Retirement PLAN news

FALL 2016

Using Target Date Funds in Your Plan

Target date funds (also known as lifecycle funds) have become increasingly popular in retirement plans. Close to 70% of 401(k) and profit sharing plans offered target date funds in 2014, according to the most recent survey by the Plan Sponsor Council of America.*

Are target date funds a good fit for your plan? What criteria are important when choosing to use them in a plan?

Understanding What They Are

Target date funds automatically rebalance their asset allocations and generally become more conservative as the target date gets closer. The change in asset allocation is referred to as the glide path. The U.S. Department of Labor (DOL) has emphasized the need for plan sponsors to understand a fund's glide path, which can be either "to retirement" or "through retirement."

With "to retirement" target date funds, the equity portion of the fund's asset allocation is reduced to its most conservative point at the target retirement date. "Through retirement" funds reach their most conservative asset allocation some years after the retirement target age.

Important Differences

Glide paths of funds with the same target dates may vary from fund to fund. For example, funds may differ in the percentage originally allocated to equity. They may also differ in when they start reducing their equity exposure and the rate at which it's reduced. Another difference is that the asset allocation may follow an established glide path or be actively managed based on market conditions.

Underlying funds may be actively managed, passively managed, or a combination of both. Fees for active management are generally higher than for passive management, which is designed to track the performance of benchmark indices.

Guidance for Choosing Target Date Funds

In February 2013, the DOL's Employee Benefits Security Administration issued guidance to employers and other fiduciaries of retirement plans for selecting and monitoring target date funds. The DOL emphasized that there are considerable differences among target date funds — even among those with the same target date. When selecting target date funds, the DOL suggests that plan fiduciaries take several steps. These include:

- Establishing a process for comparing and choosing target date funds. Information to consider should include investment returns, fees, and expenses and also how well the target date fund's characteristics align with the ages of eligible employees and the dates they are likely to retire.

* *58th Annual Survey of Profit Sharing and 401(k) Plans*, Plan Sponsor Council of America, 2015

(Continued on page 2)

TSS

TYLER, SIMMS & ST. SAUVEUR, P.C.
Certified Public Accountants & Business Consultants

19 Morgan Drive • Lebanon, NH 03766
(603) 653-0044 • (603) 653-0209 • www.tss-cpa.com

Paying Expenses with Plan Assets

Whether your organization's retirement plan has been up and running for several years or you are looking into what would be involved in sponsoring a plan, you may have questions about which plan-related expenses can be paid by the plan and which expenses the employer is responsible for paying. Federal pension law (ERISA) allows plan fiduciaries to use plan assets for the payment of reasonable expenses incurred in administering the plan, including expenses for:

- Plan recordkeeping
- Accounting fees
- Safekeeping of plan assets
- Periodic compliance auditing
- Preparation of legally required documents, such as Form 5500
- Claims processing
- Third-party administration
- Routine nondiscrimination testing
- Participant communications
- Investment advisory fees

So-called "settlor" expenses — expenses related to the establishment, design, or termination of a plan, including legal and consulting services — are considered business expenses that can't be charged to the plan. The DOL has issued guidance in the form of hypothetical situations to help plan sponsors determine what is and what isn't a settlor expense.

Using Target Date Funds in Your Plan (continued)

- Creating a plan to regularly review the funds. Be aware of any significant changes in strategy, management, or other criteria since the last review.
- Understanding the target date fund's asset allocation, as well as the risks, strategies, and the glide path of the fund.
- Reviewing fees and investment expenses. Some target date funds invest directly in individual stocks and bonds, but if the target date fund is a "fund of funds" that invests in other mutual funds, the plan sponsor should be aware of the fees and expenses for both the target date fund and the underlying funds.
- Creating effective plan participant communications, including required regulatory disclosures. Employees should understand what target date funds are, what the glide path is, and how it works.
- Documenting the selection and ongoing review of target date funds for the plan.

Know Your Plan Participants

Since different target date funds have different asset allocations over their glide paths, having an understanding of the demographics of your plan participants and their asset allocations may help you choose target date funds for your plan. This is especially important if you use target date funds as your plan's qualified default investment alternative, as many plan sponsors do.

If your plan already has a target date fund option, it may be beneficial to review how participants are using the funds. Although target date funds are designed as a sole investment option, participants often invest in a target date fund and other options. Participants may also be invested in multiple target date funds. There may be a need to provide additional education to help participants better understand the target date concept.

Communication Is Critical

Providing information to your participants to clear up any misconceptions is vitally important to getting the maximum benefit of having target date funds in your plan. Points of emphasis can include that target date funds aren't guaranteed against losses and that reaching a target date doesn't necessarily mean that investors have saved enough to meet their retirement goals.

If you offer funds that don't reach their most conservative allocation until after the target date, participants should understand the risks involved with having greater exposure to more volatile investments as they approach their retirement date and eventually retire. According to the DOL, such funds may be most appropriate for participants who expect to take their money out of the plan gradually after they retire rather than withdraw all their plan savings at retirement.

Having accurate expectations of target date funds should not only improve the participants' investing experience but your overall plan experience as well.

Make Sure Participants Receive the **Plan Documents They're Entitled to**

Getting the word out about your retirement plan is an ongoing activity. In addition to the enrollment materials you provide newly eligible employees, you probably communicate with participants routinely, answering their questions and encouraging them to take full advantage of the plan.

Required Documents

In addition to these efforts, plans are *required* to make certain plan documents available to all plan participants and beneficiaries receiving benefits. Required documents include the following:

Summary plan description (SPD). This easy-to-understand description of the plan's provisions must be distributed to employees within 90 days of becoming plan participants. The SPD must contain specified information about the plan, such as requirements for participation and a description and explanation of the plan's provisions for determining years of service for purposes of eligibility and vesting.

When your plan is materially amended or modified, you must revise the SPD within a specified period (210 days after the end of the plan year that occurs five years after the last date there was a change in the information required to be included in the SPD). Where no such amendments have been made, you must furnish an updated SPD within 10 years and 210 days after the required date for the original.

Summary of material modifications (SMM). If your plan is amended and the amendment affects information that is required to be in the SPD, participants must receive an SMM. The SMM must be distributed within 210 days after the close of the plan year in which the modification occurred. If the SPD lists the modifications, it can be issued in place of the SMM provided an updated SPD is prepared and distributed within the same 210-day period.

Summary annual report (SAR). DOL regulations outline what must be included in this summary. The SAR generally must be distributed by the later of (1) nine months after the end of the plan year or (2) two months after the due date of the plan's Form 5500 (including any extensions from the IRS).

Documents Requested by Participants

Upon receiving a request from a participant or beneficiary, the plan administrator must provide the most recently updated SPD, the most recent annual report, and any other documents under which the plan is established or operated (e.g., the bargaining agreement, trust agreement, or contract). The DOL has further clarified that these documents should also include any material that details formulas, procedures, methodologies, and schedules used to determine a benefit.

Expenses of Providing Information

The plan administrator may not charge participants for required documents, but participants can be charged for additional copies of required documents they have already received. As for requested documents, participants may be charged a reasonable fee of up to 25¢ per page. The DOL considers a fee reasonable if it is equal to the actual per-page cost of the least expensive way of reproducing the documents. Reasonable expenses do not include handling and postage fees.

Penalty for Not Being Timely

Administrators must provide copies of materials required to be disclosed under the pension law within 30 days of receiving a participant's request. A penalty of up to $110 per day may be imposed for failing to furnish documents within this time frame.

This penalty applies to each individual participant request, so each violation is a distinct event. If multiple participants request a document and don't receive it within 30 days, the daily $110 penalty applies to each separate request. However, the penalty is not enforced if the cause for the delay is reasonably beyond the control of the plan administrator.

TYLER, SIMMS & ST. SAUVEUR, P.C.
Certified Public Accountants & Business Consultants

19 Morgan Drive
Lebanon, NH 03766

(603) 653-0044
(603) 653-0209
www.tss-cpa.com

Recent **Developments**

More Older Americans Are Working

A recent Pew Research Center analysis found that the number of older Americans working is increasing. Nearly nine million people, or 18.8% of Americans ages 65 and older, are employed. Only 36.1% of workers 65 and older are working 35 hours or less in 2016, a drop from 46.1% in 2000. Older workers are more likely to be in management, legal, and community/social service jobs than the overall labor force and less likely to work in the accommodations/ food services industry.

Financial Knowledge Helps Retirement Savings

A study by the Pension Research Council found that financial education programs provided by employers impact the decisions of employees concerning their retirement savings. Federal Reserve employees who took a learning module about retirement planning contributed more of their salaries to retirement savings and had a higher percentage invested in equities than those who didn't take the learning module.

DOL Increases Monetary Penalties

To adjust for inflation, the DOL has increased the penalties for certain employee benefit plan violations. The changes include increasing the maximum daily penalty from $1,100 to $2,063 for each day that Form 5500 is filed late. In addition, for 401(k) plans with automatic contribution arrangements, the penalty for failing to provide the required ERISA preemption notice to plan participants increases from $1,000 per day to $1,632 per day. Any future adjustments to these increases will be made by January 15 of each year beginning in 2017.