



## BOARD OF INVESTMENT TRUSTEES

### MEMORANDUM

March 1, 2017

**TO:** Retirement Plan Participants  
**FROM:** Linda A. Herman, Executive Director  
**SUBJECT:** Administrative Fee Changes

The Board of Investment Trustees, which oversees the investment programs for the Retirement Plans, continually seeks to optimize the investment options and services available to participants. At its January 2017 meeting, the Board voted to implement reduced fees resulting from the Board's negotiations with Fidelity, for certain investment options offered to participants. In addition, the Board has approved an expense allocation process that is designed to clarify the allocation of administrative costs among participants and provide enhanced fee transparency in the Retirement Savings Plan, Deferred Compensation Plan, Police DRSP, MCGEO DROP, and Elected Officials Plan ("the Plans"), which will differ from how participants shared these costs in the past. These administrative fees pay for recordkeeping services, participant website access, a Fidelity Retirement Planner dedicated to the Plans, and periodic participant educational seminars. Importantly, the Board's renegotiation of fees across the Plans is intended to result in a significant reduction in the overall fees paid by participants.

#### Background

Historically, many of the costs to administer the Plans were paid for through recordkeeping offsets and payments sometimes referred to as "revenue sharing" (collectively, "offsets") associated with certain investment options offered under the Plans. These offsets have been used to pay the Plans' administrative costs on behalf of all participants in the Plans, even though some participants may not have been invested in the investment options associated with the offsets. This approach is a long-standing method of allocating expenses that has been used by many plans – governmental and private sector. However, following negotiations with Fidelity, the Board concluded that the new fee approach will enhance the transparency of how plan expenses are paid.

#### Changes

Effective, **March 31, 2017**, the Plans will be transitioning to less expensive investment options shown in the following chart. All existing balances and future designations will be transferred to the new fund option as of the close of business on **March 31, 2017**. Participants will not be charged a transaction fee and will not be out of the market for any time period. The transfer of balances will appear as an exchange on a Participant's account history and quarterly statement. If a Participant does not wish to transition to the new share class, they have until 4:00 PM Eastern Standard Time on **March 31, 2017** to elect a different investment option.

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#### Montgomery County Employee Retirement Plans

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<b>Current Investment Option</b>	<b>Expense Ratio*</b>	<b>Future Investment Option (as of March 31, 2017)</b>	<b>Expense Ratio*</b>
State Street Target Retirement Funds	0.35%	State Street Target Retirement Non-Lending Series Funds	0.12%
ClearBridge Appreciation Fund Class I	0.68%	ClearBridge Appreciation Fund Class IS	0.58%
ClearBridge Small Cap Growth Fund Class I	0.91%	ClearBridge Small Cap Growth Fund Class IS	0.78%
Fidelity® Growth Company Fund - Class K	0.66%	Fidelity® Growth Company Commingled Pool	0.43%
Fidelity® Total Bond Fund	0.45%	Fidelity Advisor® Total Bond Fund - Class Z	0.36%
Oppenheimer Global Fund Class Fund Class Y	0.90%	Oppenheimer Global Fund Class I	0.71%
State Street S&P 500® Index Non-Lending Series Fund Class E	0.13%	State Street S&P 500® Index Non-Lending Series Fund Class N	0.03%

\*Expense Ratio information is as of February 9, 2017. Expense Ratio is a fee stated as a percentage of a fund's total net assets and can cover administrative fees as well as an investment fund's annual operating expenses. The expense ratio is typically deducted from the fund's assets, resulting in a reduction in the fund's return and is therefore not separately accounted for on participants' statements.

The six investment options listed below will generate a revenue credit based on the Annual Crediting Rate percentages shown, effective April 1, 2017. A revenue credit represents a portion of a fund's expense ratio that was historically used to pay plan expenses. Effective April 1, 2017, this revenue credit will be allocated to participants invested in these funds on a periodic basis, generally at least quarterly, following the calendar quarter in which they were generated.

<b>Current Investment Option</b>	<b>Expense Ratio*</b>	<b>Annual Crediting Rate %*</b>
Fidelity® Low-Priced Stock Fund - Class K	0.78%	0.20%
Fidelity® Inflation-Protected Bond Fund	0.45%	0.20%
Fidelity® Small Cap Value Fund	1.22%	0.35%
Fidelity® Strategic Real Return Fund	0.82%	0.20%
Harbor International Fund Institutional Class	0.78%	0.10%
The Hartford Dividend and Growth Fund Class Y	0.64%	0.10%

\*Expense Ratio information and Annual Crediting Rate % are as of February 9, 2017.

Revenue credits will not be allocated to participant holdings in the Self-Directed Brokerage Window.

In addition to the changes noted above, a portion of the balance in each of the Plans' revenue credit account that has been generated during prior years will be allocated to participants pro rata based on participants' total account balance as of **March 31, 2017**.

## **The New Fee Structure, Effective April 1, 2017:**

1. Each participant's account in the RSP, DCP, EOP, MCGEO DROP, and DRSP will be charged a flat quarterly administration fee of \$17.
2. If a participant invests in an investment option that generates a revenue credit as noted in the above chart, the participant may periodically receive a revenue credit allocation, generally at least quarterly, based on the average daily balance in the eligible investment option for the quarter. Any revenue credit will be allocated at the end of each quarter, and will appear as a separate line item on your quarterly account statements.
3. The Plans' investment options' new, lower expense ratios will continue to cover fees for investment management services and other investment-related operating expenses of each investment option.

The Board believes the new fee structure will improve fee transparency and help participants to better understand the actual amount of administrative fees that are charged or credits allocated to their accounts.

The Board regularly monitors and reviews the costs associated with the services provided to the Plans and to participants. This policy change is intended to ensure that the program continues to provide consistent, quality levels of services and investment choices at the highest possible industry standard and at the lowest fee level. **Please note** that fees are only one of the variables to consider when deciding which investments are right for you. There are many considerations to be taken into account.

You may schedule an appointment with Fidelity by going to the Retirement website at [www.montgomerycountymd.gov/retirement](http://www.montgomerycountymd.gov/retirement). Click on the Investment Education and Counseling button along the left of the page and select a date and time that is convenient for you. Additionally, you can reach out to Fidelity at **(800) 343-0860** or directly to Fidelity's dedicated Retirement Planner at **(240) 777-8228**.

**Questions?** Contact the Board of Investment Trustees by email at [bit@montgomerycountymd.gov](mailto:bit@montgomerycountymd.gov) or by calling **(240) 777-8220**.

## **Administrative Fee Changes – FAQs**

**Q: Why are you recommending changes to the way administrative fees are being charged?**

*A: The new fee approach is designed to help you better understand and assess the fees you are paying. Prior to this change, the Plan's recordkeeping fees were paid through offsets attributable to one or more of the plan's investment options.*

**Q: How are my fees actually decreasing?**

*A: For all of the SSgA Target Date Funds in addition to 6 other mutual funds, we have worked to obtain the lowest possible expense ratio for each investment option currently available in the plans.*

**Q: Why is my quarterly statement now showing an administrative fee? This wasn't the case before the change.**

*A: Historically, your proportion of the plan's recordkeeping fees was paid through offsets attributable to one or more of the plan's investment options. There was no line item for an administrative fee on your quarterly statement. Moving forward, each plan participant will pay the same quarterly fee, regardless of which funds they hold.*

**Q: Do I need to take any action as a result of these changes?**

*A: No, these fee changes will happen automatically on **March 31<sup>st</sup>, 2017**. If you do not wish to transition to these new funds, you have until **March 31, 2017** at 4:00 PM Eastern Standard Time to elect a different investment option.*

**Q: Will some funds continue to generate a revenue credit?**

*A: Yes, there are six funds that only offer share classes generating revenue credits. However, revenue credits generated by these funds will be allocated back to participants invested in these funds periodically (generally at least quarterly) instead of being used to pay administrative fees. You will see this on your quarterly statement if you are invested in any of the applicable funds.*