PENSION TRENDS

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Good Plan Management– Part II

In the last issue of Pension Trends we reviewed the primary responsibilities of the key parties involved with the management of a retirement plan. The key parties include the plan sponsor (almost always the employer), the Plan Administrator (again, almost always the employer), a trustee, an investment advisor, probably a third party administrator (TPA), plus the employer's accountant and legal counsel. For defined benefit plans, you need to include an actuary in the mix.

The employer maintains ultimate control of plan management. The employer has the authority to hire and fire all of the other involved parties. So, not surprisingly, the first key to good plan management is to hire good advisors. For most small plans, the TPA will be the plan quarterback. The TPA is most involved with the day-to- day operations of the plan. The TPA is probably the only one of the advisors who spends 100% of its time working with retirement plan administration issues. Ask your accountant, your legal counsel, your banker, "Which TPA's have done a good job for your clients' retirement plans?" The pension community in most metropolitan areas is small. Good and bad reputations tend to be well known.

Once all the plan advisors are in place, the key to successful on -going plan management is communication and timing. There should be communication between the employer and the TPA prior to the end of a plan year. Waiting until after the end of the plan year to amend the plan or make other changes that could otherwise affect the operation of the plan may be too late. For example, it is not uncommon for some of our clients to ask us to calculate an estimate of the required contribution to a defined benefit plan before year end. With that information in hand, the employer can coordinate its year end planning with its accountant.

Cash balance, floor offset and 401(k) plans are required to perform certain nondiscrimination testing early in the plan year in order to make appropriate adjustments in a timely fashion. This requires the exchange of full and accurate data between the employer, the trustee, and the TPA. Each of those parties should know in advance what is expected and what deadlines apply. Occasionally, one party thinks the other is handling a responsibility that ultimately goes undone. We have found it helpful to ask for copies of the nondiscrimination testing if it is not performed by IAI, thereby reducing the chance the testing does not get done.

Here are examples of common plan administration mistakes that can be avoided with good plan management:

Failure to follow the terms of the plan. This is the cause of the vast majority of the mistakes we encounter. For example, the plan document states that compensation for purposes of determining benefits will be W-2 compensation. Two years ago the payroll department sent the TPA compensation excluding bonuses and has done the same ever since even though the data request form from the TPA asks for W-2 compensation.

How can that happen? Lack of communication. The data request form was sent to the financial officer who pulled the data pages and sent them to payroll without the cover sheet that explains the definition of compensation for plan purposes.

No one filed the Form 5500. This happens most often when there is not a TPA involved. Some 401(k) plans are "administered" by a mutual fund company that provides only limited TPA services that may not include Form 5500 preparation unless so requested. For those plans, the accountant is often asked to prepare the Form 5500 which is fine unless the accountant assumes the mutual fund company is preparing the form. Source of the problem? Lack of communication.

Waiting until the last minute. Sometimes no matter how often we ask for data it does not arrive until the last minute. Due to time constraints, the likelihood of errors is increased, and relationships are strained. While we cannot change our clients' behavior, we make sure they understand (communication again) the potential consequences of a missed deadline.

Late deposit of 401(k) salary deferrals. The U. S. Department of Labor has set out clear guidelines for the depositing of salary deferrals. Any reasonable payroll system should be able to comply with the deposit guidelines. It is almost always a result of mistake or oversight that salary deferral deposits are made late. Again, even if clients' behaviors cannot be changed, with good communication, unintended (and often expensive) consequences can be avoided.

In the end, the good management of a retirement plan is no different than good management of any other endeavor. It's all a matter of the right people doing the right things at the right time. Sounds easy, doesn't it? If only it were so.

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