RISEN SON FINANCIAL
Your Retirement Plan Partners

Retirement Times

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Is it Time for a Plan Refresh?

The duty to provide participants with sufficient information to make consistently informed retirement investment decisions is a basic fiduciary responsibility under ERISA Section 404(a). However, there could be some plan committees who feel their participants are not consistently making prudent decisions.

According to a 2016 JP Morgan survey[1] nearly 75 percent of participants say they are not confident with selecting investments. It is no surprise they found that 80 percent of participants surveyed have portfolios that do not match their stated risk tolerance. Also, according to an Investment Company Institute (ICI) research report[2], only six percent of participants changed their asset allocation in 2016. This percentage has been similar since 2007 including during the 2008 market crash. No rebalancing after violent market movement? This does not look like "consistently informed investment decisions" as per ERISA.

Plan refresh is a process by which participants are notified that all existing assets and future contributions will be invested in the plan's target date fund (TDF) (Qualified Default Investment Alternative (QDIA)) based on each participant's date of birth, unless the participant notifies the plan otherwise. This is the same process as for other QDIA default actions.

The primary motivation for a plan refresh should be to improve participant investing. Assuming an appropriate TDF is offered as QDIA, why not affirm to participants that this is typically where they should invest, as opposed to giving them an array of mutual funds and anticipating that they will choose prudently? Surveys show that employees look to their employers for messaging which they assume to be in their interest.[3] For many employers it seems this messaging may not be working and often results in participant confusion and imprudent investment selection, thereby diluting retirement readiness. A plan refresh could help solve this problem and also can have significant fiduciary liability mitigation benefits.

Benefits of investment refresh:

For participants this can help: 1) Improve asset allocation*; 2) solve for legacy assets (prior default no longer appropriate); 3) solve for employees who asked HR what may be a suitable investment option; 4) solve for inertia; and 5) solve for rebalancing investments.

We find that refresh is frequently used at the point of a recordkeeper change or menu reconstruction. Assuming that doing a refresh makes sense and yields the type of results you want to see, why wait for a recordkeeper change?

Unfortunately, there is a pervasive misperception that participants may push back, as was anticipated when auto enrollment was first introduced. Let's look at the data:

1. According to JP Morgan Plan Participant Research in 2016, one in two participants would rather push the easy button
2. 75 percent of participants are not confident they know how to best allocate contributions
3. 82 percent of participants support employers conducting a re-enrollment

Often, many re-enrolled participants stick with the default investment long term. With good communication, pushback can be often non-existent, as with original auto enrollment.

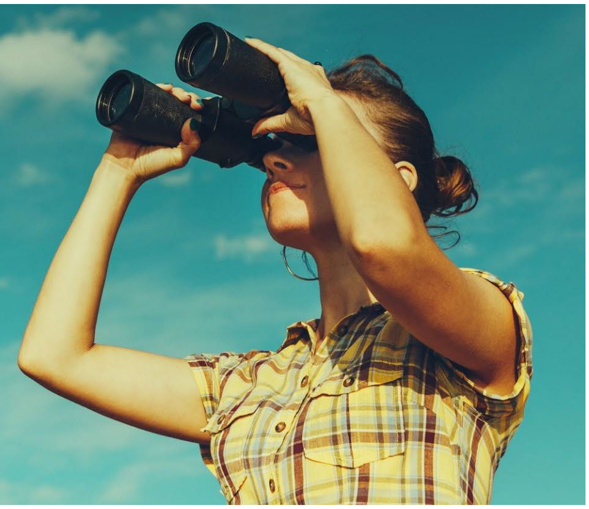
Another misperception is that participants will opt out. Vanguard noted that the percentage of participants who fully opt out of refresh remains low. In fact, after one year, QDIA was held by 92 percent of participants and captured 81 percent of plan assets. A small group, 7 percent of participants, held what Vanguard described as "extreme" positions, a group that it said was comprised predominantly of participants who fully opted out of the target date default fund and constructed their own portfolios. This is exactly how refresh is supposed to work.[4]

We've covered the symptoms, diagnosis, prognosis, prescription and implementation. Can you recall a business decision that appears so clearly beneficial for plans, their participants and fiduciaries? Ask yourself if you were faced with making a decision that impacted the productivity or profitability of your company that is so clearly documented and supported… would you not act on it or wait?

**Asset allocation does not protect against loss of principal due to market fluctuations. It is a method used to help manage investment risk.*

1. *J.P. Morgan Plan Participant Research 2016. https://am.jpmorgan.com/gi/getdoc/1383355101755*
2. *ICI report. https://www.ici.org/pdf/ppr_16_rec_survey_q4.pdf*
3. *NYU Law Review. "The Behavior of Defined Contribution Plan Participants." 2002. www.nyulawreview.org*
4. *Vanguard. Reenrollment: One year later. 2017. https://institutional.vanguard.com/iam/pdf/REEROLL.pdf?cbdForceDomain=false*

Beware of the IRS and DOL: Four Red Flags They Seek on Form 5500



The Form 5500 is an ERISA requirement for retirement plans to report and disclose operating procedures. Advisors use this to confirm that plans are managed according to ERISA standards. The form also allows individuals access to information, protecting the rights and benefits of the plan participants and beneficiaries covered under the plan.

Make sure you are compliant. Be aware of red flags that the IRS and DOL look for on Form 5500 filings:

1. Not making participant deferral remittances "as soon as administratively possible" is considered a fiduciary breach and can make the plan subject to penalties and potentially disqualification. Delinquent remittances are considered to be loans of plan assets to the sponsoring company.

2. An ERISA fidelity bond (not to be confused with fiduciary insurance) is a requirement. This bond protects participant assets from being mishandled, and every person who may handle plan assets or deferrals must be covered.

3. Loans in default for participants not continuing loan repayments, or loans that are 90 days in arrears, are a fiduciary breach that can make the plan subject to penalties and disqualification.

4. Corrective distributions, return of excess deferrals and excess contributions, along with any gains attributed must be distributed in a timely manner (typically two and a half months after the plan year ends). In some cases these fiduciary breaches can be self-corrected if done within the same plan year in which they occurred, and may be considered additional breaches if they extend beyond the current plan year.

This is a partial, non-exhaustive list of common Form 5500 red flags. If you're concerned about ERISA compliance, contact your advisor sooner, rather than later.

How and When to Pay Plan Expenses with Plan Assets

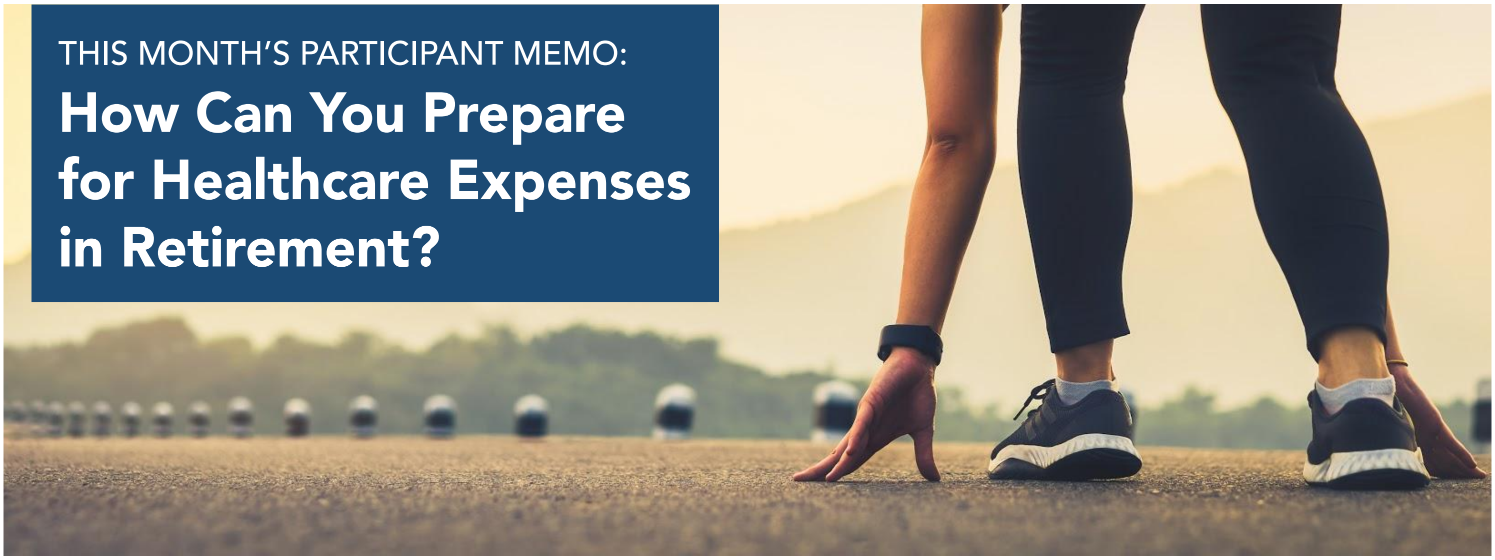
Some retirement plan expenses can be paid for with plan assets — but many can't. Which are the "reasonable and necessary" retirement plan expenses that can be paid out of plan assets?

Generally, services required to maintain the plan's compliance and administration can be paid from plan assets. Obvious examples include the annual nondiscrimination testing and preparation of the annual Form 5500. Another example is a plan amendment or restatement that is required because of a legislative change.

Optional services generally cannot be paid out of plan assets. One clear example is costs for projections that are optional and benefit the company, not the plan participants. Some service fees may not be easy to classify. Fees for resolving plan corrections — such as delinquent deferral remittances or contributions determined with a definition of compensation not supported in your plan document. In the event of an incorrect test result, regardless of who was at fault, the law ultimately holds the plan sponsor responsible for the proper maintenance of the plan. As a result, the plan sponsor cannot shift the financial burden for the corrections to the plan.

All in all, it's perfectly acceptable and common to charge reasonable and necessary transaction-based and recordkeeper administrative fees to participants. However, it is critical to ensure that similarly situated participants are treated the same. It would be discriminatory and, therefore not allowed, for non-highly compensated employees to pay administrative fees while highly compensated employees did not.

If you are unsure whether a specific fee can be paid from plan assets, please contact Kevin Donahue AIF®, CRPC® at kevin@risensonfinancial.com



THIS MONTH'S PARTICIPANT MEMO:

How Can You Prepare for Healthcare Expenses in Retirement?

Rising healthcare costs are on everyone's mind, even for affluent people. In fact, 69 percent of affluent pre-retirees cite rising healthcare costs as one of their top fears in retirement, according to a survey from the Nationwide Retirement Institute. In fact, 63 percent of these affluent pre-retirees describe themselves as "terrified" of what healthcare costs may do to their retirement plans. But more than half (53 percent) say they are not comfortable talking to their spouse about these fears. One in ten stated they just didn't want to think about it.

However, ignoring a problem doesn't make it go away. Here are some steps you can take to plan for your healthcare in retirement:

Start budgeting. Figure out how much Medicare will cover and how much you'll need to come up with. Medicare won't cover all your medical expenses and it isn't free. Understanding what Medicare covers and what it doesn't will help you plan your healthcare strategy. For more detailed information, visit medicare.gov.

Look at long-term care insurance. Don't assume that you won't face a healthcare crisis. In fact, seven in ten people eventually need long-term care. The time to plan is now before you need help.

Get healthy. One of the best investments you can make is to pursue a healthy lifestyle. Exercise and proper nutrition can help you reduce future medical costs. And if you've been procrastinating about seeing your doctor or having a procedure done, schedule those appointments now.

For more tips on preparing for healthcare costs in retirement, please contact Kevin Donahue AIF®, CRPC® at kevin@risensonfinancial.com

RISEN SON FINANCIAL

Your Retirement Plan Partners

Helping Employers Manage Their Retirement Plans with Confidence

Our Mission

Risen Son Financial strives to help employers reduce the cost of their retirement plans and the liability of their responsibilities by naming ourselves as fiduciaries to the plan and participants. We believe this builds the foundation to help employees reach their ideal financial future, through one-on-one education, risk analysis, and financial planning.

Why Us?

Based in Land O' Lakes, Florida, Risen Son Financial serves as retirement plan partners and investment fiduciaries for large and small businesses across the nation. Fulfilling the duties of good faith and trust, clients choose us knowing we will go above and beyond. As an Independent Financial Advisor, Risen Son Financial represents clients to the marketplace without any bias or conflicts of interest. We're accountable to you and your best interests. Risen Son Financial serves as a named fiduciary for both the plan and participants. As your Plan Fiduciary, we evaluate plan design, mitigate risks, conduct reviews, and offer solutions helping to improve performance. As Participant Counselors, we also serve as fiduciaries providing customizable advice and resources for the participants.

Our Process

At Risen Son Financial, our first step is to review the current cost and value being received by the plan. We can do this by reviewing the 404(a)(5) (participant fees) and 408(b)(2) (plan fees) disclosures that plans are required to distribute and receive from vendors. If these are not readily available, we can also review fund lineups and statements.

We meticulously review the retirement plan, including these 4 costs:

1. Recordkeepers – Receive funds from the employer and employee paycheck. Their main responsibility is to keep record of the contributions a participant receives and investment gains. Additionally, recordkeepers do the buying and selling of investments that the participant chooses, while also providing a website and quarterly statements.

2. Administrators – Make sure the plan meets the requirements set forth in the IRS code. They handle, testing, compliance, vesting, eligibility, loans, and withdrawals. Many times, administrators are "bundled" with the recordkeeper.

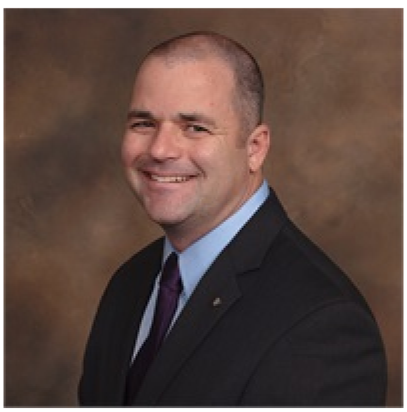
3. Investments – Contributions are deposited into investments. They have their normal expense ratio; however, these often come loaded with internal fees like 12b-1, sub-TA, concession and wrap. This is called "indirect compensation" or "revenue sharing." Often, an investment company will pay the recordkeeper a fee to be included in the investment lineup.

4. Advisors or Brokers – There is a difference. As a named fiduciary to the plan and participants, Advisors give advice, recommendations, and/or have discretionary control of investments, along with being the quarterback of the plan. This includes benchmarking all fees paid to vendors and shopping plan costs to keep fees reasonable. Advisors are held to the best interest standard. In contrast, Brokers are held to the suitability standard. Brokers can't give advice nor can they name themselves as a fiduciary to the plan. Brokers sell a product as a representative of a larger entity.

Once all fees are known, we benchmark those fees and services being received to the open market. We then use this benchmarking to get the cost of the plan reduced. We accomplish this by either going to the current provider to have them reduce the cost or moving the plan to a platform that will, along with providing for the needs of the plan. Being completely independent we can work with all providers which allows us to provide conflict-free and bias-free advice.

About Kevin Donahue, CRPC®, AIF®

Kevin Donahue is the owner of Risen Son Financial. After serving four years in the United States Navy, he graduated from Florida State University in 2004 earning a bachelor's in Computer Science and a minor in Mathematics. Seeing firsthand, the impact of retirement saving and planning with his own parents, Kevin entered the financial services business to pursue his passion of helping clients meet and exceed their financial goals and visions. During his career, Kevin has passed and/or currently holds the series 6,7, 63 and 65 exams along with obtaining Chartered Retirement Planning Counselor (CRPC) designation from the College for Financial Planning. This designation encompasses pre-and post-retirement needs, wealth management, estate planning, and the entire retirement planning process. Additionally, he holds the Accredited Investment Fiduciary (AIF), which empowers investment professionals with the fiduciary knowledge and tools they need to serve each client's best interests.



Kevin resides in Land O' Lakes, with his wife Brittany and their twin boys Andrew and Noah.

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