

DB Digest

BEST PRACTICES FOR PENSION ADMINISTRATION

AUGUST 2018

KEY DATES

8/14/18

File PBGC Form 10, if the 7/15/18 required quarterly contribution was missed by more than 30 days, unless PBGC Form 200 was already filed or a waiver applies.

9/15/18

Due date to make a final contribution to satisfy the 2017 minimum funding requirement or to make any contribution to be included on 2017 Form 5500 Schedule SB.

9/25/18

File PBGC Form 200, if the plan sponsor failed to make a 9/15/18 required contribution that resulted in more than \$1 million in cumulative unpaid contributions.

9/30/18

Deadline for completion of the actuarial valuation and certification of the final 2018 AFTAP, unless the 2018 AFTAP was 'range' certified. If the AFTAP is not certified by this date, the AFTAP is deemed to be less than 60% for the remainder of the plan year.

10/15/18

Deadline to adopt a retroactive corrective plan amendment, if the plan fails minimum coverage, nondiscrimination, and/or compensation requirements for 2017.

10/15/18

File 2017 Form 5500, if the due date was extended by a timely filed IRS Form 5558. A posting of the 2017 Form 5500 basic plan information and 2017 Schedule SB on the plan sponsor's existing intranet site is required within 90 days of filing Form 5500.

Co-sourced to outsourced: Is now the time?

Julie Sinke

What can businesses do to ensure that pension plan administration is accurate, efficient, and cost-effective? How can they work better, smarter, and faster? One solution is to outsource the administration to a third-party vendor. This article will help you navigate through the factors and timing for making this change.

Pension plan administration can be managed through a variety of arrangements: insourced, where a plan sponsor performs the entire administration internally; co-sourced, where the plan sponsor contracts with an outside vendor to have a portion of the plan administration done externally; and outsourced, where the outside vendor performs the entire administration.

As insourcing has become less common, plan sponsors are turning to outside vendors to co-source and outsource the administration. Like anything else, both arrangements have advantages and disadvantages. Co-sourcing combines the positive elements of both insourcing and outsourcing, allowing the plan sponsor to maintain control of the administration while utilizing the resources and expertise of an outsourced vendor, whereas outsourcing removes the burden and complexity of plan administration entirely. So what is better? When do the advantages of outsourcing outweigh those of co-sourcing?

The questions co-sourced clients should begin to consider are:

- What are the challenges associated with a co-sourced arrangement?
- What are the benefits of an outsourced arrangement?
- What factors make now the right time to switch to outsourced?

Co-sourced challenges

DEPTH OF INTERNAL EXPERTISE

Often the staff responsible for the in-house work is limited to a single person or a small group of people; depending on the arrangement, this can mean a lot of work for a few people. Without the depth of a knowledgeable staff, vacations and illnesses can have a large impact on the work product and plan sponsors may unexpectedly find themselves unable to complete their work. A single retirement may mean that the plan sponsor loses the majority of plan knowledge, which is not easily transferred to internal or external resources in a short timeframe.

NO ECONOMY OF SCALE

Without a larger staff to leverage, it can be hard to maintain a high level of production or gain any savings in cost. In times of high volumes of work, such as layoffs, lump sum windows, divestitures, or plan changes, it may not be possible to complete the work on time. When large numbers of calculations are needed in a short timeframe, lack of scalability can impact the plan sponsor and the work product.

MANUAL AND TIME-CONSUMING WORK

Advanced technology and administrative systems are an important part of implementing efficient procedures, and without them a large amount of manual work can result. In-house administrators may find themselves with limited or outdated system infrastructures, which leads to performing certain operations manually. An additional issue with manual work is that it does not always lend itself to being easily replicated. Not being able to leverage prior work can prove inefficient and costly. Finally, there may not be ample opportunity for sufficient peer review.

COMPLIANCE BURDENS

It is no easy task to stay on top of compliance requirements from the Internal Revenue Service (IRS) and U.S. Department of Labor (DOL). Plan sponsors must ensure they are using the most up-to-date mortality and interest rates as well as distributing mandatory plan documents, required government documents, and certain benefit notices. Organizing the mailings and ensuring they are done on time can be a challenging task.

Benefits of outsourcing**RECORDKEEPING**

There is tremendous value in having all historical data and its maintenance in one standardized location. The data, whenever possible, will be stored electronically, which allows for tracking items such as vesting and eligibility, programming the benefit formula(s), and providing data reports. Ongoing payroll data will be absorbed and stored in the same database to allow access for the administrators as well as the plan sponsor.

DEDICATED STAFF

Outsourcing provides the client with a staff dedicated to administering the plan. The potential for internal staffing issues using a co-sourced relationship do not exist with outsourcing, as the vendor has the ability to adjust staff as needed to accommodate sudden increases in work volume. The plan sponsor gains access to industry experts and experience to provide a high level of service.

BENEFIT ADMINISTRATION SERVICES

Outsourcing includes a full suite of administrative functions including:

Ongoing processes:

- Continuous death audit for retirees and deferred vested participants
- Income verification
- Locating deferred vested participants
- Production of retirement initiation packages and estimates
- Package fulfillment
- Preretirement and postretirement death benefit processing
- Qualified domestic relations order (QDRO) review and administration

Monthly processes:

- Deduction administration
- Processing of recent terminations
- Processing participants nearing normal retirement age
- Periodic and lump sum payment election processing, including forms qualification, requesting missing information, and multiple levels of review
- Retiree data maintenance
- Submission of payments to the check writer

Annual processes:

- Audit support
- Beneficiary solicitation and tracking
- Cost-of-living adjustments
- Disability benefits review
- Processing of active and terminated required minimum distributions
- Searching for lost participants
- Support distributing required documentation, including the annual funding notice (AFN), summary plan description (SPD), summary of material modifications (SMM) if the plan undergoes a significant change, benefit statements, and suspension of benefits notices

PARTICIPANT SERVICES

Pension plan administration, at its heart, is about providing valuable services in order to help participants understand their options and navigate the retirement process, resulting in a higher appreciation for the retirement benefit.

Participant web portal

Providing easy access to participant information is becoming increasingly more important to plan sponsors and participants alike. An enhanced participant web portal provides a one-stop location for participants to:

- Access answers to frequently asked questions
- Access documents previously mailed to them
- Complete the retirement election process online
- Designate preretirement death beneficiary or beneficiaries
- Model benefits using interactive benefit modeling
- Obtain information about plan benefits
- Maintain retiree data, including updates to taxation, delivery, and beneficiary elections
- Request a retirement initiation package
- Update personal information
- Upload documents to avoid the delays of mail
- View existing retirement payment elections

Call center

A dedicated call center with pension-specific knowledge is a crucial element to providing this service. The call center is equipped to help with a wide array of questions and topics:

- Calculating benefit estimates under different scenarios
- Starting the retirement process, including requesting a retirement initiation package
- Completing retirement initiation packages
- Electing preretirement beneficiaries
- Answering general pension benefit questions
- Providing general taxation information
- Helping to navigate the participant web portal
- Understanding the plan's SPD

When is the right time?

Outsourcing provides plan sponsors with vital services that they may not be receiving in their co-sourced arrangements, so when does it make sense to consider switching to full outsourcing?

DISAFFILIATION

When a plan is disaffiliating from a larger umbrella plan, it may lose access to systems and staffing it once had. Outsourcing can supplement these lost features and ensure the plan continues proper administration without any gaps in service to its participants.

INTERNAL STAFF CHANGES

Previously mentioned as a challenge with co-sourcing, changes in staffing and retirements are inevitable. When these changes occur, there may not be additional staff members available and/or qualified to continue performing administrative duties.

NO LONGER COST-EFFECTIVE

The cost of administering a plan is generally a factor when deciding the best arrangement. Although paying an outside vendor to take on more of the administrative functions will increase the fees, a plan sponsor has to consider whether that increase is less than the costs of continuing under the co-sourcing arrangement. Additionally, ongoing fees may be payable from plan assets.

PLAN FREEZE OR TERMINATION

When a plan is amended to freeze or terminate there is a lot of work to be done, potentially in a short timeframe. Outsourcing can provide the necessary resources and experience to complete the work on time and efficiently.

GROWING COMPLEXITY

The IRS and DOL continue to apply additional requirements on the administration of pension plans. The complexity and details requested in audits is increasing and could overwhelm an in-house staff responsible for any portion of the administration. As requirements and rulings continue to bring additional pressures, outsourcing is a means to handle time-consuming audit support and to ensure the plan is complying with the laws.

CONTACT

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