Retirement Plans

New Fee Disclosure Requirements

By: Chris W. Shankle, CPA
# Table of Contents

A Primer ................................................................. 2  
Overview .............................................................. 3  
Schedule C (Form 5500) ............................................. 5  
Sponsor Disclosure Under ERISA Section 408(b)(2) ............ 9  
Participant Disclosure Under ERISA Section 404(a)(5) ............ 13  
Appendix/DOL Model Comparative Chart ......................... 17
A Primer

The purpose of this document is to provide the reader with a basic understanding of the changes requiring disclosure of the fees and expenses associated with retirement plans. Caution should be exercised as this is intended to provide a high-level overview and is not a complete summary of all of the requirements.
Overview

Retirement plan fees have long been a concern of government regulators and policymakers. In 1997, the Department of Labor (DOL) commissioned a study by an independent organization to review plan fees and expenses. This study, completed in April 1998, has been cited by policymakers in demonstrating the need for disclosure.

The efforts toward disclosure began officially in July 2006 when the DOL released Proposed Revision of Annual Information Return/Reports as a Notice in the Federal Register (Friday, 7/21/2006). In this document, DOL proposed changes to the Form 5500, Annual Return/Report of Employee Benefit Plan, including the Schedule C, Service Provider Information, which provided many of the rules used today regarding the reporting of fee information for plans.

Key Requirements

The disclosure requirements are based on three separate and somewhat dissimilar sources: Form 5500, Employee Retirement Income Security Act of 1974 (ERISA) section 408(b)(2) and ERISA section 404(a)(5). An understanding of the source and intent of each requirement is necessary to completely understand the disclosure process:

- **Form 5500-Schedule C**
  The first component of the fee disclosure is the Federal Form 5500. The retirement plan fees are captured in Schedule C of this informational return.

  **What it requires:** Any vendor who receives $5,000 or more in direct and/or indirect compensation must disclose fees on this form. Fees include any compensation or non-monetary compensation received from the plan or plan sponsor in conjunction with the retirement plan. These fees are broken down into three categories: direct, indirect and eligible indirect.

  **Exceptions:** There is no reporting requirement for retirement plans that qualify for the “small plan” reporting exemption (i.e., the plan has 100 or fewer participants).

- **Disclosure to Plan Sponsors**
  Interim final regulations to ERISA §408(b)(2) were published in 2010 to provide for plan sponsor disclosure of retirement plan fees and expenses. These regulations were finalized in February of 2012 with an effective date of July 1, 2012. One must note the background of these regulations to understand the implication of the failure to follow them. ERISA §408 provides for the statutory exemption to the prohibited transaction rules and subsection (b)(2) specifically provides for the contracting with service providers who are a party in interest — “if no more than reasonable compensation is paid therefore.”
What it requires: Under the regulations, there must be an agreement in place between the plan and the service provider and all fees and services provided must be disclosed in that agreement or addendums, attachments, etc. These requirements are applicable to any service provider who is “reasonably expected” to receive $1,000 or more in compensation during the life of the engagement — whether directly or indirectly.

EFFECTIVE DATE: July 1, 2012

Disclosure to Plan Participants

Background

This next rule on disclosure to plan participants comes from §404(a)(5) and, again, an understanding of the context is necessary. ERISA §404 deals with fiduciary duties. Subsection (a) is the prudent man standard of care, which states that a fiduciary is to discharge duties solely in the interest of participants and their beneficiaries.

This regulation also has overarching language into §404(c), which addresses the delegation of investment decisions to plan participants and beneficiaries. This overlap is so significant that simultaneous with its release, the regulations to §404(c) were amended to remove the redundant provisions included in this new rule. Based on this, a plan sponsor can infer that this regulation only applies to individual account plans that permit participants and their beneficiaries to direct investments in their account.

Exceptions: Excluded from the rule are simplified employee pensions (SEPs), savings incentive match plans for employees (SIMPLEs), individual retirement accounts (IRAs), as well as Governmental and Church plans.
The disclosure information may be distributed electronically to participants only in specific circumstances where they normally interact with the plan electronically.

**EFFECTIVE DATE:** Aug. 30, 2012, for most plans.

**Schedule C (Form 5500)**

For plans filing Schedule C forms and having more than 100 participants (i.e., plans that are ineligible for the small plan exemption), this form must be completed in preparation of the Form 5500. Service providers are required to provide to the plan sponsor all information necessary for the plan sponsor’s proper completion of the form. Schedule C provides a section for the disclosure of service providers who did not completely and accurately disclose their fees and compensation. Although there is no penalty associated with this failure in the Form 5500 for the vendor, repercussions would fall under the ERISA section 408(b)(2) requirements.

For this section, note that the Form 5500 Schedule C is divided into the following three parts:

I. Expense reporting
II. Providers who failed to provide information
III. Terminated accountants and actuaries

The disclosure under this section is limited to those vendors who rendered services to or had transactions with the plan and who directly or indirectly received $5,000 or more from the plan. There are some exceptions to this requirement:

- Plan employee whose only compensation is less than $25,000 a year
- Employees of the plan sponsor or service provider if:
  - Sponsor/service provider is reported on Schedule C
  - Employee did not separately receive direct or indirect compensation from the plan
- Payments made directly by the plan sponsor that are not reimbursed by the plan
- Persons whose only compensation in relation to the plan consists of insurance commissions and fees reported on Schedule A (e.g., a defined benefit pension plan using investment management services for individual securities and a very minimal money market position could qualify under the exception when the plan sponsor pays all of the expenses. Under these circumstances, it is reasonable to assume that the plan would have no items to complete in Part I of the Schedule C.)

For 2009, there was a “grace period” for vendors who were not able to disclose all of the required information. However, there is no longer a grace period. Fee disclosure is required from 2010 and subsequent years for Form 5500.
Reporting is only required for providers whose total compensation from the plan was greater than $5,000. In arriving at this compensation figure, both direct and indirect compensation should be considered as well as any compensation already reported on Form 5500, Schedule A (e.g., if a broker receives a commission from a group annuity of $3,000 from the underwriting insurance company – which is reported on Schedule A — and charges a trustee fee of $3,000 that is paid directly by the plan, the service provider’s compensation would exceed the $5,000 threshold. The plan sponsor must report the service provider on Schedule C). If a fiduciary or key service provider provides a formula or schedule to compute the Schedule C compensation, the $5,000 threshold also is considered to be exceeded and they should be reported in Part I.

Key service providers are subject to additional disclosure on line 3 if they received indirect compensation of $1,000 or more, or provided a formula to compute the fee. Service providers are considered a key service provider if they meet one of the following:

- Are a plan fiduciary
- Provide one or more of the following services to the plan:
  - Third-party administrator (TPA)
  - Consulting
  - Investment advisory (either to the plan or to participants)
  - Investment management
  - Securities brokerage
  - Recordkeeping
This determination of key service provider status is applicable in the following instances: the $5,000 threshold (discussed above), reporting bundled services and reporting indirect compensation on line 3.

Plans must also report on Schedule C, any non-monetary compensation and gifts that exceed the de minimis exception of $100. These amounts include gifts, trips, awards, meals, tickets, etc. The exceptions to this reporting are any non-monetary compensation satisfying all of the following requirements:

- Tax deductible
- Non-taxable to the recipient
- Valued at less than $50
- Aggregate value of gifts from one source to the plan or other party in interest is less than $100 a year

**NOTE:** Gifts under $10 can be disregarded.

**Classification of Expenses**

Plan expenses are categorized as one of three classes: direct, indirect and eligible indirect. This distinction will determine what and how the compensation information will be reported. The first of these is direct compensation, which may be defined as payments made by the plan directly to the service provider or to reimburse the plan sponsor for services rendered to the plan. These payments include direct payments out of a plan account, charges to the forfeiture or ERISA budget accounts, charges to the trust before allocations are made to the plan participants or any charges to participant individual accounts.

Indirect compensation refers to compensation received by providers from sources other than the plan or plan sponsor, and includes payments from revenue generated by the plan’s investments. The provider’s eligibility for payment is based on either a transaction or series of transactions with the plan, or for services specifically rendered. Specifically included are certain fees paid by investment funds (e.g., management fees, sub-transfer agent (Sub-TA) fees, shareholder servicing fees, account maintenance fees, annual marketing or distribution (12b-1) fees, finder’s fees, float revenue, brokerage commissions, soft dollars and transaction based fees received in connection with transactions or services whether or not they are capitalized as investment costs).
A subset of indirect compensation is eligible for indirect compensation. Only some forms are considered eligible indirect compensation and they are afforded simplified reporting on the Schedule C. The following types of compensation are eligible for this classification:

- Fees or expense reimbursements charged to the investment fund and reflected in the fund’s value or return on investment
- Finder’s fees
- “Soft dollar” revenue
- Brokerage commissions
- Other transaction based fees for transactions involving the plan that weren’t paid directly by the plan or sponsor (e.g., participant loan fees, self-directed brokerage (SDB) commissions, etc.)

In order to be considered eligible indirect compensation, certain disclosures must be made to the plan regarding the compensation and services. The following disclosures must all be made:

- Disclosure explaining the existence of the compensation
- Description of the services provided or purpose for payment of the indirect compensation
- Amount (or reasonable estimate) or description of formula used to determine the compensation
- Identity of both the parties paying and receiving the compensation

In making these disclosures, any party can provide the disclosures and there is no specified deadline for the disclosure. It would need to be made in advance of, and in time for the preparation of the Form 5500. Additionally, prospectus, fee schedules and other documents containing fees can be used to disclose the fees if there is indication by the party making disclosure that these documents are meant to satisfy the alternative reporting option.

**Failure to File**

Failure to file will impose penalties depending on if you are a late filer or a non-filer. Late filers may be assessed $50 per day, with no limit, for the period they failed to file. Non-filers may be assessed a penalty of $300 per day, up to $30,000 per year until a complete annual report is filed.

**Terminated Service Providers**

In the case of a terminating pension plan, a short plan year does not occur until all assets have been distributed. The due date for filing Form 5500 depends upon the end date of a short plan year. The due date is the last day of the 7th calendar month based on the end of the short plan year. Care must be taken that Form 5500 due dates are not missed.
Sponsor Disclosure Under ERISA Section 408(b)(2)

Alongside the disclosures in Form 5500 Schedule C is the requirement of plan service providers to disclose all fees so that plan sponsors can assess the reasonableness of fees and expenses, identify conflicts of interest and satisfy reporting and disclosure requirements on the 5500 and to plan participants. The difference between the 408(b)(2) disclosure and Form 5500 Schedule C is that there is no minimum threshold — 408(b)(2) applies to all plans. The only exceptions are plans with no statutory employees, governmental 457 plans, electing church plans and SIMPLE IRA plans. The penalty for failure to comply results in the fees charged failing to meet prohibited transaction exemption and therefore being classified as a prohibited transaction. This results in disgorgement of the fees, payment of lost opportunity cost, excise tax, potential expulsion of the service provider from servicing plans and possibly qualification issues for the plan.

Originally, on July 16, 2010, interim final regulation was released making the effective date July 16, 2011. The DOL announced by way of a press release in February 2011 its intention that the effective date would be deferred until Jan. 1, 2012. This was followed by a release July 19, 2011, further delaying the effective date to April 1, 2012. Final Regulation was issued in February 2012, making the effective date July 1, 2012. Any new service arrangements entered into on or after this effective date must comply with this regulation and any pre-existing service arrangements must be brought into compliance in application by the effective date.

The regulation applies to relationships between a covered plan and a covered service provider and requires a written agreement between the parties. A covered plan is any qualified plan whether defined contribution or defined benefit. Excluded from coverage are SEPs, SIMPLEs and IRAs. The rule defines a covered service provider as any one of the following:

- An ERISA fiduciary providing services directly to a covered plan or to a plan asset investment vehicle
- An investment adviser registered under federal or state law
- A record-keeper or broker who makes designated investment alternatives available to a covered deferred compensation plan (e.g., platform provider)
- A provider that receives indirect compensation. Indirect compensation is defined as compensation from parties other than plan or plan sponsor (third parties or affiliates) for providing any of the following services:
  - Accounting
  - Auditing
  - Actuarial
  - Banking
  - Consulting
  - Custodial
  - Insurance
  - Investment Advisory
  - Legal
  - Recordkeeping
  - Securities Brokerage
  - Third Party
  - Administration
  - Valuation Services

Specifically excluded from the definition of covered service providers are: affiliates or subcontractors of a covered service provider, and a non-fiduciary provider of services to an investment product in which the covered plan invests (e.g., a vendor provides bundled recordkeeping services and an array of fund offerings to service a retirement plan; the individual money managers hired to manage the funds would be excluded from the definition; a third-party administrator who is NOT the platform record-keeper and who does NOT receive any indirect compensation).
In addition to the basic disclosure of compensation and services, the document must also provide additional disclosure relative to some specific instances giving rise to compensation or fees.

**Fees for Services**

Where a covered service provider is to provide services to a covered plan, the covered service provider must disclose the information specified below to the plan’s responsible plan fiduciary (plan sponsor) in writing and reasonably in advance of entering into the service contract or arrangement. Further, to the extent applicable, the covered service provider must disclose information on behalf of its affiliates and subcontractors.

In the document/agreement disclosing this information to the covered plan, there are primarily three components that must exist for each service being provided or fee being collected (depending on perspective).

- Detailed description of the services that are being provided for any given fee
- A status whether or not the services are being provided as a fiduciary or as a registered investment advisor
- Description of all compensation that will be received by the covered service provider, its affiliates or subcontractors

As with the 5500-C, the compensation for purposes of 408(b)(2) categorize fees into: direct – fees received directly from the covered plan; and indirect — fees received from third parties (sources other than the covered plan, the plan sponsor, the covered service provider and its affiliates and subcontractors). For indirect, the identity of the party paying the indirect compensation must be disclosed. For the 408(b)(2) rules, additional classification of fees is added – compensation paid among related parties. This new classification includes fees or compensation set on the basis of transactions or charged directly against the covered plan’s investments; and paid among the covered service provider, its affiliates and subcontractors must also be disclosed. The disclosure must identify the party paying and party receiving the compensation and the reason for the services.

In addition to the basic disclosure of compensation and services, the document must also provide additional disclosure relative to some specific instances giving rise to compensation or fees. Any compensation or fees given rise by termination of the contract or agreement must be disclosed as well as the parties receiving the fee or compensation. Further, with respect to recordkeeping services, where these are provided by a covered service provider, the disclosure should provide separate and additional disclosure into these fees. The compensation for recordkeeping services should be described for both direct and indirect sources. Additionally, a reasonable and good faith estimate of the cost of recordkeeping to the covered plan, whether the service is provided in whole or in part, without explicit charge or subject to an offset or rebate based on other compensation. This is to provide a comparison between unbundled, bundled or semi-bundled arrangements.

For all fees, the document should explicitly describe how the compensation will be received – whether billed to the plan, deducted from participant accounts, offset against forfeitures or the ERISA budget, etc.
Investment Related Fees

In addition to fees for services discussed above, another huge area of fee disclosure surrounds the investment related fees with the largest issues being who and what. As to who, an ERISA fiduciary to a plan investment vehicle or a record-keeper/broker that also makes designated investment vehicles available to participants and beneficiaries in a covered plan should provide the investment information to the participants. In general, the information that should be disclosed includes the following broad categories:

- Charges against the amount invested in connection with the purchase or sale transactions (e.g., front-end loads, redemption fees, contingent deferred sales charge (CDSC), back-end loads, transaction fees, etc.)
- Annual fund operating expenses and maintenance charges (e.g., expense ratio, management expense, 12b-1 fees)
- Ongoing expenses in addition to annual operating expenses (e.g., wrap fees, mortality & expense fees, etc.)

A record-keeper or broker may generally satisfy their disclosure obligations with current, regulated disclosure materials of an issuer of a designated investment alternative (i.e., by way of prospectus).

As with the fees for services, these disclosures should be provided “reasonably in advance.” Relative to the disclosure of investment information under 408(b)(2), the rule provides for the following exceptions to the advance notice requirement:

- Where an investment later becomes a plan asset vehicle, the required information should be disclosed as soon as possible but no later than 30 days from knowledge that the investment vehicle holds plan assets
- In the case where the parties enter into a service contract before the investment alternatives are designated; again in this case, the investment information should be disclosed to the sponsor as soon as possible but not later than the investment alternative is designation by the plan fiduciary
- Where there is a material change to the information during the service agreement, the covered service provider must notify the responsible plan fiduciary of the change as soon as possible but no later than 60 days from the date the covered service provider is notified or otherwise becomes aware of such change; material changes of information includes changes in fund expense ratios.

To assist the covered plans and their sponsors with their compliance with ERISA’s reporting and disclosure requirements, the rule also provides the requirement that covered service providers must provide the information required generally within 30 days of written request of the responsible plan fiduciary or plan administrator.
Errors
The rule contemplates errors and failures in its implementation and provides guidance in these instances. Where there was an error or omission that occurred in good faith, the transaction and relationship with the covered service provider will not be considered a prohibited transaction. There must be evidence that the covered service provider acted in good faith and reasonable diligence but made an error or omission in their disclosure, and this error or omission is corrected. The information containing error or omission must be disclosed as soon as possible, but no later than 30 days after discovering the error or omission.

Where a covered service provider fails to comply with the disclosure rules and it is more than a good faith mistake, a prohibited transaction will be deemed to have occurred. The rule provides that the covered service provider will be responsible for Internal Revenue Code section 4975 excise taxes on the amount involved in the prohibited transaction. Further, the rules regarding the reporting of prohibited transactions must be followed.

An innocent plan fiduciary provision is contained in the rule providing that a responsible plan fiduciary will not be held liable for the prohibited transaction if the conditions for the class exemption in the rule are satisfied. These conditions are as follows:

- The fiduciary did not know of the covered service provider’s failure and reasonably believed they disclosed all required information
- The fiduciary requested in writing that the contract service provider furnish the required information
- The fiduciary notifies the DOL if the covered service provider fails to comply with the written request within 90 days (the rule provides the information to be included)
- The fiduciary makes a determination as to whether or not to terminate or continue the contract or arrangement with the covered service provider (i.e., the rule provides a framework for consideration by the fiduciary)
The final step in the fee disclosure efforts is the disclosure of information to plan participants. The belief of the DOL is that this rule will ensure “that workers in this type of plan are given, or have access to, the information they need to make informed decisions, including information about fees and expenses; the delivery of investment related information in a format that enables workers to meaningfully compare the investment options under their pension plans; that plan fiduciaries use standard methodologies when calculating and disclosing expense and return information so as to achieve uniformity across the spectrum of investments that exist among and within plans, thus facilitating ‘apples-to-apples’ comparisons among their plan’s investment options; and a new level of fee and expense transparency.”

This rule is effective for “participant-directed plans” meaning any defined contribution plan in which investment responsibility is allocated in part or in whole to the participant or beneficiary.

Participant Disclosure Under ERISA Section 404(a)(5)

The final step in the fee disclosure efforts is the disclosure of information to plan participants. The belief of the DOL is that this rule will ensure “that workers in this type of plan are given, or have access to, the information they need to make informed decisions, including information about fees and expenses; the delivery of investment related information in a format that enables workers to meaningfully compare the investment options under their pension plans; that plan fiduciaries use standard methodologies when calculating and disclosing expense and return information so as to achieve uniformity across the spectrum of investments that exist among and within plans, thus facilitating ‘apples-to-apples’ comparisons among their plan’s investment options; and a new level of fee and expense transparency.”

This rule is effective for “participant-directed plans” meaning any defined contribution plan in which investment responsibility is allocated to the participant or beneficiary. The wording of this definition implies that the rule is applicable for plans where the participant has any discretion with regard to the plan investment selection — whether it is one contribution source or the whole plan, or whether one group of participants and beneficiaries has discretion and not all. Exempted from coverage of the rule are defined benefit plans, any defined contribution plan where the investment discretion resides with the trustee or appointed investment manager, Governmental 457 plans and SIMPLE IRA plans.
The final rule was published Oct. 20, 2010, and was to become effective Dec. 20, 2011, and is applicable to plans with years beginning on or after Nov. 1, 2011, with a grace period, or transitional rule, of 120 days. However, the DOL recently has delayed the application of these new rules to 60 days after the effective date of the Sponsor Disclosures under 408(b)(2). The Plan Sponsor Disclosures must be made by July 1, 2012. For participant disclosure of the plan-related initial/annual disclosures, the initial/annual disclosure for most plans is now Aug. 30, 2012. The quarterly disclosures of the amount actually charged to a participant’s account must be furnished no later than 45 days after the end of the quarter in which the initial/annual plan-related disclosures are required to be furnished to participants. Therefore, the first quarterly disclosures will be due Nov. 14, 2012.

The rule provides that where a plan allocates investment responsibilities to participants and their beneficiaries, the plan administrator must take steps to ensure that the participants and beneficiaries receive adequate information to make informed decisions within their retirement plans. To do this, the rule requires the periodic disclosure of information regarding the plan’s investment options, including fee and expense information and the participant and beneficiaries rights and responsibilities with respect to the investments. These disclosure rules relate to the designated investment alternatives offered within the plan and do not extend to investments participants utilize through the use of a brokerage window — to the extent the plan allows this option — in disclosing the fees and relative performance of the option. Fees and expenses associated with the offering of a brokerage window, however, would be required to be disclosed in the transactional fee disclosures.

Plan-Related Information
In discharging their duties, a plan administrator is required to provide each participant or beneficiary information related to the plan and investments. Under this first category of Plan-Related Information, the disclosure must provide information about the following three categories of information:

- General Plan Information — Describes the structure and mechanics of the plan and includes but is not limited to the following:
  - How to give investment instructions
  - A list of the current investment options
  - Description of any other investments or services beyond those designated in the plan (e.g., brokerage window, managed portfolios, etc.)
Administrative Expenses Information — Explains any fees and expenses for general plan administration that may be charged to or deducted from all individual accounts. (e.g., trustee, accounting, investment, record-keeping and wrap fees)

Individual Transactional Information — Details any expenses that may be charged or deducted from the account of a specific participant or beneficiary based on actions taken by that person. (e.g., participant loan origination, processing qualified domestic relations orders (QDROs), wire surcharges, etc.)

The final rule provides that this information must be given to participants and beneficiaries on or before the date they can first direct their investments, and then again annually thereafter. In addition to furnishing this plan-related information annually, participants must receive quarterly statements showing the dollar amount of the plan-related fees and expenses actually charged to or deducted from their accounts along with a description of the services for the charge or deduction. These disclosures may be included in and/or a part of the participant’s quarterly participant statement. As stated above, compliance with these quarterly disclosures must be made by May 31, 2012, for a calendar year plan.

Investment-Related Information**

The other category of disclosure information is investment-related information and is broken down into the following categories of core information that should be provided for each investment option offered by the plan:

Performance Data — Must provide specific historical investment performance information. One-, 5- and 10-year returns must be provided for options that do not have fixed rates of return. For fixed rate investments, the annual rate of return and the term of the investment must be disclosed.

Benchmark Information — For options with a variable rate of return, the name and returns of an appropriate broad-based securities market index over the same 1-, 5- and 10-year periods must be provided. Investment options with fixed rates of return are not required to provide a benchmark. Regulation was issued in February 2012, making the effective date July 1, 2012.

Fee and Expense Information — Investment options with a variable rate of return must provide the total annual operating expenses expressed as both a percentage of assets and as a dollar amount for each $1,000 invested, and any shareholder-type fees or restrictions on the participant’s ability to purchase or withdraw from the investment. For fixed rate investment options, any shareholder-type fees or restrictions on the participant’s ability to purchase or withdraw from the investment must be disclosed.

** It should be noted that a brokerage window, in which a participant is allowed to direct their investments beyond simply the menu offered by the plan, is not subject to these disclosure rules.
Website Address — The disclosure requirement includes a website address that is sufficiently specific to provide participants and beneficiaries access to specific additional information about the investment options for workers who want more current information.

Glossary — A general glossary of terms used in the disclosure should be provided to assist participants and beneficiaries in understanding the investment options, or a website address that is sufficiently specific to provide access to such a glossary.

The final rule goes on to provide that the investment-related information must be furnished to participants or beneficiaries on or before the date they can first direct their investments, and then again annually thereafter. Additionally, the final rule prescribes that the information must be furnished in a chart or similar format designed to facilitate a comparison of each investment option.
Appendix

Model Comparative Chart

ABC Corporation 401(k) Retirement Plan

Investment Options – Jan. 1, 20XX
This document includes important information to help you compare the investment options under your retirement plan. If you want additional information about your investment options, you can go to the specific website address shown below or you can contact [insert name of plan administrator or designee] at [insert telephone number and address]. A free paper copy of the information available on the website[s] can be obtained by contacting [insert name of plan administrator or designee] at [insert telephone number].

Document Summary
This document has 3 parts. Part I consists of performance information for plan investment options. This part shows you how well the investments have performed. Part II shows you the fees and expenses you will pay if you invest in an option. Part III contains information about the annuity options under your retirement plan.

Part I. Performance Information
Table 1 focuses on the performance of investment options that do not have a fixed or stated rate of return. Table 1 shows how these options have performed over time and allows you to compare them with an appropriate benchmark for the same time periods. Past performance does not guarantee how the investment option will perform in the future. Your investment in these options could lose money. Information about an option’s principal risks is available on the

<table>
<thead>
<tr>
<th>Name/Type of Option</th>
<th>Average Annual Total Return as of 12/31/XX</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1yr</td>
<td>5yr</td>
</tr>
<tr>
<td><strong>Equity Funds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A Index Fund/ S&amp;P 500 website address</td>
<td>26.5%</td>
<td>.34%</td>
</tr>
<tr>
<td>B Fund/ Large Cap website address</td>
<td>27.6%</td>
<td>.99%</td>
</tr>
<tr>
<td>C Fund/ Int’l Stock website address</td>
<td>36.73%</td>
<td>5.26%</td>
</tr>
<tr>
<td>D Fund/ Mid Cap website address</td>
<td>40.22%</td>
<td>2.28%</td>
</tr>
</tbody>
</table>

Table 1 — Variable Return Investments
Part 2. Fixed Return Investments

Table 2 focuses on the performance of investment options that have a fixed or stated rate of return. Table 2 shows the annual rate of return of each such option, the term or length of time that you will earn this rate of return and other information relevant to performance.

<table>
<thead>
<tr>
<th>Name/ Type of Option</th>
<th>Return</th>
<th>Term</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>H 200X/ GIC website address</td>
<td>4%</td>
<td>2 year</td>
<td>The rate of return does not change during the stated term.</td>
</tr>
<tr>
<td>I LIBOR Plus/ Fixed-Type Investment Account website address</td>
<td>LIBOR +2%</td>
<td>Quarterly</td>
<td>The rate of return on 12/31/xx was 2.45%. This rate is fixed quarterly, but never will fall below a guaranteed minimum rate of 2%. Current rate of return information is available on the option’s website or at 800.yyy.zzzz.</td>
</tr>
<tr>
<td>J Financial Services Co./ Fixed Account Investment website address</td>
<td>3.75%</td>
<td>6 months</td>
<td>The rate of return on 12/31/xx was 3.75%. This rate of return is fixed for six months. Current rate of return information is available on the option’s website or at 800.yyy.zzzz.</td>
</tr>
</tbody>
</table>

*Generations 2020 composite index is a combination of a total market index and a U.S. aggregate bond index proportional to the equity/bond allocation in the Generations 2020 Fund.*
## Part II. Fee and Expense Information

Table 3 shows fee and expense information for the investment options listed in Table 1 and Table 2. Table 3 shows the Total Annual Operating Expenses of the options in Table 1. Total Annual Operating Expenses are expenses that reduce the rate of return of the investment option. Table 3 also shows shareholder-type fees. These fees are in addition to Total Annual Operating Expenses.

### Table 3 — Fees and Expenses

<table>
<thead>
<tr>
<th>Name/Type of Option</th>
<th>TOTAL ANNUAL OPERATING EXPENSES</th>
<th>Shareholder-Type Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As a %  Per $1,000</td>
<td></td>
</tr>
<tr>
<td><strong>Equity Funds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A Index Fund/S&amp;P 500</td>
<td>0.18% $1.80</td>
<td>The $20 annual service charge is subtracted from investments held in this option if valued at less than $10,000.</td>
</tr>
<tr>
<td>B Fund/Large Cap</td>
<td>2.45% $24.50</td>
<td>The 2.25% deferred sales charge is subtracted from the amounts withdrawn within 12 months of purchase.</td>
</tr>
<tr>
<td>C Fund/Int’l Stock</td>
<td>0.79% $7.90</td>
<td>The 5.75% sales charge is subtracted from the amounts invested.</td>
</tr>
<tr>
<td>D Fund/Mid Cap ETF</td>
<td>0.20% $2.00</td>
<td>The 4.25% sales charge is subtracted from the amounts withdrawn.</td>
</tr>
<tr>
<td><strong>Bond Funds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E Fund/ Bond Index</td>
<td>0.50% $5.00</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F Fund/ GICs</td>
<td>0.46% $4.60</td>
<td>The 10% charge is subtracted from the amounts withdrawn within 18 months of initial investment.</td>
</tr>
<tr>
<td>G Fund/ Stable Value</td>
<td>0.65% $6.50</td>
<td>The amounts withdrawn may not be transferred to a competing option for 90 days after withdrawal.</td>
</tr>
<tr>
<td>Generations 2020/ Lifecycle Fund</td>
<td>1.50% $15.00</td>
<td>Excessive trading restricts additional purchases (other than contributions and loan repayments) for 85 days.</td>
</tr>
<tr>
<td>Name/Type of Option</td>
<td>TOTAL ANNUAL OPERATING EXPENSES</td>
<td>Shareholder-Type Fees</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>----------------------------------</td>
<td>-----------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>As a %</td>
<td>Per $1,000</td>
</tr>
<tr>
<td><strong>Fixed Return Investments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H 200X/GIC</td>
<td>N/A</td>
<td>A 12% charge is subtracted from the amounts withdrawn before maturity.</td>
</tr>
<tr>
<td>I LIBOR Plus/ Fixed-Type Invest Account</td>
<td>N/A</td>
<td>A 5% contingent deferred sales charge is subtracted from the amounts withdrawn; the charge is reduced by 1% on the anniversary of each investment.</td>
</tr>
<tr>
<td>J Financial Serv Co. / Fixed Account</td>
<td>N/A</td>
<td>90 days of interest are subtracted from amounts withdrawn before maturity.</td>
</tr>
</tbody>
</table>

The cumulative effect of fees and expenses can substantially reduce the growth of your retirement savings. Fees and expenses are only one of many factors to consider when you decide to invest in an option. You may also want to think about whether an investment in a particular option, along with your other investments, will help you achieve your financial goals.
Part III. Annuity Information

Table 4 focuses on the annuity options under the plan. Annuities are insurance contracts that allow you to receive a guaranteed stream of payments at regular intervals, usually beginning when you retire and lasting for your entire life. Annuities are issued by insurance companies. Guarantees of an insurance company are subject to its long-term financial strength and claims-paying ability.

<table>
<thead>
<tr>
<th>Name</th>
<th>Objectives / Goals</th>
<th>Pricing Factors</th>
<th>Restrictions / Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lifetime Income Option</td>
<td>The goal is to provide a guaranteed stream of income for your life, based on shares you acquire while you work. At age 65, you will receive monthly payments of $10 for each share you own, for your life. For example, if you own 30 shares at age 65, you will receive $300 per month over your life.</td>
<td>The cost of each share depends on your age and interest rates when you buy it. Ordinarily the closer you are to retirement, the more it will cost you to buy a share. The cost includes a guaranteed death benefit payable to a spouse or beneficiary if you die before payments begin. The death benefit is the total amount of your contributions, less any withdrawals.</td>
<td>Payment amounts are based on your life expectancy only and would be reduced if you choose a spousal joint and survivor benefit. You will pay a 25% surrender charge for any amount you withdraw before annuity payments begin. If your income payments are less than $50 per month, the option’s issuer may combine payments and pay you less frequently, or return to you the larger of your net contributions or the cash-out value of your income shares.</td>
</tr>
<tr>
<td>website address</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generation 2020 Variable Annuity Option</td>
<td>The goal is to provide a guaranteed stream of income for your life, or some other period of time, based on your account balance in the Generations 2020 Lifecycle Fund. This option is available through a variable annuity contract that your plan has with ABC Insurance Company.</td>
<td>You have the right to elect fixed annuity payments in the form of a life annuity, a joint and survivor annuity, or a life annuity with a term certain, but the payment amounts will vary based on the benefit you choose. The cost of this right is included in the Total Annual Operating Expenses of the Generations 2020 Lifecycle Fund, listed in Table 3 above. The cost also includes a guaranteed death benefit payable to a spouse or beneficiary if you die before payments begin. The death benefit is the greater of your account balance or contributions, less any withdrawals.</td>
<td>The maximum surrender charge is 8% of the account balance. The maximum transfer fee is $30 for each transfer over 12 in a year. The annual service charge is $50 for account balances below $100,000.</td>
</tr>
</tbody>
</table>