

# Five Point 403(b) Check-Up

*a comprehensive qualified plan review tool*



## Participant Education

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- Does the plan have a formal Participant Education Program?
  - Does your program address all three types of participants? (404(c) addresses one)
  - Is it reviewed at least annually?
  - Are minutes taken and filed in the Fiduciary File regularly?
- Are there regularly scheduled participant education meetings?
  - Quarterly or semi-annually?, Annually? Seldom? None?
- Participant Communication
  - Quarterly statements, On-line account access, Newsletters
- Do you offer Lifestyle options for participants who don't want the burden of building and maintaining their own investment portfolio?



## Plan Fees and Expenses

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- Do you know what your plan administrative fees are?
- Do you know exactly what your investment expenses and other asset-based fees are?
- Do you know if your total fees are in line for a plan your size?
- Do you conduct a formal annual review of your fees and document this review?



## Plan Design

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- Does your plan conduct an annual plan design review?
- Are you aware of alternative plan design options?
  - Safe-harbor, Cross-Tested, Catch-up Elections
- Are HCE's satisfied with contribution limitations?
- Are compliance and testing functions performed in a timely and accurate manner?
  - Document restatements and amendments (GUST)
  - ACP discrimination testing and Form 5500 filings



## Fiduciary Review

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- Does your plan have an Investment Policy Statement (IPS)?
  - Is there an Investment Committee with oversight responsibilities?
  - Is there at least a formal annual review of the IPS?
  - Is the review documented and filed in the Fiduciary File?
- Does your plan comply with 404(c)?
  - Is the intent to comply with 404(c) documented in the IPS?
  - Has the plan's intent to comply been communicated to participants?



## Investment Portfolio

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- Does your portfolio offer diversity across major asset classes and categories?
- Do you know how your investment options compare with their peers or benchmarks?
- Do you conduct at least an annual review of all investment options offered?
  - Are formal reviews documented in the Fiduciary File?
- Is the portfolio designed with the employee's investment experience in mind?

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## Participant Education

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Most plans do not have a formal participant education program. The few that do rarely review it on any regular basis. Yet, most industry experts (and plan sponsors) would agree that participant education is one of the top areas of concern in 403(b) plans. Without a plan it is nearly impossible to get the (any) job done.

An education program provides an outline of the demographics of the employee group, tools to be used to educate participants, methods used (such as semi-annual education meetings), participation and deferral rates and goals. The Education Program should be reviewed on an annual basis, and documentation of the review should be filed in the plan sponsor's Fiduciary File.



## Plan Fees and Expenses

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The plan fees and expenses should be reviewed on an annual basis to ensure that they are competitive within the industry, relative to the plan size. Many plan sponsors are unclear what their fees are, or what their participants are paying in investment fees. Many providers have done a very good job of hiding the "pea" and have made it difficult for the average plan sponsor to clearly understand all the costs associated with their plan.

Looking at fees on a "Total Cost Basis" is one of the most accurate ways to evaluate plan fees. Total Cost Basis is the sum of all Billed fees, Investment Expenses, Asset fees, Wrap fees and/or Trust fees. The sum of these fees, on a percentage of assets basis and in relation to the level of service, provides an accurate fee analysis.



## Plan Design

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Many plan sponsors have not been made aware of plan design techniques that can increase the attractiveness of the plan to owners and other highly compensated employees (HCE.) Additionally, many plan design features can make the plan run more smoothly from an administration and compliance standpoint.

Cross-tested plan design can be a great way to help an owner or HCE of a small professional group get over \$40,000 in their retirement account per year, for the least amount of overall plan expense.

Safe-harbor plan design is gaining popularity and is very effective. Plan sponsors that have been frustrated by failed discrimination testing should be made aware of this design feature that essentially eliminates testing.



## Fiduciary Review

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Most plan sponsors have significant issues in the area of fiduciary roles and responsibilities. Fiduciary liability was the number one concern of plan sponsors in a survey conducted last year, yet nearly 40% of plan sponsors don't have or aren't sure if they have an Investment Policy Statement (IPS.) The IPS is the document that outlines how investments for the plan are chosen, evaluated and if needed, replaced. Even plan sponsors that do have an IPS seldom conduct annual reviews or keep records of reviews for their Fiduciary File.

The only thing worse than not having an IPS is having one and not following it.



## Investment Portfolio

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An important responsibility of the plan is to offer a portfolio of investment options that covers the major assets classes, styles and categories. Many times investment options change over time, which often results in gaps within the portfolio. Some times a change in the style of a particular option is by design and other times it is due to other market related forces. Regardless of the reason, it is important for plan sponsors to understand the investment options within their portfolio and review the portfolio on a regular basis.

Documenting the review and filing the documentation in the Fiduciary File is a recommended practice.