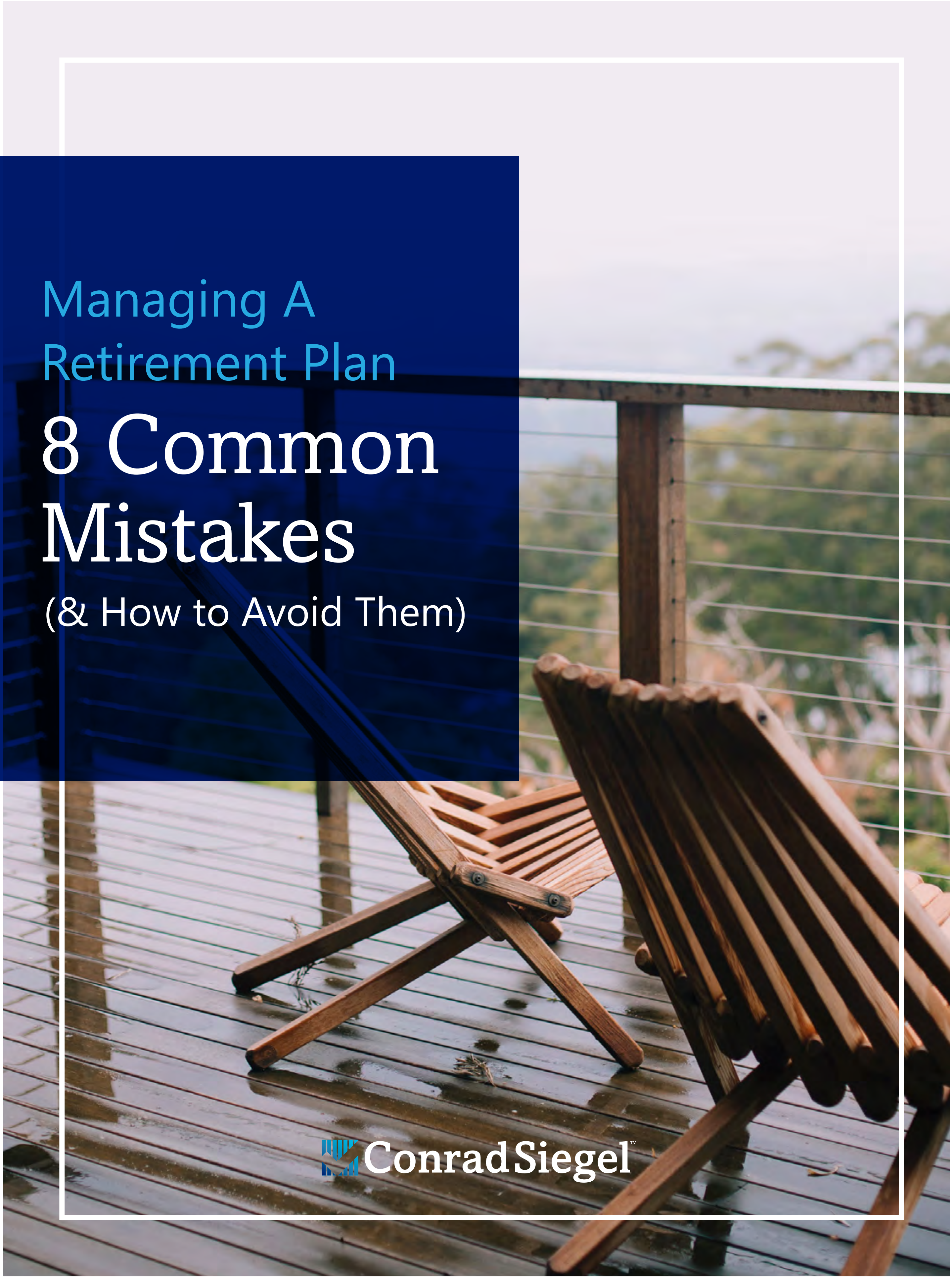
Managing A Retirement Plan

8 Common Mistakes

(& How to Avoid Them)



Conrad Siegel™

Managing a retirement plan has gotten harder. The retirement landscape is always changing, and you should be taking steps to ensure you are helping your staff achieve a secure retirement while limiting your fiduciary liability.

HOW TO USE THIS GUIDE:

Use this guide as a benchmark. Explore some of the more common retirement plan mistakes and how you (and your organization) can avoid them. As you read through each section - ask yourself, "Are we making this mistake with our plan?" And use this resource as a tool to create an even better retirement plan for your employees!

1

Not understanding the plan

Not knowing what it says in the plan document

- Consider reading the document and the Summary Plan Description (SPD) together; the SPD is a plain language version of the document and can help with clarity.
- If you don't understand something, ask your provider.

Running the plan based on the employee handbook

- Employee handbooks tend to be more general, and sometimes they can be in conflict with the plan document.
- One common example - your handbook may say "part-time employees are not eligible for benefits." But if your part-timers are credited with 1,000 hours in a year, you will most likely be required to let them in the plan.

Make sure you understand what your recordkeeper is counting on you to do.

Lack of clarity on the roles of the plan providers and sponsor

- You should know where the responsibilities of the plan providers end, and those of the plan sponsor begin.
- Make sure you understand what your recordkeeper is counting on you to do.

Improper determination of compensation for plan purposes

- Compensation is a complex plan issue.
- Compensation for plan purposes such as contributions and testing will be defined in your plan document.
- Using the wrong compensation to calculate contributions is among the most common plan administration errors and can be a tricky problem to fix, especially if something has been done incorrectly for years.

2

Not engaging participants,
especially in the remote work environment

Overlooking existing communication channels

- Remember the company newsletter, intranet, etc. These are some very easy ways to get the message across.
- Get creative – do you have scrolling messages on a monitor in the break room? Do you have regular meetings for other purposes where you could introduce a short segment on benefits?

Assuming that employees understand the plan, investing, etc.

- Keep the messaging on-point and simple.
- Provide "easy" investment options such as target risk portfolios or target retirement date funds.

There is a cost if your employees are not able to retire.

Thinking that "information" is the same as "education" or "communication"

- The DOL requires you to distribute certain information, but it is just that – information. It can be voluminous and overwhelming.
- It is important to actually engage and educate employees on investing for their retirement plans rather than just throwing information at them or telling them to go look for it.

Forgetting there's a cost if your employees are not able to retire

- You don't want your long-term employees to talk negatively about your company's retirement benefits in the community.
- You can have folks remaining in positions when they really would prefer to retire, but can't because they have not saved enough and/or invested wisely.

3

Not devising reasonable operational procedures

Losing sight of the path of a participant from hire to and through retirement

- Do not overlook the obvious – tracing the path of a hypothetical participant for his or her working life is a way plan sponsors can identify various critical points in a participant's life within the plan.
- For example - do you have a process in place to capture all eligible employees and ensure they get set up properly on payroll? What does your provider do? What do you need to do?

Not including relevant checks and balances

- Having good policies and procedures helps to ensure nothing gets missed, such as a 401(k) payroll deposit – a big issue for the DOL right now.
- You also want to ensure that there is no good opportunity for fraud. For example – is there the possibility that a fake employee record on payroll could go undetected?

Assuming that the provider is just "handling it"

- That is NOT a safe assumption; the plan sponsor is often responsible for certain tasks.
- It is important to have reasonable operational procedures and ensure that these different points are covered. Ask for clarification and suggestions from your recordkeeper and accountant if you are not sure.
- Read your provider's SOC1 audit report; look for the list of Complementary Controls (controls that user entities are supposed to have in place).

Not tailoring your processes to a remote work environment

- Explore paperless processes that your TPA and recordkeeper may offer to you, confirming that the right checks and balances are in place.
- Ensure that your CPA has what he or she needs for the annual audit, if applicable.

Identify relevant checks and balances.

4

Overlooking what plan design can do

Losing your perspective on the competition

- Assessing your plan in light of your competitors in the markets for workers can be helpful with employee recruitment and retention.
- Consider published surveys, or talking to your providers about what they are generally seeing in the plans they administer.
- Look at competitors' publicly available 5500 information, or pay your provider to do a short study based on this information.

Not knowing what your employees really want or need

- Send out surveys to employees, if appropriate (be cautious - you do not want to set unrealistic expectations).
- Look at hiring and turnover patterns for clues.
- Don't listen to the vocal few – fiduciaries must do what's best for all of the participants as a group, not just a handful of employees who want a certain plan feature or investment option.

Assuming that participants will do what's best for them

- Don't assume that employees will sign up just because the plan is there, and you have told them that it's a great opportunity.
- Automatic and default features (enrollment, escalation, investments, glide paths, etc.) can be very helpful in overcoming inertia, inaction and lack of investment knowledge.

Maintaining a complex plan or procedures because that's what everyone is used to.

- Are some plan provisions causing headaches with communication, tracking, or even compliance?
- Are your plan's administrative procedures too burdensome? Why are you doing things the way you do? "That's the way we've always done it" can be a dangerous idea.

Identify what your employees really want and need.

5

The Investment Policy Statement (IPS)

is too vague and not always followed

A certain degree of specificity is important

- Specificity adds clarity and consistency to the decision making process.
- If you're responsible for monitoring the investments, and you don't have clear criteria that outline how you're going to do that in your IPS, how can you actually fulfill that responsibility?
- An example would be: instead of saying the Plan will use low cost funds (which can be open to interpretation) state an actual expense ratio you don't want the funds to exceed, like 0.75%.

Know your IPS

- You should review this document at least annually to ensure understanding of your responsibility as well as a reminder of your criteria and monitoring process.
- Take a step back and think if there has ever been any confusion or misinterpretation by committee members. If so, you probably need to update the language and be a little more specific in certain areas.

IPS = The roadmap for investment selection and monitoring.

Once something is in writing, it should be followed

- It might actually be worse to have an IPS and not follow it than not having one at all.
- Make sure that you are reviewing the criteria outlined in your IPS. Sometimes vendors change, benchmarks change, or criteria might not be available any more. If any of these happen, the IPS may need to be updated.
- Make sure you are meeting as outlined in your IPS. If your IPS states quarterly meetings make sure you are meeting quarterly. If that's not possible you should update your IPS to reflect what you are actually doing.
- Retain records of your investment reviews to prove that you complied with the IPS.

Understand that revisions will be needed

- The IPS is a living document, you can't draft it and expect it to last forever.
- Industry standards change, committee members change, the organization's philosophy might change, and participant demographics might change.
- An annual review of the IPS is important. When updates are made, make sure it's reviewed by all Committee members.

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Not appropriately reviewing the QDIA

Needs to be a balanced fund

- A money market or stable value fund is not an eligible qualified default.
- A QDIA has to be a balanced investment option which contains both stocks and bonds.
- The most popular QDIAs are a suite of target retirement date funds or risk-based portfolios. A single balanced fund, while allowable, isn't the typical QDIA.

Know what's under the hood

- Not all target date funds or risked-based portfolios are created equally.
- They can differ in their asset allocation, diversification, underlying investments and fees.
- There is not a one-size fits all approach. Your responsibility is to determine which QDIA is most appropriate for your participants.
- You can't set it and forget it. The QDIA needs to be reviewed periodically to account for changes in industry standards and trends, fund availability, and participant demographics.

Understand the glide path

- The glide path is the mix of stocks and bonds that those investments have over time. For instance the target date fund might start out at 90% equity and become more conservative over time until it reaches 30% equity.
- Not all glide paths are the same and fund companies can change glide paths.
- You should know how your glide path looks compared to the industry average. If it is more conservative or more aggressive you should be documenting why that's appropriate for your participants.

Review the underlying investments

- Know if your QDIA is comprised of all index funds, all non-index funds, or a mix of the two.
- Know the asset classes found within your QDIA. Do they use alternatives, sector funds, or junk bond funds?
- Are they comprised of all proprietary investments or different fund companies?
- Does the construction of the QDIA make sense for your participants? Does the risk level seem appropriate?

Documentation is key

- There likely is not one QDIA that is ideal for everyone.
- Your committee members' responsibility is to ensure the QDIA is appropriate for your participants.
- The only way this can be done is knowing the makeup of your QDIA and documenting the rationale for why it is most appropriate for your participants.

Qualified Default Investment Alternative (QDIA) = The plan's investment default option. This is more important nowadays with the increase in automatic enrollment.

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Not knowing if your funds have revenue sharing

Revenue sharing can cause expense ratios to be higher

- Revenue sharing is more popular with non-index or actively managed funds.
- Index funds typically don't have revenue sharing because their expense ratios are lower and they don't have room to rebate anything back to service providers.
- Your responsibility as a fiduciary is to know the true and total cost of your plan, you can't fulfill that responsibility if you don't know if your investments have revenue sharing.

Revenue sharing can lead to fee inequality

- You need to make sure participants are paying fees in an equitable manner.
- If revenue sharing is used to pay providers' fees, inequality may exist.
- Take for example a plan with two investments; one index fund that pays no revenue sharing and one actively managed fund that pays revenue sharing. If the recordkeeper's fees are covered by revenue sharing, only those invested in the actively managed fund are paying a fee. That's not fair considering all participants are receiving the same services.
- Another example could include a plan with two investments; both actively managed funds one paying 0.25% in revenue sharing and the other 0.40%. While all participants will be paying something, the amount they are paying for recordkeeping services varies by their investment choices.

Your providers' compensation can be impacted by revenue sharing

- Revenue sharing can be handled in several ways and its your responsibility to know what's happening with those dollars.
- Historically it was common for recordkeepers to retain this revenue sharing as compensation for their services. Since this revenue sharing is a part of the expense ratio, often plan sponsors thought recordkeeping services were free.
- With the increased focus on transparency of fees, it's now becoming more popular to have this revenue sharing returned to participants invested in those funds.

Consider not using revenue sharing funds or have revenue sharing returned to participants automatically

- Using funds or share classes that don't pay any revenue sharing eliminates the issues addressed above.
- If from a diversification or performance perspective it is prudent to offer revenue sharing funds, have that revenue sharing returned automatically to participants.
- Once revenue sharing is returned to participants, the recordkeeping fee can be assessed equally to all participants, regardless of the investments they have chosen.

Revenue sharing = A portion of the mutual fund's expense ratio (not in addition to) that is rebated back to service providers.

8

Not understanding the retirement plan's total costs

Know your providers and what they are charging

- The most common fees to be reviewed include: custodial/trustee, recordkeeping, investment advisory, participant education, and mutual fund expense ratios.
- Understand the providers' fee schedules and how those fees are being paid. Know if participants or the plan sponsor is paying.
- Review invoices for accuracy especially if fees have changed recently or if you have a tiered fee schedule or multiple plans.

Consider a per participant fee and a basis point fee

- Recordkeeping fees can often be calculated as either a per participant fee or a basis point fee, which is a percent of plan assets.
- A per participant fee is typically more advantageous to participants with higher account balances and a basis point fee is generally more appealing to those just starting out.
- To help decide which is most appropriate for your participants, know the breakeven point (at what balance the participant would pay the same fee regardless of how it's calculated) and know what percent of participants have balances below and above this point.
- Document which method you have chosen and why.

Know your trend and how fees compare to peers

- Don't look at this year's fees in a vacuum. Make sure you know how they compare to the last few years. Document why fees have gone up or down over the last 3-5 years.
- Compare your fees to those of similarly sized plans.
- Know your procurement policies and make sure you are issuing an RFP (request for proposals) when you are required to.
- Understand that RFPs are time consuming and can be costly so consider an RFI (request for information) if you feel fees are out of line.

As a fiduciary it's your responsibility to know the true and total cost of the retirement plan and know that those fees are reasonable in light of services being provided.