

UPDATE!

REDEMPTION FEES MAKE THEIR WAY INTO QUALIFIED RETIREMENT PLANS!!!

What are Redemption Fees?

- Redemption fees are charged by mutual fund companies to discourage market timing by mutual fund shareholders. Such quick buying/selling/buying/selling places increased administrative burdens and costs on the mutual fund manager, therefore, on the other mutual fund shareholders.
- These fees should not be confused with loads, deferred sales charges, operating expenses, 12(b)1 fees, or so-called “redemption fees” that are established by investment custodians.
- Redemption fees are stated in the fund’s prospectus
- They are usually a fixed percentage of the sales amount (generally .5% to 2%)
- They usually cover only a relatively short period of time (maybe 5 to 180 days)
- They are usually stated as, for example: 1% on all sales within 90 days of that purchase.
- Different funds exempt different transactions from redemption fees
- Shares subject to redemption fees are virtually always based on a FIFO (first-in first-out) method of accounting

Aren’t redemption fees waived for retirement plans?

Not anymore! Market timing scandals in the last few years have caused the Securities and Exchange Commission (SEC) and other “watchdog” groups to scrutinize trading within qualified retirement plans. In response to this scrutiny and fear of the repercussions, mutual fund companies have taken action by the simplest means possible – to no longer waive pre-existing redemption fees for retirement plans or to institute redemption fees where there had been none.

Are there any problems with this change in the industry?

Definitely! A lack of communication between the mutual fund companies, investment custodians, investment advisors, third-party administrators, and employers has caused difficulty in communicating with the real customers – employees who are participants in retirement plans. The American Society of Pension Professionals and Actuaries (ASPPA) has written the SEC a number of times recommending that they streamline the redemption fees that could be charged to retirement plan participants. In time the process will become easier to understand and communicate. Until then, problems will abound as the industry struggles to know what funds charge what fees under what circumstances.

How will this affect plan participants?

Plan participants will not be affected at all if none of the mutual funds offered in their plan have redemption fees or if those fees are waived for any reason. For those plans that offer mutual funds that charge redemption fees, participants will need to be aware that exchanges (transfers) between mutual funds could cost them 1% to 2% of the amount they exchange. To better understand this, participants should have access to and read each offered mutual fund’s prospectus.

MVP Plan Administrators, Inc. is fully-compliant and able to track any and all redemption fees on the plans we administer.

We believe that redemption fees are a positive deterrent to market timing. MVP hopes that the ASPPA recommendations will be accepted by the SEC. These recommendations will ensure consistency and continuity in the application and processing of redemption fees. We will continue to communicate new developments as they take place.

If you wish to contact the SEC, you may email them at imocc@sec.gov. If you wish to contact ASPPA, you email them at asppa@asppa.org. You can also contact your United States Representative or Senator.

If we can help you in any way or answer any of your questions, please contact us at 1-866-687-6877 or at mvp@mvplanadmin.com.