

MEMO# 10920

April 21, 1999

DOL ISSUES FINAL EXEMPTION AMENDING TRAK EXEMPTION

1 See Institute Memorandum to Pension Committee No. 84-98, dated December 8, 1998.
[10920] April 21, 1999 TO: PENSION COMMITTEE No. 30-99 RE: DOL ISSUES FINAL
EXEMPTION AMENDING TRAK EXEMPTION

The Department of Labor has granted a prohibited transaction exemption to Salomon Smith Barney to amend the previously issued exemption involving its Personalized Investment Advisory Service product, otherwise known as the TRAK exemption, PTE 94-50.¹ The final exemption includes the following provisions: (1) amendment of PTE 94-50 for corporate mergers that have changed the names of the parties described in PTE 94-50 to permit broader distribution of TRAK-related products; (2) implementation of a recordkeeping reimbursement offset system under the TRAK program; and (3) institution of an automated reallocation option under the TRAK program. The merger provision permits the organizations created by the subsequent mergers involving Smith Barney since the issuance of PTE 94-50, including those with Salomon Brothers and Citicorp Inc., to participate in the TRAK program. The recordkeeping reimbursement provision permits funds involved in the TRAK program to reimburse plan recordkeepers certain recordkeeping fees. The Board of Trustees of the funds has approved a recordkeeping reimbursement amount of \$12.50 for each investment position held by a participant. In addition, after applying such reimbursement to recordkeeping expenses charged by recordkeepers of the plans, any excess reimbursement is applied to reduce other fees and expenses, including, but not limited to, the plan-level investment advisory fee for asset allocation recommendations. If implemented, the funds would pay the appropriate reimbursement amount directly to the recordkeeper of the plan. The affected plan would then be required to pay only the balance of the fee. Finally, the exemption modified the TRAK program to include an automatic reallocation feature whereby an independent plan fiduciary could elect to have his current asset allocation adjusted automatically whenever the consulting group changes the recommended asset allocation model followed by a plan or participant. An independent plan fiduciary would be required to make such an election in writing. However, if the reallocation to be made in response to the consulting group's recommendation exceeds an increase or decrease of more than 10 percent of the percentage allocation to any one investment option, Salomon Smith Barney will not automatically readjust a plan account. Under such circumstances, a written notice would be sent to the plan fiduciary describing the proposed reallocation. If the plan fiduciary would like Salomon Smith Barney to automatically adjust the account, the notice would instruct the plan fiduciary to do nothing. However, if the plan fiduciary does not want to follow the reallocation recommendation, he or she must contact the financial consultant within 30 days. A copy of the final exemption is attached. Kathryn A. Ricard Assistant Counsel Attachment

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