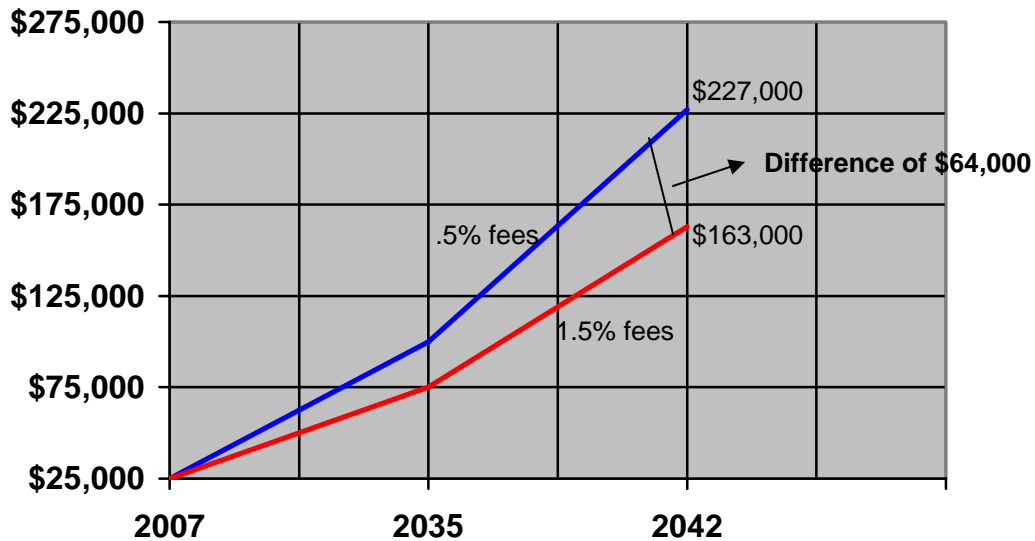
NAME OF INVESTMENT OPTION	TOTAL INVESTMENT FEES	TOTAL ADMINISTRATIVE FEES	TOTAL FEES

### THE IMPACT OF FEES ON YOUR ACCOUNT BALANCE

In a 401(k) plan, your account balance will determine the amount of retirement income you will receive from the plan. While contributions to your account and the earnings on your investments will increase your retirement income, fees and expenses paid by your plan may substantially reduce the growth in your account. The following example demonstrates how fees and expenses can impact your account.

Assume that you are an employee with 35 years until retirement and a current 401(k) account balance of \$25,000. If returns on investments in your account over the next 35 years average 7 percent and fees and expenses reduce your average returns by 0.5 percent, your account balance will grow to \$227,000 at retirement, even if there are no further contributions to your account. If fees and expenses are 1.5 percent, however, your account balance will grow to only \$163,000. The 1 percent difference in fees and expenses would reduce your account balance at retirement by 28 percent.

## GRAPH



## WHAT TYPE OF FEES AND EXPENSES CAN YOU BE CHARGED?

There are three types of fees associated with the plan: administrative, investment, and individual services fees.

- **Administrative** - These fees include recordkeeping, consulting fees, customer service, trustee services, communication and auditing services.
- **Investment** - These fees are broken down as follows:
  - **Management** - A fee paid to the fund's investment manager for overseeing the portfolio. This fee is deducted as a percentage from the fund's assets.
  - **12b-1** - Often called a distribution and/or service fee, it is the percentage deducted from the fund's assets used to cover the cost of promoting and selling the fund's shares.
  - **Other** - The percentage deducted from the fund's assets to cover administrative costs, such as maintaining shareholder records and furnishing shareholder statements and financial reports.
  - **Insurance** - An insurance product may have various fees associated with it including sales expenses, mortality risk charges, surrender charges and the cost of issuing and administering contracts.
  - **Sales Fees** - These fees are individual service fees a participant may be charged.

- **Sales load** - A commission charged when you invest in certain funds. Some are front-loaded (when you purchase the fund) and others are back-loaded (when you sell the fund).
- **Transaction Fees** - a fee charged when you buy or sell shares.
- **Redemption fees** - A fee paid when you sell shares before the stated period of time.

• **Total Operating Expenses** - The sum of fund management fees, 12b-1 fees, and other expenses. These fees are deducted from a fund's assets and are factored into the share price and the rate of return. They are not charged directly to your account and, as a result, do not appear on your statement. Therefore, the performance figures on the statement are "net" of fees.

• **Individual Services Fees** - Fees charged to participants only when a particular service is used, such as taking a loan against a 401(k) account.

### BREAKDOWN OF INVESTMENT OPTION'S FEES

Each investment option's fees are different and depend on the complexity of the investment option. For example, actively managed stock funds that invest overseas typically have higher fees and expenses than an index fund. Why? An actively managed stock fund investing abroad takes intense research and active fund management to pick foreign stocks, and that costs money to provide. Typically, the management fees are higher. Index funds, such as those holding the same 500 stocks as those in the Standard & Poor's 500 Index®, take little research and very little active fund management, so their fees are often lower.

NAME OF FUND EXPENSE RATIO*	TICKER MANAGEMENT	12B-1 OTHER	TOTAL

\* Language in this prototype was taken from the DoL's A LOOK AT 401(K) PLAN FEES, available at [http://www.dol.gov/ebsa/publications/401k\\_employee.html](http://www.dol.gov/ebsa/publications/401k_employee.html); and T. Rowe Price's Explanation of Fees for a medium size plan.