
New Disclosure Rules for Qualified Plans

New Disclosure Requirements

The Department of Labor has implemented 2 new disclosure rules. You will be hearing more about these during the remainder of this year. This is intended as an overview.

Fee Disclosure by Service Providers to Plan Fiduciaries

Effective January 1, 2012 Covered Service Providers must disclose to Plan Sponsors both the direct and indirect compensation that they receive from a qualified retirement plan. Covered Service Providers include third party administrative firms ("tpas") like Limestone as well as investment advisors and other professionals that provide services to the plan.

Most of our clients pay our administrative fees from the business, not the plan. These fees are not part of the new rules. However, payments that are made either directly from plan assets (ie: direct) or from other sources, such as insurance carriers (ie: indirect) must be disclosed if they are expected to exceed \$1,000. The disclosure either needs to identify the actual amount that will be charged, or the basis upon which the charge will be determined. Limestone, like many other tpa firms, reduces our fees based upon indirect payments that we receive.

What to Expect

It is likely that we will be revising our Service Agreements. In keeping with our general philosophy, we will continue to keep them as short and readable as possible. Even though the new Disclosure rules will not impact a large number of our clients we will most likely modify all of them in the interest of simplicity.

Disclosures to Participants in Participant Directed Plans

Many qualified plans allow Plan participants to direct their own investments. Effective January 1, 2012 plans that allow participant Direction will need to provide two types of disclosures to those participants.

1. **Plan-related disclosures:** This includes general plan information, administrative expense information, and individual expense information and must be provided annually as a general rule. Plans will be required to report the actual amount of administrative and individual expenses charged to each participant on a quarterly basis.
2. **Investment-related disclosures:** Annually a plan must also provide detailed information to participants regarding available investments, performance, benchmarking, general fee and expense information, website information, and a glossary of terms. Upon request, participants must have the right to obtain prospectuses, financial statements, valuations, and portfolio makeup details of any designated investments.

What to Expect

401(k) platform providers (ie: John Hancock, Hartford, American Funds, ING, Great West, etc.) are already providing much of this information. We expect that these providers will easily adapt their systems to meet these disclosure rules. Plans that provide participant direction through brokerage or direct mutual fund accounts may have a more difficult time complying with the rules. Clients and/or advisors with these types of plans will need to contact each investment company to discuss what actions are being taken to comply.

Our Take

Fee disclosure has been coming for some time and it will be helpful for fiduciaries to get periodic and detailed information on fees that they pay. As for the participant disclosures, one has to wonder how effective additional notices are. We have been in favor of using 401(k) platforms for a long time and this only reinforces our view. They are uniquely designed to handle the appropriate communications efficiently and effectively.
