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RETIREMENT CHECK-UP

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Fees and Your Supplemental Retirement Plan Benefits

You don't work for free – and neither does your Supplemental Retirement Plan (SRP) provider. Just as you can expect to receive fair compensation for your hard work, the providers who administer the plan and manage investments should receive fair compensation for the services they provide.

Each of the SRP providers – ING (now known as Voya Financial), Lincoln, and VALIC – is compensated through fees associated with the plan. The fees, which can vary depending on the provider and investments you select, affect the net investment return that is ultimately credited to your account.

This means the fees that apply to your account will reduce your account balance when you retire or receive your money from the plan. Because of that, it's important for you to know about fees and your SRP benefits – and to feel that you are getting a fair value for the services you receive.

Understanding SRP Provider Fees

According to the Employee Benefits Security Administration, retirement plan providers may assess the following types of fees to participants:

- **Plan Administration Fees.** These are fees for day-to-day plan operations, including recordkeeping, accounting, legal and trustee services. This may also include expenses for services such as telephone voice response systems, customer service representatives, educational seminars, retirement planning software, investment advice and online transactions.
- **Investment Fees.** These fees include expenses for managing plan investments, such as buying and selling shares. Generally, investment-related fees are assessed as a percentage of total assets invested.
- **Individual Transaction Fees.** These fees are specific to your individual account, and may include things such as expenses associated with administering a loan or providing advice/direction for your individual account.

The fees you pay will vary depending on the investment options you select. For instance, if you select actively-managed funds that require ongoing monitoring, research and trading, the fees you pay are likely to be higher than for passively-managed funds that aim to mirror an established market index, such as Standard and Poor's 500. In addition to achieving a reasonable return, an active manager should add value by selecting the right stocks for the portfolio and managing risk.

Fees may also differ among available AACPS providers. Each provider offers different products and services, and has a different fee structure.

The best approach is for you to be aware of the different types of fees and how they affect your retirement savings, then meet with your financial advisor to decide for yourself what works best for you. Through all of this, the AACPS advisory committee validates that all the providers are doing their jobs to help participants – as required by their fiduciary duties.

What Are YOU Paying?

Fees vary between SRP providers. To find out exactly what you are paying in fees, contact your provider. Contact information for each provider is available on the AACPS website at http://www.aacps.org/humanresources/evaluate.asp

Ask for a Fund Prospectus

Detailed information about the funds available to you to invest in through your SRP provider is available in the fund prospectus. You may request a fund prospectus by contacting your provider.

Terms to Know

As you review your account statement, prospectus and other SRP-related information, here are some commonly-used investment and fee terms, and their definitions.

- **12b-1 fees.** These are ongoing fees paid out of fund assets, which may be used to pay commissions to brokers and other salespersons, to pay for advertising and other costs of promoting the fund to investors, and to pay various service providers pursuant to a bundled services arrangement.
- **Basis points.** Basis points are a commonly used way to measure percentage differences of less than 1%. A basis point is equal to 1/100th of 1%, and is often used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security. For example, if a bond yield moves from 7.45% to 7.65%, it is said to have risen 20 basis points.
- **Investment expense ratio.** An investment expense ratio is what it costs an investment company to operate a mutual fund. It is generally calculated annually by dividing a fund's operating expenses by the average dollar value of its assets under management. The expense ratio can include various operational costs such as administrative, compliance, distribution, management, marketing, shareholder services, record-keeping fees and other costs. The expense ratio, which is calculated annually and disclosed in the fund's prospectus and shareholder reports, directly reduces the fund's returns to its shareholders, and, therefore, the value of your investment.
- **Loan origination fee.** As its name suggests, the loan origination fee is a fee charged to you by the plan provider when you first take out a loan. This is a one-time fee and may vary by plan provider.

There might be circumstances when fees collected by the vendor are in excess of agreed upon amounts that may result in a credit back to the participant's account.

ACTIVE OR PASSIVE? YOU DECIDE

Some SRP participants invest their accounts using actively-managed funds, which have a dedicated investment advisor monitoring fund performance and making trades to produce results that align with the fund objectives. Because of this hands-on approach, fees on actively-managed funds are usually more expensive than fees on passively-managed funds.

However, over the last five years, only about one-third of active, large-cap fund managers have outperformed the S&P 500. So, a passively-managed fund based on S&P performance may cost less and perform just as well as an actively-managed fund.

That doesn't mean you should avoid actively-managed funds. You may have specific objectives, such as goals for diversification or managing risks, that make active management – though more costly – a better investment for you.

Why Fees Matter

When it comes to your Supplemental Retirement Plan benefits, the fees you pay impact your net investment bottom line.

By reducing fees (or improving investment allocation) by as little as 1%, you can significantly increase your investment portfolio – that means your money will last longer. The following chart shows how a 1% increase in long-term portfolio yield (green line) can increase portfolio lifespan by 10 years or more.