InFRE® Retirement Plan Administrator Series

Fundamentals of Operations

Part 1

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FUNDAMENTALS OF OPERATIONS
RETIREMENT PLAN ADMINISTRATOR SERIES

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Workshop Overview

All individuals with responsibilities for a retirement program, especially those with a fiduciary role, should have a basic understanding of the operation of defined benefit (DB) and defined contribution (DC) plans.

This workshop provides an overview of the operational requirements of retirement plans and is specifically designed for individuals involved with public sector retirement plans.

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Course Topics

- Plan Administration
- Role of an Administrator
- Contracting Service Providers
- Administering Distributions
- Plan Amendments, Special Events, Post Retirement, and Designated Roth Accounts
- Nonqualified Deferred Compensation Plans
- Monitoring and Evaluation

Today's Webinar Agenda

- Text Book Chapters
  1. Plan Administration
  2. Role of an Administrator

Chapter 1

Plan Administration

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Internal Plan Management

- Scope of administration
- Record keeping process requirements
- Actuarial processes
- Plan audits
- Trustee processes

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Administration – Key Functions

- Determining eligibility
- Monitoring employee enrollments and actions
  - Investment selections (if applicable)
  - Beneficiary designations
- Coordinating with payroll departments
  - Deducting contributions
- Transmitting contributions to trustee/custodian
- Processing benefit payments

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Record Keeping Processes

- May be handled in-house or outsourced
- Generally applies to DC and certain hybrid plans that maintain individual accounts
  - Record and track contributions by type
  - Allocate or post investment earnings
  - Account for vesting schedule (if any)
  - Process loans, withdrawals, etc.
  - Reconcile account activity & issue statements

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Unbundled versus Bundled – DC Plans

- Unbundled arrangement
  - Generally includes multiple contractors
  - Investments are independent of administrative services provider
  - Employer retains more control over services, investment and cost
- Bundled arrangement
  - Single contractor generally provides a packaged plan
  - Employer delegates responsibility for the plan to contractor
  - It may be more difficult to identify and regulate plan costs

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Actuarial Processes – DB Plans

Goal of actuary is to determine

- The present value of accrued benefits
  - What plan sponsor would owe if plan was terminated
- Accrued liability
  - Total of prior years and current year costs
- Present value of benefits
  - Projected future benefits, valued to present
- Normal cost
  - Additional amounts participants accrued in current year

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Actuarial Duties

- Obtain census data on vested active and inactive participants and retirees
  - Date of birth
  - Hire date
  - Current pay / projected increases
- Gather asset information from trustee and fund managers
  - Contributions & earnings
  - Distributions & expenses

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Plan Audits – DB and DC Plans

- Financial audits
- Compliance audits
- Internal processes and systems (SAS 70)
- Governmental plans must comply with GASB; private sector complies with FASB

3/1-12

Types of Audits

- Limited-scope audit
  - Auditor relies on trustee's or bank's individual audit of its own investments
- Full-Scope audit
  - Transactions tested for accuracy and confirms plan asset holdings
- Self audits
  - May be handled in-house (internal auditors) or contracted out

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Trustee Processes

- Qualified plan requirement, unless the plan consists of annuity or insurance contract
- In the public sector, may be appointed or elected
- Trustees are plan fiduciaries

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DB Plan Funding

- Determined through actuarial analysis
- Plans subject to ERISA must comply with minimum and maximum funding rules
- Government plans generally funded with employer and employee contributions
- Actuarial reports contain information vital to determining plan funding

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DC Plan Funding

- Employer contribution generally set in plan document
- Employee deferrals must be deposited promptly
  - As soon as administratively reasonable, but a maximum of 15 business days
- State laws and local ordinances may set additional requirements

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Hybrid Plan Funding

- Funding characteristics of both DB and DC plans
- For example: Cash balance plans
  - Hypothetical account balances are established
  - Funding and calculation of contributions are determined through actuarial analysis
  - Funding is therefore subject to DB requirements

Forfeitures

- Amounts returned to the plan when employee terminates before vesting
- May be used by the plan to defray expenses or offset contributions
- In DB plans, actuary considers forfeitures in funding assessments

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RETIREMENT PLAN COSTS

One of the most important functions in plan administration is recognizing and monitoring plan costs.

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Retirement Plan Costs

- Fiduciaries must ensure costs are reasonable considering the level and quality of services provided
- Plan costs generally include
  - Administrative costs
  - Investment management costs
  - Trustee costs

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Administrative Costs

- Includes cost for
  - Record keeping and accounting
  - Technology (Web site, voice response)
  - Call center and counseling services
  - Plan communications
  - Retirement and investment education services
  - Benefits payment processing and distribution services

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Investment Costs – DC Plans

- Investment management costs generally identified as percentage of assets
- Commingled funds, separate accounts and institutional funds can provide lower cost option
- Revenue sharing arrangements negotiated when retail investments are used

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Trustee / Custodial Costs

- Flat rate basis for records processing
- Variable basis for security transactions / check writing
- Per-fund basis for net asset value calculations
- Asset basis for custody of individually managed funds (when trustee acts as custodian)

Fee Disclosure and Transparency

- Department of Labor issued regulations governing participant-directed DC plans subject to ERISA
- Government plans are exempt, but generally should consider these best practice guidance
- State laws may provide similar requirements on disclosures of plan cost

3/1-19

Provider to Plan Sponsor

- Governs type and timing of disclosures by providers to plan sponsor and requires
  - Fee disclosures in writing
  - Direct and indirect compensation identified with detailed description of services
  - Any potential conflicts of interest noted
  - Information about investments

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Plan Sponsor to Participant

- Governs type and timing of disclosures by plan sponsor to employees and requires
  - General explanation of plan and its procedures
  - Explanation of fees and expenses deducted from participant accounts
  - Quarterly statements showing amount deducted
  - Information about investment options including historical returns and operating expenses

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Technology Advancements

- Benefit programs are often integrated with human resource systems
- Information can be processed more quickly
- Technology improves efficiencies and can reduce overall plan costs

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Technology Uses

- Internet and Intranet are valuable tools
- Electronic funds transfer provides direct deposit option for contributions and distributions
- On-line enrollment, account management and benefit statements
- Multiple methods for communicating with employees and participants
- Educational resources (e.g., Webinars)

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Administration Trends

- Plan operations are becoming more complex
  - Demographics & retirement attitudes
  - Federal laws and regulations
  - Employee awareness
  - New technologies
  - Outsourcing and industry competition

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Today's Issues

- Improving plan funding
- Reducing employer costs
- Outsourcing considerations
- Monitoring plan costs
- Understanding revenue sharing arrangements

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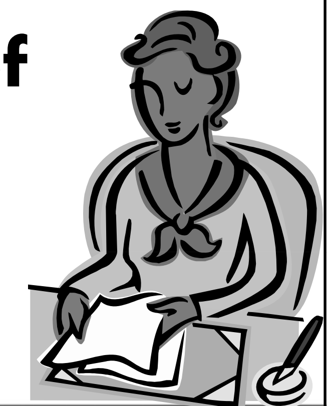
Chapter 2

The Role and Responsibility of a Plan Administrator



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Governing Structure

- Typically based on plan type, size of employer, public versus private sector
  - State statutes and local ordinances provide basic structure for public sector plans
  - ERISA governs private sector plans
- Members of decision making and advisor boards or committees are fiduciaries

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Boards and Committees

- Responsibilities may involve
  - Plan design
  - Administration
  - Compliance with laws and regulations
  - Investments
- Fiduciary responsibility may be shared by one or many separate individuals, boards and committees

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Investment Committee or Board

- In DB plans: directs and/or oversees the investment of the trust assets
- In DC plans: selects and monitors the plan's investment menu
- Members must comply with fiduciary standards
- Role and responsibilities should be defined in investment policy statement

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Policy or Benefit Strategy Committee

- May include executive-level members, division heads from various departments
  - Smaller employers may assign function to a single staff member
- Goal is to ensure sufficient input and approval on plan design / changes
- Responsibilities may include plan improvements, reducing costs, considering alternatives

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Administrative Committee

- May be assigned to plan administrator, instead of committee
- Committee members include
  - Individuals knowledgeable about all employee benefits
  - Represent various work areas
- Responsible for plan's day-to-day functions

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Educating Committee Members

- Education is key to ensure fiduciary responsibilities are met
- Ignorance is not an acceptable defense against breach of fiduciary duty
- Education should cover
  - Fiduciary standards
  - Member's role and responsibility
  - Potential liability for breach of duty
- Training should be provided by an expert and documented

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Fiduciary Protections

- State statutes and local ordinances should be examined
  - May provide certain indemnification provisions for board/committee members
  - May require certain bonding or insurance coverage
- Fiduciary liability insurance provides another option to protect board and committee members from personal liability claims

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Additional Protections

- Select board, committee members carefully and monitor their actions
- Outsource to experienced, reputable firms
- Monitor plan and contract compliance
- Conduct regular performance reviews
- Conduct annual audits

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Identifying Fiduciaries

- ERISA definition is anyone who
  - Exercises discretionary authority or control over the management of the plan and/or plan assets
  - Renders, or has the responsibility or authority to offer investment advice for a fee or other compensation, direct or indirect for any of the plan assets
  - Has discretionary authority or responsibility in the administration of the plan

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Identifying Fiduciaries

- Fiduciary may be designated by name or function
- Responsibilities may be delegated to others
- Individuals giving advice or making recommendations may also have a fiduciary role

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Who is <u>not</u> a fiduciary?

- Individuals who have responsibility to
  - Apply plan rules in a non-discretionary manner to determine eligibility
  - Prepare employee communication materials
  - Calculate benefits according to rules found in the plan document
  - Receive contributions and apply them as required by the plan

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Fiduciary Duties

1. Act solely in the interest of plan participants and beneficiaries
2. Maintain the plan and its assets for the exclusive purpose of providing benefits
3. Act with care, skill, prudence, and diligence as a prudent person would in a similar circumstance
4. Diversify the plan's assets to minimize risk unless it is clearly prudent to do otherwise
5. Act in accordance with plan documents and other governing instruments

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Fiduciary Responsibilities

- Control and manage plan operations and administration
- Establish the plan in writing
- Maintain assets of the plan in trust, unless held in an annuity or insurance contract
- Ensure plan complies with all federal and state laws

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Plan Must be in Writing

- Ensures employees can determine their rights under the plan; identify responsible parties
- Document includes procedures for
  - Plan funding
  - Operation and administration
  - Benefit distribution
  - Plan amendments

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IRS Determination Letter

- Generally considered best practice for plans of public sector employers; required for private sector plans
- Confirms that qualified plan rules are met
- Failure to comply with federal laws/regulations could
  - Jeopardize tax status of plan assets
  - Subject employees to tax liabilities
  - Subject employer to tax penalties

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Duty to Monitor

- Generally assigned to board, committee, plan administrator or outside expert
- Monitoring priorities include
  - Investments and investment managers
  - Changes in governing laws and regulations
  - Plan compliance

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Communications

- The plan sponsor is responsible for communicating the plan to participants
- Responsibility may be handled in-house or outsourced
- Effectiveness of communication and education programs should be monitored and evaluated

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In-House or Outsourced

- Typically depends on employer resources
- In-house material is typically customized to meet specific employee benefits
- Outsourced material may be more cost effective through economies of scale
- Communication approach should involve multi-media solutions

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Communication Strategy

- Consider target audience
  - Geography
  - Work schedules
  - Nature of workforce: transient versus stable
  - Education levels
  - Primary language
  - Type of plan
  - Organization and management attitudes

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Strategy Considerations

- How easy, or complicated is the plan and its benefits?
- Where are employees located; what are their normal work hours?
- What is the average education level of the workforce?
- What is the diversity of the workforce and are alternate language materials needed?

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Communication Goals

- Motivate desired actions and explain procedures
- Improve employee perception and appreciation
- Increase employee participation and deferrals (DC plans)
- Demonstrate benefit levels

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Communication and Education Tools

Best communication programs use a variety of methods and channels

- Personal letters
- Booklets
- Webinars
- E-mail
- newsletters
- Intranet / Internet
- Calculators
- Posters
- Group meetings
- One-on-one counseling

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Outsourced Communications

- Customized: Provides most control for employer and can be most effective; also may be most expensive
- Personalized: Provides some customization but employer may have little control over all content
- Generic: Although may provide excellent education, will only provide generalizations based on the type of benefit program

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Communication strategies are based on the plan type – DB, DC or hybrid

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DB Plan Communications

- Can be more complicated than DC plan
- Benefit value is not always obvious
- Illustrations and examples can be effective in communicating benefit value
- Personalized projections of monthly benefit values can be effective communication tools

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DC Plan Communications

- Communications must go beyond explaining plan and its features
- Education goals include
  - Motivating employees to enroll
  - Explaining investment objectives and choices
  - Helping participants with investment and payout decisions

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Hybrid Plan Communications

- Communications can be more important
- DB or DC category will dictate the communication goals
- Communication approach draws on elements from both DB or DC

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Operations / Procedures Manual

"I am not quite sure how we handle that. Jane always took care of those and she doesn't work here anymore"

- Administrative
  - Ministerial functions
  - Discretionary actions
  - Appeals process
- Communications
- Forms and brochures
- Vendor roles and contracts
- Disaster recovery
- Plan amendments

3/2-26

Role of Other Professionals

- Many professionals provide various service for the plan
- Services may be retained in-house or outsourced
- Only specific experts are authorized to represent a plan before the IRS
  - Attorneys
  - Certified public accountants
  - Enrolled actuaries

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Retirement Professionals

- Attorney
- Accountant
- Actuary
- Auditor
- Consultants
- Educational consultants
- Investment consultants
- Investment managers
- Trustees
- Record keeper

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Future Webinars

November

- Contracting Service Providers
- Administration of Distributions

December

- Administration Issues: Plan Amendments & Special Events
- Nonqualified Deferred Compensation Plans
- Plan Monitoring and Evaluation

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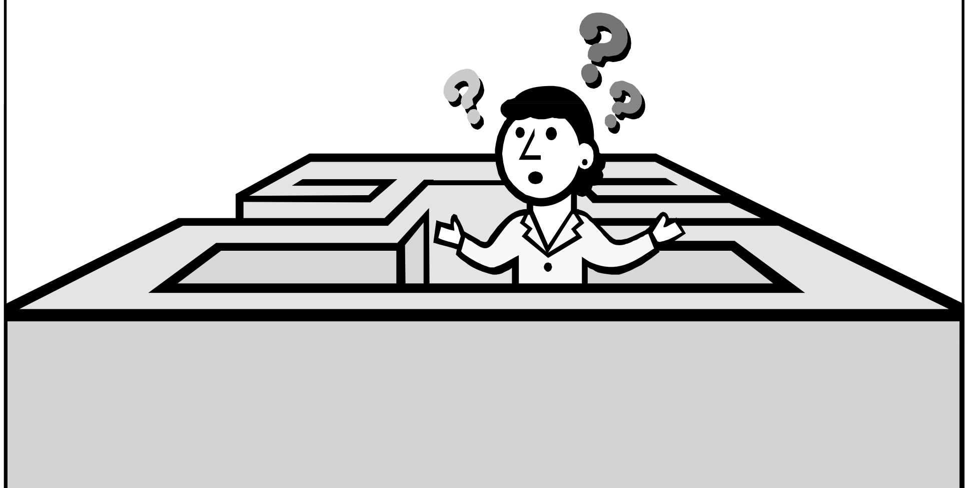
Any Questions?



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