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# **Ignorance is NOT Bliss:** **The Sad State of 401(k) Fee Disclosure and What You** **Must Do About It!**

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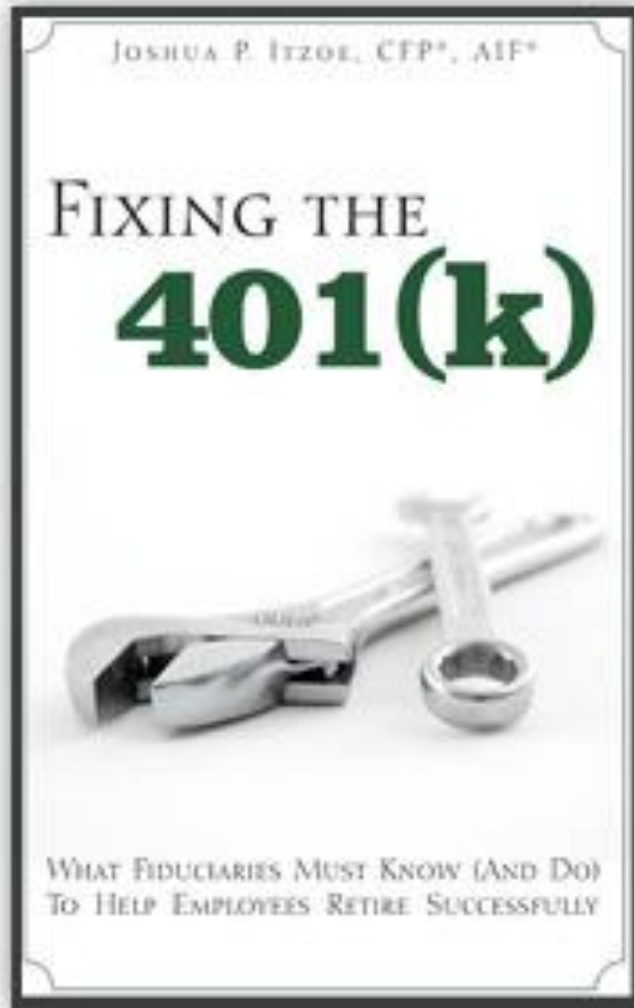
# Firm Overview

- Founded in October 2004
- Principals previously worked for Morgan Stanley and Merrill Lynch
- Fee-Only, Registered Investment Advisor (RIA)
- Named one of top independent advisory firms in the U.S. by *Wealth Manager* magazine for 2008
- Firm practice Areas:
  - Private Client Group
  - Institutional Advisory Group



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# Our Methodology



Learn more at  
[www.fixingthe401k.com](http://www.fixingthe401k.com)

# Agenda

- Why Fee Disclosure Matters
- The Impact of Fees
- Takeaways from the UTC Ruling
- The Old Way – A Traditional Approach to Fee Disclosure
- The New Way – The Fiduciary Duty (And Opportunity) to Disclose
- Deciphering Fees & Expenses
- Tips for Containing Costs
- 10 Questions for Fiduciaries
- Q&A



# Why Fee Disclosure Matters

## What ERISA Says:

“a fiduciary shall discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries and— (A) for the exclusive purpose of:

- (i) providing benefits to participants and their beneficiaries; and
- (ii) defraying reasonable expenses of administering the plan;”**

ERISA 404(a)(1)(A)

## What the DOL Says:

“(A fiduciary) has a specific obligation to...ensure that fee’s and expenses are reasonable in light of the level and quality of services provided...”

A Look at 401(k) Plan Fee’s

US Department of Labor, Publications. P. 3

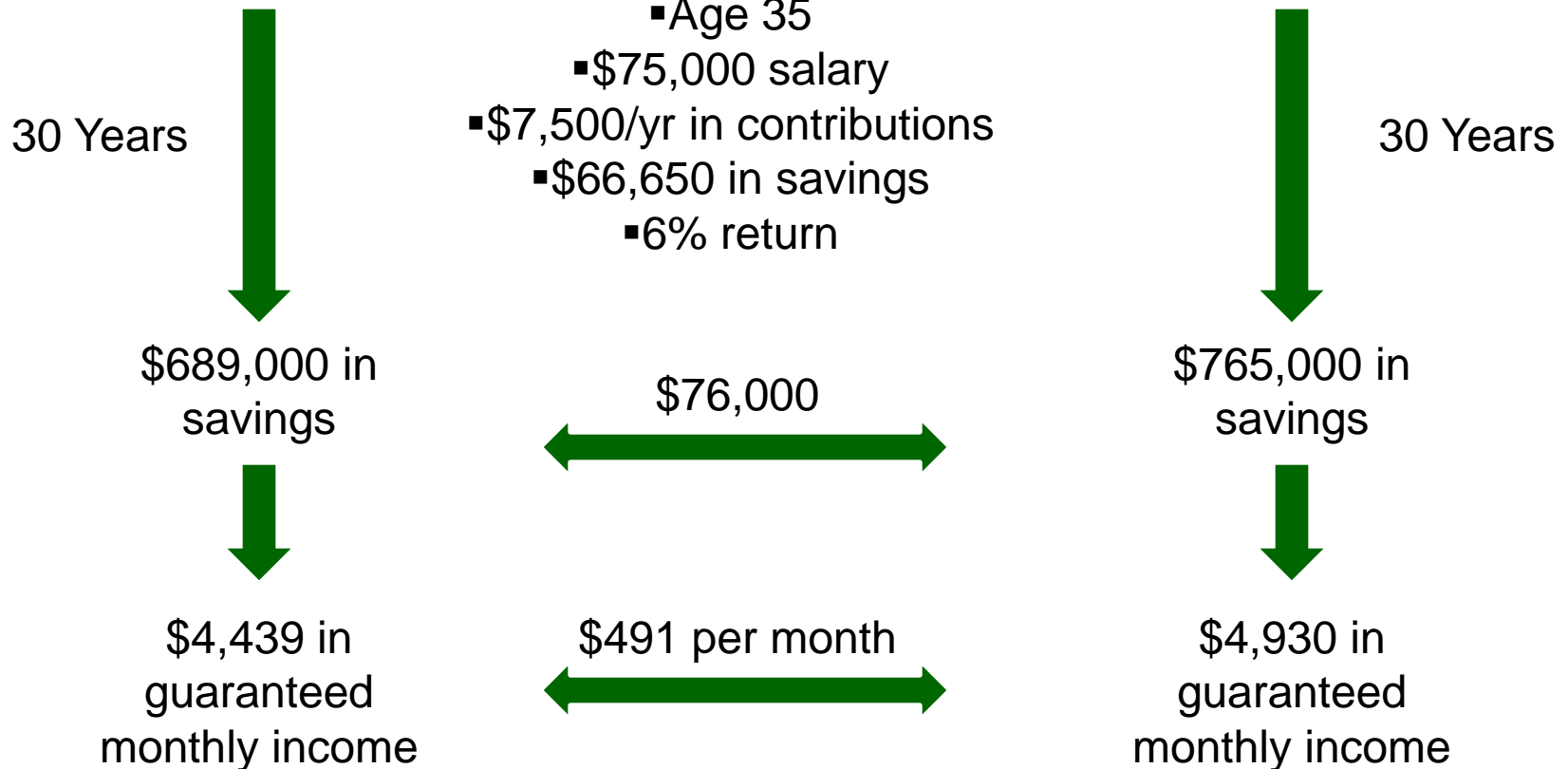


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# The Impact of Fees

## Participant A (1.5% in total fees)

## Participant B (1.0% in total fees)



Estimated monthly income obtained from [www.fidelity.com](http://www.fidelity.com) on 4-6-2009. Assumes a 65-year-old male resident living in MD who purchases immediate, single-life annuity.



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# Takeaways from the UTC Ruling

- Benchmark
- Negotiate
- Notify
- Passive vs. active management
- Disclosure of revenue-sharing not material
- A focus on “total cost”
- Follow and document a prudent process



# Traditional Approach to Fees

- Lack of Transparency/Disclosure
- Conflicts of Interest/Spiraling Costs
- Misrepresentation
- Lack of Understanding and Accountability
- Fiduciary Indifference

# The Fiduciary Duty (And Opportunity) To Disclose

- There's no turning back
- Sponsors/Participants have a right to know
- Why we need to lead
- Transparency is a key differentiator that builds trust and strengthens relationships
- If you don't, someone else will



# Categories of Fees

- Asset-based
- Per-Person
- Flat-Rate or Fixed
- Transaction-Based



# Specific Types of Fees

- Administration
- Recordkeeping
- Custody/Trustee
- Investment Management Expenses
- Investment Advisory/Fiduciary Consulting
- Audit Fees
- Legal Fees

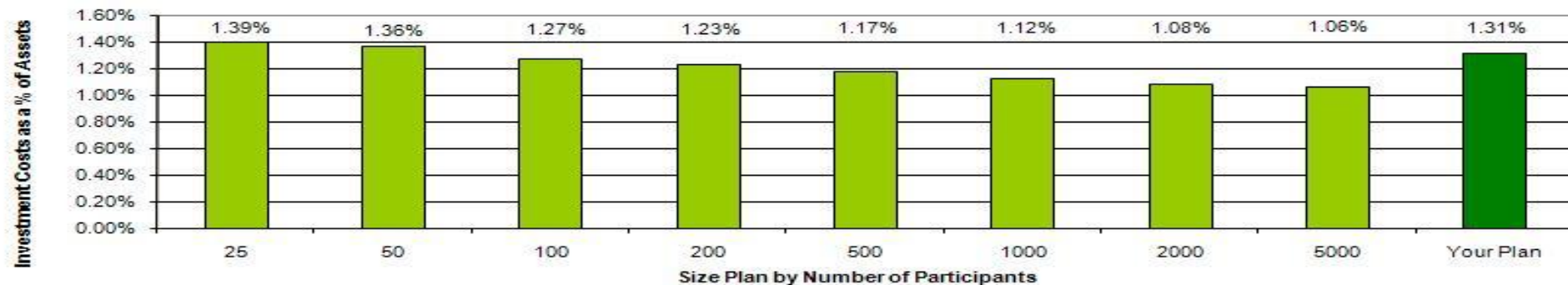


## Existing Plan Allocation/Assets

## ABC Company 401k Plan

| Asset Class                                | Assets              | Fund                               | ER           | Cost             | 12b-1 Fee (%)              | 12b-1 Fee (\$)   | Sub-TA (%)              | Sub-TA (\$)      |
|--|---------------------|------------------------------------|--------------|------------------|----------------------------|------------------|-------------------------|------------------|
| Large Blend                                | \$1,890,093         | Legg Mason Value Trust             | 1.69%        | \$31,943         | 0.95%                      | \$ 17,956        | 0.25%                   | \$ 4,725         |
| Large Blend                                | \$1,291,664         | Davis New York Venture             | 0.88%        | \$11,367         | 0.25%                      | \$ 3,229         | 0.10%                   | \$ 1,292         |
| Large Growth                               | \$1,054,058         | AF Growth Fund of America R-3      | 0.94%        | \$9,908          | 0.50%                      | \$ 5,270         | 0.15%                   | \$ 1,581         |
| Large Value                                | \$1,226,288         | Mutual Shares A                    | 1.18%        | \$14,470         | 0.34%                      | \$ 4,169         | 0.15%                   | \$ 1,839         |
| Large Value                                | \$1,512,276         | AF Washington Mutual Investors R-3 | 0.93%        | \$14,064         | 0.50%                      | \$ 7,561         | 0.15%                   | \$ 2,268         |
| Mid Growth                                 | \$1,655,192         | Federated Kaufmann A               | 1.95%        | \$32,276         | 0.25%                      | \$ 4,138         | 0.25%                   | \$ 4,138         |
| Small Value                                | \$1,503,144         | Royce Total Return                 | 2.07%        | \$31,115         | 1.00%                      | \$ 15,031        | 0.25%                   | \$ 3,758         |
| Small Blend                                | \$1,245,639         | Oppenheimer Main Street Small Cap  | 1.15%        | \$14,325         | 0.25%                      | \$ 3,114         | 0.20%                   | \$ 2,491         |
| International Large                        | \$1,322,414         | AF Europacific Growth R-3          | 1.10%        | \$14,547         | 0.50%                      | \$ 6,612         | 0.15%                   | \$ 1,984         |
| Target Date                                | \$430,825           | Alliance Bernstein Retirement 2015 | 0.98%        | \$4,222          | 0.30%                      | \$ 1,292         | 0.20%                   | \$ 862           |
| Target Date                                | \$517,602           | Alliance Bernstein Retirement 2025 | 1.04%        | \$5,383          | 0.30%                      | \$ 1,553         | 0.20%                   | \$ 1,035         |
| Target Date                                | \$556,707           | Alliance Bernstein Retirement 2035 | 1.06%        | \$5,901          | 0.30%                      | \$ 1,670         | 0.20%                   | \$ 1,113         |
| Target Date                                | \$557,416           | Alliance Bernstein Retirement 2045 | 1.06%        | \$5,909          | 0.30%                      | \$ 1,672         | 0.20%                   | \$ 1,115         |
| US Fixed Income                            | \$134,117           | Legg Mason Investment Grade        | 1.00%        | \$1,341          | 0.50%                      | \$ 671           | 0.25%                   | \$ 335           |
| US Fixed Income                            | \$106,883           | Legg Mason Limited Duration Bond   | 1.00%        | \$1,069          | 0.50%                      | \$ 534           | 0.25%                   | \$ 267           |
| High Yield Bond                            | \$89,546            | AF High income Trust R-3           | 1.05%        | \$940            | 0.50%                      | \$ 448           | 0.15%                   | \$ 134           |
| Balanced                                   | \$457,255           | AF American Balanced R-3           | 0.90%        | \$4,115          | 0.50%                      | \$ 2,286         | 0.15%                   | \$ 686           |
| Cash                                       | \$127,084           | AF Cash Management Trust R-3       | 1.05%        | \$1,334          | 0.50%                      | \$ 635           | 0.15%                   | \$ 191           |
| <b>Total Assets</b>                        | <b>\$15,678,203</b> |                                    |              |                  |                            |                  |                         |                  |
| <b>Total Management Expense (EE pa</b>     |                     |                                    | 1.30%        | \$204,229        |                            |                  |                         |                  |
| <b>Advisory Fee (EE or ER paid)</b>        |                     |                                    | 0.00%        | \$0              | <b>Broker Compensation</b> |                  | <b>TPA Compensation</b> |                  |
| <b>Trustee Fees (ER paid)</b>              |                     |                                    | 0.01%        | \$1,000          |                            |                  |                         |                  |
| <b>Administration Fees (EE or ER paid)</b> |                     |                                    | 0.00%        | \$0              |                            |                  |                         |                  |
| <b>TOTALS</b>                              |                     |                                    | <b>1.31%</b> | <b>\$205,229</b> | <b>0.50%</b>               | <b>\$ 77,844</b> | <b>0.19%</b>            | <b>\$ 29,815</b> |

**401(k) Plan Cost Overview Summary of Average Total Investment Costs by Plan Size**



# Tips for Containing Costs

1. Analyze
2. Identify
3. Negotiate
4. Structure



# 10 Questions For Fiduciaries

1. Are we comfortable with level of proactive fee disclosure provided by our service providers?
2. Do we clearly understand all the fees associated with our plan, both direct and indirect, who is receiving compensation from the plan, and the amount of that compensation in percentages and dollars?
3. How do the fees in our plan compare with other plans that are similar in size?
4. When was the last time we had a detailed fee analysis conducted on our plan by an independent, objective third-party?
5. Do any of the funds in our plan include any revenue sharing in the form of Sub-TA fees? How much?
6. Is there any amount of 12b-1 fees included in our funds? How much?
7. What share class are the funds in our plan? Why were these share classes chosen?
8. Do we have retail or institutional share classes in the plan? If retail, can we qualify for institutional classes?
9. Do any funds in the plan provide for higher 12b-1 fees than others and create a conflict for the recommendations by our broker, advisor, or consultant?
10. In light of the previous question, should we consider eliminating all funds that provide for any indirect compensation?



# Q&A



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