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LIFT RETIREMENT

NEWS AND INFORMATION
FOR EMPLOYERS

PROCESS DESIGN
CAPITAL MANAGEMENT

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Employers, do you sponsor a company 401(k) plan?
If so, when was the last time you compared your plan to similar plans and reviewed participation, fees, and service providers? Let's review 401(k) benchmarking and best practices!

#401k #benchmarking #participationrates #retirementplan #fiduciary

BENCHMARKING YOUR 401(K) FUNDS

Benchmarking is a retirement plan best practice that allows plan sponsors the opportunity to "take a peek under the hood" of their 401(k). The process allows you to compare your plan to similar plans, measuring key metrics such as participant saving and participation rates, fee reasonableness and service providers. Benchmarking should be a key part of your due diligence process and there are four main areas to focus on when assessing your company's retirement plan. They are:

1. **Plan Design**
2. **Service Providers**
3. **Funds**
4. **Fees**

Each aspect of your plan requires a slightly different set of research, analysis, questions and documentation process. In this article, we are going to focus on the best practice of benchmarking **Funds**.

FUNDS

To get started, let's use a familiar analogy. If your company's retirement plan was a car, then the plan's investments would be like the components and features of your vehicle. They would range from the engine and power steering, to features like back-up camera, cruise control, power windows, Bluetooth, and more. The features you select will depend on your preference and driving needs. However, for now, let's begin with the typical car model – or in the 401(k) world, we call these investment menu options the 404(c) list of funds.

The typical 401(k) investment menu includes five (5) investment categories:

- Large Cap
- Small Cap
- Bond
- International
- Stable Value / Money Market

In the car industry, that could be comparable to:

- Engine
- Transmission
- Sound system
- Wheel/tire package
- Interior

While all of these are necessary for the car to run, there are typically options with each selection. Just like a car, your investment menu may offer different types of investment categories. While searching for appropriate investments for your plan, it is a best practice to speak with an investment professional for support. They can help to find, narrow, and provide a list of investment options that aim to meet the objectives of the plan and diversity of the participants.

With the basic mechanics of your 404(c) list established, it's time to actively monitor, or benchmark, them.

Additionally, it's important to remember that each participant has a different retirement time horizon and risk appetite. Therefore, when plan fiduciaries are selecting the investments for the plan, it's important to consider different investment options that are in the best interest for the variety of the employee population.

BENCHMARKING BEST PRACTICES:

- **Implement** an Investment Policy Statement (IPS)
- **Create** criteria for fund selection and removal within the plan
- **Monitor** the investment menu
- **Evaluate** the cost associated with each investment
- Possibly **hire** a 3(38) Investment Manager
- And very importantly, **document conversations**, notes and actions

One investment option to consider is a Qualified Default Investment Alternative, better known as a QDIA. This is a particular investment fund that encourages employees to invest in long-term savings options. Adopting a QDIA can help plan sponsors manage exposure to liability from the investment decisions (or lack thereof) made by their plan participants. Without one, fiduciaries could be held liable for losses when a participant fails to actively direct their investment.

QDIA regulation states that plan participants have exercised control over the assets in their retirement accounts if, in the absence of a participant's investment instructions, the plan sponsor invests those assets in a QDIA. This serves as a safe harbor for the plan sponsor. There are four different types of approved QDIA funds:

Target date fund: Creates an investment model based on participant's age, retirement date and life expectancy.

Balanced fund: A fund that offers a mix of equity and fixed income investments.

Professionally managed account: This is actively managed by investment managers and provides an appropriate asset mix of equities and fixed income for each individual participant; this also takes into account the primary decision factors of age, retirement date, and life expectancy.

Stable value fund: This serves as a capital preservation product for the first 120 days of participation and offers an option for plan sponsors who want to simplify administration if employees opt out of participating before incurring additional tax.

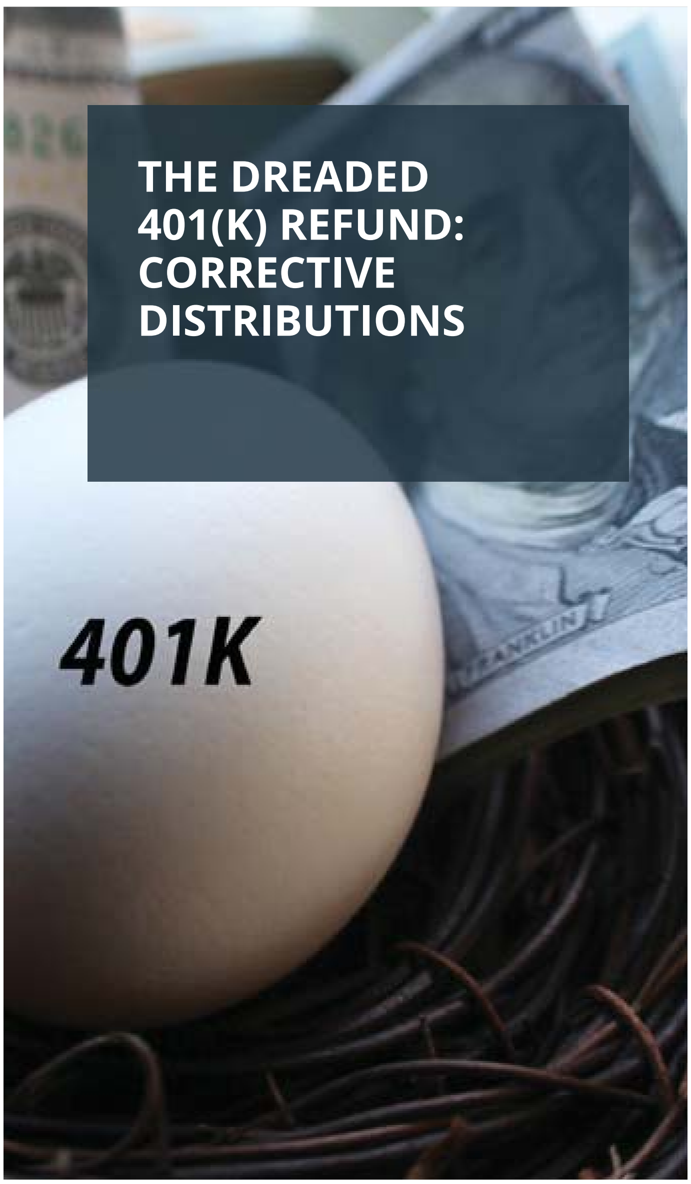
Take the time to document each investment. Also, if you have questions or want to talk through strategies, we can help.

A key goal of a retirement plan is to provide employees with a suitable vehicle that, like a car, can fuel their drive toward a successful retirement destination.

401(k) Refunds: Understand testing requirements and what to do if your testing fails, and ultimately how to prevent 401(k) refunds.

#401krefund #correctivedistributions #testing #safeharborplan #refundseason

THE DREADED 401(K) REFUND: CORRECTIVE DISTRIBUTIONS



401K REFUNDS: NOT AS GOOD AS THEY SOUND

With tax season fresh in our minds, many hear the word refund and begin running down their imagery wish list of ways to spend this extra money. However, when it comes to 401(k) refunds, or corrective distributions, the excitement should be dialed back.

Corrective distributions are a headache for plan sponsors and employees alike. Essentially, these refunds mean that your plan has failed testing, and tax deferred money that key employees set aside for retirement has to be returned to them. This is an issue for both you and your employees, in this article we are going to discuss what to do if you fail 401(k) testing and options

HIGHLY COMPENSATED EMPLOYEES

Your workforce is made up of two distinct employee demographics: highly compensated employees (HCEs) and non-highly compensated employees (NHCEs), also known as “rank-in-file”. An HCE is one who owns 5% or more of the company, a direct family member of an owner, or earns more than $120,000 per year and NHCEs make up the remaining portion of your workforce.

These two groups share a common goal of reaching retirement, and although HCEs may be able and willing to contribute more, your plan should be designed with both parties in mind. The IRS requires that both highly compensated plan participants and rank-and-file plan participants contribute to their 401(k) plans at similar rates.

UNDERSTANDING TESTING REQUIREMENTS

If the idea of calculating and comparing percentages send you down a path of traumatic flashbacks of math class, don't worry. Our goal is to simplify and educate, not overwhelm. If you have more questions, we are happy to have that conversation.

ADP TESTING

ADP stands for actual deferral percentage; this test compares the average of salary deferral percentages for HCEs with the average of salary deferral percentages for NHCEs. The ADP test applies to pre-tax and Roth elective deferrals. The purpose of this test is to ensure that all employees are benefitting from the plan. To pass ADP testing, the average contributions of HCEs must not exceed NHCE contribution by a factor of 1.25 or 2 percentage points as illustrated in the chart below:

Maximum Annual NHCE Contribution Rate		Maximum Annual HCE Contribution Rate
2% or less	→	NHCE% x2
2-8%	→	NHCE% +2
more than 8%	→	NHCE% x1.25

ACP TESTING

ACP stands for actual contribution percentage test; it is similar to the ADP test, only it tests employer matching contributions. So, ACP only applies to companies that offer a company match. It compares the average of the percentage of matching contributions and after-tax employee contributions for HCEs versus NHCEs.

TOP-HEAVY TEST

Top-Heavy test looks at how much HCEs contribute to the plan compared to everyone else. If Key Employee balances exceed 60% of the entire plan balance at the end of the plan year, the employer is required to make a 3% contribution to the non-key employees to be non-discriminatory.

WHAT IF TESTING FAILS?

401(k) test failures are no fun for anyone, it requires swift action for employers and plan sponsors. To correct plan failures, additional contributions may be required or corrective distributions would need to be made which means pre-tax savings returned, requiring owners and key employees to refile their taxes... talk about a nightmare!

CAN TESTING BE AVOIDED?

A Safe Harbor Plan eliminates the need for non-discriminatory testing. They automatically pass ADP/ACP testing when certain contribution and participant notice requirements are met. To fulfill the requirements, employers must make one of the following contributions:

Basic matching – The company matches 100% of all employee 401(k) contributions, up to 3% of their compensation, plus a 50% match of the next 2% of their compensation.

Enhanced matching – The company matches at least 100% of all employee 401(k) contributions, up to 4% of their compensation (not to exceed 6% of compensation).

A non-elective contribution of not less than 3% of compensation is made by the employer to all eligible employees, regardless of whether they defer under the 401(k) arrangement. The 3% contribution must be set by the plan document and may provide that this contribution be made to only Non-Highly Compensated Employees.

QACA safe harbor match – The QACA safe harbor matching contribution formula is a 100% match on the first 1% of compensation deferred and a 50% match on deferrals between 1% and 6%;

- A two-year cliff vesting schedule may be applied to QACA safe harbor contributions; and

-Unless the participant elects otherwise, the deferral rate starts at no less than 3% and increases at least 1% annually to no less than 6% (with a maximum of 10%).

While a Safe Harbor plan allows owners and highly compensated employees to maximize deferrals, they do require specified employer contributions, and all contributions are immediately vested. Another factor to consider is distribution of employee communication, plan sponsors are responsible for notifying participants of their plan rights and obligations within 90 days of their plan eligibility date and 30-90 days before the start of each new plan year thereafter.

SHOULD WE HAVE A RETIREMENT PLAN COMMITTEE?

If you are an employer or employee who has decision-making authority over your company's retirement plan, there is a strong chance that you are a 401(k) **plan fiduciary.**

Teamwork makes the retirement dream work. Should you have a retirement plan committee in your workplace?

#

#teamwork #retirement #401k #401kfiduciary #plansponsor #401kbestpractices

You have a legal obligation to operate the plan solely in the interests of the plan participants (people with retirement account balances) and their beneficiaries (people who may inherit those retirement account balances). Additionally, two other primary responsibilities are to manage the plan for the exclusive purpose of providing benefits and paying reasonable plan expenses.[1]

Many HR representatives, Controllers, CEOs, CFOs, and Presidents are unfamiliar with the significant amount of liability to which they are exposed with their duties regarding their company's 401(k) plan. **Establishing a retirement plan committee might be a resourceful cornerstone for the oversight of your company's retirement plan.**

QUESTIONS TO BEGIN

When considering if a retirement plan committee could be beneficial for your organization, start by asking a few questions:

- When was the last time your company's plan was formally discussed?
- Who makes your company's retirement plan decisions?
- Is it one person?
  - If one person, do they have the care, skill, and expertise to make well-informed, documented decisions?
- Is it a group of people?
  - Is it a formal or informal group?

1 "Health Plans & Benefits: Fiduciary Responsibly." United States Department of Labor. 7 Feb 2018

> Does the group meet regularly? If so, is there a designated person who takes meeting minutes? If not, how would the committee defend their decisions in a court of law to prove they were acting in the best interests of the participants?

Plan fiduciaries have a continual and ongoing responsibility to monitor the plan.[2] Therefore, if there was any hesitation over these questions, maybe it's time to speak with a professional to learn more.

SETTING UP A COMMITTEE

If you believe a committee might be a good way to establish plan accountability, reduce liability exposure, and share the task work responsibility of plan management, here are some next steps to consider.

— **Create** a written charter that clearly defines the roles of committee members.

— **Establish** an investment policy statement (IPS). While an IPS is not required, it is highly encouraged.

— **Form** criteria for the selection of committee members. It may be best not to include names within the charter; however, it is common to include job titles of personnel expected to be involved with plan decisions (e.g. CEO, CFO, and President).

— **Keep and Maintain** documentation of all meetings. Store information in a central location for accessibility. If there is a change of committee members, these files should be easily located. A friendly reminder: plan data should be kept on file for **7 years.**[3]

— **Meet** regularly and discuss plan information such as investments, expenses, services, and purpose.

Helping govern your company's retirement plan is a big responsibility: you have the power to directly impact future retirement outcomes. It is important to take this role seriously. By establishing a committee, it might be another way that your company can strive to increase the preparedness of your workforce and place them on the path toward a secure retirement!

2 "Tibble et al v. Edison International." Supreme Court of the United States. 18 May 2015.

3 "29 U.S. Code § 1027 - Retention of records." U.S. Code.

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ABOUT

We are the premier 401k plan specialist in Arizona, providing state of the art plan design, management and employee education to assure maximum employee participation and satisfaction. We believe all employees should have the opportunity to secure a financially sound retirement and we manage the plan solely for the participants so they may achieve their goals.

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This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements and you should consult your attorney or tax advisor for guidance on your specific situation.