

## InFRE® Retirement Plan Administrator Series

# Fundamentals of Operations

## Part 3

Presented by  
Mary Willett  
Willett Consulting

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES



## Workshop Overview

All individuals with responsibilities for a retirement program, especially those with a fiduciary role, should have a basic understanding of the operation of defined benefit (DB) and defined contribution (DC) plans.

This workshop provides an overview of the operational requirements of retirement plans and is specifically designed for individuals involved with public sector retirement plans.

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES



## Course Agenda

- Plan Administration
- Role of an Administrator
- Contracting Service Providers
- Administering Distributions
- Plan Amendments, Special Events, Post Retirement, and Designated Roth Accounts
- Nonqualified Deferred Compensation Plans
- Monitoring and Evaluation

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES



## Today's Webinar Agenda

- Text Book Chapters
  - 5. Administration Issues: Plan Amendments and Special Events
  - 6. Nonqualified Deferred Compensation Plans
  - 7. Monitoring and Evaluation

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES



## Chapter 5

# Administration Issues: Plan Amendments and Special Events



FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

### Changes to the Plan

- Amendments may be required to address legislative or regulatory changes
- State laws or statutes may need to be amended before changes to the plan can be adopted
- Amendments for optional plan provisions generally must be adopted within the plan year to which it relates

3/5-4

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Process and Timing for Amendments

- Organizations goals and objectives should be considered
- Process should involve individuals responsible for plan administration
- Cost and expense analysis should be conducted
- Documentation should be maintained

3/5-5

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Specific Event

### **Early Retirement Window**

- May be established based on age and years of service
- Must be defined in the plan document
- May apply only during specified time frame
- Often offered to reduce workforce
- Various incentive programs can be adopted


3/5-7

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Specific Event

- Various incentive programs can be adopted
  - Ability to buy additional years of service
  - Permitting an earlier retirement age and/or service requirement for a specified period of time (window period).
  - Cash bonus payments or other retiree benefit enhancements not tied to pension



3/5-7

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Early Retirement Incentives

- Window must be established to avoid violating ADEA
- Variations on window design include:
  - Minimum age and service requirement
  - Window available for set period of time
  - Limited to certain categories of employees
- Window cannot produce a lower benefit for older employees

3/5-8

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Permissive Service Credits

- Allows public-sector employees to transfer or consolidate retirement benefits from previous government employers
- Assets from other tax-deferred programs (e.g., 401(k), 403(b), 457) can be used to purchase
- Type and amount of service that can be purchased identified in DB plan document

3/5-10

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Types of Service

- Previous public service
- Military service
- Repayment of previously withdrawn retirement contributions
- Service with the employer prior to retirement plan eligibility
- “Airtime” – credits not tied to any specific service

3/5-11

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## USERRA

- Applies to all public- and private-sector employers
- Prohibits discrimination against past and present members of the uniformed services
- Establishes reemployment rights for service members
- Protects employee rights for health and pension benefits
- For information: [www.dol.gov/vets](http://www.dol.gov/vets);  
[www.dol.gov/ebsa/faqs/faq\\_911\\_2.html](http://www.dol.gov/ebsa/faqs/faq_911_2.html)

3/5-13

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## USERRA

- Employers are required to inform employees of rights under USERRA
- DOL has published a final notice that employers can post to meet this requirement
- USERRA addresses timing for make up contributions, interest payments, contributing differential pay to retirement plans during service
- For information: [www.dol.gov/vets](http://www.dol.gov/vets);  
[www.dol.gov/ebsa/faqs/faq\\_911\\_2.html](http://www.dol.gov/ebsa/faqs/faq_911_2.html)

3/5-13

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Cost-of-Living Adjustments – DB Plan

- Applies to retiree benefits to protect against inflation
- Two forms of COLAs
  - Automatic annual adjustment based on benchmark established in the plan
  - Ad hoc adjustments made periodically based on various criteria

3/5-14

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Return-to-Work Restrictions

- Address perception of “double dipping”
  - employee receives wages and retirement benefit from same employer
- Perception often generates negative reaction from media, policy makers, general public
- Aging of baby boomer generation is causing many employers to examine phased or transitional retirement designs

3/5-15

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education



## Return-to-Work Restrictions

- Restrictions on retiree employment include
  - Limiting hours or days in a calendar year
  - Capping annual earnings
  - Allowing employment only for positions demonstrating a shortage of skilled candidates
  - Permitting only temporary or short-term projects for retirees
  - Requiring pension benefits to cease during reemployment period

3/5-15

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES**InFRE**  
International Foundation for Retirement Education

## Deferred Retirement Option Plan

- Delayed distribution from a DB plan
- Designed to encourage employees to work beyond retirement age
- Employers use these arrangements as a workforce management tool
- Cost is difficult to determine

3/5-16

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES**InFRE**  
International Foundation for Retirement Education

## Designated Roth Accounts

- Optional feature of 401(k), 403(b) and 457(b) governmental plans
- Allows participants to contribute after-tax income; earnings accumulate tax free
- Before adopting, plan sponsors should consider:
  - If this feature would benefit workforce
  - The impact to plan communication, administration, recordkeeping and costs

3/5-17

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education


## Chapter 6

# Administering Nonqualified Deferred Compensation Plans



FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education



Why would a  
public sector  
employer  
establish a  
NQDC plan?

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## NQDC Plans

- Discrimination rules, contribution limits, and most reporting requirements do not apply
- Offer a benefit to certain categories of employees
- Deferred amounts are includible in gross income unless a substantial risk of forfeiture exists

3/6-3

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Plans Subject to IRC 409A

- Voluntary deferrals of salary, bonus, fees, or other compensation
- Excess benefit plans
- Supplemental executive retirement plans (SERPs)
- Section 457(f) plans
- Severance plans

3/6-3

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Advantages

- Nondiscrimination rules do not apply
- No dollar limit on deferrals
- Flexible and less restrictive plan designs
- Vesting requirements and contingencies can be imposed without limitations
- Income tax to employee is generally deferred until deferred compensation is received

3/6-4

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Funding and Design

- NQDC plan is generally unfunded, remaining in the ownership and control of the employer
- Contributions may be made from salary, bonuses and/or incentive compensation
- Bookkeeping account is maintained for each participant to track accruals
- Earnings must be applied based on a fixed rate

3/6-5

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIESInFRE  
International Foundation for Retirement Education

## Common Plan Types

- *Excess Benefit Plan*
  - In combination with qualified plan; DB or DC
  - Only contributions made to qualified plan in excess of 415 limits are permitted
- *Supplemental Executive Retirement Plan*
  - Also known as top hat plan
  - A companion qualified plan is not required
  - Generally unfunded

3/6-6

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIESInFRE  
International Foundation for Retirement Education

## Constructive Receipt Doctrine

- Taxation applies when income is actually or constructively received
  - When assets are made available, even if not actually received
- NQDC plan participant must make an irrevocable election to defer compensation
- Elections to defer must generally be made by December 31 of prior year

3/6-8

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES**InFRE**  
International Foundation for Retirement Education

## Contribution Formulas

- Salary reduction
  - Employee elects to defer income
  - Must be structured to avoid constructive receipt
- Salary continuation
  - Employer adds an additional layer of compensation payable through the plan
  - Additional requirements can be imposed – known as golden handcuffs

3/6-8

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES**InFRE**  
International Foundation for Retirement Education

## Payroll Taxes

- Compensation in NQDC plans is subject to FICA on the later of:
  - Date services are performed
  - Date the deferred amount is no longer subject to substantial risk of forfeiture
- Deferred amounts can be subject to payroll taxes in the year after work is performed, but before employee takes receipt of assets

3/6-9

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES**InFRE**  
International Foundation for Retirement Education

## Distributions

- Timing and form of distribution must be specified at time of initial deferral
- Deferred compensation can be distributed
  - At separation of service or retirement
  - Death or disability
  - Time specified by the NQDC plan at the time the compensation is deferred
  - Unforeseeable emergency as defined by the IRC

3/6-10

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES**InFRE**  
International Foundation for Retirement Education

## Financing NQDC Plans

- Employer is not required to set aside funds to pay benefits
- Pay-as-you-go”—employer pays benefits as they come from general funds
  - No assurance dollars will be there
  - Employee runs risk of losing benefit
- Informal financing methods provide some security while avoiding constructive receipt

3/6-11

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES**InFRE**  
International Foundation for Retirement Education

## Government and Tax Exempt Employers

- 457(b) plan of governmental employers
  - Eligible deferred compensation plan
  - Functions most similar to a qualified plan
- 457(b) plan of tax exempt entities
  - Assets are not held in trust and must remain subject to general creditors of employer
  - Distributions are subject to constructive receipt

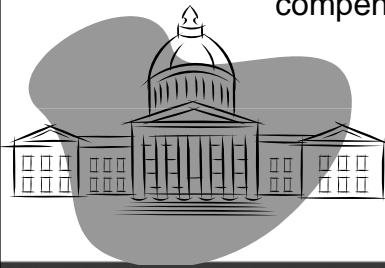
3/6-13

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES**InFRE**  
International Foundation for Retirement Education



## Government and Tax Exempt Employers

- 457(f) plan of government or tax exempt entities
  - Fails to meet requirements of 457(b)
  - Considered ineligible deferred compensation plan



3/6-13

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Chapter 7

# Monitoring and Evaluating Retirement Plans



FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

Why is it important to  
monitor retirement  
plans?

Is this different for DB  
and DC plans?



FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## The Planning Process

- Goals and objectives must first be established, followed by action steps to achieve them
- Goals should be:
  - Specific and measurable
  - Stated in terms of a time frame
- Well-stated goals provide standards to monitor and evaluate the retirement plan

3/7-3

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Strategic Plans

- Apply to the “big picture”
- Are generally broad in scope
- Cover a long-term period
- Takes into account changes in environment
- Should be focused on primary stakeholder group: participants and beneficiaries



3/7-5

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Strategic Plan Considerations

- Internal environmental factors: participant population and the employer
- External environmental factors
  - Legislative, regulatory and policy changes.
  - Social trends
  - New technologies.
  - Economy (inflation, unemployment, etc.).
  - Changes in the political environment
  - Demographic shifts (such as the aging population)
  - Social and industry trends

3/7-5

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Monitoring a Retirement Plan

- Monitoring ensures goals are being achieved
  - Measures performance
  - Compares performance against established standards
- Tools need to be established to gather information and allow on-going monitoring
  - Informal: such as spontaneous calls or meetings
  - Formal: such as quarterly reports or presentations

3/7-6

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES**InFRE**  
International Foundation for Retirement Education

## Written Reports

- Generally developed for a specific audience and topics
- More comprehensive than informal oral reports
- Provides easy reference and documentation
- Generates information that is compared to specific standard
  - Established as an acceptable range of performance

3/7-7

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES**InFRE**  
International Foundation for Retirement Education

## Benchmarking

- Compares task, product or service with
  - Established norms
  - Certain standards
- Gathering independent data is an important step in benchmarking
- Survey results can provide information on industry trends and comparisons to national/regional standards

3/7-9

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Monitoring Investments

- Investments must be monitored to ensure consistent with written investment policy statement
- Monitoring includes
  - Measuring performance against established standards and benchmarks
  - Evaluating fees and costs to ensure they are reasonable and appropriate

3/7-10

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Monitoring Administration

- Administration monitoring involves qualitative measurements
- Expectations compared to actual performance
- Reviewing participant activity can be an effective tool to measure certain functions
- Communication and transaction processing is also considered in the monitoring role

3/7-11

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES**InFRE**  
International Foundation for Retirement Education

## Audits

- SAS 70 audit evaluates systems, control policies and procedures relating to financial / transaction processing
- Compliance audit evaluates provider's adherence to regulating laws and contract provisions
- Financial audit examines financial transactions
- Actuarial audit monitors and evaluates actuarial services used in defined benefit plans

3/7-12

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES**InFRE**  
International Foundation for Retirement Education

## Service Providers

- All service providers associated with the retirement plan should be monitored
  - Investment advisors/counselors
  - Accountants
  - Actuaries
  - Consultants
  - Attorneys

3/7-13

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Monitoring Plan Communications

- Determine if participants receive and understand important information
- Communication priorities differ by plan type
  - DB plans: do participants understand benefits?
  - DC plans: are participants making informed investment decisions?
- Statistical analysis is important to determine effectiveness of communications

3/7-13

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Surveys can help...

- Gauge the effectiveness of communications and education
- Determine which participants need special or additional educational assistance
- Identify the best distribution options given specific plan demographics
- Evaluate whether a plan is operating compared with other similar plans

3/7-14

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education

## Focus Groups

- Established to represent certain demographics of the plan or end users
- Moderator plus 8 to 12 individuals
- Opinions and attitudes about a specific topic, service, product or experience are discussed
- Results can provide valuable information about current plan structure or administration and/or future changes

3/7-17

FUNDAMENTALS OF OPERATIONS  
RETIREMENT PLAN ADMINISTRATOR SERIES

**InFRE**  
International Foundation for Retirement Education



