

Great-West, Lincoln Trust jump on plan and participant fee disclosures

Release disclosures, say that the Labor Department regs fall short

By Darla Mercado

August 15, 2011 12:04 pm ET

It isn't too often when the financial services industry claims that its regulatory system isn't tough enough, but that's the conclusion that Lincoln Trust Co. and Great-West Retirement Services have made.

This summer, both firms ramped up their retirement plan fee disclosure in anticipation of upcoming regulation from the Labor Department.

Service providers must provide fee disclosure to plan sponsors by April. In turn, employers in calendar-year plans must give participants their initial disclosures by May 31.

But while some industry participants said that employers and employees could be overwhelmed by excessive mandated disclosure, executives at Lincoln Trust and Great-West claim the Labor Department's rules don't go far enough.

"The DOL fell short; there is no requirement to disclose the fixed general account fees for insurers," said Charles P. Nelson, president of Great-West Retirement Services. The regulation also didn't indicate whether plan participants ought to have their fees expressed as a percentage of their account value or as a dollar amount, he added.

Tom Gonnella, senior vice president of corporate development for Lincoln Trust, concurs.

"We thought the regulations fell short in leaving out investment expenses [for participants]; the regulations don't spell out the investment fees," he said, claiming that the regulator doesn't require that participants' and plans' total plan cost be calculated and displayed.

Indeed, to the extent that a service provider receives compensation for an insurance general account contract, it will have to disclose that information to plans. Rules for qualified-default-plan investments would also require a description of expenses, such as wrap fees, and mortality-and-expense costs.

For participants, however, the cost of an insurance product with a fixed rate of return doesn't have to be disclosed as an operating expense.

Further, the participant disclosure regulation leaves flexibility as far as how a service provider ought to present the fee information.

“When service providers and plan fiduciaries are required to comply with the department's new transparency requirements early next year, we intend to monitor compliance efforts by fiduciaries, insurance companies, trust companies and other plan service and investment providers,” said Labor Department spokesman Michael Trupo.

The regulations' perceived shortcomings led Great-West and Lincoln Trust to revamp the way they disclose fees. Great-West last week released a template to express fees for plan sponsors.

A 12-page sample draft features five sections: A summary of costs and expense estimates, an explanation of services, an estimated cash flow summary, disclosures on redemption fees and expense ratios, plus a chart of itemized fees, including 12(b)-1 fees.

The itemized fees break down even the most pedestrian fees, including the cost of maintaining a participant's account. Meanwhile, the cash flow summary lists the payments that are made to investment providers and that are paid to record keepers from the providers, as well as a break down of trustee, custodial and advisory fees.

Mr. Nelson, noting that the Labor Department didn't provide a template for plan fee disclosure, suggested that the ways its competitors ultimately decide to show plan sponsors their fees will vary.

“Some companies will do a single document disclosure, and others won't,” he said. Once disclosure becomes the norm, Mr. Nelson said plan sponsors might start changing their providers in 2013 as employers realize what they are paying for.

On the other hand, the need for more detailed disclosure on the participant side gave rise to Lincoln Trust's Personal Expense Ratio.

The ratio breaks down for participants, as well as advisers and plan sponsors, the amount paid by the employee to cover costs related to revenue sharing, record keeping, third-party administrators and advisers.

Mr. Gonnella explained that the personalized expense ratio is based on the participant's average daily balance and not just the period end balance.

Workers also get a figure for their estimated investment expenses — the fees a mutual fund provider will pull from the employee's investments. That expense estimate doesn't include any brokerage commissions, however.

Participants, plan sponsors and advisers get a breakdown of the cost in dollars and as an annualized percentage of the account balance.

Marcia Wagner, an attorney with The Wagner Law Group, said that there's a fine line between giving participants good disclosure and providing them with too much information. She added she was “a little surprised” to hear firms say that the regulation fell short.

“The mandate is so much more than what plan participants previously got; you don't want overkill,” Ms. Wagner said. “These are just people who make widgets; they're not investment professionals.”