Thank you for joining us!
The webinar will start momentarily…

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BEYOND THE NUMBERS

A Closer Look at Defined Contribution Plan Survey Results

January 25, 2018

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Welcome

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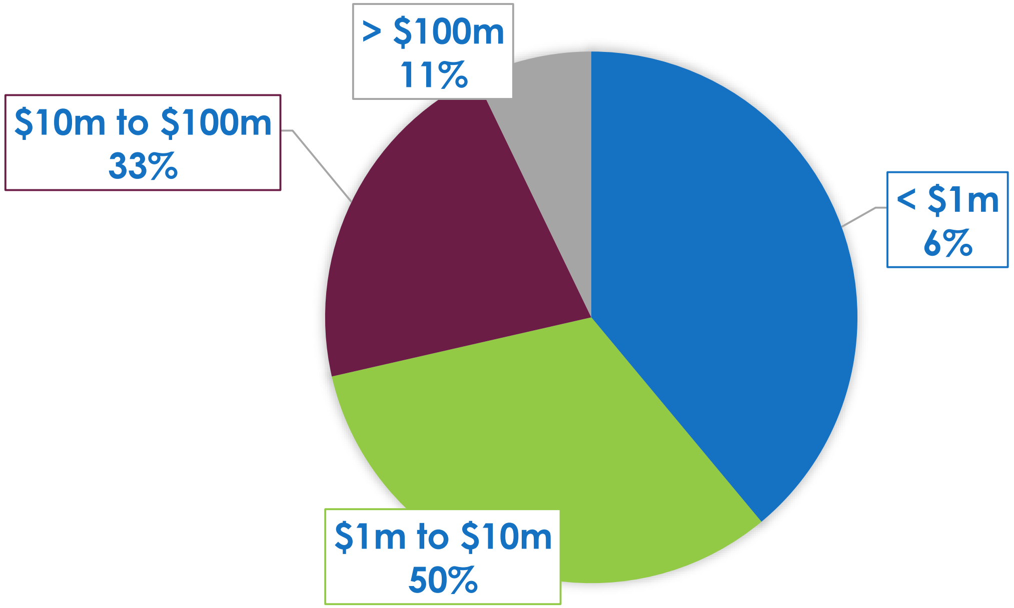
Today's Agenda

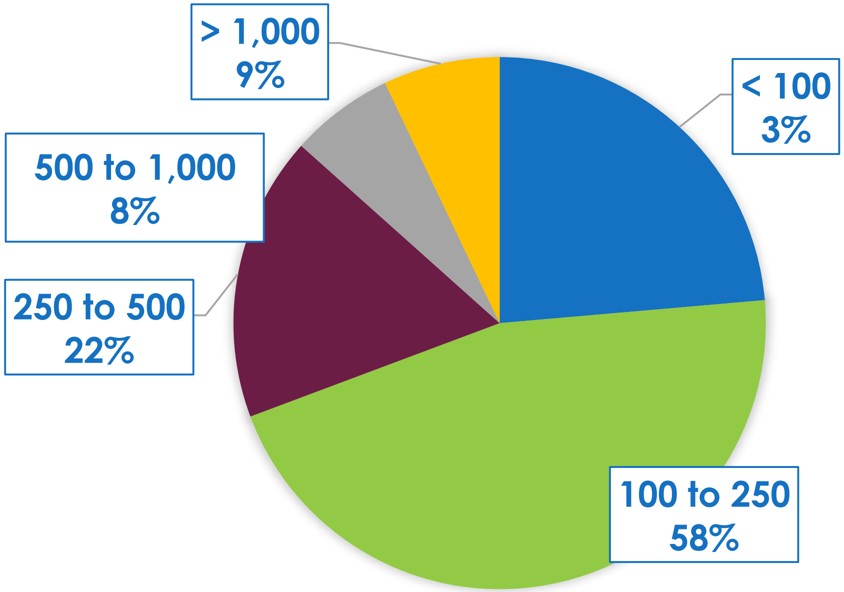
- Deeper dive into results
- Common issues in plan design/operations
- Q&A

Average Plan Size



Plans Surveyed	Amount in Assets
6%	< $1m
50%	$1m to $10m
33%	$10m to $100m
11%	> $100m

Average Number of Participants



Plans Surveyed	Number of Participants
3%	< 100
58%	100 to 250
22%	250 to 500
8%	500 to 1,000
9%	> 1,000

Industries

In what industry is your company?

32%: Professional Services
11%: Manufacturing
9%: Energy& Environmental
9%: Software/Technology
8%: Education
6%: Real Estate
6%: Retail/Merchandising/Consumer Products
6%: Restaurant/Food Service
4%: Wholesale Distribution/Transportation
9%: Other

"Other" category consists of the following industries:

- Food Service
- Sports Broadcasting
- Electro/Biotechnology
- Environmental Services

Matching Contributions

- 64% of respondents pay their match each pay period and the remaining 36% fund their match once a year
  - Most common tiered match was 50% of employee deferrals up to 6% of an employee's compensation
  - Most common flat match was 4% of compensation

Vesting

- 30% of plans had immediate vesting in their employer match
- Out of the remaining 70%, here is the breakdown of how many years it took to become 100% vested
  - 6 years 42%
  - 5 years 31%
  - 4 years 11%
  - 3 years 16%

Common Issues

During audits we perform, we come across some common issues:

1. Eligible Compensation
2. Late Payments
3. Hardship Distributions
4. Enrollment (e.g. Auto Enrollment)

Common Issues

Eligible Compensation:

- Know the plan document
- Bonuses, overtime, commissions

Eligible Compensation

Is bonus compensation considered eligible compensation?

85%: Yes
15%: No

Does your plan allow for separate elections for regular compensation vs. bonus compensation?

34%: Yes
66%: No

- Know plan document
- Bonuses
- Overtime
- Commissions
- Stock compensation

Eligible Compensation

Where do I look to see what is eligible?-Plan Document

5. **Exclusion from Compensation**

a. **General Exclusions**

Compensation will exclude the following *(select all that apply, if a contribution source is not available under the Plan applicable" for such source)*:

	Elective Deferrals	Matching Contributions	Employer Profit Sharing Contributions
a. Not applicable.			✓
b. Bonuses.			
c. Overtime.			
d. Commissions.			
e. Differential Wage Payments.			
f. Reimbursements or other expense allowances, fringe benefits (cash & noncash), moving expenses, deferred compensation and welfare benefits.	✓	✓	
g. Other. *(Specify.)*			

3. **Separate Deferral Election for Bonuses**

Can a Contributing Participant make a separate deferral election to defer part or all of a bonus that will apply instead of the Contributing Participant's salary reduction agreement *(select one)*?

Option 1: ☐ Yes.

Option 2: ☑ No.

Eligible Compensation

How do I know if I have a true-up due at the end of the year?

(d) ***Contribution Period for Matching Employer Contributions*** - The Contribution Period for purposes of calculating the amount of Matching Employer Contributions is:

(1) ☐ each calendar month.

(2) ☐ each Plan Year quarter.

(3) ☑ each Plan Year.

(4) ☐ each payroll period.

Hardship Distributions

- 86% of plans surveyed allow for hardship distributions –10% one-time tax on distribution
- Common Hardships:
  - Medical expenses
  - Purchase of residence
  - Avoiding foreclosure of home
  - Funeral expenses
  - Post-secondary education

Hardship Distributions

What is your responsibility as plan administrator?

- Documentation - regardless of nature of transaction (online vs paper)
- Ensure all avenues have been exhausted prior to hardship (has a loan already been taken out?)
- Ensuring controls are in place to cease employee deferrals for 6 months
  - Controls to ensure contributions are allowed again after 6 month period

Common Issues

Late Payments:

- Remit to plan as soon as administratively possible
- Document exceptions

Common Issues

Enrollment (e.g. Auto Enrollment)

- Ensure internal processes can support
- Auto-escalation

Other Enrollment Issues:

- Eligibility requirements unintentionally not strict enough
  - Seasonal employees
  - Part-time employees

Once eligible participants reach 120, annual audit is needed

Auto-enrollment

43% of the plans currently have auto-enrollment

If your plan offers auto-enrollment, what is the starting contribution percentage?

0%: 1%
16%: 2%
42%: 3%
11%: 4%
26%: 5%
5%: 6%

Auto-enrollment

Pros of auto-enrollment:

- Increased participation
- Increasing odds of passing annual nondiscrimination tests

Cons:

- Requires strong internal control system to be in place
- Increase in administrative work to maintain enrollment
- Increases chance for missed opportunity of deferrals (i.e. requirement of plan sponsor to make corrective contributions)

Nondiscrimination Tests

Methods to avoid failing nondiscrimination tests:

- Increase participation
  - Auto-enrollment
- Increase balances for non-highly compensated employees (NHCEs)
  - Auto-escalation
  - Increase employer contributions (will also make participation more attractive)
  - Elect to be a Safe Harbor Plan

Types of Audits

DOL/IRS

- Regulatory audits designed to test if plan is being operated in accordance with applicable regulations

Financial Statement Audit

- Performed by independent CPA firm; audit designed to express an opinion that the financial statements of the plan are reasonably stated

Financial Statement Audit

- Employee Retirement Income Security Act of 1974 (ERISA)
- Department of Labor (DOL) is primary enforcer of ERISA
- Audit requirement is based on the number of eligible participants of the plan as of the first day of the plan year
  - If 120 or more eligible participants, audit is required
  - If 100 or more eligible participants on the first day of a newly formed plan, audit is required
  - Once an audit is required, cannot get out of audit requirement until under 100 eligible participants
- Consider an automatic cashout provision to remove terminated participants with balances under a certain threshold, generally $5,000

DOL Audits

If your plan is selected for audit by the DOL, they will request several documents. The more organized plan records are, the quicker the audit is resolved.

Common requests include, but are not limited to:

- Plan documents and amendments
- Financial records for plan
- Contracts and fee disclosures with third parties
- Form 5500 filings
- Minutes for trustee meetings, including consideration of investment performance

If the plan is designed well and the terms of the plan document are being followed, the audit will likely have no findings.

Questions?

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