



Glossary of Retirement Plan Terms

401(k) Plans: Employer –sponsored defined contribution plans in the private sector.

404(a)(1)(a) and (b): The section of Title I of ERISA that establishes the duties of a plan fiduciary, which are to act solely in the interest of participants and beneficiaries. This section includes the stipulation that the fiduciary must ensure plan expenses are reasonable for services provided. The final rule amended in 2010 provides that:

- The investment of plan assets is a fiduciary act governed by the fiduciary standards in ERISA section 404(a)(1)(a) and (b), which require plan fiduciaries to act prudently and solely in the interest of the plan's participants and beneficiaries.
- When a plan allocates investment responsibilities to participants or beneficiaries, the plan administrator must take steps to ensure that such participants and beneficiaries, on a regular and periodic basis, are made aware of their rights and responsibilities with respect to the investment of assets in their accounts and are provided sufficient information regarding the plan and the plan's investment options, including fee and expense information, to make informed decisions with regard to their individual accounts.

404(c): A section of Title I of ERISA that protects plan fiduciaries from liability for the results of decisions made by plan participants who direct the investments in their accounts. Plan Fiduciaries are still responsible for making suitable investment options available to plan participants.

408(b)(2): A section of Title I of ERISA that provides plan sponsors certain protections as long as an arrangement or contract with a service provider is reasonable, the services provided are necessary and no more than reasonable compensation is paid for services. The DOL announced rule changes in 2010 that involve heightened disclosure and transparency under Section 408(b)(2) aimed at ensuring plan sponsors receive clear information about provider compensation and services. The new regulation:

- Applies to defined contribution plans and defined benefit pension plans and addresses the disclosure of the direct and indirect compensation certain service providers receive.
- Focuses on service providers and compensation arrangements that are most likely to raise questions for plan fiduciaries with respect to potential conflicts of interest that might compromise the quality of services.

Actively Managed Funds and Accounts: Investment strategies in which the manager actively constructs a portfolio of securities to generate a return that exceeds a benchmark.

Annuity Investments: Products offered by insurance companies that are widely used in retirement plans, with plan assets frequently packaged on a group annuity platform. The participant has a pooled investment account with a contract for insurance-related elements and charges, such as an annuity feature, interest and expense guarantees, and any death benefit provided during the contract term.

Basis Point (BPS): A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security. The relationship between percentage changes and basis points can be summarized as follows: 1% change = 100 basis points, and 0.01% = 1 basis point.

Benchmarking: Analysis providing defined contribution plan peer group comparisons of cost and service levels; used by plan sponsors to help assess whether fees are reasonable for services received.

Bundled and Unbundled Service Plans: In bundled service arrangements, the sponsor hires one company to provide a full range of retirement plan services directly or through subcontractors. In unbundled arrangements, the sponsor uses a combination of service providers directly.

Collective Trust Fund (CTF): A tax-exempt, pooled investment vehicle administered by a bank or trust company that available to defined benefit and defined contribution plans.

Conflict of Interest: Relationships with other parties or interests that impact a provider's ability to act in the best interest of the plan and its participants.

Custody/Trustee Expenses: Charges for safekeeping of defined contribution plan assets.

Defined Contribution Plan: A retirement plan in which a certain amount of percentage of money is set aside each year by a company for the benefit of the employee. There are restrictions as to when and how you can withdraw these funds without penalties.

Department of Labor (DOL): Federal department responsible for overseeing private pension plans. A unit of the DOL, the Employee Benefit Security Agency (EBSA) is responsible for ERISA enforcement.

Direct and Indirect Compensation:

Direct: Compensation paid directly by a plan sponsor to plan service providers. More easily identified and reported than indirect compensation, direct compensation includes: a. Fees paid by sponsors to providers using plan assets, including amounts deducted from participant accounts. b. Payments made by sponsors to providers that are reimbursed from plan assets.

Indirect: Compensation received by service providers from any source other than the plan sponsor, an affiliate or a subcontractor. Since providers use a wide variety of service models, fee structures and products, there are many different types of indirect compensation. More complex than direct compensation, indirect compensation can be difficult to identify and report.

Distribution (12b-1) Fees: Sales and marketing charges. In defined contribution plans, these fees are paid by funds to financial advisors for retirement plan services, including assistance in selecting and monitoring funds, communications, investor education, and related services.

Due Diligence: An investigation or audit of a potential investment. Due diligence serves to confirm all material facts in regards to a investment selection. Generally, due diligence refers to the care a reasonable person should take before entering into an agreement or a transaction with another party.

Employee Retirement Income Security Act of 1974 (ERISA): A federal law that sets minimum standards for most voluntarily established pension and health plans in the private sector to provide protection for plan participants. Title I of ERISA covers fiduciary standards applicable to employee benefit plans. ERISA is enforced by the U.S. Department of Labor.

Fee Policy Statement: A written policy that provides guidelines and objectives for plan expense management and a framework for decision-making and documenting cost control processes.

Fee Types:

Fee Type	Charges Based On	Examples
Asset-based	Amount of plan assets, typically expressed as percentages or basis points	Investment expense, annuity fee
Per-person	Number of participants in plan or number of eligible employees	Education and enrollment fees
Transaction-based	Execution of particular plan service or transaction	Loan origination fee, distribution expense
Flat rate	Fixed charge that does not vary	Annual audit fee

Fiduciary: According to the DOL, “using discretion in administering and managing a plan or controlling the plan’s assets makes that person a fiduciary to the extent of that discretion or control. Thus, fiduciary status can be based

on the functions performed for the plan, not just a person's title." Plan fiduciaries typically include the trustee, investment advisors, individuals exercising discretion in the administration of the plan, plan administrative committee members, and those who select committee officials. The key to determining whether an individual or an entity is a fiduciary is whether they are exercising discretion or control over the plan.

Finders' Fees: Payment to a financial advisor for directing a fund to a plan sponsor; paid out of a mutual fund company resources rather than fund assets.

Form 5500 Schedule C: Annual report filed for employee benefit plans; revised in 2007 to include new reporting requirements for service provider fees and other compensation (on Schedule C of the 2009 Form 5500).

Group Annuity Contracts: See Annuity Investments.

Insurance-Related Charges: Fees for sales expenses, mortality risk charges, and the cost of issuing and administering the annuity contract.

Investment Consulting Fees: Expenses for consulting and plan advice on Investment Policy Statement drafting and investment manager due diligence, selection, monitoring, and fee negotiation.

Investment Management Expenses: Fees charged by the fund's investment advisor for managing securities in the portfolio. Expenses vary depending upon investment strategy. These charges represent the vast majority of plan expenses, often exceeding 90% of total costs.

Investment Policy Statement (IPS): A written policy used as a guideline for investment decisions by plan fiduciaries. An IPS may include definitions of acceptable asset classes, due diligence research, and fee guidelines for investment products.

Lipper Money Market Funds Index: An unmanaged index considered representative of money market funds tracked by Lipper.

Lipper Large-Cap Growth Funds Index: An unmanaged index considered representative of large-cap growth funds tracked by Lipper.

Lipper Mid-Cap Growth Funds Index: An unmanaged index considered representative of mid-cap growth funds tracked by Lipper.

Lipper Small-Cap Growth Funds Index: An unmanaged index considered representative of small-cap growth funds tracked by Lipper.

Lipper International Funds Index: An unmanaged index considered representative of international funds tracked by Lipper.

Mutual Fund Share Classes: Mutual fund companies may provide a multi-class share structure to pay for the advisory and shareholder services offered to different types of investors in the same portfolio. For defined contribution plans, the most common are R, A, and I shares, each tailored to the requirements of different plan sizes. Because R, and A share classes typically carry distribution (12b-1) and sub-transfer agency fees to fund the servicing needs of small and mid-size plans, operating expenses tend to be higher than for the I-share class funds used in large and mega plans.

Non-Settlor Functions: Plan expenses that may be paid from plan assets. Examples include costs for drafts of plan amendments for changes required by law, benefit calculations, nondiscrimination, and testing.

Open Architecture: This structure refers to trading and recordkeeping operations that make a wide range of investment vehicles available to a retirement plan.

Passively Managed Funds and Accounts: Investment strategies with the objective of matching the return of an index. Also known as index funds.

Plan Participant Account Statement: ERISA-required disclosure of account balances due to a plan participant.

Plan Sponsor: Designated party, usually a company or employer that sets up a healthcare or retirement plan such as a 401(k) for the benefit of the organization's employees. The responsibilities of the plan sponsor include determining membership parameters, investment choices and, in some cases, providing contribution payments in the form of cash and/or stock.

Proprietary Systems: Platform structures making only one investment provider available to a plan sponsor.

Recordkeeping Fees: Fees associated with plan operations and administration, including transaction processing, reporting, transfers, valuations, inquiries, statement preparation, and distributions.

Revenue Sharing: Revenue sharing occurs when investment providers pay other plan service providers for product distribution or recordkeeping/administrative services, or "share" or rebate a portion of fees to these other providers.

Safe Harbor: A legal provision to reduce or eliminate liability as long as good faith is demonstrated. Under SEC rules, safe-harbor provisions protect management from liability for making financial projections and forecasts made in good faith.

Separately Managed Accounts (SMAs): Institutionally managed portfolios of securities for investments that are owned directly by the account holder.

Service Providers: Vendors providing custody/trustee, investment advisory, investment management, recordkeeping, brokerage, consulting, banking, third-party administration, fiduciary, accounting, actuarial, audit, legal, and valuation services to a plan.

Settlor Functions: Costs associated with the establishment of ERISA plans. Generally, settler expenses must be paid by the plan sponsor and not from plan assets or revenue. Examples include costs for conducting a plan design study, amending the plan for non-legally required reasons, establishing a plan, and correction of compliance and fiduciary errors.

Shareholder Servicing: Fees typically paid to fund's transfer agent for recordkeeping, administration, and other account services.

Stable Value Funds: A portfolio of low-risk investments guaranteed against loss by insurance companies. Also known as Guaranteed Investment Contract (GIC) Funds.

Sub-Transfer Agency Fees: These fees represent a portion of transfer agency compensation paid out for defined contribution plan recordkeeping services provided by trust companies, third-party administrators, or banks.

Summary Annual Report (SAR): ERISA required disclosure to plan participants on the financial condition of the retirement plan. The SAR is a summary of information included in the annual report (Form 5500) and must be provided to participants within nine months of the close of the plan year.

Summary Plan Description (SPD): ERISA required document explaining how the retirement plan operates. The SPD must be provided to plan participants and beneficiaries and includes information on participant eligibility, employee rights, vesting, and claims and appeal provisions.

Surrender and Transfer Charges: Fees that may be assessed if the employer terminates an annuity contract early and assets are transferred to another investment option.

Total Fund Operating Expense (Expense Ratio): Expenses for investment management, distribution (12b-1) and other functions, including services and administration. Expenses vary depending upon share class and investment strategy.

Total Revenue Credit: Revenue sharing available to offset recordkeeping, administration, and investment consulting charges.

Total Revenue Sharing Debit: A shortfall that occurs when revenue sharing does not generate enough to pay for recordkeeping, administration, and investment consulting charges; must be paid by the plan, plan sponsor or a combination of the two.

Trading Costs: Transaction costs and brokerage fees for trades, trading costs are charged against fund value and are not included in the total operating expense ratio. Costs vary depending on portfolio turnover and market liquidity.

Wrap Fees and Annuity Charges: Insurance company costs for annuity feature, interest, and expense guarantees and any death benefit provided; these fees are for features not available in non-insurance vehicles and are in addition to investment product fees and sales commissions.

Online Resources

Department of Labor (www.dol.gov)

401(k) Plan Fee Disclosure Form Sample for use by plan sponsor in collecting and assimilating service provider costs, www.dol.gov/ebsa/pdf/401kfefm.pdf

Form 5500 FAQ's – guidance on requirements for reporting on plan years beginning on or after January 1, 2009, www.dol.gov/ebsa/faqs/faqscheduleC.html

Form 5500 – <http://www.dol.gov/ebsa/pdf/2010-5500-Schedule-C.pdf>

Meeting fiduciary responsibilities – www.dol.gov/ebsa/pdf/2010-5500-Schedule-C.pdf

Reporting and disclosure guide for employee benefit plans – www.dol.gov/ebsa/pdf/rdguide.pdf

Retirement plan compliance assistance – www.dol.gov/ebsa/compliance_assistance.html

Selecting and monitoring pension consultants – www.dol.gov/ebsa/newsroom/fs053105.html

Selecting and monitoring plan service providers - www.dol.gov/ebsa/newsroom/fs052505.html

Understanding retirement plan fees and expenses – www.dol.gov/ebsa/publications/undrstndgrtrmnt.html