

UNDERSTANDING INVESTMENT FEES AND EXPENSES

The following information provides a basic overview of ORP fees and expenses. It is not intended to substitute for the advice of a retirement plan investment professional.

Fees and expenses vary between investment companies and investments. An informed participant in a defined contribution plan reviews these costs as a routine part of managing a retirement account. The fund prospectus and the investment company's online materials offer significant information to help you in this review.

Generally, these costs are not itemized on your statement, and are deducted from your investment account before returns (loss or gain) are posted to it.

Plan Administration

The daily operation of a retirement plan involves expenses for basic administrative services, such as recordkeeping (account activity) and custodial (establish and maintain the plan) fees. Investment companies may charge an asset-based fee, a percentage of your total assets the company manages for you. The ORP has been designed to minimize administrative fees.

Self-Directed Brokerage Account (SDBA)

Investors who choose to participate in the SDBA may be charged an annual participant fee and transaction-related fees.

Financial Advisory Services

Investment companies may charge a fee for investment advisory services to help you design your personalized portfolio. Advisory services may be offered online, in person, and/or through an objective third-party company.

Mutual Funds

Mutual funds may charge a front-end load (sales charge on your fund purchase), a back-end load/redemption fee (sales charge on your fund sale), and in-service transfer fees (transferring assets between different approved investment companies). Mutual funds also may charge 12b-1 fees, which are defined under the Investment Company Act of 1940 and are ongoing fees paid out of your assets to pay sales commissions, advertising, and other promotional costs.

Variable Annuities

A variable annuity is an insurance product that is funded by variable investments. Variable annuities may carry insurance-related charges, including the insurance component, mortality risk charges, and the cost of issuing and administering contracts. An insurance company may charge withdrawal/surrender and transfer fees when a participant terminates a contract or makes a withdrawal before the contract term expires.

Basis Points (BPs)

Basis points are used in calculating the costs (such as expense ratios, administrative fees, etc.) for a financial instrument. Basis points may also be used to indicate the change in the value of a financial instrument. A basis point is a unit equal to 1/100th of 1%.

The relationship between costs or percentage changes and basis points can be summarized as follows:
For example, 0.01% cost = 1 basis point or 1% change = 100 basis points.

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Expense Ratio

An expense ratio, also known as management expense ratio, is the percentage of total fund assets used to cover expenses associated with the operation of a mutual fund. This amount is taken out of the fund's assets and lowers the return that fundholders achieve. These expenses include management fees and operating expenses. Although expense ratios are important, it can be misleading to focus on one measurement without also identifying key factors that influence that measurement. Here are factors that affect the calculation of the investment expense ratio.

- **A fund's asset size.** As fund assets increase, the expense ratio typically declines.
- **A fund's investment category.** Specialty funds have higher expense ratios than equity funds, which, in turn, have higher expense ratios than bond funds. International funds have higher expense ratios than comparable domestic funds.
- **Whether a fund is an index fund or an institutional fund.** Index funds and funds that are available only to institutional investors generally have lower expense ratios than other types of funds.
- **Asset size of the fund group.** On average, members of the smallest fund families have higher expenses than other funds. Funds that are part of large fund families (in terms of asset size) tend to have lower expense ratios than funds that are part of small fund families. These findings may reflect economies for the investment adviser.
- **Amount of portfolio turnover.** Funds with higher portfolio turnover tend to have higher expense ratios.¹

¹December 2000 Division of Investment Management: Report on Mutual Fund Fees and Expenses, U.S. Securities and Exchange Commission.