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The Retirement Times



Keeping Retirees in Your Retirement Plan

According to T. Rowe Price, some sponsors may anticipate that their relationship with participants — as well as their responsibilities toward them — will naturally wind down at retirement, even though only about one in five sponsors prefer participants to leave their plans when they exit the workforce. Sponsors should carefully weigh the pros and cons of encouraging retirees to remain on board.

The Participant Perspective

Participants might be encouraged to linger in their company plan to take advantage of increased access to certain types of investment vehicles, such as stable-value funds and collective investment trusts. A 401(k) typically has lower fees than an IRA and often comes with complimentary advisory services. The increased fiduciary responsibility required of a qualified retirement plan also provides a greater level of investor protection than an IRA.



Pros for Employers

It's not just employees who may benefit from staying on a company's 401(k) plan after retirement — employers can too.

Lower administrative fees. The primary benefit for employers when retirees keep funds in their retirement plan account is the overall boost that these participants can give to total assets, which in turn assists in maintaining a healthy plan. Having higher pooled assets, bolstered by retiree funds, can help sponsors negotiate with financial service providers. This increased bargaining power could help sponsors lower their fees and administrative costs.

Greater access to institutional share classes. Keeping retiree dollars in plan can also increase access to more preferential share classes. This can lower fees even more for all participants.

Cons for Employers

Although sponsors can use retiree funds as leverage for lower fees, there can also be drawbacks to keeping retirees on your books. Before deciding how to proceed, employers should consider these factors.

Additional responsibilities and needs. The most noteworthy drawback to keeping retirees' assets in the plan is the continued administrative burden — tracking and monitoring retirees' accounts, providing disclosures and maintaining regulatory compliance. Additionally, sponsors should consider the need for specific communications with participants as they approach retirement. The inclusion of retirees in a plan may require the addition or expansion of resources, services, and solutions.

Risk and liability. In addition to having the responsibility to track and monitor plan funds, sponsors are potentially liable for them as well. Sponsors who invite retirees to stay active in their company's 401(k) should prepare for the risk and liability of these assets. This can be more difficult with retirees than current employees, as retirees typically have less direct contact than current staff — if participants become difficult to locate past retirement for disbursements and disclosures, the responsibility lies with the employer to make reasonable attempts to track them down.

Weighing the Pros and Cons

The decision to invite retirees to remain in a company's 401(k) plan depends on many factors, but the most important one is often the size of the plan itself. Sponsors who manage larger plans often have the resources to provide administrative services and cover participant fees, whereas sponsors of smaller plans may be more concerned with their administrative responsibilities. If you're considering whether to encourage retirees to stay in your plan, weigh the pros and cons carefully.

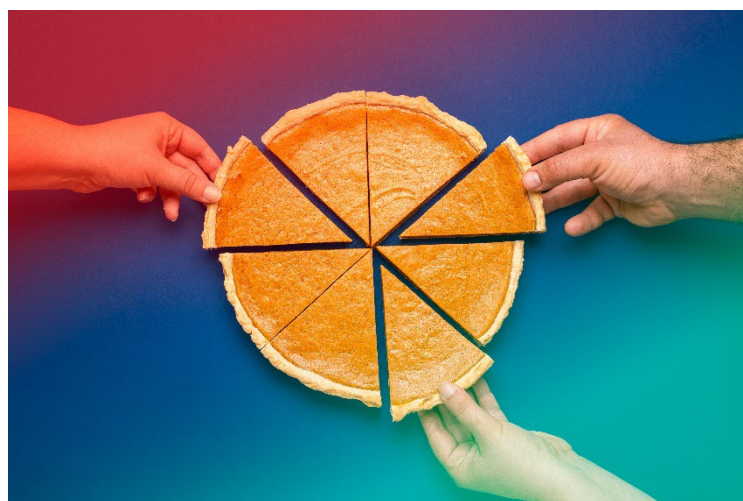
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Revenue Sharing Decisions

As a result of the significant rise in revenue sharing litigation it behooves plan fiduciaries to confirm and document the prudence and appropriateness of any revenue sharing arrangement.

Revenue sharing is the sharing of fees from one service provider (e.g., an investment fund manager) to another service provider (e.g., your record keeper). Revenue sharing may be built into a fund's asset-based expense ratio if a plan utilizes a higher cost share class. The revenue sharing is often used to offset plan-related expenses rather than having the plan sponsor or participant making direct payment for specific plan services.



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NEWS AND UPDATES FOR RETIREMENT PLAN SPONSORS AND FIDUCIARIES

A growing number of lawsuits allege that fiduciaries breached their duties of prudence by utilizing investment share classes with “excessive” revenue sharing. It is important to understand that ERISA does not prohibit plans from using revenue sharing to pay plan fees, but plan fiduciaries must be prepared to verify that their compensation arrangements are reasonable and prudent, as these fees are being paid from plan assets. Plan sponsors should be ready to show the prudent process utilized to justify the use of revenue sharing and the ongoing monitoring they undertake to ensure they do not become excessive with the growth of a plan. In the event that a plan sponsor cannot show the prudence of using revenue sharing it is important to know that the Department of Labor (DOL) may find issue with its use and issue directives to plan sponsors to make a plan “whole” via threatened legal actions. In addition, plan participants may initiate class action lawsuits against plan fiduciaries as well.

According to a recent survey from Vanderbilt University, the National Bureau of Economic Research (NBER); and the Board of Governors of the Federal Reserve System more than half the plans surveyed utilize revenue-sharing arrangements with at least one fund on the menu*. The strongest position for a fiduciary is to have a documented and deliberate decision-making process that considers all relevant factors documenting prudence and the rationale for utilizing revenue sharing.

*A copy of the research paper is available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3752296

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