

2015 NIPA Annual Forum & Expo (2015NAFE)



Establishing a New Retirement Plan from A to Z

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VKS Consulting/Johnson & Dugan

New Relationships. **New** Ideas. **New** Look. *A New Way to Look at NIPA*



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Virginia K. Sutton specializes in 401(k) defined contribution plans, helping clients regarding all phases of their qualified retirement programs, including plan design, investment selection and review, compliance, vendor assessment, plan conversions, employee education, and mergers and acquisitions. Virginia is a member of ASPPA's government affairs DOL subcommittee and ASPPA's affiliate NAPA, the National Association of Plan Advisors. She is past chair of ASPPA's participant communications and chaired the 401(k) Plans Subcommittee (2003-2007).



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Virginia is an account executive/consultant for Johnson & Dugan Insurance Services Corp. Virginia is an Investment advisory representative of Global Retirement Partners, LLC, a registered investment advisor. She is a registered representative with LPL Financial, Member FINRA/SIPC. Global Retirement Partners, LLC, Johnson & Dugan Insurance Services Corporation, and LPL Financial are separate and non-affiliated companies.



Establishing A New Retirement Plan from A-Z

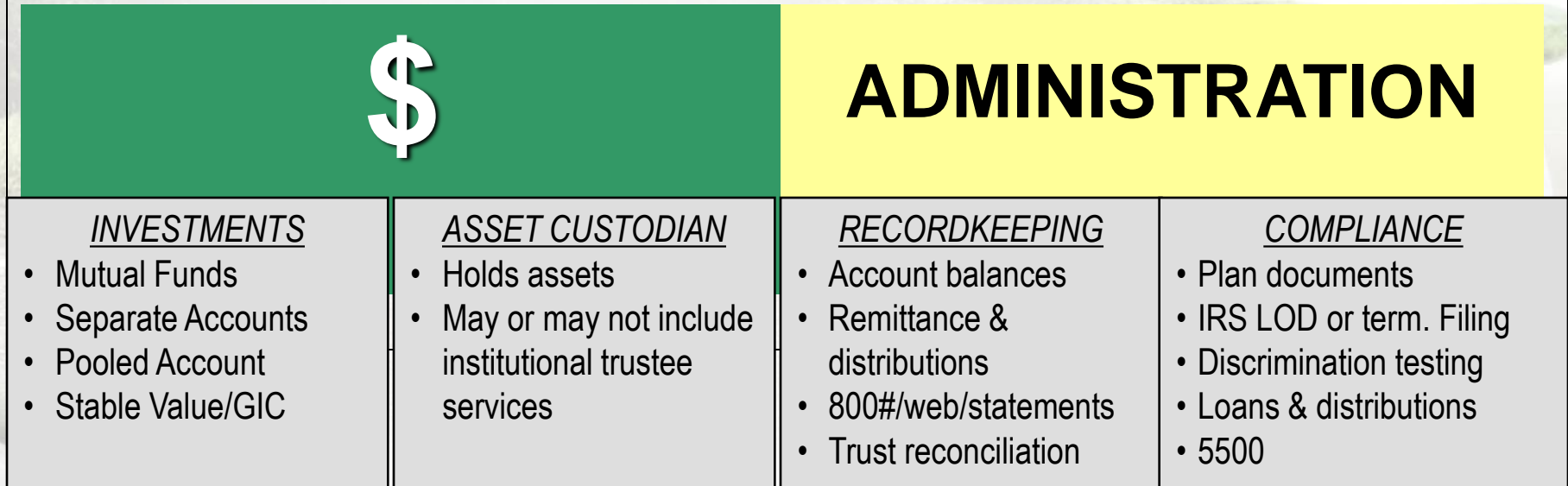
- Overview of the Process
 - Who does what?
 - Timing
- Break it Down:
 - Vendor Selection
 - Plan Documentation
 - Investment Selection
 - Employee/Participant Communications
 - Operations
 - Internal (Plan Sponsor) Governance/Oversight
- On-Going Maintenance

401(k) Structure & Concept

**ABC, INC.
Plan Sponsor**



ABC, INC. 401(k) PLAN



Process Overview

	Vendor Selection	Plan Design & Plan Document Drafting	Investment Selection	Plan Operations & Training	Employee Communication & Presentations	Plan Sponsor Governance/ Oversight	“GO LIVE” On-going Admin
Task	“RFP” Vendor evaluation	Determine plan design & draft PD	Determine Plan Funds/ QDIA	Payroll remittance/admin training	Communicate plan to eligible participants	Plan Adoption Inv. Policy, Committee Charter	Plan Enrollment/ Web access
Who	Consultant with HR/plan fiduciaries (“PF”)	TPA/Compliance Team/Consultant with HR/PF	Consultant/Vendor-HR	Vendor-HR (Consultant)	Consultant-Vendor/TPA	Consultant with HR/PF Board Resolution or UWC	First payroll remittance On-going admin: Loans/ Distributions
Time-table	1-6 weeks: 2-3 week prep & meeting to decide	2-3 weeks: 1-3 hr. meeting with HR/PF + drafting time: Execute prior to Eff. date.	1-3 hr. meeting with HR/PF	1-3 meetings: 1-3 hrs each In person or phone/WebEx	Written Notices: 30-60 days In Person Meetings-1-2 days	Prior to First Payroll Remittance	HR/Finance Oversight

Plan implementation is generally a 60-90 day process from date of vendor selection

Vendor Selection

- Vendor selection can be complex or simple depending upon size of the plan
 - Brand new plans (“Start-Up” plans) with no assets to transfer have limited service provider access
 - Setting up a new plan is less complex than a change of service-provider for an existing plan
 - Types of service providers for 401(k) Plans include:
 - Insurance companies
 - Group Variable Annuity platform
 - Limited mutual fund platform (“open architecture” mutual fund platforms typically available if transferred assets are greater than \$1M)
 - Payroll company platform
 - Independent record-keepers
 - Mutual Fund Partnership Programs

May Offer
Bundled
or TPA
Partnership
Program

401(k) Service Provider Search & Comparison Request for Proposal “RFP” Process

Selection of a new 401(k) service provider can be a 4-Part Process:

1. RFP comparison of services & price
2. Finalist presentations to the benefits committee
3. Site visits and/or reference checks (final due diligence)
4. Determination of new Service Provider



Determination of new 401(k) Service Provider



Selecting Finalists

- Evaluate RFP responses based common criteria:
 - Organizational Fit
 - Recordkeeping Platform & Administration
 - Investment Flexibility
 - Technology/Web sites
 - Participant Communications & Education Resources
 - Service model/structure
 - Cost
- Criteria should align with committee goals
- Determine 2-4 Finalists
 - Decide if you wish to have Finalists do an in-person presentation to decision makers
 - Finalist presentations typically 60-90 minutes; sales & service members present

Site Visits

- A Site Visit is rarely done when implementing a brand new plan: recommendation by consultant more common
- If plan is large, on-site due diligence is common:
 - Plan sponsors visit the service location(s) for 2 to 3 finalists
 - Typical topics addressed include:
 - Business overview
 - Executive interaction
 - Service team interaction
 - Operations
 - Tour of call center
 - Conversion process
 - Technology demonstrations
 - Employee Education and Communication
 - Site visits typically require 2 full days per provider, including travel and time on location

Selecting Provider-Final Decision

- Quantitative and Qualitative measures may be considered:
 - Vendor RFP responses/services offering
 - Cost
 - Investment platform (mutual fund vs. group variable annuity)
- Determine which provider is the “best fit”
- Consider company culture, employer & employee needs
- Will the Plan Sponsor pay for services or will cost be paid by participants
- Role of a 401(k) Advisor/Consultant/Broker

Plan Implementation

- Once a service provider is selected, the next step is a meeting with the service provider or TPA partner to determine the implementation time-line and who will be accountable for each part of the process:
 - Employee communication & enrollment
 - Initial and on-going administrative processes

TPA/Compliance Team	Advisor/Consultant/RK	TPA/RK/Advisor/HR
<ul style="list-style-type: none"> • Plan design • Drafting of the plan documents & participant notices • Execution of the plan documents, including board resolution to adopt the plan and trust • 408(b)(2) Disclosures 	<ul style="list-style-type: none"> • Investment Selection <ul style="list-style-type: none"> • Determine Funds • Special Documentation e.g. SVF participation agmt • QDIA • Fund set-up with trading platform & custodian • Execute trust documents 	<ul style="list-style-type: none"> • Employee Communication/ Enrollment <ul style="list-style-type: none"> • Online or via paper • Face to face meetings • Participant Fund/Inv Info: <ul style="list-style-type: none"> • 404(a)(5) • Beneficiary designation • Clarify who is drafting & who distributes

Plan Design Considerations

- Who is eligible; when do they enter?
 - Date of hire or hours of service requirement
 - Semi-annual; quarterly, monthly, any pay-period
- Automatic enrollment/auto-escalate
- Definition of compensation
- Pre-tax; catch up; Roth contributions; after-tax
- Match or employer contribution
 - Vesting schedule
- Loans
- Distribution options
- Safe harbor plan design

New Plans Have Greatest Design Flexibility-Can you Change the Culture?

Traditional High-Tech Start Up

- Date of hire eligibility
- Monthly or per-pay-period eligibility
- Discretionary match
- 3-4 year vesting
- Loans
- Hardships
- Pre-tax, catch up and Roth deferrals
- May or may not auto-enroll

New Thinking...

- Auto-enroll; Date of hire eligibility & any pay-period entry
- Non-elective contribution that is considered part of compensation
 - Qualifies for Safe-Harbor
 - 100% immediate vesting
- Loans
- Hardships
- Pre-tax, catch up and Roth deferrals

Coordination Between Plan Design & Plan Operations

- Determine the objective of the plan sponsor for the Plan
 - Tax-benefits for Owners
 - Employee benefit for recruiting & retention
- Trade-off between plan design complexity and ease/simplicity of recordkeeping and plan operations
 - Is a proto-type plan flexible enough to accomplish the plan design goals?
 - Once there is turnover among the HR team, will anyone actually read a custom plan document and understand the plan's design?
- Are the plan design features, recordkeeping capabilities and plan sponsor expectations in alignment?

- Plan Set-up is the ideal time to manage expectations
 - Not just roles at set up, but on-going
 - Be explicit; For example, many plan sponsors will think that:
 - a third party administrator = Plan Administrator
- Who will be the Plan Trustee/Designated Fiduciary
 - Are they aware of what these roles require?
- Does the Plan Sponsor want to outsource as much as possible, or do they want to retain control.
 - What is the cost, or is it not a part of the service offering?
- Internal Documentation & Filing processes
 - Who, how and where will plan documentation be kept?

- Investment Due Diligence
- Basic asset classes:
 - Money market/stable value
 - Bond/income
 - US equity
 - Foreign/international
 - Asset allocation
 - Target retirement funds
 - Risk-based funds
 - Qualified default investment alternative
- Broker/Advisor typically assists with Investment Selection, but recordkeeper may furnish data
- Be aware of share classes and revenue sharing requirements
 - Small plans may have a smaller universe of funds to consider because of revenue sharing requirements and desire to streamline selection process
- Clarify who is responsible to draft and distribute any fund related notices/disclosure

- Outlines criteria used to select and monitor investments
 - Selection criteria
 - Monitoring criteria
 - Watch status
 - Timing for change once a fund has been on watch for a certain period of time or the committee makes a decision to change
- Will the IPS include policy on revenue sharing?
- Documents procedural prudence
- Helps to manage plan sponsor fiduciary liability

- Once investments are determined, required notices for the plan sponsor and participants must be drafted and distributed
 - Plan Sponsor: 408(b)(2) will be impacted by investment selection if any revenue sharing is collected by the service provider from the plan's investments and used to pay for plan expenses
 - Plan Participants:
 - 404(a)(5): Fund information & fee disclosure
 - QDIA Notice
 - SOX-black-out notice if there will be rollover assets/conversion
- Determine who will draft, or if only a template is provided, will plan sponsor be able to execute?

Education Plan

- Will participants enroll electronically or via paper?
- Will website training be available
- Will education/communication happen face to face or via technology or written memo
- Who will answer participant questions
- Who will draft participant communications
- Who will distribute notices/discl.

Required Notices

- Summary Plan Description
 - Safe Harbor Notice if applicable
 - Auto-enrollment notice/lang.
- Enrollment Form
- Beneficiary Form
- Investment Related Notices/Disclosure
 - 404(a)(5)
 - Sox Notice if black out

- Payroll processing
 - Accurate and complete (“full”) participant information being electronically remitted to the recordkeeper is key for a high performing plan
 - Include all employees with indicative data: (e.g. name, address, date of hire, date of termination, compensation, hours worked)
 - Recordkeeping systems can track eligibility, vesting, etc with proper data feeds
 - Year-End Compliance testing is easier
 - Plan Performance metrics are more accurate and can be determined through out the year, not just at year-end
 - Work with payroll vendor and recordkeeper for file specs/format
 - Spend the time to determine proper pay-codes for plan compensation
 - Determine how information will flow from the recordkeeping system to payroll system

Don't Forget... Bonding/Insurance

- ERISA Bond
 - Reimburses participants/plan losses if trust is depleted due to fraud
 - 10% of plan assets (assuming qualified plan assets) up to a maximum bond amount of \$500,000
 - if the plan invests in employer securities, such as company shares, the maximum bond amount is \$1,000,000.
- Fiduciary Liability Insurance
 - Not required but a good idea
 - Typically reimburses attorneys fees if there is a suit brought against the plan or plan fiduciaries
 - May provide some “deep pockets” for claims reimbursement

- Plan Governance
 - Establish a Plan oversight committee
 - Board of Directors or Compensation Committee
 - Board Resolution or unanimous written consent
 - Charter or Oversight Policy
 - If too small, or non-corporate structure, determine who (which company level fiduciaries) will meet regularly to review the Plan
 - Trustee, if plan will be self-trusted, or designated fiduciary
 - Who will prepare/compile plan materials for the plan review
 - How frequently will review meetings be held
 - Annual, semi-annual, quarterly
 - Who will document the meeting

Fiduciary/Trustee Review Meetings

- Fiduciary/Trustee Plan review meetings should happen at least once a year
 - Review meetings should cover:
 - Plan design review & document any funding change or safe-harbor intention
 - Non-discrimination testing results
 - Audit recommendations if applicable
 - Investment review—
 - what funds are on “watch” or require action
 - Target Date Fund/QDIA due-diligence
 - Plan Costs & Revenue sharing
 - Benchmarking of plan costs-Third party source or RFI
 - Plan Metrics: how is plan performing/how are employees engaged with the plan
 - Fiduciary Training
 - **Be sure to document meeting with minutes & materials**



Your Plan is “Live,” What Now? On-Going HR Responsibilities

- Handle the routine and non-routine
- Lifecycle of the employee:
 - How will you provide plan information to new hires
 - How will service providers get participant information
 - How will loans be administered
 - How will hardships/QDROs be administered
 - Participant Terminations
- Payroll Remittance
 - Have a back up plan when normal payroll administrator is absent
 - Participant contributions must be remitted to the 401(k) trust as soon as possible (5 day rule for small plans)
- Annual Compliance

- Provide new hire/eligible employee with enrollment materials, including 404a-5, Plan specific notices & SPD
 - Plan Sponsors may wish to outsource distribution of plan materials to employees
 - Is this a service you offer (be specific during implementation and have it in your services agreement)
 - How will you coordinate with RK partner for admin. processes
- Enrollment process (if no auto-enrollment)
 - Determine a contribution amount
 - Select investments
 - Name beneficiary
- Ensure money is taken from paycheck and sent to the trust timely
 - more robust file feeds from payroll systems to RK are increasingly common
 - Desire to synch payroll & recordkeeping systems

Terminating Employees

- Include 401k distribution information in exit packet
- Cash out de-minimus balances
 - Authorize roll-over to automatic IRA, if applicable
- Notify recordkeeper of termination date
 - Enter Termination code/date in payroll file to import to recordkeeping system
- Some recordkeepers will notify terminated participants on behalf of the plan sponsor
- Some recordkeepers will allow automation of rollover/distribution requests for terminated participants
 - Trade-off between convenience & managing more complex plan design

Say what you are going to do; Do what you said you would do...

- Plan Documentation
 - Plan Document
 - Participant Notices/SPD
- Non-discrimination Testing
- Form 5500 Reporting
 - Simplified Form For <100 Participants
 - Long Form + Independent Audit: 100+ Participants
 - Must File Electronically
 - Summary Annual Report To Participants



Non-Routine Administration

**Consult your TPA
ERISA Attorney and/or
Investment Advisor!**

- Audits By IRS Or DOL
- Plan Violations Or Defects
- Changing Plan Providers
- Corporate Merger Or Acquisition
- Plan Terminations
- Non-routine Administration

Plan Set Up—Final Thoughts

- Checklists are your friend!
- A conference call with all parties to establish roles and timetable will facilitate this detailed process
 - Look at a calendar and back into key/deadline dates
 - Realize that required notice periods mean implementation is at least 45 days; most set ups are 3 months.
 - Who will act as the lead project coordinator?
 - Advisor
 - Recordkeeper
 - TPA
 - Plan Sponsor
 - Ongoing (e.g. weekly) conference calls or emails are a good idea to keep the process on track
 - Help the plan sponsor to understand and manage on-going responsibilities by setting proper expectations as part of the set up process

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Questions?

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