

New Form Helps Employers Identify, Compare Costs of 401(k) Plans, July 1999

Financial Services Industries Develop 401(k) Fee Disclosure Form

New Form to Help Employers Identify, Compare Costs of 401(k) Plans

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Washington, DC, July 15, 1999 - Organizations representing three financial services industries have developed a [fee disclosure form](#) to help employers identify and compare the costs of sponsoring a 401(k) retirement plan.

The three groups—the American Council of Life Insurance (ACLI), the Investment Company Institute (ICI), and the American Bankers Association (ABA)—say the new form will help employers identify and monitor the fees and expenses of the 401(k) plans they offer their employees.

In December, the U.S. Department of Labor asked the three groups to develop a simple disclosure form that employers offering 401(k) plans could use to compare investment product fees and plan administration expenses charged by competing service providers. All three organizations are participating in Labor's effort to educate employers about the fees they pay for the services provided to their 401(k) plans.

"This fee disclosure form is the culmination of an extensive effort by the financial services industries to give 401(k) plan sponsors a tool to help them make appropriate cost-benefit decisions with respect to their plans," said ABA Executive Vice President Donald G. Ogilvie.

Although use of the new form is not legally required, the ACLI, ICI, and ABA expect that employers that sponsor 401(k) plans will ask their current 401(k) plan providers—and competing providers seeking their business—to use it. The form was designed especially for small businesses, but it can be used by many medium and large businesses as well.

"This form is likely to have an important and beneficial effect on the 401(k) plan market," said ICI President Matthew P. Fink. "In addition to helping educate employers about 401(k) fees and available services, the form will help employers gain a better understanding of the different 401(k) products offered by insurers, mutual funds, and banks."

"Fees are not the only criteria to consider when choosing a 401(k) service provider, but they are obviously a very important element," said ACLI President and CEO Carroll Campbell. "So it's crucial that plan sponsors and participants understand exactly what those fees and expenses are paying for, and that they are able to compare both the value and the cost of competing products."

Other factors plan sponsors should evaluate include the quality and type of services provided and the expected performance of the investment products offered.

In general, 401(k) fees are calculated four ways: asset-based, where expenses are based on the amount of assets in the plan; per-person, where expenses are based upon the number of eligible employees or actual participants in the plan; transaction-based, where expenses are based on the execution of a particular plan service or transaction; and flat-fee, where charges do not vary, regardless of plan size.

The new form has a summary page which can easily be used by employers to compare costs. Employers interested in more detailed

information can refer to the four related schedules that are also part of the form. A two-page definition of terms assures an "apples-to-apples" comparison of fees and expenses.

The Labor Department has posted the form and related materials on its website at www.dol.gov/pwba. In addition, the ACLI, ICI, and ABA are asking employer groups to share it with their members. All three financial services industry organizations will make the new form available to their members.

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The American Council of Life Insurance (ACLI) is a Washington, D.C.-based trade association. Its nearly 500 companies offer life insurance, annuities, pensions, long-term care insurance, disability income insurance, and other retirement and financial protection products.

The Investment Company Institute (ICI) is the national association of the American investment company industry. Founded in 1940, its membership includes 7,449 mutual funds, 447 closed-end funds, and 10 sponsors of unit investment trusts. Its mutual fund members represent more than 73 million individual shareholders and manage more than \$5.8 trillion.

The ABA brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership—which includes community, regional, and money center banks and holding companies, as well as savings associations, trust companies, and savings banks—makes ABA the largest banking trade association in the country. The new form is posted at www.aba.com.

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