

The background features a dark blue and black color scheme with a pattern of light blue gears and a faint silhouette of a person in a red shirt. The text is overlaid on this background.

Analyzing the Results: 2018 Defined Contribution Plan Survey Results

January 10, 2019

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Welcome

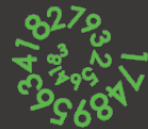


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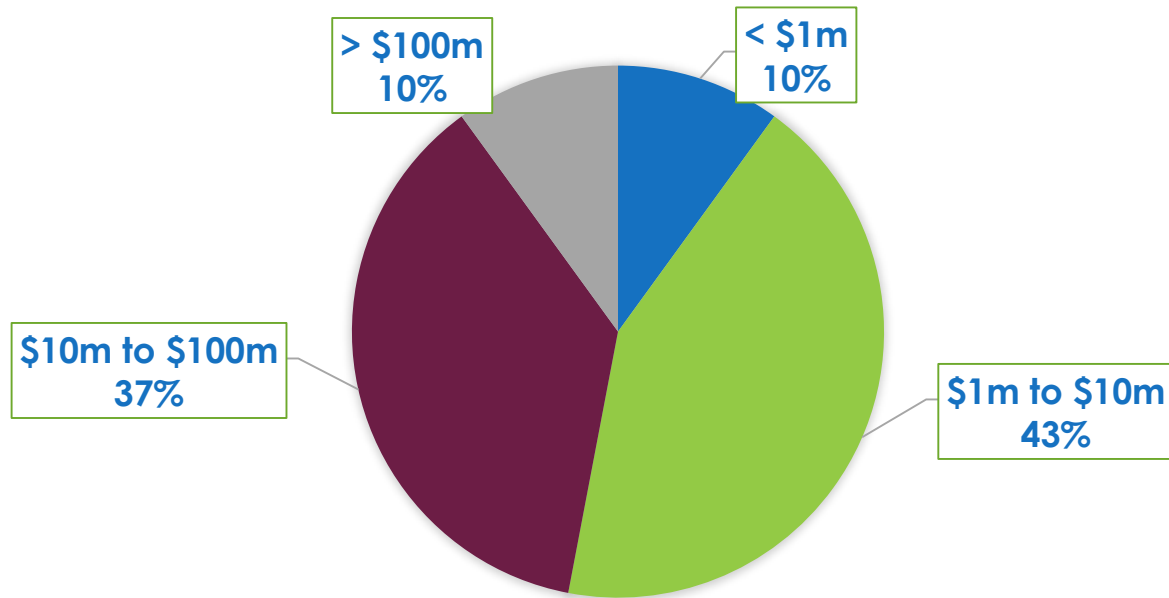
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Today's Agenda



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

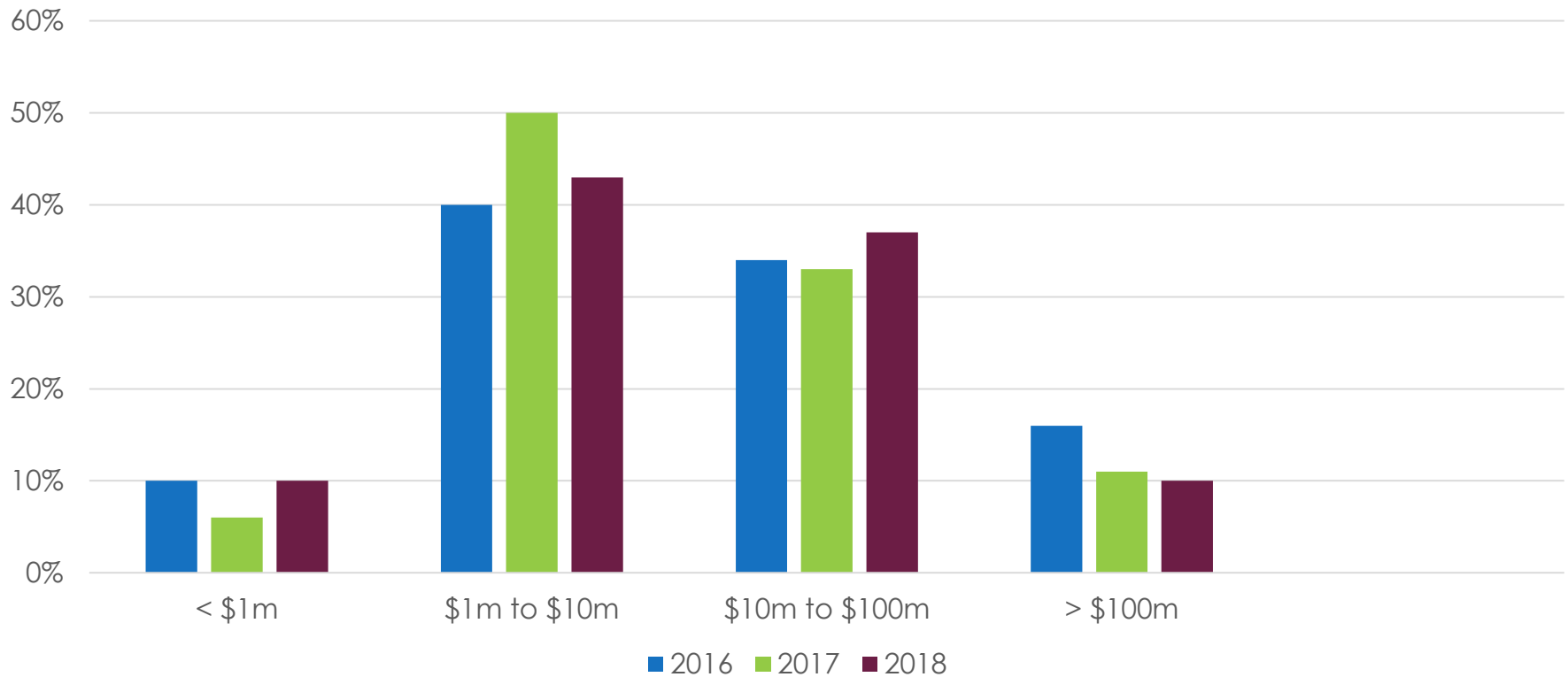
2018 Average Plan Size



Plans Surveyed	Amount in Assets
10%	< \$1m
43%	\$1m to \$10m
37%	\$10m to \$100m
10%	> \$100m



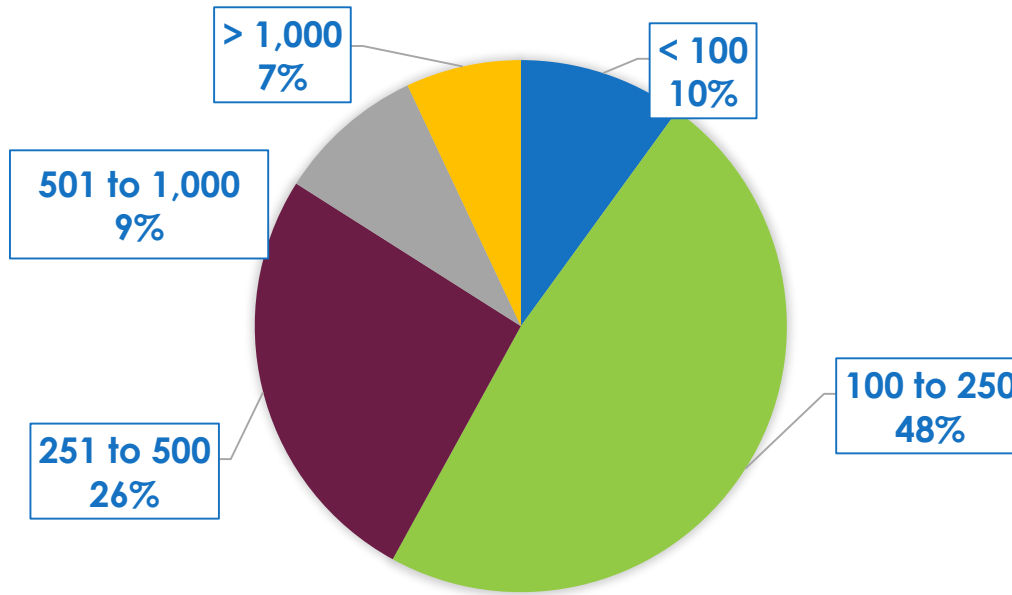
2016-2018 Average Plan Size



Amount in Assets	2016 Plans Surveyed	2017 Plans Surveyed	2018 Plans Surveyed
< \$1m	10%	6%	10%
\$1m to \$10m	40%	50%	43%
\$10m to \$100m	34%	33%	37%
> \$100m	16%	11%	10%



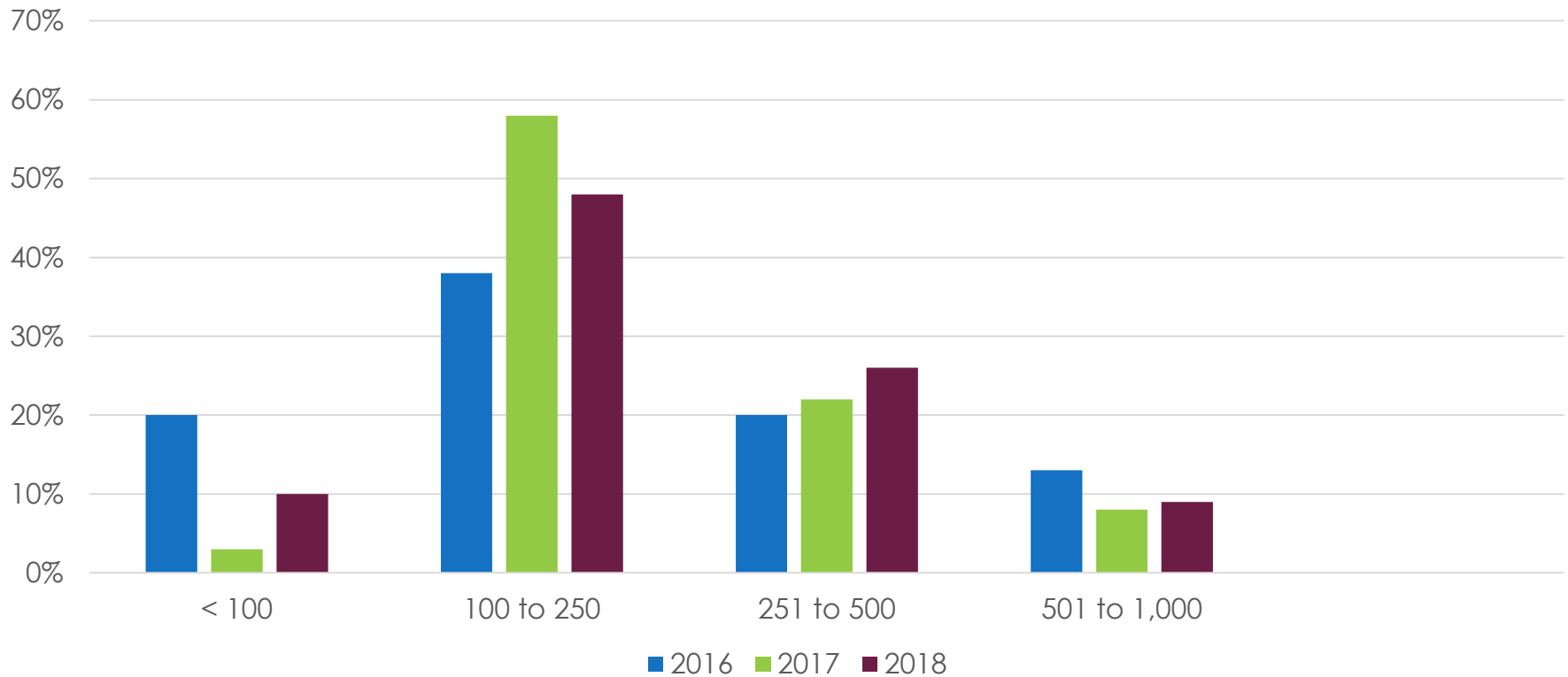
2018 Average Number of Participants



Plans Surveyed	Number of Participants
10%	< 100
48%	100 to 250
26%	251 to 500
9%	501 to 1,000
7%	> 1,000



2016-2018 Average Number of Participants



# of Participants	2016 Plans Surveyed	2017 Plans Surveyed	2018 Plans Surveyed
< 100	20%	3%	10%
100 to 250	38%	58%	48%
251 to 500	20%	22%	26%
501 to 1,000	13%	8%	9%

Industries



In what industry is your company?

- 28%: Professional Services
- 8%: Manufacturing
- 7%: Energy & Environmental
- 7%: Software/Technology
- 8%: Education
- 1%: Real Estate
- 13%: Retail/Merchandising/Consumer Products
- 4%: Restaurant/Food Service
- 5%: Wholesale Distribution/Transportation
- 10%: Biotechnology & Life Sciences
- 3%: Other



Matching Contributions

- 75% of respondents pay their match each pay period
- 25% of respondents pay their match once a year
- Most common employer match was 100% of employee deferrals up to 3% of an employee's eligible compensation

Vesting



- 27% of plans had immediate vesting in their employer match
- Out of the remaining 63%, here is the breakdown of how many years it took to become 100% vested
 - 6 years: 27%
 - 5 years: 22%
 - 4 years: 9%
 - 3 years: 12%
 - 2 years: 3%

Common Issues



Some common issues:

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

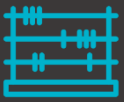
Common Issues



Eligible Compensation:

- Know the plan document
- Bonuses, overtime, commissions

Eligible Compensation



Is bonus compensation considered eligible compensation?

79%: Yes
21%: No

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

41%: Yes
59%: 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. (<i>Specify</i> .)			

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

- 90% 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

Hardship Distributions



OLD RULES	NEW RULES EFFECTIVE 1.1.19
Documentation - regardless of nature of transaction (online or paper)	Participant needs to put in writing that they have insufficient cash or other liquid assets to satisfy the immediate and financial need
Take out loan prior to hardship	Can take distribution without taking out a loan
Deferrals were suspended 6 months after a distribution was taken	No longer a 6 month suspension of deferrals (Effective 1/1/2020 but can adopt as of 1/1/2019)
Distributions of EE deferral earnings, QNECs and QMACs disallowed	Previously ineligible earnings/contributions now allowed to be part of hardship distribution in certain cases

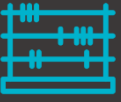
Common Issues



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



45% of the plans currently have auto-enrollment

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

0%: 1%
4%: 2%
18%: 3%
3%: 4%
13%: 5%
6%: 6%
3%: Other
53%: N/A



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)



Compliance Issues per Survey

Did your plan have any of the following compliance issues?

54%: Late remittance of employee contributions

35%: Improper calculation of eligible compensation (including treatment of bonus compensation)

16%: Incorrect vesting of employer contributions on distributions

29%: Missing support for transactions (i.e. no support for DOB, DOH, deferral percentage, etc.)

40%: Enrollment (i.e. incorrect auto-enrollment, not using correct plan entry date, etc.)

15%: Missing minutes or no formal minutes maintained

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 over 120 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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