



# Stanislaus County

## Fund Expenses: What Do Investors Pay? November 2013

Stanislaus County is dedicated to providing participants with access to high-quality investment options within the 457 Deferred Compensation Retirement Plan. To this end, the Stanislaus County Deferred Compensation Investment Committee works diligently with its outside investment consultant to monitor the funds and ensure the investment options continue to meet plan objectives on an ongoing basis. The Investment Committee takes many things into account when creating the most appropriate investment option line-up within the Plan. In addition to the performance (both past performance as well as long-term return potential going forward) and risk structure of the fund, the fee structure is also one of the primary factors the Investment Committee considers.

### I had no idea retirement plan participants pay fees

Most of us know exactly how much we pay for gas, insurance, utilities, and groceries. Since we often write out a check or pay with cash, these costs are well-known. Investment fees are different. Investment fees for the managing and administration of a mutual fund are taken out of the fund's performance and investors can easily lose track of what the fund charges participants. Here is an example of the ABC Fund, how much it charges, and how much a participant actually earns by investing in this fund.

Gross annual return of the ABC Fund:	9.8%
Fee structure expressed as an expense ratio:	<u>-1.5%</u>
Performance participants see after deducting fees: <sup>1</sup>	8.3%

### Does the fee structure of a fund really matter?

Keeping an eye on fees is crucial as the cost of a fund directly impacts performance. A difference of a percentage point or two may not seem like a lot. However, over time, a difference of even a half of a percent can translate to thousands of dollars. As an example, let's take a hypothetical employee who starts saving at age 25. Forty years later, a difference in return of only 0.50% each year equals a difference of over \$70,000!<sup>2</sup>

### What is the fee structure of the investment options in our 457 Plan?

Below are the JPMorgan SmartRetirement Portfolios and on the next page are the twenty-five core funds in the investment option line-up and the cost structure for each.<sup>3</sup>

<u>Target Date Portfolio Name</u>	<u>Expense Ratio</u>	=	<u>Revenue Share</u> +	<u>Net Expense</u>
JPMorgan SmartRetirement Income A	0.84%		0.55%	0.29%
JPMorgan SmartRetirement 2015 A	0.91%		0.55%	0.36%
JPMorgan SmartRetirement 2020 A	0.94%		0.55%	0.39%
JPMorgan SmartRetirement 2025 A	0.98%		0.55%	0.43%
JPMorgan SmartRetirement 2030 A	1.01%		0.55%	0.46%
JPMorgan SmartRetirement 2035 A	1.04%		0.55%	0.49%
JPMorgan SmartRetirement 2040 A	1.04%		0.55%	0.49%
JPMorgan SmartRetirement 2045 A	1.04%		0.55%	0.49%
JPMorgan SmartRetirement 2050 A	1.04%		0.55%	0.49%

<sup>1</sup> This is also called "performance net of fees."

<sup>2</sup> Saver initially saved \$1,200 per year and inflated that 3.25% each thereafter. Assumes contributions are made at the end of each month and annual growth rate of 8% vs. 8.5% compounds monthly.

<sup>3</sup> The MassMutual General Account does not disclose expenses.

<u>Fund Name</u>	<u>Expense Ratio</u>	=	<u>Revenue Share</u> +	<u>Net Expense</u>
Bank of the West	0.25%		0.25%	0.00%
Hartford Ultrashort Bond HLS IA	0.42%		0.25%	0.17%
Hartford Total Return Bond HLS IA	0.50%		0.25%	0.25%
Putnam High Yield Advantage Y	0.79%		0.20%	0.59%
Vanguard Total Bond Market Index Signal	0.10%		0.00%	0.10%
Calvert Balanced A	0.90%		0.15%	0.75%
Invesco Equity and Income Y	0.56%		0.25%	0.31%
American Century Equity Income Instl	0.74%		0.15%	0.59%
American Funds Growth Fund of America R5	0.39%		0.05%	0.34%
Hartford Capital Appreciation HLS IA	0.67%		0.25%	0.42%
Hartford Dividend & Growth HLS IA	0.67%		0.25%	0.42%
Vanguard Institutional Index Instl	0.04%		0.00%	0.04%
Artisan Mid Cap Value	1.20%		0.35%	0.85%
Hartford Mid Cap HLS IA	0.71%		0.25%	0.46%
SSgA S&P Mid Cap Index – SL II	0.07%		0.00%	0.07%
Hartford Small Company HLS IA	0.72%		0.25%	0.47%
SSgA Russell 2000 Index – C	0.06%		0.00%	0.06%
Westwood Small Cap Value Instl	1.10%		0.25%	0.85%
Hartford Global Research HLS IA	1.04%		0.25%	0.79%
Oppenheimer Global A	1.22%		0.55%	0.67%
Hartford International Opportunities HLS IA	0.74%		0.25%	0.49%
SSgA International Index Sec LS	0.15%		0.00%	0.15%
Invesco Real Estate R5	0.87%		0.10%	0.77%
Hartford Healthcare HLS IA	0.91%		0.25%	0.66%
MFS Utilities R4	0.77%		0.25%	0.52%

This means that if a participant has \$100 in the Westwood Small Cap Value Fund, the fund would take out \$1.10 each year.<sup>4</sup> This information was gathered from Morningstar and MassMutual. Participants can always get up-to-date information on fees from [www.massmutual.com](http://www.massmutual.com).

### **So are cheaper funds better?**

Fees are important because the cost of a fund directly impacts performance. However, the fee structure is not – and should not be – the sole factor in choosing funds. Looking at the chart above, investors may think the SSgA Russell 2000 Index Fund is better than the Artisan Mid Cap Value Fund since the expense ratio is lower. However, many factors come together when selecting the most appropriate investment options. Maintaining the right asset allocation for your personal situation is crucial. As part of making informed investment decisions, the Investment Committee wants you to be aware of the fee structure of all the investments in the Plan. They also want to stress: never underestimate the power of fees over time.

### **What is the revenue share?**

The revenue share is a component of the expense ratio. Remember, the expense ratio is what the participants pay to invest in a fund. The revenue share is not charged in addition to the expense ratio but rather is a part of the expense ratio. The revenue share is used to pay for plan-related expenses such as recordkeeping, administration, participant education, plan audit fee and legal costs.

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<sup>4</sup> This example assumes no growth or loss in the account over the year.