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Your Retirement Plan Partners

Retirement Times

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It's That Time Again! Back-to-School for Fiduciaries

Morgan Davis, Plan Advisor

Can you hear the bells ringing? It's that time of year to review your to-do list of fiduciary responsibilities. Ask yourself the following questions to make sure you are on top of your responsibilities and liabilities.

1. Are you practicing procedural prudence when making plan management decisions?
2. Do you clearly understand the Department of Labor's (DOL) TIPS on selecting and monitoring your QDIA in order to obtain fiduciary protection?
3. Are you documenting each plan management decision and its support?
4. Are you familiar with current trends in fiduciary litigation?
5. Are you certain that your plan is being administered in accordance with your plan document provisions?
6. What fiduciary liability mitigation strategies are you following? (Fiduciaries are personally financially responsible for any fiduciary breaches that disadvantage participants.)
7. Are you kept abreast of regulatory changes?
8. Are you appropriately determining reasonableness of plan fees, services and investment opportunities?
9. How do you define "success" for your plan and what metrics do you use to track progress?
10. Is your current plan design communicating the appropriate messaging to encourage success for your participants and plan fiduciaries?
11. Is your menu efficiently designed for benefit of participants and plan fiduciaries?
12. Are you certain you are providing all required communications and distributions to plan participants (including former participants with account balances)?
13. Are you handling missing participants appropriately?
14. Are you appropriately monitoring and documenting your fiduciary activities and those of your service providers?
15. Are you maintaining plan records appropriately?

Many fiduciaries are unaware of their fiduciary responsibilities or do not understand them. If you need help uncovering the answers to any of these important questions, do not hesitate to reach out to your financial professional.

About the Author, Morgan Davis
Morgan is responsible for guiding plan sponsors through the intricacies of investment analysis and innovative plan design and making it easy to understand. Blending employer and employee objectives, Morgan encourages plan design initiatives to create optimal retirement plan outcomes for participants. Morgan is a graduate of Michigan State University where she earned a Bachelor of Arts in marketing.

Collective Investment Trusts — The Fastest Growing Investment Vehicle Within 401(k) Plans

Alex Kahn, Investment Analyst

For almost a century, collective investment trusts (CITs) have played an important role in the markets. They were originally introduced in 1927. According to a 2020 study, they are now used in more than 70 percent of plans.[1]

For the vast majority of their existence, CITs were available only in defined benefit (DB) plans. In 1936, CIT use expanded in DB plans when Congress amended the Internal Revenue Code to provide tax-exempt (deferred) status to CITs. CITs then gained widespread adoption in the 1950s when the Federal Reserve authorized banks to pool together funds from pensions, corporate profit-sharing plans and stock bonus plans. The IRS also granted these plans tax-exempt status.

In the 1980s, 401(k) plans became primary retirement plans and mutual funds became the primary investment vehicle, due to daily valuation. In the 2000s, CITs gained significant traction in defined contribution (DC) plans due to increased ease of use, daily valuation and availability. During this time, CITs were also named as a type of investment that qualifies as a qualified default investment alternative (QDIA) under the Pension Protection Act of 2006.

The History of Collective Investment Trusts

First Collective Investment Trust	1927	
CITs seen as a contributor to market crash	1929	Stock Market Crash
CITs Restricted to DB Plans	1936	Congress amends IRS Code
CITs gain widespread adoption in DB Plans	1950s	Federal Reserve authorizes banks to pool funds from pensions, corporate profit-sharing plans, and stock bonus plans
CITs in Defind Contribution Plans – mainly stable value funds	1980s	Advent of 401(k) plans
NSCC trading of CITs: uncommited 401(k) funds to go QDIAs (TDFs)	2000s	2000-NSCC adds CITs to mutual fund trading platform 2006-Pension Protection Act triggers DOL to set QDIA as default
CIT adoption in DC plans	Current	2016-DDL release fiduciary rule resulting in fee pressure

Source: DST kasina with data from department of Labor, Investment Company Institute

From 2011 to 2018, total assets in CITs grew by approximately 64 percent. During which their share of 401(k) assets reached nearly 28 percent, or approximately $1.5 trillion.[2]

The advantages of CITs are plentiful:

- Lower operational and marketing expenses
- A more controlled trading structure compared to mutual funds
- They're exempt from registration with SEC, thereby avoiding costly registration fees

On the other hand, CITs are only available to qualified retirement plans and they may have higher minimum investment requirements.

While CITs have traditionally only been available to large and mega-sized plans, continued fee litigation – as well as increased CIT transparency, reporting capabilities and enhanced awareness – has amplified the allure of CITs to plan sponsors across all plan sizes. However, CITs have not been widely available to all plans — until now.[3]

Through your advisor's strategic partnership with RPAG, a national alliance of advisors with over 60,000 plans and $600 billion in retirement plan assets collectively[4], they can provide their clients with exclusive access to actively managed, passively managed and target date CITs, featuring top-tier asset managers[5] at a substantially reduced cost.

For more information on CITs, contact Kevin Donahue AIF®, CRPC® at kevin@risensonfinancial.com.

[1]Callan-2020-DC-Trends-Survey
[2]Collective Investment Trusts: An Important Piece in the retirement Planning Puzzle-Wilmington Trust-2020
[3]DST kasina with data from Department of Labor, Investment Company Institute.
[4]As of 1/1/2020.
[5]Top-tier asset managers include BlackRock, Franklin Templeton and Lord Abbett.

The target date is the approximate date when investors plan on withdrawing their money. Generally, the asset allocation of each fund will change on an annual basis with the asset allocation becoming more conservative as the fund nears target retirement date. The principal value of the funds is not guaranteed at any time including at and after the target date.

Collective investment trusts available only to qualified plans and governmental 457(b) plans. They are not mutual funds and are not registered with the Securities and Exchange Commission.

About the Author, Alex Kahn

Alex is an investment analyst for RPAG. He consults top-tier advisors and plan sponsors across the country on investment due diligence, with a focus on target date funds. He provides pragmatic insight on market trends and developments. Alex is also an international equity analyst for the RPAG Investment Committee and advises clients on this custom target date solution. Alex graduated with a Bachelor of Arts in economics from the Wharton School of Business at the University of Pennsylvania.

The payment of expenses by an ERISA plan (401(k), defined benefit plan, money purchase plan, etc.) out of plan assets is subject to ERISA's fiduciary rules. The "exclusive benefit rule" requires a plan's assets be used exclusively for providing benefits. ERISA also imposes upon fiduciaries the duty to defray reasonable expenses of plan administration. General principles of allowable expenses include the following:

- The expenses must be necessary for the administration of the plan.
- The plan's document and trust agreement must permit use of plan assets for payment of expenses.
- The expenses must be reasonable and incurred primarily for the benefit of participants/beneficiaries.
- The expense cannot be the result of a transaction that is a prohibited transaction under ERISA, or it must qualify under an exemption from the prohibited transaction rules.

In light of today's plan fee environment, it is incumbent upon fiduciaries to request full disclosure of fees and expenses, how they breakdown with services provided, as well as a request for full explanation of who will be the recipient of fees. Ultimately, the ability to pay expenses from a plan trust is a facts and circumstances determination that needs to be made by plan fiduciaries. Because it is possible that the DOL may challenge such determinations it is important that fiduciaries consult ERISA counsel prior to paying questionable expenses from a plan trust and document the decision and reasoning.

For more information on this topic, contact Kevin Donahue AIF®, CRPC® at kevin@risensonfinancial.com.

THIS MONTH'S PARTICIPANT MEMO:

Participant Corner: Retirement Plan Check-Up

It is important to conduct regular check-ups on your retirement plan to make sure you are on track to reach your retirement goals. Below are a few questions to ask yourself, at least annually, to see if (and how) they affect your retirement planning.

1. **Review the Past Year**

   Did you receive a raise or inheritance?
   If yes, you may want to increase your contributions.

   Did you get married or divorced?
   If yes, you may need to change your beneficiary form.

   Are you contributing the maximum amount allowed by the IRS?
   In 2020, you can contribute up to $19,500 ($26,000 for employees age 50 or older).

   Did you change jobs and still have retirement money with your previous employer?
   You may be able to consolidate your assets with your current plan.
   (Ask your human resources department for more details.)

2. **Set a Goal**

   What do you want your retirement to look like? Do you want to travel? Will retirement be an opportunity to turn a hobby into a part-time business? Will you enjoy simple or extravagant entertainment? Take time to map out your specific goals for retirement. Participants that set a retirement goal today, feel more confident about having a financially independent retirement down the road.

3. **Gauge Your Risk Tolerance**

   Understanding how comfortable you are with investment risk can help you determine what kind of allocation strategy makes the most sense for you. Remember, over time, and as your life changes, so will your risk tolerance.

4. **Ask for Help**

   If you have questions about your retirement plan or are unsure of how to go about saving for retirement, ask for help. Your financial professional can help you evaluate your progress with your retirement goals, determine how much you should be saving and decide which investment choices are suitable for you.

For more information on reaching your retirement goals, 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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