401(k) Plan Health

Practical Guide for 401(k) Plan Fiduciary

Pension Maxima
Investment Advisory, Inc.

How to reach positive retirement outcomes for each participant in the maddening world of limited time and competing resources

Contents

Plan Objective

What is the objective of setting up a retirement plan? The very first reason is often to recruit and retain loyal staff. However, once the plan has been established, the ongoing plan objective is to build a fiduciary governance process to keep the plan in compliance and to assist participants for a positive retirement outcome regardless of the future.

Plan Success Benchmark

1. Participation rate%
2. Deferral Rate%
3. Replacement Income %

Putting Inertia to Work

Understanding participant behavior and applying the right tool set to save and invest.

Leverage on Plan Design:

1. Automatic enrollment at 6%
2. Automatic increase
3. Retroactive automatic enrollment
4. Default into target Date Funds
5. Stretching out Plan Match

(Example: instead of 100% on the first 3%, change it to 50% on the first 6% to induce additional savings)

The study of behavioral science tells us that sometimes we are predictably irrational. Although we know what are the right decisions to make that will lead to better outcomes, our decisions do not necessarily reflect our thinking. This applies to dieting, exercising, also saving for retirement. A little nudge and applying the right tool set can make all the difference.

Plan sponsor can facilitate by applying some auto features in plan design such as auto-enroll, auto-escalate.

Plan Fiduciary

Under ERISA 402(a), every plan must have at least one fiduciary, a person or an entity, named in the written plan (or named through a process identified in the plan).

Named Fiduciary —The plan sponsor is typically the named fiduciary. The named fiduciary may be identified by office (for example, chief financial officer, board of directors) or by name.

• **Delegation of Responsibilities**—A plan sponsor may hire nonfiduciary service providers such as recordkeepers and third-party administrators (TPAs) to help the plan sponsor meet its fiduciary responsibilities. The plan sponsor may also hire or appoint other fiduciaries to delegate responsibilities such as investment selection. If the plan sponsor **properly delegates certain fiduciary responsibilities to other fiduciaries, the plan sponsor will not be liable for a breach of these responsibilities**. The mission of the Department of Labor is to assure that security of the retirement of America's workers. **Who is responsible for administering ongoing fiduciary duties? Do you have a Fiduciary Audit File Checklist?**

Different Fiduciary Roles:

1. ERISA 3(21) Investment Adviser

- Recommends, advises, guides Plan Sponsor on plan investments. Also acts as a Co-fiduciary. Discretion remains with plan sponsor

2. ERISA 3(38) Investment Manager

- Full authority on investment line-up
- Solely responsible for selection monitoring/replacement of investment options
- Has investment discretion

3. ERISA 3(16) Plan Administrator

- Fiduciary liability for administrative duties

Fiduciary Audit File Organizer:

1. Plan Documents
2. Government Documents
   a. 5500
   b. Audited Financial Statements
3. Journals and Ledgers (to support all assets/investments)
4. Section 404© Compliance
5. ERISA Fidelity Bond
6. Participant Communication Documents
7. Investment Policy Statement
8. Third Party Service Provider Service Agreement
9. Plan Procedures and Minutes of Meetings

Plan Fees Monitoring

What are you currently paying?

While benchmarking your plan shouldn't be limited to fees, it's a great place to start. Maybe you know the all-in price, but when we're talking about your employees' retirement, details are important. To find out your fees, ask your 401(k) provider for a 408(b)(2) fee disclosure.

Get a Fee Disclosure

Find your 408(b)(s) and see how your plan compares

401(k) plans come with various fees that aren't always evident to investors. The fees come mainly from two sources: Providers fees that are either directly billed or deducted from returns and Investment Fees that are directly deducted from performances. Although it shouldn't be all about fees, costs should be weighed upon

Recordkeeping Fees

Dependent on:

- Size of your employee base
- Assets in your plan
- New Contribution

2. Custodial Platform Fees

Normally % off Assets

3. TPA Administration Fees

Dependent on:

- Plan Design (Match & Eligibility). Special Designs such as Safe Harbor, New Comparability.
- Number of participants

4. Plan Audit Fees

For plan over 120 eligible participants on the first day of the plan year. Once an audit has occurred, the 401(k) plan must be audited every year until the eligible participant number drops below 100.

5. Investment Advisor Fees

Dependent on the level of services, and whether it is fiduciary or non fiduciary.

- Drafting the IPS and building the fund platform according to plan objective
- Fund Reviews, Additions & Replacements
- Participant Education to satisfy 404© Safe Harbor
- Vendor Search and Fee Benchmarking Service

6. Investments Fees

- Active versus Passive
- Type of Investments (Equity, Fixed Income, Professionally Managed)
- Share Class

Plan Investments

Understand ERISA 404© Safe Harbor
You need to pick **at least three "core" investments** with materially different risk and return characteristics.
Example: A menu of equity (stocks), fixed Income (bonds) and capital preservation (money market or stable value) funds.

QDIA (Qualified Default Investment Alternative)
when participants fail to make an investment election.
Appropriate choices:

1. Target Date Fund – a mix of investments that takes into account the individual's age or retirement date.
2. Professionally managed account
3. Balanced Fund – A mix of equity and fixed income investments based upon group demographics of the plan.
4. Capital preservation product for the first 120 days of participation such as a Stable Value Fund

Active versus Passive

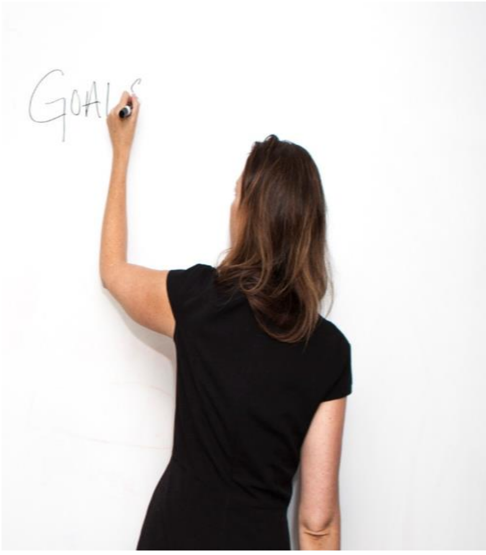
The debate of active vs. passive is the fundamental disagreement about whether a fund manager can beat a specified asset class benchmark over the long term in excess of fees charged. This cost versus performance debate is never fully settled. Importantly, there are many investment situations that calls for either active, passive or a combination of both.

ESG Guidance
The due diligence approach for selecting ESG versus non-ESG investments should be applied consistently. In other words, it should be thorough, consistent an academically sound to avoid potential biases.

Self Directed Brokerage
Only about 1 in 5 employers offer them. It is a brokerage account that provides a broad range of investment alternatives to experienced investors who prefer to do their own trading. Under the Employee Retirement Income Security Act (ERISA), plan fiduciaries must act prudently in selecting and monitoring investments offered to participants. As a result, plan fiduciaries could end up in breach of their fiduciary duty if participants lack the required investment sophistication, education, and know-how to make sound investment decisions.

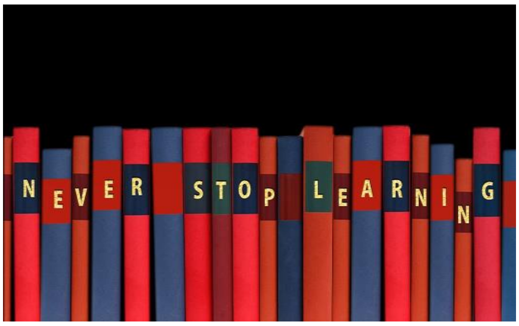
Participant Services

1. Initial Participant Education Enrollment Seminars
2. Financial Wellness Education Seminars
3. One-on-One Consultation
4. Investment Advice
5. Retirement Income Gap
   - Are they on track to retirement income replacement savings



Questions:

1. What are your investment goals?
2. How much are you contributing?
3. Are you maxing out on company match?
4. What is your investment risk profile?
5. Are you on track to healthy retirement savings?



General Administrative Issues

1. Corrective Distribution

Highly compensated employees are refunded on overcontribution.
Solution: Explore Safe Harbor or increase deferral rates of non highly compensated participants through education

2. Payroll Integration (180 degree or 360 degree)

To save administrative work, consider a payroll vendor that can offer a more complete data integration.

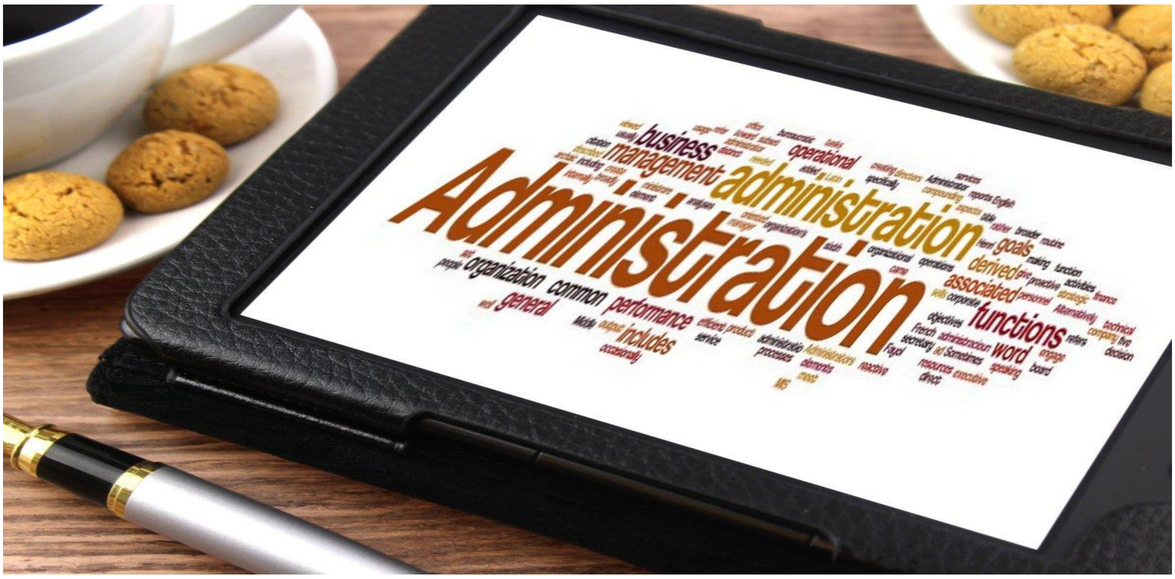
3. Force-out Rules

The IRS allows 401(k) plans to automatically "cash-out" small account balances – defined as less than $5,000 – without the owner's consent upon their termination of employment. Under these rules, account balances between $1,000 and $5,000 must be rolled over into a personal IRA for the benefit of the employee. Amounts below $1,000 can be paid out by check.
Benefits:

- Lower plan costs
- Decreased employer fiduciary
- Avoiding an independent annual audit if your eligible employees are getting close to 100.

4. Participant Loans

Loans are expensive and should be taken out only for emergency cases. Loan repayments are using after tax dollars. Remember, normal 401(k contributions are made with pre-tax dollars. You will be paying tax twice, one time when you repay the loan and one more time as a distribution at retirement.



NEXT STEPS

LET US HELP YOU BENCHMARKING YOUR PLAN

We are here to make your plan run as efficiently as can be

Contact Us Today

Sign up for a free plan review, which includes a detailed fund review as well as a cost benchmark to your peer.

Click here to learn about how to manage:

Successful Plan Outcomes

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