

July 24, 2007

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5669
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, DC 20210
Attention: Fee Disclosure RFI

Via e-mail: e-ORI@dol.gov

Dear Sir or Madam:

State Street Global Advisors, the investment management arm of State Street Corporation ("SSgA"), appreciates the opportunity to comment on the Request for Information (the "RFI") issued by the Employee Benefits Security Administration ("EBSA") on April 25, 2007 and titled "Fee and Expense Disclosures to Participants in Individual Account Plans."

SSgA is the world's largest institutional asset manager with over \$1.9 trillion in assets under management.¹ SSgA has been providing investment management services for nearly three decades and currently manages more than 290 investment strategies from 11 investment centers and 25 offices across 5 continents. Our diverse client base within the institutional, sub-advised and intermediary marketplaces includes corporations, public funds, endowments and foundations and third-party distributors. SSgA is currently the fifth largest institutional investment manager for defined contribution plans².

SSgA supports the Department of Labor's efforts to improve the transparency of fee and expense disclosure associated with participant-directed plans, for both plan sponsors³, and for plan participants. Participants are entitled to full disclosure of any direct or indirect fees and expenses charged against their investments. Knowledge of these fees and expenses is an important element in choosing between investment options offered in a plan, and in reviewing the stewardship of the plan by plan fiduciaries. It is essential, however, that these disclosures be presented in a manner that is clear and understandable to plan participants, relevant to the decisions a participant needs to make, and in a consistent form, regardless of the underlying legal structure of the investment fund or its placement within a bundled or unbundled service arrangement.

¹ Pension & Investments May 28, 2007 Top Money Manager Ranking Pionline.com

² Pension & Investments July 17, 2007 DC Manager Ranking Pionline.com

³ For purposes of this comment letter, "plan sponsor" refers to the fiduciary or fiduciaries appointed to administer the plan by selecting and monitoring service providers and investment options.

Purpose of Participant Level Disclosures

In determining the appropriate content and level of fee and expense disclosures to participants, State Street is fully aware of the importance of the decisions participants make based on the information disclosed. These decisions have a profound impact on their accumulated wealth and ultimately the amount of replacement income during retirement.

In general, with the exception, perhaps, of participant directed activity in a brokerage account within the plan, decisions related to the range, number and types of investment offerings, and the type and range of administrative services provided are made by the plan sponsor. Increased fee and expense transparency should be aimed at providing the plan sponsor with information sufficient to assess the value of services to plan participants in each of these areas. Plan sponsor decisions in these areas require detailed disclosures and data related to fees and expenses, to allow them to properly exercise their fiduciary oversight, including disclosure of the component elements of both bundled and unbundled service arrangements.

While all of the information required by plan fiduciaries designing a plan may not be needed by all plan participants, it is still important that this information be made available to participants, at a minimum, on a request basis. Plan participants are entitled to this information, and transparency of the decision-making elements of plan design will allow plan participants increased ability to provide oversight and monitor the effectiveness of the plan sponsor.

The most fundamental decisions facing plan participants are:

- 1) whether, and at what level, to participate in the plan,
- 2) if they choose to participate, which investment options to choose, and
- 3) how frequently to rebalance or change their investment allocations.

These decisions are critical to the success of participants' retirement planning, and participants should be provided an appropriate level of fee transparency to help them evaluate their available fund options. Participants' decision making and discretionary authority over their accounts is influenced by many considerations and also by matters involving basic behavioral finance. The participant's individual actions are a significant source of determining the cost being charged against the individual's account, and the future value of the account.

As noted in several studies, including the recent GAO report⁴, even small differences in investment returns can have significant impact on retirement income. For example, for a savings plan with total assets of \$1.0 billion growing at 7% annually as a result of

⁴ Changes Needed to Provide 401(k) Plan Participants and the Department of Labor Better Information on Fees, November 2006

contribution activity and market appreciation, paying an extra 10 basis points annually (.10%), over a 30 year period, will result in lost income to retirees of more than \$200 million.

In most cases, plan fees and expenses are deducted from participants' investment returns. As a result, knowledge of the effects of these fees and expenses is an important element in a participant's choice of investments, particularly as assets grow. Nevertheless, providing too much information, or information in an unclear format, could lead to reluctance to participate in a plan or provide the needed oversight of accounts once participation is established. Establishing the appropriate level of fee and expense disclosure is a critical element in any rulemaking the Department of Labor may undertake in this area.

Context for Fee Disclosures

As noted above, SSGA supports the transparency of fee and expense disclosure associated with participant-directed plans to plan participants. In addition, we strongly support presenting any fee and expense information in the appropriate manner and context. Too much focus on investment fees and expenses could promote a tendency among participants to opt only for the lowest cost options, to the possible detriment of their ultimate retirement income. For example, it is generally accepted that some level of exposure to international funds is a prudent diversification strategy. However, by their nature, international funds require complex custodial accounting and reporting services, sub-custodians, foreign exchange services, and other additional services compared to a domestic fund, and, therefore, will likely have higher fees and expenses. Similarly, participants with a higher risk appetite may choose more actively managed funds, which seek to exceed, versus match, various benchmarks, and which likely have higher investment expenses.

Given the subject matter of the RFI --- fee and expense disclosure --- most of our comments today focus on the transparency of fee and expense disclosure associated with participant-directed plans. Nevertheless, we strongly believe that fee disclosure is only one element of the information a plan participant needs, and we urge the Department, should it decide to initiate rulemaking on fee and expense disclosures, to ensure that such disclosures be provided in a context which includes the full range of information plan participants need to make informed investment decisions, without excessively long disclosures or complex legal language. This new methodology should be applied equally to all fund structures (e.g. mutual fund, institutional fund, separate account, bundled fund, etc.), and providers of each type of investment vehicle should be obligated to gather and disclose information in a consistent fashion.

Principles for Participant Level Disclosures

SSGA supports the following general principles for fee disclosures:

- 1) Plan sponsors require detailed information on all fees and expenses, direct and indirect, paid to investment managers and service providers supporting a plan.

- 2) Participant level disclosures are the primary responsibility of the plan sponsor based upon information furnished from the various providers supporting the plan.
- 3) Participant level disclosures should be understandable, in “plain English,” focused on providing information needed by participants at an appropriate level of detail, and cost-effective.
- 4) Participant level disclosures should include educational information describing the types of fees and expenses deducted from investment returns, providing a glossary of definitions, and explaining that fees and expenses need to be evaluated in the context of the investment strategy and level of services provided. To avoid too much administrative burden or cost this should be accomplished no more than annually in print form and should be readily available in electronic form.
- 5) Participant level disclosures should, to the maximum extent possible, be comparable and uniform, regardless of the legal structure of the investment fund, or whether the fund resides within a bundled or unbundled service relationship.

Specific Recommendations

Form of Disclosure

SSgA recommends that participant level disclosures provide a consistent, comparable measure of fee and expense information to plan participants. Such disclosures should allow plan participants to easily understand investment performance net of all fees and expenses.

As noted above, this disclosure should include educational elements necessary for participants to make informed investment choices. We don't detail such information here, but such disclosure would include information related to investment objective, permissible investments, historical performance, risk level, and investment strategy.

SSgA recommends that fee and expense information be provided in a form that discloses, for each investment choice, all fees and expenses deducted from fund assets, and identifies, individually and combined, the investment management and administrative costs. Fees paid directly by plan sponsors, outside of fund assets, should also be noted, but not be included in the fee and expense calculation reducing investment returns.

This fee and expense disclosure should capture all forms of fees and expenses associated with operating the fund including:

- Investment management fees;
- Expenses related to revenue sharing, such as 12(b)1 fees or similar institutional arrangements;
- Fees deducted from participants' investments, such as front or back end sales charges (loads);
- Insurance related expenses for insurance products;
- Book value wrap fees;

- Transaction costs related to fund transactions, such as brokerage or clearing and settlement fees;
- Custodial and administrative charges.

While some of these fees and expenses may be aggregated into broader categories, the component elements should be sufficiently segregated to provide plan participants with information needed to make informed decisions, and presented in a manner which clearly indicates their effect on investment returns, giving plan participants an understanding of the component elements on the investment return net of fees.

Disclosures consistent across investment type

Plan sponsors can choose from a broad variety of investment types to offer plan participants. Self-directed plans can offer registered mutual funds, separate accounts, collective funds, stable value funds, variable annuities, employer stock, age related or “glide-path” funds, and other investment choices. For a variety of reasons, these types of investments are subject to a broad range of regulatory regimes, some of which may impose regulatory protocols inappropriate for other investment types.

Nevertheless, to the extent that an investment option, regardless of its legal structure, resides within a participant directed qualified plan, the new standard of fee transparency should be consistent. In all cases, information provided to participants should capture all expenses deducted from fund assets, regardless of the type of investment, and present this information in a clear, understandable form.

Some investment types currently provide fee information under existing regulatory requirements. Registered mutual funds, for example, under Securities and Exchange Commission (“SEC”) regulation, must provide investors a prospectus. The SEC rules for both the standard and simplified prospectus are very specific to the needs of registered mutual fund investors, at the retail level. Mutual fund prospectuses are not, and should not, be required for other types of investments, including institutional collective funds or insurance related products. The requirement for a prospectus for certain types of investments is not substitute for a simple, complete fee and expense disclosure to plan participants. Any new fee and expense disclosure requirements issued by the Department should be consistent across all investment types offered in self-directed plans according to a consistent set of methodologies, protocols and definitions. Funds created using a fund of funds structure, regardless of legal structure should also be held to the same standard, particularly given the likely growing importance of such arrangements under automatic enrollment programs.⁵

Bundled vs. unbundled products

SSgA supports uniform, consistent fee disclosures which accurately capture and distinguish between investment management, distribution and administrative expenses.

⁵ The Pension Protection Act of 2006 (“PPA”) contains several new rules that are intended to simplify and encourage automatic enrollment features in participant-directed plans (See PPA: Section 902).

We believe this information is vital for plan participants seeking to make informed investment decisions.

This need for transparency should apply equally to bundled and unbundled products. In a bundled arrangement, one where a plan sponsor chooses a recordkeeper with an affiliated or captive investment management capability, expenses charged against plan assets are generally disclosed in a form aggregating all (or some) of the administrative fees with investment management fees. In such an arrangement, it is often difficult or impossible, for a plan sponsor or plan participant to distinguish between investment management fees and administrative service fees.

Plan sponsors choosing unbundled products generally have access to the component elements of each form of expense.

Regardless of the choice between a bundled and unbundled product, we believe both plan sponsors and plan participants benefit from having available the major component elements of the expenses reducing investment returns. As a result, we recommend that any new fee disclosure requirement apply equally to bundled and unbundled products.

Thank you for considering our comments on the pending RFI. Achieving financial security in retirement is a significant challenge for American workers. As our nation's defined contribution system evolves, plan sponsors, service providers, investment managers, and regulators have the opportunity to take the lessons learned from our experience with both defined benefit and defined contribution systems to help provide greater retirement security for all workers. The fees and expenses incurred by a pension plan are an important element in the success of investment by plan participants. Improved fee transparency can be an important catalyst for improving the future retirement income of all retirees.

Sincerely,



William W. Hunt
President and Chief Executive Officer
State Street Global Advisors