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*Providing Retirement
Planning Services to
IBEW Local Union
Members for more
than 35 years.*



**Scarborough
Alliance Group**

A Division of PlanMember Financial Corporation

Understanding Investment Expenses

For more than 35 years, Scarborough has been conducting retirement workshops for IBEW members. As part of these workshops, we educate members about the impact that investment expenses can have on retirement accounts. According to attendee surveys, this has been the most eye-opening feature of our workshops.

Whether you are about to retire and are looking for a place to rollover your pension and 401(k), or are years away from retirement, we encourage you to be aware of the different types of expenses associated with your investments.

Annual Expenses

Mutual Funds have annual operating expenses that are built into the returns that are reported to shareholders. Different than other products where the more you spend, the better quality you may get, a mutual fund's costs do not necessarily purchase superior returns. In fact, the higher a fund's costs, on average, the lower its returns. Morningstar, an independent mutual fund rating agency, did a study in 2010 on how expenses predict success.* In every asset class over every time period tested, low-cost funds beat high-cost funds.

Mutual Fund operating expenses can vary greatly. An index fund could be 0.10% or lower while an actively managed specialty fund could have expenses exceeding 2%. Because expenses are often expressed as percentages, many people will say "a 1% or 2% difference isn't very much." However, these costs add up over time and can consume a meaningful amount of an investor's retirement assets (see chart).

Many advisors will show you mutual funds as part of a "Wrap Program." Portfolios of mutual funds are managed for an advisory fee. In this case, your total expenses include the mutual fund expenses plus the advisory fee. According to Morningstar, advisory fees generally range from 1% to 3%.

Variable annuities are another product marketed to people looking to rollover their retirement plans. According to the Morningstar Annuity Research Center, the average annual expense ratio for variable annuities is 3.33%. This includes investment management, mortality and expense risk as well as a living benefit rider. The annuity you consider could have higher or lower expenses so the prospectus should be consulted.

Upfront and Withdrawal Charges

Some mutual funds are "loaded" meaning they have either an upfront charge when purchasing it or a back-end charge if sold within a certain number of years. Variable annuities generally have surrender charges that can apply to withdrawals within a certain number of years.

If you would like assistance in comparing your investment alternatives, please feel free to contact me at the number above.

*Source: Morningstar® Fund Investor, SM August 2010.

WHY EXPENSES MATTER It's Just Math

	1 Year	10 Years	20 Years	30 Years	Runs Out
1% Fee	\$398,218	\$377,648	\$341,429	\$282,743	n/a
2% Fee	\$394,154	\$330,135	\$227,714	\$77,567	n/a
3% Fee	\$390,126	\$287,521	\$138,351	0	27 yrs, 3 mos
This illustration shows an initial deposit of:					\$400,000
It assumes a withdrawal of:					\$21,000 a year \$1,750 a month
And an annual return of:					6% for all plans
<small>(Before investment expenses are deducted)</small>					

Example is for illustration purposes only and is not an indication or guarantee of past or future performance of any investment. Illustration is intended to show how investment expenses could affect an investor's retirement account balance over time and is not intended to predict or project investment results.

Before investing, carefully read the prospectus(es) or summary prospectus(es) which contain information about investment objectives, risks, charges, expenses and other information all of which should be carefully considered. For current prospectus(es) call (800) 874-6910. Investing involves risk. The investment return and principal value will fluctuate and, when redeemed, the investment may be worth more or less than the original purchase price.

Asset allocation or the use of an investment advisor does not ensure a profit nor guarantee against loss.

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