ERISA-Extra®

A Checklist for Plan Sponsors

An annual review of your retirement plan can help ensure that it is operating at peak effectiveness. The checklist that follows outlines some key items for review.

Plan Design
Once a retirement plan is in place, employers may be reluctant to make changes to the plan's design. However, there may be features that could be added to the plan that would improve plan participation and retirement outcomes for employees, such as:
– A Roth contribution option
– Automatic enrollment
– An automatic contribution escalation feature

Plan Documents
If any optional changes are made to a retirement plan during the year, such as adding a plan loan feature, the relevant discretionary amendment to the plan document should be formally adopted by the end of the plan year. Similarly, the plan document may require amendments to reflect changes in applicable law. Examples include:
– The elimination of certain restrictions on hardship distributions pursuant to the Bipartisan Budget Act of 2018 (P.L. 115-123).[1] These changes are permitted for plan years beginning after December 31, 2018, and are not mandatory. However, if a plan sponsor chooses to implement any of them, the appropriate plan amendment would be required by the end of the plan year in which the change becomes effective.
– The use of forfeitures to fund qualified nonelective contributions (QNECs) and qualified matching contributions (QMACs) pursuant to IRS regulations that were issued in July 2018.[2] A plan that uses forfeitures for this purpose should be amended by the end of the plan year in which the change is effective.

Participants and beneficiaries must be given a copy of the summary plan description (SPD) within 90 days after becoming eligible to participate in the plan or receive benefits (or within 120 days after a plan is first adopted). Review the SPD to make sure it accurately describes the provisions of your plan. If material changes are made to the plan, participants and beneficiaries must receive notification of the changes within 210 days after the end of the plan year in which the changes were adopted. Generally, all participants and beneficiaries must receive a copy of the SPD every five years (ERISA Sec. 104(b)).

Investments
An investment policy statement (IPS) establishes broad investment goals and provides guidelines for investment selection, risk management and performance evaluation. Having an up-to-date IPS should be a priority.

Other important steps:
– Review plan investments against IPS guidelines and benchmarks.
– Document the results of the review.
– Consider potential enhancements to the plan's investment lineup (e.g., the addition of target-date funds or low-cost index funds).
– Assess the expenses associated with plan investments.

Fees
Use the annual disclosures received from plan service providers pursuant to ERISA Section 408(b)(2) as a tool in evaluating plan fees to ensure that they are reasonable in view of the services provided. As with plan investment reviews, sponsors will want to keep records of their formal fee reviews in order to demonstrate appropriate fiduciary oversight.

Most plans that allow participants to direct the investment of their account assets must provide specific information regarding plan fees and expenses (Labor Reg. Sec. 2550.404a-5). Ensure that participants and beneficiaries are receiving:

– The required plan- and investment-related information on or before the date they can first direct their investments
– Annual follow-up disclosures

– Quarterly statements showing the dollar amount of certain administrative and individual expenses actually charged to or deducted from their plan accounts (may be provided with quarterly benefit statements)

Bonding
Review the adequacy of your plan's fidelity bond at the beginning of each plan year. Under ERISA Sec. 412:
– Each plan official generally must be bonded in an amount equal to at least 10% of the amount of funds handled in the previous year (minimum bond of $1,000).
– The maximum bond required for any plan official is generally $500,000 per plan ($1 million if the plan holds employer securities).

The purpose of the fidelity bond is to protect your retirement plan from risk of loss due to acts of fraud or dishonesty by individuals handling the plan's assets.

Loan Administration
Many 401(k) plans allow participants to borrow from their plan accounts. Plan loans must conform to various tax law requirements, and, according to the IRS, the following errors are common:
– Loans that exceed the maximum dollar amount
– Loans with payment schedules that don't meet the time or payment limits
– Loans that go into default when there is failure to make required payments[3]

The IRS cautions employers that they need to have a system in place to ensure that plan loans are administered in compliance with the plan document and any separate written loan policy adopted.

Rollover Procedures
If a retirement plan accepts rollover contributions from other plans, the plan administrator should take reasonable steps to evaluate that any incoming funds come from a qualified plan or Individual Retirement Account (IRA) and are of a type eligible to be rolled over. Moreover, the funds must be paid to the plan within 60 days after the employee receives the funds from the old plan or IRA. Plan administrators may follow the safe harbor procedures outlined in Revenue Ruling 2014-9 to verify that employees' rollover contributions are valid.[4]

Employers should also ensure that eligible rollover distributions made from their retirement plans conform to the plan document and IRS requirements. Participants who receive rollover distributions from the plan should receive a so-called "402(f) notice" explaining the rollover rules. The IRS recently updated its model 402(f) notice to reflect the Tax Cuts and Jobs Act provision that extended the deadline for participants to roll over plan loan balances defaulted and offset at termination of employment. You'll want to make sure that the appropriate updates have been made to your plan's notice.

2019 Retirement Plan Limits

Many retirement plan limitations are increasing for 2019 as the result of IRS cost-of-living adjustments. The Social Security wage base also will increase by $4,500, or 3.5%. This change affects retirement plans that consider Social Security in determining benefits or contributions. The table below compares key dollar limitations for 2019 and 2018.[5]

	2019	**2018**
Defined contribution plan dollar limit on annual additions	$56,000	$55,000
Defined benefit plan limit on annual benefits	$225,000	$220,000
Maximum compensation used to determine benefits or contributions	$280,000	$275,000
401(k), SARSEP, 403(b) and 457 plan deferrals	$19,000	$18,500
Catch-up	$6,000	$6,000
SIMPLE deferrals	$13,000	$12,500
Catch-up	$3,000	$3,000
Compensation defining highly compensated employee	$125,000	$120,000
Compensation defining key employee (officer)	$180,000	$175,000
SEP annual compensation triggering a contribution	$600	$600
IRA contribution	$6,000	$5,500
Catch-up	$1,000	$1,000
PBGC maximum guaranteed monthly benefit for a 65-year-old retiree	$5,607.95	$5,420.45
Social Security taxable wage base	$132,900	$128,400

Financial Priorities and Planning: How Do the Generations Compare?

Planning for—and maintaining—a financially secure retirement is a key issue for each generation of Americans. But new research from the Society of Actuaries also finds that members of each generation have unique financial priorities and points of focus, driven in part by their current stage of life.[6]

Millennials (Born 1980 to 1998)
Of all the generations studied, Millennials are the most likely to express a lack of confidence in making financial decisions. Their planning horizons tend to be short; half of those surveyed said they plan financially two or three months ahead, at most.

Immediate financial priorities include being able to afford everyday bills (79%), paying off credit card debts (52%) and paying off student loans (30%). In terms of savings priorities, saving for retirement (60%), building up an emergency fund (59%) and buying or upgrading a home (44%) are high priorities for many.

Gen X (Born 1965 to 1979)
Along with the Late Boomers, Gen Xers are the most likely to place a high priority on saving for retirement (69%). Few Gen Xers said they have student loans, which may allow them to focus on longer-term saving. As with Millennials, a large majority of Gen Xers (67%) cite being able to afford everyday bills as a high current priority.

Late Boomers (Born 1955 to 1964)
Of all the generations, the Late Boomers are the most focused on planning. A majority (51%) say their planning horizon is three or more years. Although many members of this generation are still working, they are getting ready for retirement. They are significantly more likely than individuals of other generations to report using targeted investing to grow their money.

Early Boomers (Born 1946 to 1954)
About three-quarters of Early Boomers said they are retired. Along with members of the Silent Generation, Early Boomers are most likely to say they are planning for the rest of their lives. Close to 30%—the most of any generation—are working with a financial adviser. When asked how they would cover an unexpected expense of $10,000 that had to be paid immediately, the Early Boomers were more likely (59%) than members of the other generations to say they would cover it from general savings or emergency funds.

Silent Generation (Born 1935 to 1945)
A lack of stability against unforeseen expenses is an issue for many members of the Silent Generation, with only 49% saying they would cover an unexpected $10,000 expense from general savings and emergency funds. Key retirement concerns for over half of this group include the possibility of one day becoming incapable of managing their own finances, not having enough money to pay for extended nursing care or a long stay in a nursing home, and that their savings and investments may not keep up with inflation.

What Are the Generations Saving for? High Priority Goals

	Millennials	Gen X	Late Boomers	Early Boomers	Silent Generation
Retirement	60%	69%	69%	42%	30%
Emergency Fund	59%	51%	51%	48%	37%
Medical Expenses	38%	35%	40%	37%	30%
Vacations	39%	29%	34%	38%	23%
Long-term Care	36%	29%	35%	29%	27%
Buying/Upgrading a Home	44%	25%	18%	11%	4%
Children's Education	36%	30%	11%	5%	3%

Source: Society of Actuaries, October 2018.

[1] Under the Bipartisan Budget Act, plans will no longer be required to prohibit elective deferrals for six months following a hardship distribution. Further, a distribution won't be treated as failing to be made on account of hardship solely because the employee doesn't take all available plan loans. Finally, hardship distribution amounts may include qualified nonelective contributions (QNECs), qualified matching contributions (QMACs), contributions to a profit sharing or stock bonus plan, and earnings on these amounts.
[2] Federal Register. Vol. 83, No. 140. July 20, 2018.
[3] "Fixing Common Plan Mistakes—Plan Loan Failures and Deemed Distributions." IRS. Web. Date of access 11/19/18. *irs.gov/retirement-plans/fixing-common-plan-mistakes-plan-loan-failures-and-deemed-distributions.*
[4] "Verifying Rollover Contributions to Plans." IRS. Web. Date of access 11/19/18. *irs.gov/retirement-plans/verifying-rollover-contributions-to-plans.*
[5] Sources: IR-2018-211. IRS. November 1, 2018. Web. Date of Access 11/9/2018. *irs.gov/newsroom/401k-contribution-limit-increases-to-19000-for-2019-ira-limit-increases-to-6000*. "PBGC Maximum Monthly Guarantees for 2019." PBGC. Web. Date of Access 11/9/2018. *pbgc.gov/wr/benefits/guaranteed-benefits/maximum-guarantee.* "Fact Sheet: 2019 Social Security Changes." Social Security Administration. October 11, 2018. Web. Date of Access 11/9/2018. *ssa.gov/news/press/releases/2018/#10-2018-1*.
[6] "Financial Priorities, Behaviors and Influence on Retirement" and "Financial Perspectives on Aging & Retirement Across the Generations: Posted Questionnaire." Society of Actuaries. October 2018. Web. Date of Access 11/19/18. *soa.org/research-reports/2018/financial-perspectives-aging-retirement/*.

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