

# Co-op 401k Plan

AMERICAN UNIFORM 401(k) PROGRAM FOR COOPERATIVES  
Administered by Milliman



UPDATE EMPLOYEE BENEFIT NEWS FROM  
THE COOPERATIVE INDUSTRY

MAY 2009

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## Understanding fees important to 401(k) success

As a Plan Sponsor, one of the most important duties you have to your participants is to provide a Plan with investment options that makes comfortable retirement not just a possibility for your employees but a probability. In fact, as a Plan Sponsor, you are a fiduciary and liable for the decisions you make for your participants. As a Co-op 401(k) Plan sponsor, you have the advantage of the Fiduciary Board, elected and appointed members from the cooperative industry who assume the responsibility of giving cooperative employees the best possible plan.

Affordability, a word mentioned prominently in the Board's mission statement, is at the heart of the investment lineup decisions made by the Co-op 401(k) Plan Fiduciary Board. In fact, the first of three criteria for fund selection reads:

**Expense:** The Board looks for funds that have no loads and whose expense ratio is reasonable relative to its peer group.

While the guideline reads "reasonable" the Board has traditionally been conservative when selecting funds for the Plan. At a time when fund expenses were hidden behind enigmatic names and generally opaque to those on the outside, the Co-op 401(k) Plan Fiduciary Board chose funds with clear fees that kept the investment earnings of participants where they belong: in their accounts.

### Minimize expenses, maximize returns

As far back as 2003, Wall Street Journal contributor Jonathan Clements suggested that the best professional advice mutual fund investors can receive is to "keep it cheap." His comment drew scorn from brokers and financial planners whose fees were, at the time, quadrupling his suggested investment cost.

During prosperous times when investors routinely see double-digit returns, fees are easy to ignore. However, in a turbulent market, investors who may be losing or maintaining their account balances can hardly afford to watch even more money go to fund expenses.

Just choosing funds based on risk and potential returns is a difficult task for most employees. After all, few in the workforce are professional investors, and the market can be quite intimidating. Reading a fund prospectus in an enrollment guide requires employees to understand terms that few deal with on a daily basis. On top of all that, investors need to know how much of their hard earned savings is going toward fund expenses. When making investment choices, investors should be familiar with the fund's operating expense ratio (OER), "load" funds, 12b-1 fees, and redemption fees.

### Operating expense ratio

Each mutual fund in the market carries an expense ratio, or OER. This number represents the cost of fund administration such as account statements and fund management. Actively managed funds have fund managers and staffs who command salaries paid from fund fees. Typically actively managed funds are more expensive to investors than index funds, which automatically mirror the market-wide investments of a particular asset class and require little manage-

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ment. *Index funds makeup the backbone of the Co-op 401(k) Plan's model portfolios.*

## 12b-1 fees

An aspect of a mutual fund's OER is the 12b-1 fee. 12b-1 fees are charged for marketing and distribution expenses. Recently, 12b-1 fees have come under fire, being exposed as nefarious costs hidden behind a cryptic name. 12b-1's can be indicative of "retail" investment products with the intent to pay commissions to brokers and intermediaries. The Co-op 401(k) Plan Fiduciary Board uses institutionally priced investments, not retail investments.

On average, a mutual fund carries a 1% OER<sup>1</sup>. The average blended expense ratio of funds selected by the Co-op 401(k) Plan Fiduciary Board is approximately 0.30%. Only three of the 14 funds in the current lineup exceed a 1% OER (one such fund will be replaced in the second quarter 2009). Co-op 401(k) Plan funds are reasonably-priced, low cost investments.

## "Loaded" funds

A "load" is another word for a fee or commission that is charged to an investor when he is purchasing or selling shares of a mutual fund. Thus, a "load" fund is a fund that charges these fees or commissions, and a "no-load" fund is one that does not.

Sales commissions, or "loads," fall under shareholder fees, fees separate from the OER. A "front-end load" is a fee charged when an investor buys shares of a mutual fund; a "back-end load" is a fee charged when an investor sells shares. *The Co-op 401(k) Plan selects only no-load funds, thus minimizing sales commissions and fees paid by investors.*

## Redemption fees

Another type of fee that is not considered a "load" is a redemption fee. Redemption fees were put in place by the SEC to prevent market timing. After all, saving for retirement is a long-term process and trading mutual funds is not meant to be a rapid buy-sell transaction based on market fluctuations. Although short-term trading of mutual funds is legal, the practice can hurt investors by driving up

administrative costs. Redemption fees are limited by the SEC to 2.00%. Three funds within the Co-op 401(k) Plan

Fund	Ticker	OER
Galliard Stable Asset	N/A	0.20%
PIMCO Total Return Institutional	PTTRX	0.52%
Vanguard Wellington Admiral	VWENX	0.16%
Vanguard Windsor II Admiral	VWNAX	0.23%
Vanguard Institutional Index	VINIX	0.05%
American Funds Growth Fund R5	RGAFX	0.38%
JP Morgan Mid-Cap Value Select	JMV SX	1.16%
T. Rowe Price Mid-Cap Growth	RPMGX	0.78%
Heartland Value Fund	HRTVX	1.14%
Vanguard Small-Cap Index Admiral	VSISX	0.11%
Vanguard Explorer Admiral	VEXRX	0.23%
Dodge & Cox Internat'l Stock	DODFX	0.65%
Vanguard Internat'l Growth Admiral	VWILX	0.31%
Artisan International Fund	ARTIX	1.21%

charge redemption fees for short term trades: the Artisan International Fund (trades between 0-90 days 2.00%), the Heartland Value Fund (trades between 0-10 days 2.00%), and the Vanguard Internat'l Growth Admiral (trades between 0-2 months 2.00%).

## "Do I get more if I pay more?"

Participants with an appropriate asset allocation for their risk tolerance, diversification, mutual fund investing, and the use of index funds are just as likely as those investing in actively managed mutual funds to build a solid nest egg because of the additional costs involved.

Very few investors have accounts so complex that a brokerage firm or financial consultant would provide any return better than what is provided using these basic investing concepts. However, for those Co-op 401(k) Plan participants whose accounts do require professional management, Agri-Invest provides this service for a very competitive cost.

In addition to choosing only no-load funds with no 12b-1 fees, the Co-op 401(k) Plan Fiduciary Board employs an independent investment advisor who is paid a flat annual fee. Because the advisor has no affiliation with any mutual fund company and the investment choices of the Fiduciary Board do not affect his compensation, he can provide unbiased advice based solely on his professional opinion.

Milliman has always approached fee disclosure for the Co-op 401(k) plan in a forthright and straight-forward manner. For cooperatives that are not current Plan Sponsors, Milliman offers a fee analysis for your cooperative at no cost with no obligation. The analysis compares and contrasts the expenses, investment return, and services from your current plan with the Co-op 401(k) Plan. Call 800.652.6675 today to schedule a meeting with your Regional Client Service Manager.

<sup>1</sup>Size Really Does Matter, *www.fool.com*, Dec. 10, 2008

# Welcome Aboard!

Please join Milliman in welcoming the following cooperatives to the Co-op 401(k) Plan:

## **Co-op Energy, LLC**

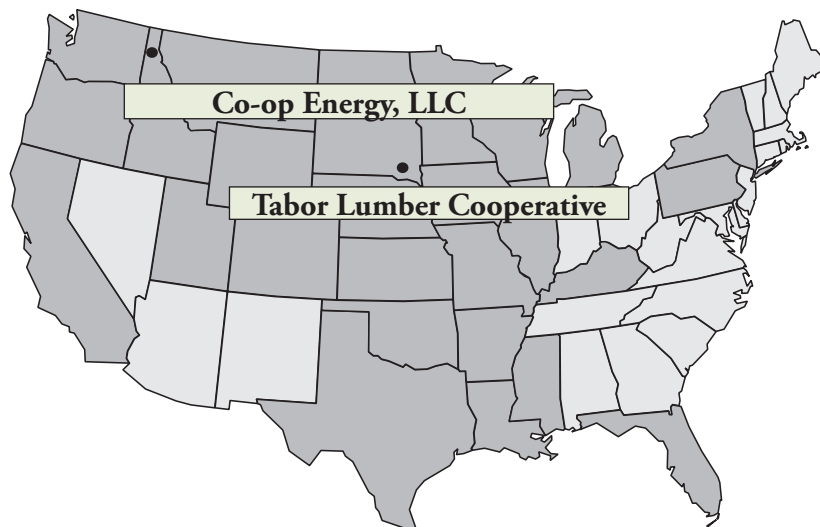
**Ponderay, Idaho**

General Manager: Richard Fiellen

## **Tabor Lumber Cooperative**

**Tabor, South Dakota**

General Manager: Daryl Feilmeier



## PlanBITS

### **Watch for information regarding Fiduciary Board Elections**

Milliman will be sending Plan Sponsors information regarding the upcoming Fiduciary Board Elections. Three districts will hold elections in 2009. Nomination materials, notices of election and ballots will be coming this summer.

### **Plan summer meetings with a service manager**

Summer is always a popular time to host educational meetings onsite, so be sure to book your Client Service Manager as soon as possible. The economy has become a popular topic from Wall Street to Main Street; make sure your employees are at the forefront of retirement savings.

### **Enroll your cooperative in ACH**

Milliman is still waiting for Plan Sponsors to complete forms to adopt ACH for transactions. Simply fill out the forms mailed to you in April and send them to Milliman to make your transactions fully electronic. If you need another copy please call Milliman at 800.652.6675 today.

INVESTMENT FUND UPDATE AS OF 4/30/2009

Asset Category	Investment Fund	NAV	3-month	1-year	5-year annualized	10-year annualized	Ticker symbol
Stable Asset	Galliard Stable Asset	\$22.087	1.10%	4.87%	4.88%	5.37%	N/A
Bond	PIMCO Total Return Institutional	\$10.22	2.30%	3.99%	5.70%	6.54%	PTRX
Balanced	Vanguard Wellington Admiral	\$41.15	4.10%	-22.36%	2.53%	3.67%	VWENX
Large-Cap Value	Vanguard Windsor II Admiral	\$32.39	4.35%	-35.57%	-2.08%	-0.26%	VWNAX
Index Stock	Vanguard Institutional Index	\$79.95	6.48%	-35.24%	-2.69%	-2.45%	VINIX
Large-Cap Growth	American Funds Growth Fund R5	\$21.56	11.59%	-33.48%	0.11%	2.97%	RGAFX
Mid-Cap Value	JP Morgan Mid-Cap Value Select	\$15.16	7.21%	-31.32%	-0.10%	8.30%	JMVXX
Mid-Cap Growth	T. Rowe Price Mid-Cap Growth	\$36.1	14.60%	-30.53%	2.21%	4.72%	RPMGX
Small-Cap Value	Heartland Value Fund	\$25.3	6.89%	-35.51%	-4.11%	7.17%	HRTVX
Small-Cap Index	Vanguard Small-Cap Index Signal	\$18.81	14.07%	-31.64%	-0.55%	3.29%	VSISX
Small-Cap Growth	Vanguard Explorer Admiral	\$41.1	12.17%	-32.21%	-2.00%	4.04%	VEXRX
Internal Large-Cap Value	Dodge & Cox Internal Stock	\$22.46	16.98%	-43.02%	2.98%	N/A	DODFX
Internal Large-Cap Blend	Vanguard Internal Growth Admiral	\$39.22	13.16%	-42.07%	1.87%	1.19%	VWTLX
Internal Large-Cap Growth	Artisan International Fund	\$14.96	13.08%	-43.22%	1.48%	3.14%	ARTIX
<b>Model Portfolios:<sup>2</sup></b>							
Conservative		N/A	2.12%	0.51%	4.45%	5.06%	N/A
Moderately Conservative		N/A	3.91%	-7.68%	3.27%	3.96%	N/A
Moderate		N/A	5.64%	-15.82%	2.05%	2.81%	N/A
Moderately Aggressive		N/A	7.31%	-23.91%	0.79%	1.60%	N/A
Aggressive		N/A	10.16%	-33.86%	-0.53%	0.57%	N/A

Fund performance figures were provided by Calliard Capital Management and Morningstar. Past performance is not a guarantee of future results. Returns for model portfolios are a blended return calculated by using the returns for the underlying funds in the portfolio. <sup>2</sup> Because five- and ten-year returns are not yet available for this share class of this fund, these returns are for the most similar share class available.

Looking for more information about the Co-op 401(k) Plan?

Complete this form and mail or fax today!

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Update is a monthly publication for cooperatives exploring retirement plan and employee benefit issues with special focus on the Co-op 401(k) Plan, a 401(k) program administered by Milliman's Minneapolis office. This publication is for informational purposes only and is not intended to render legal advice on the topics discussed.

Update Employee Benefit News for the Cooperative Industry



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