Pension Plan Fix-It Handbook

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Compliance Reviews, Audit Preparation Make Good End-of-Year Activities

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At this time of year it is good to plan ahead to help ensure that, as a plan sponsor or administrator, you are taking steps to avoid missing anything critical as the year comes to a close. It is also the time to look at major trends of the past 12 months to determine whether they were passing fads, or are trends here to stay.

Increased Government Activity

Last month's column (see November 2013 *Pension Plan Fix-It Handbook*) addressed preparing for an IRS audit and the importance of internal controls. At least annually, plan sponsors should review how well their plans are complying with IRS and U.S. Department of Labor guidance and regulations.

Government audit and enforcement activity increased in 2013, so it is a good idea to prepare for an audit. In addition, plan sponsors have a fiduciary responsibility to monitor their service providers. A plan sponsor may outsource administrative functions but not fiduciary responsibility. Plan sponsors will be required to provide proof regarding compliance issues; both IRS and DOL have issued guidance regarding record retention that would be worth your time to review.

In addition to ¶1130 of the *Handbook*, there is plenty of information available on federal websites to get you started on checking your plan for full compliance. The IRS website (http://www.irs.gov/Retirement-Plans/Have-You-Had-Your-Retirement-Plan-Check-Up-This-Year%3F) contains checklists for defined contribution plans as well as individual retirement accounts. Should you find an error in your review, IRS also provides Fix-It Guides for common problems (http://www.irs.gov/Retirement-Plans/Plan-Sponsor/Fix-It-Guides---Common-Problems,-Real-Solutions).

Record Maintenance

IRS provides valuable information about how long you should maintain records, as well as about how records can be kept. ERISA requires that records be maintained as long as necessary to determine whether a benefit is due.

Both IRS and DOL provide guidance regarding electronic maintenance of records. IRS Revenue Procedure 98-25 says that electronic records must be capable of being retrieved upon IRS request. DOL regulation §2520.107-1(b) provides that records must be maintained in a safe and accessible place and be readily available for inspection. More details regarding record retention can be found in the December 2012 column.

Trend or Passing Fad: *Increased government focus on compliance is here to stay. Government data collection for retirement plans is becoming more sophisticated, enabling the agencies to pinpoint specific issues and identify targets of examination.*

- *Look for greater focus on participant expenses in DC plans;*
- *Expect audits of plans with low per-participant expenses as well as high per-participant expenses; and*
- *Assume that focus on various fee disclosures will continue.*

See ***Andersen***, **p. 2**

Andersen (continued from p. 1)

Defined Benefit Derisking

Pension derisking made headlines many times in 2012, although there were fewer of these transactions at big pension plans this year. Among the factors driving this trend are minimum plan funding requirements from the Pension Protection Act of 2006 and the U.S. Pension Benefit Guaranty Corp.'s premium increases, along with an overriding desire by plan sponsors to decrease financial risk. Large U.S. companies, including Verizon, New York Times Co., General Motors, Ford Motor and Chrysler (see Chrysler story in August 2013 newsletter), have taken steps to remove pension liabilities from their books.

These steps included purchasing group annuities from insurance companies and offering lump-sum cash options to deferred vested participants (see story in April 2013 newsletter). Some plan sponsors have frozen defined benefit plans to new entrants. The emphasis on derisking by large, well-known companies sponsoring DB plans may represent just the tip of the iceberg in this area in the next few years.

Trend or Passing Fad: *Several surveys have shown that more and more companies with DB plans will at least investigate derisking techniques for at least some of their pension liabilities. But keep in mind the government will be watching! Expect to hear from the ERISA Advisory Council on this topic in 2014.*

Target-date Funds Under the Microscope

TDFs and their glidepaths, both "to" and "through" a participant's retirement, are not understood by many, including plan practitioners. TDFs are designed to shift investment allocations as the participant ages, with investments in stocks decreasing and investments in bonds increasing.

Interest rates have remained low for a long time; when they begin to rise, the value of bondholdings decreases, which could be damaging for those near or in retirement. The good news is that bondholdings' maturities are often laddered, which should help when interest rates begin to rise again. But the prudent plan sponsor and participant are wise to keep TDFs under the microscope (see November 2012 column). In fact, DOL has issued a fact sheet for plan sponsors that offer the now-nearly ubiquitous TDF investment options: (http://www.dol.gov/ebsa/pdf/fsTDF.pdf)

Trend or Passing Fad: *Expect news coverage of TDFs to continue. Both DOL and SEC will continue to keep a watchful eye on them, to make sure participants aren't misled or having their ultimate retirement savings affected by the composition of TDFs that may not be right for their situation.*

The Demise of the DB Plan

There is no need to tell retirement plan professionals that the traditional DB plan is on the decline and being replaced by DC plans. Media reports now often declare that the DB plan is dead. Clearly, it has changed and may never again resemble the plans of our parents and grandparents. But will it survive? Only time will tell.