404(a) annual participant fee disclosure
Frequently asked questions

Assisting plan sponsors

Q1. What must the plan sponsor of an ERISA-governed plan do to comply with the 404(a) participant fee disclosure regulation?
A1. The regulation requires plan sponsors to provide certain plan- and investment-related information to participants, beneficiaries of deceased participants with a balance, and eligible employees on an annual basis and certain fee and expense information to participants on a quarterly basis. Although Lincoln is preparing quarterly disclosures and a sample annual disclosure on behalf of the plan sponsor, the plan sponsor may need to edit portions of the annual disclosure that cannot be populated from the information contained in our recordkeeping systems.

Q2. What is Lincoln responsible for doing to comply with the 404(a) participant fee disclosure regulation?
A2. The plan sponsor has a fiduciary responsibility to comply with the participant fee disclosure regulation. Lincoln continues to help plan sponsors satisfy participant fee disclosure by making the web components available to participants and preparing a sample annual disclosure on behalf of the plan sponsor using the information contained in our recordkeeping systems. Lincoln helps plan sponsors satisfy quarterly fee disclosure requirements through the delivery of a redesigned participant retirement statement that displays the required fees on each statement.

Q3. Is there a penalty for not complying with the regulation?
A3. Although there’s no explicit penalty for not complying with the 404(a) participant fee disclosure regulation, a plan sponsor does have a fiduciary duty to comply. A breach of fiduciary duty could be a liability.

Q4. What steps has Lincoln taken to assist plan sponsors in complying with the 404(a) participant fee disclosure requirements?
A4. Each year, Lincoln creates a sample 404(a) annual participant fee disclosure document with the information contained in our recordkeeping system following the guidelines of the regulation. In addition, Lincoln has taken the following steps:
- We made web components available to both participants and non-participants
- We enhanced our retirement statements to include fee information

Beyond the requirements, Lincoln provided plan sponsors with the following:
- A Participant's Guide to Understanding Retirement Plan Fee Disclosure
- Newsletter articles

Q5. What steps has Lincoln taken to assist in the education of participants on the 404(a) participant fee disclosure requirements?
A5. Lincoln created A Participant's Guide to Understanding Retirement Plan Fee Disclosure, which has been included as a statement insert with quarterly participant retirement statements.
In addition, messages have been included on the quarterly participant retirement statements and in newsletter articles. We also provided a web-based informational presentation for participants.

Delivery of the 404(a) annual participant fee disclosure documents

Q6. Who should receive a copy of the 404(a) annual participant fee disclosure?
A6. The disclosure must be delivered to all plan participants, beneficiaries of deceased participants with a balance, and eligible non-participating employees.

Q7. Does the 404(a) annual participant fee disclosure need to be distributed to participants on the beginning date of the plan year?
A7. No; the only requirement is that the disclosure is to be delivered annually. For this purpose, “annually” means at least once in any 14-month period, without regard to whether the plan operates on a calendar year or fiscal year basis.

Q8. Has the timing for ongoing annual disclosure been determined?
A8. Yes. Annual disclosure must be furnished to participants no later than 14 months from the date the previous annual disclosure was provided.

Mailing of the 404(a) annual participant fee disclosure documents

Q9. Can plan sponsors provide the annual disclosure to their participants via email?
A9. The Department of Labor (DOL) has strict rules regarding electronic delivery. Email delivery is allowed as long as the plan sponsor adheres to the DOL rules for electronic disclosure delivery. **The general requirements are:**
- The plan sponsor must take appropriate measures to ensure that the system for furnishing electronic documents results in actual receipt of the information by participants
- The information must be written and presented in a manner that’s easily understood by the average participant
- The participant must have a right to request a paper disclosure document free of charge
- The participant must receive a notice of the significance of the electronically delivered document if the significance is not otherwise reasonably evident

With regard to consent to receive a disclosure electronically, the DOL regulation divides participants (including active and inactive participants and eligible employees) into two groups:

**Certain participants who are active employees** – A plan sponsor may disclose information electronically to active employees whose work duties require accessing an electronic information system if the general conditions are met.

**All other participants and eligible employees** – A plan sponsor may disclose information electronically if the following requirements are met:
- The person has affirmatively consented to receive documents through electronic media and has not withdrawn such consent
- In the case of documents to be furnished through the internet or other electronic communication network, the person has consented or confirmed consent in the electronic form that will be used to furnish documents and has provided an address for the receipt of electronically furnished documents (i.e., the person has demonstrated his or her ability to receive the information from the internet or other electronic communication network)
- Prior to consenting, the person is provided a clear statement indicating:
  - The types of documents to which the consent will apply
  - That consent can be withdrawn at any time without charge
  - The procedures for withdrawing consent and updating contact information
  - The right to request and obtain a paper version of an electronically furnished document
  - The description of any hardware and/or software requirements needed for electronic delivery
  - Certain information regarding system changes
The delivery methods must satisfy the general conditions (referenced earlier).

Q10. May a plan sponsor use funds from their forfeiture account to pay for the printing and postage costs incurred from mailing the 404(a) annual participant fee disclosure?
A10. Yes, if permitted by the terms of the plan. Printing and postage costs associated with delivering the 404(a) participant fee disclosure are reasonable expenses of administering a plan. A plan should be able to pay for such expenses from the plan’s forfeiture account. To do so, the plan sponsor needs to provide us with documentation to substantiate that the expenses were directly incurred in the administration of the plan.

Multi-vendor plans

Q11. Will Lincoln provide the annual disclosure to another vendor?
A11. No. Lincoln will provide the annual disclosure to the plan sponsor. The plan sponsor may forward the disclosure to another vendor, as desired.

Q12. Will Lincoln provide a data file of the annual disclosure information to the plan sponsor?
A12. No. Lincoln will make available a Microsoft® Word version of the completed disclosure document.

Q13. Can Lincoln receive a data file from another vendor and create one document which aggregates all vendor data?

Fees on quarterly participant retirement statements

Q14. What information does a participant see on his or her quarterly retirement statement?
A14. Quarterly participant retirement statements include a Fees and Expenses field under the Account Summary, Activity by Source, and Activity by Investment sections showing the dollar amount of the fees and expenses actually charged to or deducted from individual retirement accounts. For example, if a loan is initiated, the Loan Activity section will display more detailed fee information for the loan setup fee. In addition, a Fees and Expenses section was added, and more details are available in the Activity Details section, if applicable.

Q15. When will fees appear on a quarterly participant retirement statement?
A15. Fees appear if they’ve been deducted during the statement time frame.

Q16. Do investment fees display on the quarterly participant retirement statements?
A16. No. Investment fees aren't listed on the quarterly participant retirement statement. Investment fees are displayed in the comparative chart on the annual participant fee disclosure.

Q17. Do fees display on retirement statements for non-ERISA plans?
A17. No; 404(a)-compliant fee information will display on statements for ERISA plans only.

Q18. Can a plan sponsor request that fees be displayed on quarterly participant retirement statements for non-ERISA plans?
A18. No; 404(a)-compliant fee information will display on statements for ERISA plans only.

Annual participant fee disclosure document

Q19. What information does the annual participant fee disclosure document contain?
A19. The annual participant fee disclosure contains general information about the plan, including information about investment options available under the plan and fee and expense information. In addition, the annual participant fee disclosure contains comparative charts with performance data, benchmarking information, and fee and expense information about each investment option available under the plan.

Q20. What are the comparative charts?
A20. The comparative charts are a part of the 404(a) participant fee disclosure that provide information about investment performance and fees and expenses participants pay for variable and fixed investments. The charts are intended to allow participants to make an apples-to-apples comparison of fees and expenses between plans.
Q21. What information is included on the comparative charts?

A21. There are four comparative charts in the 404(a) participant fee disclosure. They include:

Chart 1 – Variable return investments
This chart focuses on the performance of investment options without a fixed or stated rate of return. It illustrates how these investment options have performed over time and compares the investments with the appropriate benchmark for the same time periods.

Chart 2 – Fixed return investments
This chart focuses on the performance of investment options with a fixed or stated rate of return. It illustrates the annual rate of return for each option, as well as the term or length of time a participant will earn the stated rate.

Chart 3 – Fees and expenses
This chart illustrates fee and expense information for the investment options listed in charts 1 and 2. This chart displays the total annual operating expenses (expenses that reduce the rate of return of the investment option) of chart 1. In addition, shareholder-type fees (fees that are in addition to the total annual operating expenses) are represented on the chart.

Chart 4 – Annuity options
This chart focuses on the annuity distribution options, if any, available under the plan. Annuity distribution options are insurance contracts that allow participants to receive a guaranteed stream of payments at regular intervals, usually beginning at retirement and lasting until death.

Q22. Why would a plan sponsor need to edit portions of the annual disclosure?

A22. Lincoln provides all the information we have on file that’s needed to support the disclosure. Some pieces of information, such as TPA fees, are not kept in our recordkeeping systems. Additionally, plan contact information may not be housed in our recordkeeping system or the information may not be the most up-to-date. Therefore, a plan sponsor will need to disclose information that isn’t maintained by Lincoln or that has changed.

Q23. If a plan has one or more TPAs, are TPA fees included?

A23. TPAs were given an opportunity to provide their fees to Lincoln. Lincoln populates the TPA fee page in the participant fee disclosure template with any information the TPA provided. If TPA fees weren’t provided, the TPA fee page is populated with $X.XX for the fee.

Q24. How will the plan sponsor edit the annual disclosure document?

A24. The document is available as an editable Microsoft® Word document, and the plan sponsor will be able to delete or edit text as needed using Microsoft® Word 2000 or newer. Note: Multi-Fund® Individual variable annuity, Multi-Fund® Select variable annuity, Multi-Fund® group variable annuity, Lincoln Group Variable Annuity, and Group Fixed Annuity plan sponsors will not have access to electronic versions of their participant fee disclosure and will need to request electronic versions from their account managers.

Q25. Do plan sponsors need additional software to view and edit the annual disclosure document?

A25. Plan sponsors will need Microsoft® Word 2000 or newer to edit the 404(a) participant fee disclosure document.

Q26. Is there a requirement to provide the annual disclosure in other languages?

A26. General ERISA disclosure rules may require a plan sponsor to provide assistance to plan participants who are literate only in a non-English language, if certain conditions are met. Assistance may not need to involve written materials. Lincoln provides disclosures in English.

Q27. What’s the difference between standard performance and net of fees performance?

A27. Standard performance includes surrender charges, if applicable, so it generally is lower than net of fees performance, which doesn’t include surrender charges.

Here’s an example using the American Funds Growth Income fund:

<table>
<thead>
<tr>
<th>Period</th>
<th>Standard performance</th>
<th>Net of fees performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-year</td>
<td>-10.68%</td>
<td>-2.81%</td>
</tr>
<tr>
<td>5-year</td>
<td>-3.98%</td>
<td>-2.27%</td>
</tr>
<tr>
<td>10-year</td>
<td>1.63%</td>
<td>2.12%</td>
</tr>
</tbody>
</table>
Notice the difference in performance in the 1-year number. The large surrender charge hampers standard performance.

Web disclosures
Q28. Who has access to the investment information on the web?
A28. Lincoln made the plan’s investment information available to participants and plan sponsors through a secure website. This includes active participants, eligible non-participating employees, and beneficiaries of deceased participants with a balance.

Active participants will log in with their user ID and password to see the disclosures. Eligible non-participating employees may access the disclosures following the instructions provided to them by the plan sponsor.

Q29. What information can a non-participating employee view on the web?
A29. For each plan investment, an eligible non-participating employee may view:
- Name of the issuer
- Investment objectives and strategy
- Principal risk
- Turnover rate
- Investment performance
- Fee and expense information
- Glossary of terms

Q30. How will eligible non-participating employees of a plan access the web components?
A30. Plan sponsors will receive in their cover letter and disclosure instructions that may be passed on to participants. The instructions will include the web address (URL), plan ID and plan name that may be used by an employee to access the plan fund information page.

Web glossary
Q31. What do the regulations say about providing a glossary of terms?
A31. The regulations require the plan sponsor to provide a general glossary of terms to assist participants in understanding their investment alternatives. As needed, Lincoln maintains and updates a general glossary of terms on LincolnFinancial.com.

ERISA vs. non-ERISA plans
Q32. Will an employer with more than one ERISA plan receive a separate annual disclosure for each plan?
A32. An employer with more than one ERISA plan will receive a separate disclosure for each plan.

Q33: How will I let Lincoln know if my plan status changes from non-ERISA to ERISA?
A33: Please notify your account manager of the change.

Sample documents
Q34. Is there a sample annual participant fee disclosure?
A34. Yes. Sample 404(a) annual disclosures may be requested from your account manager or from the Lincoln Customer Contact Center.

Miscellaneous
Q35. Will the Summary Plan Description (SPD) change to help plan sponsors comply with the 404(a) participant fee disclosure?
A35. No. Although some of the disclosures can be incorporated into the SPD, Lincoln does not use the SPD as the delivery vehicle for participant fee disclosure. This is due to the fact that timing requirements for SPD delivery are different from those for the participant fee disclosure for existing employees.

Q36. I made changes to my plan after distributing the 404(a) annual participant fee disclosure. Do I need to send a new disclosure?
A36. Changes to general plan information, administrative information, and individual fee information generally require you to notify participants and eligible employees of the changes no less than 30 days and no more than 90 days before the changes take effect. For example, if you add or remove an investment option from the plan’s investment fund lineup, you must notify participants of the change no less than 30 days and no more than 90 days before the change takes effect.
Changes to the investment comparative chart performance and fee information generally don't need to be disclosed mid-year (other than on the website). Under extraordinary circumstances, the duties of prudence and loyalty under Section 404 of ERISA may require you to inform participants and eligible employees of important changes to investment-related information before the next comparative chart is required under the regulation.

Q37. Will my advisor/TPA/consultant receive a copy of my disclosures?

A37. For Lincoln DirectorSM plans, TPAs, advisors, and consultants who have access to their clients’ websites will be able to access the 404(a) annual participant fee disclosure materials online.

For Lincoln Alliance® plans, intermediaries will need to contact Account Management to request copies of fee disclosure documents.

Q38. Can ERISA plan participant accounts that are excluded from that plan’s Form 5500 report filing also be excluded from 404(a) disclosure requirement?

A38. Yes, if certain conditions are met. The DOL specifically excluded 403(b) annuity contracts and custodial accounts that meet certain requirements (e.g., vested accounts issued to a current or former employee before January 1, 2009, for which the employer ceased to have any obligation to make contributions) from Form 5500 and DOL Regulation Section 2550.408b-2 ‘covered service provider’ disclosure requirements.

In DOL Field Assistance Bulletin No. 2012-02R, the DOL extended the rules for exempt accounts for Form 5500 purposes and covered service provider disclosure to the 404(a) annual disclosure requirements.

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