



Q1 2019

LIFT RETIREMENT

News and Information
for Employers

clearpoint
ADVISORS



A key best practice to great retirement plan governance?
Document, document, document!



#401kretirementplans
#governance #fiduciary



RISKY BUSINESS: WHY PLAN GOVERNANCE MATTERS

Participant-driven lawsuits are on the rise, and employers are facing heightened scrutiny of the way they manage their retirement plans. In today's continually-evolving regulatory and legal environment, it's more important than ever to make sure your organization's retirement plan is both effective and compliant. A well-structured retirement plan governance program can help you pursue these goals when aiming to limit fiduciary risk and improve plan performance, while striving to boost participant outcomes.

WHAT IS RETIREMENT PLAN GOVERNANCE?

Simply defined, governance outlines the processes and policies for managing a retirement plan as well as the roles and responsibilities of everyone involved. It provides a framework for effective decision-making on all aspects of the plan, from plan documents and investments to operations and financial reporting.

WHY IS PLAN GOVERNANCE IMPORTANT?

The stronger your governance, the stronger your plan. An effective governance program details processes, roles and responsibilities for all parties involved in managing the plan and helping support its objectives. It should address how duties are delegated and to whom, and the documentation and oversight of all responsible parties to the plan. Perhaps, most importantly, proper governance procedures help reduce plan fiduciaries' exposure to personal liability for actions and decisions made on behalf of the plan and its participants. Finally, a successful governance program enables plan fiduciaries to work together towards the same goals, which can potentially improve plan performance and participant outcomes.

WHAT CAN YOU DO ABOUT IT?

Governance best practices include documenting every aspect of the plan's day-to-day management, along with long-term operating procedures, such as:

- › Proof of the existence of a retirement plan committee(s) with key fiduciary responsibilities (including meeting minutes)
- › Plan documents containing key provisions such as eligibility, benefits, contribution limits and distributions
- › Investment management and monitoring procedures — an Investment Policy Statement (IPS) is optional but highly recommended — along with documentation of how the plan's investment menu fits the criteria in your IPS, investment monitoring and any discussions about the IPS
- › Compliance monitoring, stakeholder responsibilities and statements of accountability
- › Participant communication guidelines that detail how the plan will educate and support employees to help them understand the perks of participating and how to make informed investment decisions
- › Annual plan review and reporting criteria and documentation of related activities, including Forms 5500 filings, audit reports and participant plan disclosures¹

Of course, all of this documentation must be updated and maintained on an ongoing basis.

WRAPPING IT UP

Straightforward retirement plan governance guidelines and best practices help toward ensuring that your plan is compliant and continues to run smoothly, and that fiduciaries can confidently and successfully fulfill their responsibilities. Moreover, having carefully documented plan governance procedures can assist you in preparing for and managing plan audits and compliance reviews, increasing your plan's efficiency and improving your participants' experience¹.

To recap, an effective governance program:

- › Makes decision-making less complex
- › Reduces risk exposure for the plan and its fiduciaries
- › Supports plan and participant objectives
- › Seeks to improve financial controls¹

While governance programs are typically established when the plan is adopted, it's never too late to develop or update governance procedures. Keep in mind, an effective governance program provides a carefully documented record of the plan fiduciaries' efforts to manage and maintain the plan prudently in the best interests of its participants and their beneficiaries. Doing so helps all parties clearly understand and carry out their roles and responsibilities, and it helps manage their fiduciary liability.

Is it time to review your plan governance program? We can help. Contact us today for a comprehensive evaluation of your governance processes and policies.



¹ TIAA. "Plan governance toolkit." March 2017.

FOUR TIPS TO BOOST YOUR EMPLOYEES' RETIREMENT OUTLOOK



47% of workers feel somewhat confident about living comfortably in retirement, but forward-thinking employers can look ahead themselves at ways to boost employees' retirement outlook!



#401kretirementplans
#retirementoutcomes #autofeatures
#stretchthematch

As many employees look ahead to retirement, 47% of workers feel somewhat confident that they'll have enough money saved to retire on time and then live comfortably.¹ However, forward-thinking employers have the ability to help their employees work toward a confident and happy retirement. According to the 2018 Retirement Confidence Survey from the Employee Benefit Research Institute (EBRI), only 17% of American workers feel very confident in their ability to live comfortably in retirement. Additionally, their 28th annual survey found that another 47% of workers feel somewhat confident about living comfortably in retirement. That means that over 64% of Americans (or 2/3 of your workforce) feel prepared for their retirement future.

To help boost confidence, here are 4 forward-thinking tips proactive employers can do to help improve your employees' retirement outlook:

AMP UP AUTO FEATURES

The majority of plans, nearly 6 out of 10, have already adopted auto-enrollment.² A lot of plans started years ago; but back when many employers implemented automatic enrollment, it was at a 3% default deferral, with no auto-escalation feature.

If you're auto-enrolling employees at a low rate like 3% and leaving the deferral rate there, consider that many retirement-savings experts believe that Americans need to save 12% to 15% every year. Relying on a 3% deferral, even with a match, may limit your employees' chances of reaching their goals upon retirement.

We can help you figure out whether a higher initial deferral rate makes sense for your participants and for your organization's budget constraints on match spending. Auto-escalation has become the new norm: 73.4% of auto-enrolling plans now have this feature.³

^{1,2} Employee Benefit Research Institute. "2018 Retirement Confidence Survey." April 2018.

STRENGTHEN THE MATCH

Many employees take their cue on how much they should save for retirement from the message you send with the employer match you offer. Match 100% of the first 3% of pay that an employee defers, for example, and employees may think they need to save 3% a year to have enough for retirement. In reality, they most likely will need to save more.

We can work with you to analyze your options for a match formula that can help your employees save more for retirement. For some sponsors, this means implementing a “stretch” match that requires employees to contribute more to get the full employer match: Instead of a 100% match on a 3% deferral, for instance, a plan could match 50% up to 6%. Other employers, realizing the long-term costs to the company if employees do not retire on time, have decided that it makes business sense to offer a more-generous match to employees. According to the 60th Annual Survey of Profit Sharing and 401(k) Plans by the Plan Sponsor Council of America, it was found that employer contributions have increased to an average of 4.8% of payroll, up from 3.8% in 2007.³

MOVE FORWARD ON RE-ENROLLMENT

Even if you auto-enroll, all your eligible employees may not experience the benefits. Many employers implement automatic enrollment only for new hires, not employees already working at the company when auto-enroll started. And some new hires likely opted out of enrollment when they joined the organization, or later reduced their deferral because they faced a budget crunch at the time. They may be in better financial shape now, but most won't take the initiative to sign up on their own for participation in the plan.

Think about re-enrolling all eligible employees currently not participating in the plan and eligible employees currently contributing less than the initial default deferral rate. So, if you use 6% as your initial default deferral rate, for example, the re-enrollment could include non-participating employees and active participants saving less than 6%. Some employers do a re-enrollment as a one-time event, while others do it every year. We can help you evaluate whether re-enrollment makes sense for your plan.

SEND TARGETED MESSAGES TO LOW SAVERS

Research has shown that people respond more to communications that have been tailored to them individually. Fortunately, recordkeepers have made big strides in their data-crunching and customization capabilities in the past few years. Now they can more easily drill down and identify particular groups of participants in a plan—such as those saving below a particular percentage of their pay—and then do an education campaign targeted to that group, personalizing the communication for each participant.

Consider moving ahead with a customized communication campaign to low savers in your plan, such as those participants not currently contributing enough to maximize the match. We can serve as a liaison between you and your recordkeeper to coordinate a targeted campaign to a particular group of participants.

³ 3.4 Plan Sponsor Council of America. “PSCA's 60th Annual Survey.” Feb. 2018.



Befuddled by mutual fund companies' alphabet soup? Our handy primer can help you clear up share class confusion.



#401kretirementplans
#shareclass #fiduciary
#mutualfundshareclasses
#investmentfees



SHARE CLASS ABCs: CHOOSE WISELY

Choosing mutual funds for your retirement plan's investment lineup can feel like wading through a sea of alphabet soup. Fund companies typically offer multiple share classes, each sporting its own unique letter. A shares, C shares, I shares, R shares — what does it all mean? Luckily, you don't have to be a mutual fund expert to understand the different share classes. Here's a brief primer to help you understand the basics.

ABCS OF FEES

Before diving into the share class alphabet soup, first, a brief word about fees. Each share class of a mutual fund owns the same underlying securities (stocks, bonds, etc.); the only difference is the cost. These come in two basic varieties: expense ratios and sales "loads."

Expense ratios are the percentage of a fund's assets used to cover administrative, marketing and distribution (12b-1 fees), and all other costs. Typically paid by participants, these fees are calculated annually as a percentage of an investor's assets. For example, a participant would pay \$150 for a \$10,000 balance invested in a share class with a 1.5% expense ratio.

Additionally, certain share classes charge significant sales loads. However, these are typically waived for mutual funds purchased through 401k plans.¹ If this is the case, neither the plan nor its participants pay these fees.

¹ Simon, Javier. Planadviser. "Understanding Share Classes in DC Plan Funds." May 2017.

HOW TO COMPARE SHARES

Now, let's talk share classes. Here's a primer of the most common share classes:

A shares: Charge a front-end load for sales commissions for financial planners, brokers and investment advisors. It's paid when shares are purchased and is calculated as a percentage of the original investment. For example, if the opening balance is \$5,000 with a 5% front-end load, the fee is \$250, making the invested balance \$4,750. Within retirement plans, these costs are generally waived in retirement plans.

C shares: May be "no-load" funds, or those that carry a back-end load, in which an investor may pay a sales charge — typically 1% — if shares are sold within a specific period of time (generally less than a year). However, within retirement plans, a back-end charge is typically waived. Class C shares also carry higher expense ratios than A shares.

I shares: Known as "institutional" share classes, I shares typically carry much lower fees than A or C shares. While A and C shares are available to most plans of all sizes, they are mostly accessible to larger plans.⁵

R shares: Specifically designed for retirement plans, R shares range from R-1 to R-6. R shares typically don't have front- or back-end loads; however, they may potentially carry a revenue-sharing component. As such, expense ratios vary: those with 12b-1 marketing and distribution fees may range from .25% to .1%.² It is worth noting that R-6 shares generally have no 12b-1 or servicing fees, although they are typically only available to plans with assets of \$10 million to \$250 million.³

CITs: Collective Investment Trusts (CITs) are the new kids on the investment block. They are similar to mutual funds; however, there are major differences. CITs are not registered; therefore, their administrative expenses are typically lower than those of mutual funds because they are not subject to the many regulations that mutual funds must abide by. Mutual funds are open to the public, whereas CITs are not, and are designed to be part of a specific 401(k) investment strategy. Keep in mind that CITs do not have traditional Ticker Symbols, so while they might have lower costs, there is also a lack of investment transparency. As a plan fiduciary, it is a best practice to truly understand the investment structure, weigh the potential cost savings, and compare the benefits with implementing CITs.⁴

What's more, new share classes — T and "clean" shares — have emerged in response to changing regulations. These share classes are designed to promote greater fee transparency and level the playing field on commissions for financial professionals, while enabling plan sponsors to distinguish investment costs from plan costs.

The bottom line: when selecting and reviewing mutual funds for a plan's investment menu, it's important for sponsors and fiduciaries to understand the different share classes and their related fees, as well as how they impact plan costs and participants' ability to optimize their retirement savings. As you review the many different options available out there, remember: "you must choose, but choose wisely."⁵

² Investopedia. "What is a 12B-1 Fee?" Aug 2016.

³ Simon, Javier. Planadviser. "Understanding Share Classes in DC Plan Funds." May 2017.

⁴ Morningstar Office. "What is a Collective Investment Trust?" November 2018.

⁵ Boam, Jeffrey; Kaufman, Philip; Lucas, George & Meyjes, Menno. "Indiana Jones and the Last Crusade." May 1989.



ABOUT CLEARPOINT ADVISORS

Our mission is to be the financial adviser who provides clarity, simple to understand advice on wealth strategies, retirement planning and the appropriate structuring of insurance products customized to meet our client's specific needs.

We strive to assist our clients to achieve these goals under these changing economic conditions, through professional financial services and exemplary customer service.

We believe our teamwork approach adds a broader perspective to all we do and provides increased benefits to our clients. We are proud members of the Private Advisor Group.



THOMAS DUNN, CIMA®

680 East Saint Charles St. Suite 700

Brownsville, TX 78520

956.372.1070

www.clearpointadvisors.com

tdunn@clearpointadvisors.com

Securities offered through LPL Financial, member FINRA/SIPC. Investment advice offered through Private Advisor Group, a registered investment advisor and separate entity from LPL Financial.

This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements and you should consult your attorney or tax advisor for guidance on your specific situation.

2019© 401k Marketing, LLC. All rights reserved. Proprietary and confidential. Do not copy or distribute outside original intent.