Retirement Times

NEWS AND UPDATES FOR RETIREMENT PLAN SPONSORS AND FIDUCIARIES

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Getting the Biggest Bang for Your Buck! – Negotiating Retirement Plan Fees with Your Provider

According to plan sponsors, one of the most harrowing aspects of their fiduciary obligations is to ensure that plan fees are reasonable. From administration and recordkeeping to compliance and investment management, how can a plan sponsor feel assured that they are aware of all plan fees, understand them thoroughly and then determine their fair and reasonableness? It's quite a task! Best practices dictate the use of live-bid fee benchmarking such as the B3 report as the exclusively valid method of determining fee reasonableness. Once produced, that analysis serves as documentation of the plan fees falling within a reasonable range. Or does it? What happens when the data shows that your plan provider's fees are higher than the bidding providers? Even though your provider may be meeting your plan needs and service expectations well, you may be concerned when the analysis demonstrates that your plan fees are outside of range and significantly higher than the bidding providers. In this situation, consider engaging in a fee negotiation with your provider. The following are steps to pursue:

1. Named anonymously, deliver the bidding provider range of fees to your incumbent provider. It's important to emphasize that the results of the B3 benchmarking process are based on: 1) a live-bid benchmarking process and 2) all bidders are provided the current plan demographics and plan design/service structure. As such, the results are a true apples-to-apples comparison and thus extremely compelling.
2. Request that the incumbent provider award a fee concession within range of the bidding providers. In most cases, fees are brought down to at least the mid to slightly above mid-range of fees.
3. Let your provider know that they are not expected to be the lowest, but that you have a fiduciary responsibility to ensure pricing is fair and reasonable for services delivered.

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Changes in Employee Demographics May Impact Owner's Percentage of Retirement Plan Contributions

A common goal for successful business owners when designing a retirement plan is to provide a reasonable benefit level to their employees while maximizing the benefits to themselves. Most times this is accomplished with an aged-based or "cross-tested" design that allocates differing contribution levels based on an employee's class.

It is important to understand that changes in your clients' employee demographics from year to year may have a dramatic effect on the allocation of contributions. Even the addition or termination of one employee may reduce the allocation to the business owner or require an increase in contributions for the staff.

Consider this situation: A business with 10 employees designed a plan in which the owner and his spouse were receiving approximately 89 percent of the total contributions. The following year the business lost one of the younger employees. The allocation percentage for the owner and spouse went down to 70 percent.

What should plan sponsors do?

Be aware that changes in employee demographics can impact the owner's percentage of the plan contributions. If you have questions about the addition of new employees to the plan or existing participants leaving the plan, please contact your plan consultant.

PenSys Optimizing Retirement Solutions *This article was based on a publication written by PenSys.*

Index Funds – Passive or Passive Aggressive?

One of the largest misconception about index funds is that their only distinguishing feature is their fees. It's not uncommon to hear, "index funds are just holding the stocks or bonds in the index, so we don't need to pay attention to them." This assumption, however, is an oversimplification. Many investors don't realize that all index funds are not created equally.

A key difference between indexes and index funds is that index funds are exactly that – funds. Index funds manage obstacles that indexes themselves don't face. The largest is that funds actually must transact in securities whereas indexes do not.

As an example, when Standard and Poor's recently added Coty (COTY) to the S&P 500 Index to replace Diamond Offshore Drilling (DO), S&P simply recalculated the index values based on the closing prices of the securities on the effective date. Index funds that track the S&P 500, however, had to sell out of their positions in DO and purchase

COTY, PLUS rebalance the weightings of any remaining securities that were impacted by the change. Trading in these securities exposed the funds to transaction costs such as commissions and market impact. Additionally, funds face the risk that their realized trade prices on the securities may be different than the values used to calculate the index, creating a difference in performance. In this example, the impact of these factors is generally small.

Where the impact is more meaningful is in areas such as fixed income and international equities where liquidity in the securities tends to be significantly lower, there are more securities in the indexes, and changes are more frequent. The Barclays Aggregate Index, for example, has over 8,500 securities in it, with many of them not trading every day. In addition, the index rebalances on a monthly basis, so managers tracking this index must constantly adjust the fund.

Index funds must also efficiently manage flows in and out of the funds, dividends and interest payments, mergers, tax consequences and securities lending – all challenges that the underlying indexes do not face.

Fortunately, most index managers are adept at keeping their funds in-line with their benchmarks, so the impact of these factors on fund performance is generally small – small, but important. Just like active funds, evaluating index funds requires careful analysis beyond fees and should also include performance and risk. The index fund metrics in the Scorecard System™ incorporate all of these, providing a complete picture of the factors that produce the most effective index funds.

Allowable Plan Expenses: Can the Plan Pay?

The payment of expenses by an ERISA plan (401(k), defined benefit plan, money purchase plan, etc.) out of plan assets is subject to ERISA's fiduciary rules. The "exclusive benefit rule" requires a plan's assets be used exclusively for providing benefits. ERISA also imposes upon fiduciaries the duty to defray reasonable expenses of plan administration. General principles of allowable expenses include the following:

- The expenses must be necessary for the administration of the plan.
- The plan's document and trust agreement must permit use of plan assets for payment of expenses.
- The expenses must be reasonable and incurred primarily for the benefit of participants/beneficiaries.
- The expense cannot be the result of a transaction that is a prohibited transaction under ERISA, or it must qualify under an exemption from the prohibited transaction rules.

In light of today's plan fee environment, it is incumbent upon fiduciaries to request full disclosure of fees and expenses, how they breakdown with services provided, as well as a request for full explanation of who will be the recipient of fees. Ultimately the ability to pay expenses from a plan trust is a facts and circumstances determination that needs to be made by plan fiduciaries. Because it is possible that the Department of Labor may challenge such determinations it is important that fiduciaries consult ERISA counsel prior to paying questionable expenses from a plan trust and document the decision and reasoning. For more information on this topic contact your plan consultant.

Getting the Biggest Bang for Your Buck

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As is the case anytime you fee negotiate, the process can be tricky. As your dedicated plan consultant, we are uniquely qualified and proud to undergo this cumbersome and complex task for you on a regular basis so that you feel confident in meeting your fiduciary obligation to ensure your plan fees are fair and reasonable.

COMMUNICATION CORNER: 2017 Retirement Plan Limits

This month's employee memo provides participants with the cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2017.

As a reminder, we post each monthly participant memo online via the Fiduciary Briefcase™ (fiduciarybriefcase.com).

Call or email your plan consultant if you have questions or need assistance.

The Barclays Capital U.S. Aggregate Bond Index is an index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities.

S&P 500 Index is an unmanaged group of securities considered to be representative of the stock market in general. You cannot directly invest in the index.

Performance of indexes reflects the unmanaged result for the market segment the selected stocks represent. Indexes are unmanaged and not available for direct investment.

The B3 Provider Analysis™, RPAG's proprietary retirement plan fee benchmarking and request for proposal (RFP) system, utilizes live-bid benchmarking to provide a comprehensive benchmarking of a plan's fees, services and investments in one robust report.

International investing involves special risks such as currency fluctuation, lower liquidity, political and economic uncertainties, and differences in accounting standards.

The value of fixed income securities may fall when interest rates rise. Fixed income securities with longer maturities tend to be more sensitive to changes in interest rates, usually making them more volatile than fixed income securities with shorter maturities. For all bonds there is a risk that the issuer will default. High-yield bonds generally are more susceptible to the risk of default than higher rated bonds.

Please note that all investments are subject to market and other risk factors, which could result in loss of principal.

Mutual funds are sold by prospectus only. Before investing, investors should carefully consider the investment objectives, risks, charges and expenses of a mutual fund. The fund prospectus provides this and other important information. Please contact your representative or the Company to obtain a prospectus. Please read the prospectus carefully before investing or sending money.

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RE: **IMPORTANT NOTICE RE RETIREMENT PLAN CONTRIBUTION LIMITS IN 2017**

The secret to any successful savings program is consistent saving and investing. A retirment plan gives you a great opportunity to make a difference in your financial future.

Subject to IRS plan testing limits, for January 1, 2017, the maximum amount you can contribute is $18,000.

Subject to IRS plan testing limits, if you are age 50 or older anytime in 2017, you may contribute an additional $6,000 for a maximum contribution of $24,000.

Please note that some employees may be limited in their contributions due to nondiscrimination testing.

<u>Don't Miss Out!</u>

We encourage you to contribute the maximum amount to the retirement plan. Should you wish to increase your contribution, please contact your Benefits Department. You are allowed to increase your retirement plan contribution periodically.

This table compares the 2017 dollar limits and thresholds most relevant to retirement plans to those in prior years.

Plan Limits for Plan Year	2017	2016	2015
401(k), 403(b), 457 Elective Deferral Limit	$18,000	$18,000	$18,000
Catch-Up Contribution Limit	$6,000	$6,000	$6,000
Annual Compensation Limit	$270,000	$265,000	$265,000
Defined Contribution Limit	$54,000	$53,000	$53,000
Defined Benefit Limit	$215,000	$210,000	$210,000
Definition of Highly Compensated Employee	$120,000	$120,000	$120,000
Key Employee	$175,000	$170,000	$170,000
IRA Contribution Limit	$5,500	$5,500	$5,500
IRA Catch-Up Contributions	1,000	1,000	1,000

Thank you and we hope you take full advantage of your company's retirement plan and all it has to offer!