human investing® PRESENTS

# BUILDING SUCCESS FOR RETIREMENT DECISION MAKERS

## 6 key questions for maximizing your organization's retirement plan

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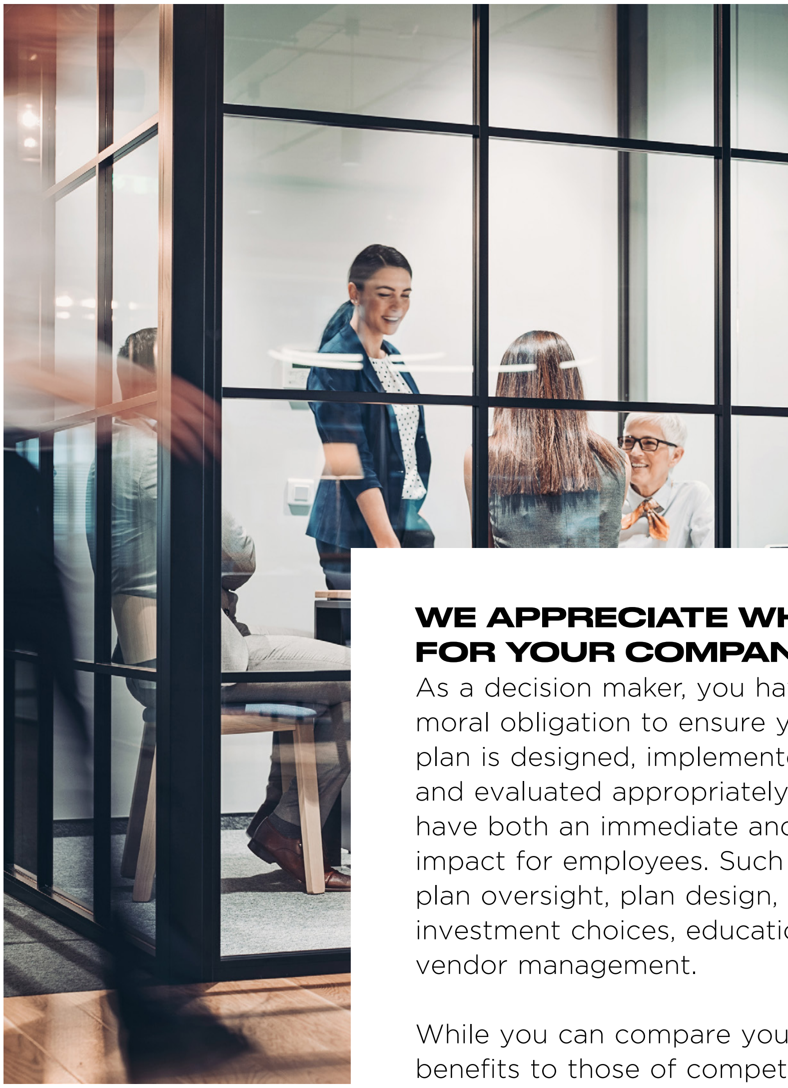

## WE APPRECIATE WHAT YOU DO FOR YOUR COMPANY.

As a decision maker, you have a legal and a moral obligation to ensure your retirement plan is designed, implemented, monitored, and evaluated appropriately. These decisions have both an immediate and a long-lasting impact for employees. Such decisions include plan oversight, plan design, fee structures, investment choices, education offerings, and vendor management.

While you can compare your employee benefits to those of competitor firms, it is rarely a simple exercise. It takes a dedicated team to ensure your retirement plan is operating at its fullest potential.

We hope that this resource provides information and ideas for you to enhance your employee benefits.

# HOW CAN WE HELP YOU?

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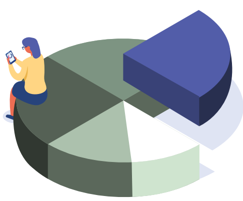
Certified B Corporation

## OUR RESPONSIBILITY

We equip employers and employees to make smarter financial decisions every day. We have no commissions, no selling pressures, no inflated promises, and no incomplete truths. We are fiduciaries every step of the way.

We partner with organizations to optimize current retirement plans, coordinate ongoing administrative responsibilities, and provide extensive participant education. We serve a variety of clients both locally (in the Pacific Northwest) and throughout the country.

We offer comprehensive support in these areas:



**401(K) RETIREMENT PLAN DESIGN**

**INVESTMENT SELECTION & MONITORING**

**EMPLOYEE EDUCATION & FINANCIAL WELLNESS**

**VENDOR MANAGEMENT & PLAN BENCHMARKING**

**COMPLIANCE & OVERSIGHT**

# hi, we're human investing.

## WHEN AND WHERE DO WE CROSS PATHS?

Why should you hire a Financial Advisor for your retirement plan? There are many reasons, such as involving expertise, outsourcing tasks, and supporting your employees' financial pursuits.

Once we establish that our goals are aligned, we work together to achieve them. Our team will schedule trustee meetings, act as a liaison, drive plan design discussions, and engage and support your employees.

There may be four key players in a retirement plan. Depending on your company profile, you may or may not need to involve all of them:

| DECISION MAKER (YOU) | RECORDKEEPER | PLAN ADVISOR (US) | THIRD-PARTY ADMINISTRATOR |
|---|---|---|---|
| + Sponsors the plan for employees | + Tracks transactions and assets in the plan | + Selects and monitors investments | + Complements your recordkeeper |
| + Delegates fiduciary responsibility | + Provides plan website | + Offers employee advice and education | + Lifts administrative and paperwork burdens |
| + Commits to act in the best interest of participants and beneficiaries | + Supplies overall database for the plan | + Acts as a 3(38) fiduciary | + Navigates complex compliance needs |
| | + Files Form 5500 in order to keep plan compliant | + Drives plan design and benchmarking discussions | |

**Recordkeeper only:** This is the do-it-yourself option. The recordkeeper is a necessary vendor.

**Recordkeeper + Plan Advisor:** Including a Plan Advisor can add another fiduciary to your plan. They can help with plan design, investments, employee education, vendor management, and compliance oversight.

**Recordkeeper + Plan Advisor + Third-Party Administrator:** This structure is most commonly utilized for plans that have complex employer contributions or compliance issues. TPAs can be used to integrate retirement benefits for organizations that have multiple plans.

# "How can my organization arrange successful plan governance?"

## THE SHORT ANSWER

Name the person(s) responsible for administering a plan that adheres to legal and regulatory requirements.

## THE LONG ANSWER

Based on our experience, it is rare for an organization to have proper plan oversight. Before hiring a consultant or advisors, most retirement committees gather a few times a year, look at the investment lineup, and occasionally take meeting notes. Said differently, plan oversight is often an afterthought.

Ideally, decision makers create a 401(k) committee with clear expectations, defined roles, and documentation responsibilities. After signing a formal fiduciary acknowledgment, you determine who will take meeting minutes and how frequently your committee will convene.

Decision makers can consider segmenting their oversight into three parts: Investments, Administration & Reporting, and Service Provider Review. As a result, the designated members of the committee have a structure to follow for your unique circumstances.

### INVESTMENTS

**EVALUATION**

- How much help do participants need in planning and investing for retirement?
- What behaviors do participants exhibit regarding risk tolerance, withdrawal patterns, etc.?
- What is the appropriate number/type of investment options to make available to participants?
- What criteria should govern the process for selecting, monitoring, and replacing DIAs and QDIAs, model portfolios, and investment managers, if applicable?

**OUTPUT**

Documentation of information reviewed and basis for decision to select, monitor, and replace investments.

### ADMIN & REPORTING

**EVALUATION**

- What are the policies concerning, and who is responsible for approving, loans and distributions, and who will ensure contributions are deposited?
- What notices, forms, and/or disclosures are required to be provided to participants and at what frequencies?
- What records will be used to reconcile information required to determine eligibility and vesting?
- Who is responsible for preparing, approving, and distributing notices, disclosures, and filings?

**OUTPUT**

Copies of all required notices, disclosures, and filings and any supporting information and/or notes.

### SERVICE PROVIDERS

**EVALUATION**

- What are the needs of the participants?
- Are participants satisfied, and are services utilized?
- What are the experience and background of the service provider?
- How is the service provider compensated?
- Are there any potential/actual conflicts of interest that may affect the judgment of the service provider?
- Is the compensation received reasonable in light of the value of the services provided?

**OUTPUT**

Documentation of information reviewed and basis for decision to select/retain service provider.

### ANNUAL FIDUCIARY FILE

# "How can my organization make changes to our existing retirement plan features?"

## THE SHORT ANSWER

Make the list of plan features mentioned below and confirm that your recordkeeper can implement or make your desired changes.

## THE LONG ANSWER

Plan features are reviewed and adopted as needed. Such features include eligibility, auto-enrollment, auto-escalation, employer contributions, QDIA, Roth adoption, after-tax contributions, loans, and hardship withdrawals.

Employers are increasingly implementing plan design features to facilitate employee participation in their retirement plan. To ensure your plan is an enticing and useful benefit for employees, here are a few key factors that can drive participation:

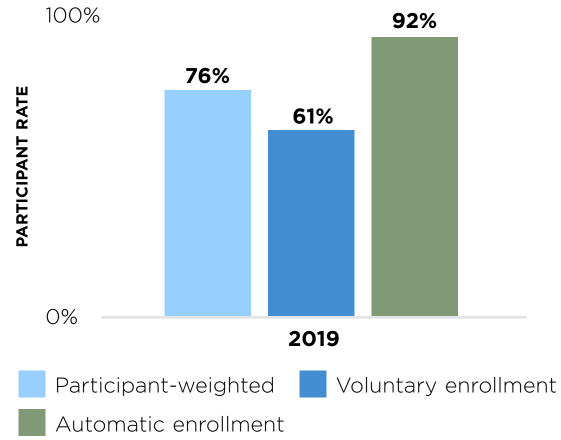
### ELIGIBILITY

Plan eligibility includes participant age and number of hours/months of service required before plan entry. The default age for plan entry is 21, but this can be changed to 18 for companies that employ a younger demographic. When is the last time you reviewed your plan eligibility? Does it function well in terms of employees' ability to participate and administrative ease?

### AUTOMATION

Auto-enrollment, auto-escalation, and a qualified default investment alternative (QDIA) are all plan features that simplify employees' decision-making. Your committee should review the implications of such decisions because they could have a tremendous impact on your employees' financial outlook.

VOLUNTARY ENROLLMENT VS. AUTO-ENROLLMENT




Source: How America Saves 2020, Vanguard

### ROTH ADOPTION

Does your plan offer both pretax and Roth savings? Are your employees aware of their choices? There is a compelling reason for employees to diversify their savings. If your plan already has a Roth option, consider adding the ability to convert dollars from pretax to Roth.

### LOANS AND WITHDRAWALS

If your plan has a loan feature, then

participants can access their savings before retirement without incurring income taxes or penalties. Ideally participants do not need to access their retirement savings early, but life is unpredictable. Offering loan and withdrawal provisions provides employees with the assurance that their savings are ultimately accessible should unforeseen circumstances occur.

## EMPLOYER CONTRIBUTIONS

A decision maker has many different levers to pull when creating their contribution structure. In our experience, an employer match increases participation, and this is further substantiated by research from the *Harvard Business Review*. When is the last time you reviewed your employer match to determine if it aligns with your organization's compensation philosophy? If you are designing a retirement plan or rethinking your current plan, keep these considerations in mind:

- Assessing dollar amount versus percentage of pay for employer contributions
- Benchmarking your match against industry peers
- Including a discretionary profit share
- Retirement plan testing

## ADDITIONAL CONSIDERATIONS

Decision makers should also consider vesting schedules, annual true-up, and eligible compensation for their retirement plan. Beyond adding or changing existing features, cash balance plans or deferred compensation plans can be adopted to incentivize and retain quality employees.

| PLAN PROVISIONS & FEATURES | YOUR COMPANY (EXAMPLE) | PEER COMPARISON (% THAT OFFER THESE FEATURES) |
|---|---|---|
| **Deferral eligibility** | First of the month | 42% of employers set deferral eligibility for the first day of each month |
| **Auto-enrollment** | 5% | 63% of employers select 5% as their auto-enrollment default |
| **Match contributions** | 5% | 21% of employers elect to match 100% of the first 3% |
| **Max # of loans** | 1 | 67% of employers allow 1 loan |
| **Managed accounts** | No | 49% of employers offer managed accounts |
| **Roth contributions** | Yes | 81% of employers offer Roth contributions |
| **Roth in-plan conversion** | Yes | 34% of employers offer Roth in-plan conversions |
| **After-tax contributions** | Yes | 35% of employers offer after-tax contributions |
| **Vesting** | Immediate | 23% of employers have immediate vesting |
| **Online beneficiary** | Yes | 90% of employers allow employees to make beneficiary elections online |

# "How can my organization ensure our investment choices are appealing and appropriate for our participants?"

## THE SHORT ANSWER

Offer your participants a diverse investment lineup and follow a documented process for monitoring funds.

## THE LONG ANSWER

According to the Department of Labor (DOL), selecting and monitoring investments for your plan is one of your primary responsibilities as a fiduciary or retirement plan decision maker. When selecting or monitoring investments, ERISA cares much more about fiduciary standards, retirement plan committee process, and documentation than their performance. The principal document used for managing your investments is the Investment Policy Statement (IPS).

Your IPS should guide your fund monitoring process. Key components of an IPS are:

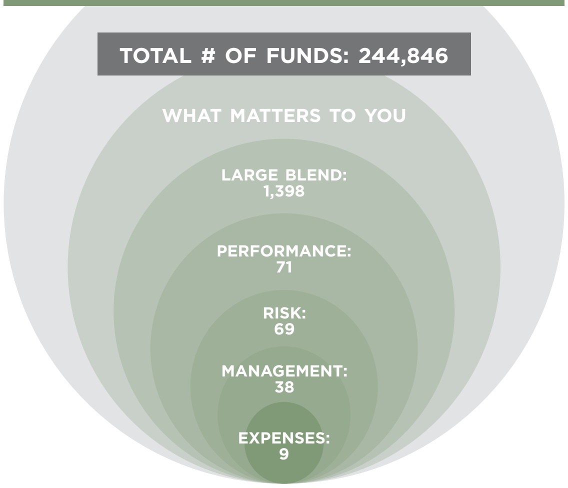
- Identification of the fiduciaries responsible for investment-related decisions
- Investment objectives of the plan and the role of service providers
- Description of any investment philosophies or fee policies to be considered that may limit investment options
- Process for selecting and replacing investment choices
- Frequency at which investment choices will be monitored

As it relates to your plan investments, you are likely in either an implementation phase (just starting a plan or changing vendors) or in the monitoring phase (currently have a plan and are not changing vendors). There are important considerations for both:

### IMPLEMENTATION PHASE

Since you are starting from scratch, you may be tempted to press the "easy button" and look at the historical performance of funds to select the "best" options. "Past performance does not guarantee future results" is a wise mantra to adopt when implementing a fund menu. In addition to fund performance, focus on fund cost (expense ratios) and offering investments that will meet the needs

UNDERSTAND AND APPLY WHAT MATTERS TO YOUR COMPANY



of the majority of employees. When selecting your investments, make sure you consider:

- Providing enough investment options so that employees can be properly diversified
- Not confusing employees with too many investment choices (choice overload)
- Adding a QDIA so employee dollars are automatically invested when their participation begins
- Outlining the different investment fees and confirming they are reasonable for your retirement plan

In practice, this often means selecting low-cost target-date fund options as the default investment and adding 15 to 20 additional funds for investors who want to DIY within the retirement plan. Offering a self-directed brokerage window is one way to offer employees the ability to select options outside of the traditional menu.

**MONITORING PHASE**

A thorough investment review should be completed during a committee meeting. How are your current funds performing compared with their peers? Do we need to replace any funds? Have our employee needs changed? Have there been any significant changes in the market? Do we have exposure to the required asset classes? These are the types of questions that decision makers should be asking.

In addition to qualitative factors, we believe that a full menu should be monitored with an aggregate scoring system and watchlist criteria.

As illustrated in the example on the next page, there are many components of an effective scoring system. Regardless of the metrics your committee implements, ensure that your scoring metric is clearly outlined in the IPS.

Unlike in the implementation stage, there will be instances when a fund will be replaced or removed. If this is the case, remember the mantra of "past performance does not guarantee future results" when selecting a different fund. See example on the next page.

DUE DILIGENCE CRITERIA

## SAMPLE FIDUCIARY SCORE BREAKDOWN

### Score Criteria

**IN. Inception Date.** Must have at least a 3-year track history.

**MT. Manager Tenure.** Must have at least a 2-year track history (most senior manager's tenure).

**NA. Net Assets.** Must have >= 75 million under management (total across all share classes).

**CO. Composition.** Must have >= 80% allocation to primary asset (not applied to all peer groups).

**SS. Style.** Must have current style box match the peer group (not applied to all peer groups).

**ER. Prospectus Net Exp Ratio.** Must place in the top 75% of its peer group.

**A3. Alpha - Broad Market (3 YR).** Must place in the top 50% of its peer group.

**S3. Sharpe (3 YR).** Must place in the top 50% of its peer group.

**R1. Return (1 YR).** Must place in the top 50% of its peer group.

**R3. Return (3 YR).** Must place in the top 50% of its peer group.

**R5. Return (5 YR).** Must place in the top 50% of its peer group.

### Summary Legend

| | |
|---|---|
| ✓ | Investment meets the criterion |
| ☒ | Investment does not meet the criterion |
| — | Investment data is not available |
| *NA* | Investment is not screened on the criterion |

## MID-CAP BLEND

| INVESTMENT NAME | TICKER | SCORE (PEERS) | SCORE CRITERIA | | | | | | | | | | | ROLLING AVERAGES (PEERS) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | IN | MT | NA | CO | SS | ER | A3 | S3 | R1 | R3 | R5 | 1 YR | 3 YR | 5 YR | 10 YR |
| Example fund | XYZ | 17 (414) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ☒ | ✓ | ☒ | ✓ | ✓ | 4 (386) | 4 (324) | 6 (279) | 11 (179) |

# "How can my organization validate that our fee structure is reasonable?"

## THE SHORT ANSWER

Acknowledge that retirement plan fees can be more complicated than they appear. Implement a process to benchmark your fees.

## THE LONG ANSWER

Decision makers, service providers, the courts, and plan participants are all concerned about fees. How much are fees? Are they reasonable? Who pays them? How do service providers receive them and from whom? Are there any conflicts of interest inherent in the fee arrangements?

Fiduciaries have a responsibility to pay necessary and reasonable fees for your retirement plan. Because excessive fees reduce investment returns, it is especially important to review your fees.

Fees should be included in performance reviews and benchmarked on a regular basis. That sounds simple, but inspecting your fee structure can be complicated. Typically, fees are charged in three separate categories covering multiple services providers:

### 1. ADMINISTRATION FEES

These are fees paid to 401(k) providers for the following services:

- Asset custody—includes safekeeping plan assets and executing trades
- Participant recordkeeping—includes tracking plan contributions, earnings, and investments on a participant level and directing the custodian to execute trades
- Third-Party Administration (TPA)—includes plan design consulting and annual ERISA compliance (testing, Form 5500, plan document maintenance, participant notices)

### 2. INVESTMENT MANAGEMENT FEES

These are fees paid to 401(k) providers for the following services:

- Fund selection—includes the selection and monitoring of the investment funds a 401(k) plan offers its participants
- Asset allocation—includes participant investment advice
- Education/advice—includes participant savings rate advice and retirement readiness analysis

### 3. FUND OPERATING EXPENSES

These expenses are expressed as a percentage of assets (commonly known as an expense ratio). They represent the sum of the administrative and operating expenses of a 401(k) investment fund.

The second step when evaluating fees is to determine whether a fee is direct or indirect. In our opinion, the more fees are segmented in the direct category the better because it increases transparency.

Direct compensation is the most transparent type of 401(k) fees. It's explicitly reported in provider invoices, ERISA section 408b-2 and 404a-5 fee disclosures, and plan statements.

Indirect compensation is a different story. It can be estimated in 408b-2 disclosures, buried in the investment expense ratios of 404a-5 disclosures, and not appear in plan statements. For these reasons, indirect compensation is often called "hidden" compensation. There are two basic types:

- Wrap fees: Insurance company providers often use variable annuities as 401(k) plan investments. Variable annuities are basically mutual funds wrapped in a thin layer of insurance with additional fees and redemption restrictions.
- Revenue sharing: Some mutual fund companies compensate the 401(k) providers that use their funds. "12b-1" payments and sub-transfer agency (sub-TA) fees are the two most common types of revenue sharing.

OK, you're a fee expert; now what? Retirement plan fees should be evaluated holistically and benchmarked regularly. One of your vendors should be able to assist you in:

A) Outlining your fees and determining whether fees are being paid by direct or indirect compensation.

B) Benchmarking your fees to a like-peer group to determine whether your fees are reasonable.

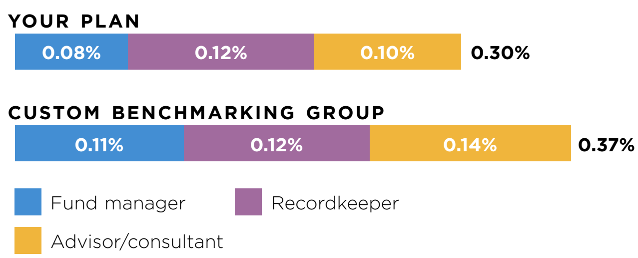
## HYPOTHETICAL FEE ILLUSTRATION

The following figure illustrates the relative expense distribution of all plan expenses.

### TOTAL PLAN FEE SUMMARY

| | | |
|---|---|---|
| **PLAN ASSETS** | | **$50,000,000** |
| **NUMBER OF PARTICIPANTS** | | **500** |
| **SOURCE OF FEES** | | |
| Total Fund Expense Ratio | $40,000 | 0.08% |
| Total Recordkeeper Fee | $60,000 | 0.12% |
| Total Advisor/Consultant Fee | $50,000 | 0.10% |
| **TOTAL PLAN FEE** | **$150,000** | **0.30%** |

### PLAN FEES BY SERVICE PROVIDER



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# “How can my organization offer education services for our participants?”

## THE SHORT ANSWER

Your employees learn about their retirement plan through an onboarding process, open enrollment, and recordkeeper materials.

## THE LONG ANSWER

Employees should not only receive financial advice when enrolling in their 401(k) plan, **but also ongoing support throughout the duration of their employment.** Annamaria Lusardi and Olivia Mitchell, key contributors in the field of financial literacy, recently published a paper saying:

**“Relatively more effective programs are those which embed follow-up or are continued over time, so as to help employees retain knowledge acquired via the program. In such cases, financial education delivered to employees around the age of 40 will optimally enhance savings at retirement by close to 10%.”[1]**

We customize our education services to include recurring group presentations and ongoing one-on-one meetings.

### GROUP MEETINGS

The format for group meetings will depend on your organization’s structure. Regardless of the delivery, group meetings designate time to discuss topics such as 401(k) enrollment, retirement readiness, savings goals, market timing, compounding interest, inflation, and recent trends.

### ONE-ON-ONE MEETINGS

One-on-one meetings are a safe place for plan participants to discuss their unique situations with a Financial Advisor. No two financial landscapes look the same, but common discussion points for one-on-one meetings include contribution rates, pretax versus Roth, investment strategies, paying down debt, accessing account dollars, and minimizing taxes.

### FIDUCIARY FINANCIAL ADVISOR

Both group meetings and one-on-one meetings are important components of employee education if the information is coming from a trustworthy source. Ideally, 401(k) participants connect with a Financial Advisor who meets the following criteria:

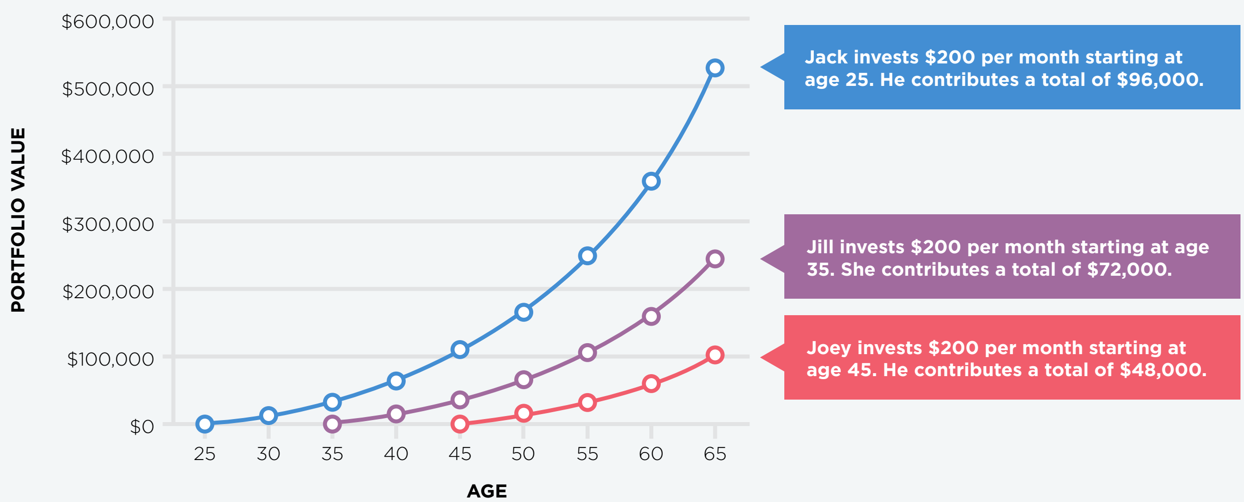
- A fiduciary: someone who is legally bound to act in employees’ best interests
- Experienced: someone who is seasoned in dispensing advice and reviewing financial landscapes

1 Assessing the impact of financial education programs: A quantitative model

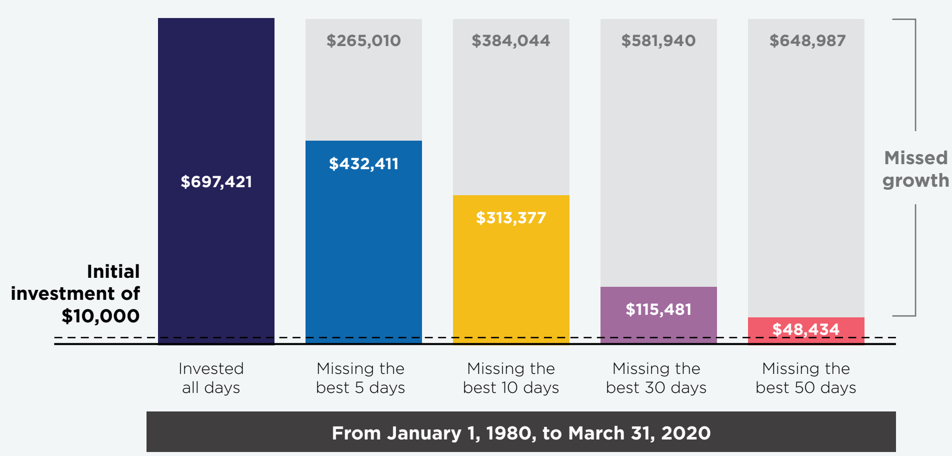
- Available: someone who will pick up the phone and respond to emails

Financial stress is one of the biggest concerns among 401(k) participants. Financial education benefits employees' finances, but also their overall health and productivity. Empowering employees to save and invest takes a dedicated effort and long-term plan. 401(k) education should be designed to promote discipline and create resiliency for weathering financial storms.

## THE IMPACT OF WHEN YOU START INVESTING




## HYPOTHETICAL GROWTH OF $10,000 INVESTED IN THE S&P 500® INDEX




Fidelity, Ideas for disciplined investors, 2020

# "How can my organization effectively manage service providers?"

## THE SHORT ANSWER

Ask your current providers to be specific about their services and fees. Compare the information you receive, including fees and expenses, to similar services.

## THE LONG ANSWER

Decision makers should follow a formal review process by evaluating any changes, reviewing the service providers' performance, surveying participants, and asking about policies and practices. In other words, your service providers should be evaluated both qualitatively and quantitatively.

### QUALITATIVE

Your interactions with service providers should feel collaborative. Service providers should be proactive, available, and dedicated. As a decision maker, you should not only be mindful of administrative interactions, but also whether your employees are satisfied with their experience.

### QUANTITATIVE

After you have evaluated what services are needed, the next step is to benchmark your service providers. Benchmark reports are valuable and will introduce service providers, compare their services and compensation, review their credentials, and recommend retention or replacement. Note that plan fiduciaries are not required to pick the least costly provider.

### CYCLE FOR SELECTING AND MONITORING VENDORS

There are several reasons why you may issue a request for proposal (RFP) or a request for information (RFI). Since there are several parties involved with your 401(k) plan, these requests may be designed to address concerns with a plan consultant, a recordkeeper, a TPA, a payroll company, or someone who is overburdened with plan administration. Regardless of the reason for (re)evaluating a vendor, this is a useful framework for decision makers.

**Step 1: Identify the problem.** Ensure that you are looking to solve the correct issue. As mentioned above, there can be many parties involved in your plan, so the RFP should be used to solve the notable problem.

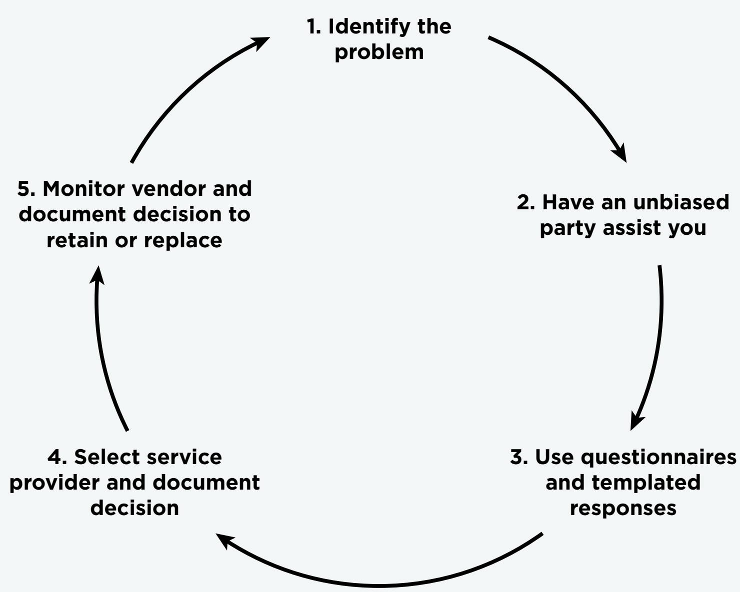
**Step 2: Have an unbiased party assist you.** This could you be your current advisor (if you are not looking for a new one) or a third-party search firm.

**Step 3: Use questionnaires and templated responses.** Create a framework to reduce your search to two to three finalists.

**Step 4: Select service provider and document decision.** Watching a demonstration of a vendor's capabilities is important, but do not let the sales process blind you from the underlying services, fee structure, and customer support you will be receiving.

**Step 5: Monitor vendor and document decision to retain or replace.** Within the first month, you should understand your new service provider's capabilities. Hopefully you are satisfied with your new partnership. However, if your new provider is still not performing up to your desired standards, do not be afraid to go back to your RFP drawing board. Failing fast is better than putting your employees in harm's way.

CYCLE FOR SELECTION AND MONITORING



# SAMPLE NEEDS ASSESSMENT WORKSHEET

| ADMINISTRATION | VERY IMPORTANT | IMPORTANT | NOT IMPORTANT/UNSURE |
|---|---|---|---|
| **PLAN PROVIDER OR RECORDKEEPING SERVICES** | | | |
| ONLINE RETIREMENT PLANNING TOOLS? | | | |
| MOBILE ACCOUNT ACCESS AND TRADING? | | | |
| DEDICATED RELATIONSHIP MANAGERS AND/OR ACCESS TO ADMINISTRATIVE SUPPORT PERSONNEL? | | | |
| COMPLIANCE HOTLINE OR CONSULTANT ACCESS? | | | |
| DISCRETIONARY ADMINISTRATIVE SERVICES? | | | |
| ELECTRONIC FILE STORAGE OR ONLINE PLAN GOVERNANCE TOOLS? | | | |
| **THIRD-PARTY ADMINISTRATION REGARDING COMPLIANCE WITH NOTICE, DISCLOSURE, TESTING, AND REPORTING REQUIREMENTS** | | | |
| DEDICATED PLAN ADMINISTRATION CONTACTS? | | | |
| DISCRETIONARY ADMINISTRATIVE SERVICES? | | | |
| SPECIAL TESTING OR COMPLIANCE CHALLENGES? | | | |
| PLAN DESIGN CONSULTATION? | | | |
| **CONSULTANT OR ADVISOR SERVICES REGARDING PLAN GOVERNANCE** | | | |
| REVIEW OF OBJECTIVES AND OPTIONS AVAILABLE THROUGH THE PLAN? | | | |
| COMMITTEE STRUCTURE AND ADMINISTRATIVE POLICIES? | | | |
| PARTICIPANT COMMUNICATION AND EDUCATION POLICIES? | | | |
| DEVELOPMENT AND MAINTENANCE OF FIDUCIARY AUDIT FILE AND DOCUMENT RETENTION? | | | |
| FIDUCIARY TRAINING FOR PLAN COMMITTEE? | | | |

# SAMPLE NEEDS ASSESSMENT WORKSHEET

| SERVICE PROVIDERS | VERY IMPORTANT | IMPORTANT | NOT IMPORTANT/UNSURE |
|---|---|---|---|
| **CONSULTANT OR ADVISOR SERVICES REGARDING SERVICE PROVIDERS** | | | |
| ASSISTANCE WITH SELECTING, MONITORING, AND REPLACING SERVICE PROVIDERS? | | | |
| REVIEW OF COVERED SERVICE PROVIDER DISCLOSURES AND FEE BENCHMARKING? | | | |
| REVIEW OF REPORTS TO MONITOR SERVICE PROVIDERS? | | | |
| ASSISTANCE WITH OVERSEEING PLAN EXPENSE ACCOUNTS? | | | |
| PREPARATION AND REVIEW OF REQUESTS FOR PROPOSALS? | | | |
| REPLACEMENT AND CONVERSION OF SERVICE PROVIDER? | | | |

| INVESTMENTS | VERY IMPORTANT | IMPORTANT | NOT IMPORTANT/UNSURE |
|---|---|---|---|
| **CONSULTANT OR ADVISOR SERVICES REGARDING PLAN INVESTMENTS** | | | |
| DEVELOPMENT OF INVESTMENT POLICY STATEMENT? | | | |
| INVESTMENT EDUCATION AND GUIDANCE? | | | |
| INVESTMENT RECOMMENDATIONS OR ADVICE? | | | |
| DISCRETIONARY INVESTMENT MANAGEMENT? | | | |
| **CONSULTANT OR ADVISOR SERVICES REGARDING PARTICIPANT INVESTMENTS** | | | |
| GENERAL FINANCIAL WELLNESS AND RETIREMENT PLANNING? | | | |
| ENROLLMENT SUPPORT AND INVESTMENT EDUCATION AND GUIDANCE? | | | |
| INVESTMENT RECOMMENDATIONS OR ADVICE? | | | |
| DISCRETIONARY INVESTMENT MANAGEMENT? | | | |

BACK TO THE TOP ➤

# DEFINING THE TERMS

**ADP/ACP nondiscrimination tests:** These nondiscrimination tests apply to 401(k) plans. The ADP test prohibits highly compensated employees (HCE) from making disproportionately greater elective deferral contributions to a 401(k) plan than non-highly compensated employees (NHCE). The ACP test prohibits HCEs from making employee after-tax contributions and receiving employer matching contributions in disproportionately greater amounts than NHCEs. Passing these tests is required for retaining qualified status with the IRS and ERISA.

**After-tax contributions:** After-tax contributions are similar to Roth contributions because employees save dollars into their 401(k) after paying their taxes today. 401(k) plans may consider adopting after-tax contributions if participants are already maximizing their annual contribution amounts (pre-tax and Roth). Not all recordkeepers have a robust after-tax contribution feature, so we recommend you inquire about the administrative process for both decision makers and employees.

**Auto-enrollment:** This is a plan feature that automatically enrolls employees in the plan unless they elect otherwise. Auto-enrollment specifies the percentage of an employee's wages that will be deducted from each paycheck. Because inertia is one of the biggest hurdles for successful retirement savings, opting to incorporate an auto-enrollment feature may benefit the future well-being of your workforce.

**Catch-up provision:** Retirement plan participants aged 50 and older can make additional contributions above and beyond the annual IRS limits. As a decision maker, you could help communicate the eligibility for these contributions.

**Decision maker:** The company or employer that offers the retirement plan to employees. If you are reading this document, you are likely the decision maker for your plan. Your duties as a decision maker vary depending on the plan, but the legal responsibility for plan oversight is a given.

**Diverse investment lineup:** A diverse investment lineup within a 401(k) plan will include a variety of investment choices but be easy for participants to understand.

**Dollar-cost averaging:** Dollar-cost averaging (DCA) is a simple technique that invests a fixed amount of money in the same fund or stock at regular intervals over a long period of time. DCA is embedded in 401(k) plans. Because plan participants invest dollars every pay period, they inherently limit market timing decisions.

**Employee Retirement Income Security Act of 1974 (ERISA):** ERISA protects the interests of employees and their beneficiaries. ERISA gives participants the right to sue for benefits and breaches of fiduciary duty. Remember that ERISA is the law, so adherence is mandated.

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# DEFINING THE TERMS

**Fiduciary:** Any individual or entity with discretionary authority over a 401(k) plan's administration or investments is considered a "fiduciary" to that plan. 401(k) plan fiduciaries ordinarily include the employer, trustees, and investment advisors. We recommend you ask your investment advisor to disclose whether they are fiduciaries on your plan.

**Indirect fees:** Indirect compensation is often called "hidden" compensation. The fees can be estimated in 408b-2 disclosures, buried in the investment expense ratios of 404a-5 disclosures, and not appear in plan statements. The two most common indirect fees are wrap fees and revenue sharing.

**In-service withdrawal:** Decision makers can adopt different in-service withdrawals. While the goal is for employees to earmark their savings for retirement, the reality is including flexibility within a plan often increases overall participation.

**Investment Policy Statement (IPS):** The document that provides guidelines for the plan's investment management. It sets forth the plan's investment objectives, investment strategies, policies, and investment limits.

**Market timing:** Market timing is an investment strategy in which investors attempt to beat the stock market by predicting its movements and buying and selling accordingly. If market timing was easy, then the average investor would be a lot more successful. You can help your plan participants manage their expectations with educational materials and being proactive with your communications.

**Qualified Default Investment Alternative (QDIA):** Money is automatically invested into a QDIA when employees are automatically enrolled or have not selected specific investment elections. As decision makers, if your QDIA is prudently selected and monitored, you are relieved from liability for investment-related losses.

**Revenue sharing:** Investment funds can charge non-investment-related fees to the management of the fund. We recommend confirming whether your plan includes funds with revenue-sharing. Once that is clarified, determine if these investments are optimal for your workforce.

**Safe harbor:** Safe harbor employer contributions are mandatory, and participants' balances are vested immediately. Safe harbor employer matches are a popular 401(k) plan feature because they're designed to avoid most annual compliance tests.

**Self-directed brokerage window:** Employers who offer brokerage accounts in their 401(k) enable plan participants to buy and sell stocks, bonds, ETFs, and mutual funds inside their account. The advantage of additional investment choices should be carefully considered because employees who aren't experienced investors can lose significant retirement money through poorly executed trades.

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# DEFINING THE TERMS

**Target-date fund:** Target retirement funds are designed to be the only investment vehicle an investor uses for retirement. These funds have an element of simplicity that makes them attractive for the QDIA within a 401(k) plan. They automatically adjust their investment allocation as the target retirement year draws closer.

**Trustee:** All retirement plans have must have a trustee. Trustees should not only meet plan qualifications upon election, but also have ongoing responsibilities, such as adhering to ERISA standards and administering the plan according to the governing documents.

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