Fee Disclosure Remains a Work in Progress

By Randy Myers

In the year since federally mandated fee disclosure rules went into effect for defined contribution plans, this much has been discerned: plan sponsors think the new disclosures are helping them meet their fiduciary responsibilities. Also, some plan participants now know more about what their retirement investments are costing them.

Last summer, new federal regulations required plan service providers to disclose more information about fees, turnover ratios and performance benchmarks to retirement plan sponsors. Plan sponsors, in turn, were required to share some of that information with plan participants. Some began doing so even before the final deadline. For the past three years, the Stable Value Investment Association has been polling its members to see how they are meeting the disclosure requirements.

In a survey of 21 members in December 2012—14 stable value managers and 7 wrap issuers—the SVIA found that stable value structured as insurance company separate accounts had the lowest average expense ratio on a dollar-weighted basis—17 basis points—while pooled and collective funds had the highest at 41 basis points. Expense ratios for insurance company general accounts averaged 19 basis points on a weighted basis, while individually managed accounts averaged 30 basis points. Le Ann Bickel, manager of stable value client services for Invesco Advisors, noted that all of those expense ratios compared favorably with the expense ratios of most other investment options offered in defined contribution plans. She also observed that different providers may include different expenses in their disclosures; some might include recordkeeping fees, for example, while others may not.

There was a fairly high degree of consistency among providers in terms of which performance benchmark they were using for their stable value funds. By far, the benchmark most often used was the three-month U.S. Treasury bill index, used by 12 survey respondents. Three used a 1-3 year government/credit index, two used a 1-5 year government/credit index, one used the Barclays U.S. Intermediate Government/Credit Bond Index and one used the Barclays U.S. Intermediate Aggregate Bond Index.

One area where stable value providers do not have uniformity is fund turnover ratios. Jane Marie Petty, principal with Galliard Capital Management, said the methodologies used were diverse—six different techniques were cited.

While the industry may have more work to do to explain the differences in calculating turnover or moving to one methodology, the response of plan sponsors to the new fee disclosures has generally been favorable. In an Oppenheimer Funds survey reported in the February 2013 issue of *Plan Sponsor* magazine, plan sponsors said the new disclosures are helping them meet their fiduciary responsibilities, improving transparency, helping them understand the fees they pay relative to the services they receive, and helping them make more educated decisions about providers. Plan sponsors also said the new disclosures seem to be helping plan participants feel more educated about their plans, and are helping to build trust between participants and sponsors.

A survey of plan participants by LIMRA, an insurance industry trade group, also provided some encouraging findings. True, half the participants surveyed this year said they did not know if their retirement savings plans were costing them anything; that was the same percentage saying that in 2012 before the disclosure rules took effect. However, the number who said they thought there were no fees fell to 22 percent from 38 percent. Also, 28 percent of the participants surveyed in 2013 said they now know what their plan fees are, up from 12 percent in 2012.

In summary, plan participants now have access to more information. Increased fee transparency could ultimately lead to lower overall costs for plan participants, Bickel and Petty said. However, it's still the case that neither the average plan participant nor the majority of plan participants fully understand the fees they are being charged. Bickel and Petty encouraged stable value providers to continue working together to establish uniform disclosure practices, which they said would help to clarify and simplify their products for plan sponsors and plan participants.

Understanding the Insurance Side of Stable Value

continued from page 10

the product in question is not hazardous to the public.

"Once a contract is issued, regulators become increasingly focused on the reserves and the asset-liability match," Sample said. That's because they care about the financial stability, or solvency, of the insurance company. "They want to show policyholders—in this case, investors in a stable value fund—that they will receive their full benefit," he explained.

While insurance companies understand the focus on reserves, they also want to make sure reserve requirements are calculated appropriately. In New York, Sample said, reserve requirements for stable value products are calculated under New York Regulation 128. As a first step, it requires that insurers calculate the present value of their liability, project the guaranteed payout at the contract's minimum rate, and then discount that payout at 104.5 percent of Treasury spot rates. Then, in a second step, the company must apply the appropriate "shaves," or discounts, to the value of the assets held in the stable value fund's underlying portfolio. If the result in step 1 exceeds the result in step 2, the company must hold the difference as additional reserves.

Actuaries at the Life Insurance Council of New York, an insurance industry trade group, have proposed to New York regulators an alternate method for calculating reserves. The council suggests that its method would be more appropriate, especially during periods of market stress like those that existed during the 2008 credit crisis, when many separate account issuers were required to dramatically boost their reserves. The American Academy of Actuaries has made similar proposals to the National Association of Insurance Commissioners, Sample said. Its proposals would base the discount rate calculation on a blend of prevailing yields on Treasury bonds and investment-grade corporate bonds.