

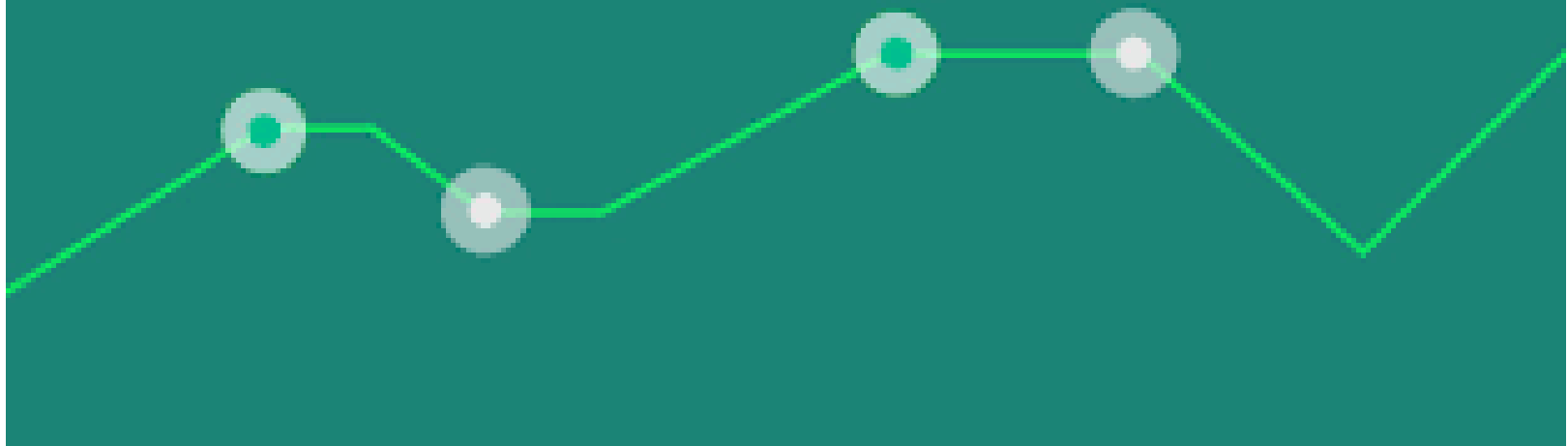
# Hot Topics in Plan Audits

**MORE THAN YOU EXPECT...**

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**EVERYTHING YOU NEED**

what's **TRENDING**?



# Trends in Plan Design

- Auto enrollment
  - Encourages employees to begin deferring as soon as possible
  - Increases employee participation in the plan
  - May allow plan to more easily pass nondiscrimination testing
  - May cause increased administration costs

# Trends in Plan Design

- Auto escalation
  - Encourages employees to increase deferral rates
  - If done in conjunction with raises, employees don't miss the increased deferral
  - Employer match may be increased

# Trends in Plan Design

- Employee Roth deferrals
  - Tax free withdrawals
  - Tax free investment earnings
  - Contributions not tax deductible
  - Uncertainty in future tax rates

# Trends in Plan Design

- Stretch match
  - Changing match to require higher deferral levels (30% up to 10% instead of 100% up to 3%)
  - Can cause increased deferral rates without significant increase in sponsor costs
  - Reduces overall administrative fees with larger balances in plan
  - Safe harbor not available for higher match rates
  - Contribution rates could be too high for lower paid employees

# Trends in Plan Design

- Plan revenue equilization
  - Revenue sharing from funds allocated back to the participants who invest in those respective funds
  - Plan expenses shared equally by all participants
  - Increased administration
  - Not all service providers have this capability

# What's New?





# Determination letter program

- Limited resources at the IRS
- Individually designed plans will only be reviewed at qualification and at determination
- Pre-approved plans will continue to be reviewed
- Individually designed plans will have more uncertainty surrounding tax qualification

# Cybersecurity

- DOL continues to express concern over security of participant information
- Plan sponsors should consider:
  - Ensuring that vendor due diligence assesses vendors' security practices and procedures, including relevant hiring practices,
  - Reviewing vendor software and IT operations from a security and monitoring perspective, and
  - Including personal information privacy protection guarantees in vendor contracts.

# Common Plan Errors



# Late Remittances





# Late Remittances

- Small plans – safe harbor of 7 business days
- Large plans – as soon as administratively possible ~~but no later than 15 business days~~

# Forfeitures





# Forfeitures

- What does plan document say?
- Match offset, pay plan expenses, allocate to participants

# Definition of compensation







# Definition of compensation

- Check your plan document and compare it to your payroll system
- Watch out for bonuses and commissions

# Eligibility





# Eligibility

- Entrance to the plan
- Participation in matching and profit-sharing contributions

# Distributions



# In-service distributions

- Allowed by the plan?
- Documentation required?
- Proper withholdings?

# Participant loans

- Allowed by the plan document?
- Number of loans
- Repayments being made appropriately?

# Hardship distributions

- Allowed by the plan document?
- Documentation of hardship and amount
- Loan already taken?

# Proposed Plan Audit Report

*Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*





# Proposed Plan Audit Report

- New report developed using input from the Department of Labor and is intended to improve the usefulness of the audit report and to improve audit quality.
- New report would be used for plan year 2018 financial statements.

# Proposed Plan Audit Report

- Things of interest to plan sponsors
  - Management is responsible for determining that the institution holding the plan investments is qualified to certify the investments.
- This is true currently but now it will be spelled out in the audit report

# Proposed Plan Audit Report

- Things of interest to plan sponsors
  - Management is responsible for determining that the certified information is complete and accurate.
- This is also true currently but now it will be spelled out in the audit report

# Proposed Plan Audit Report

- Things of interest to plan sponsors
  - Report on Specific Plan Provisions Relating to the Financial Statements
- The new audit report will include a new section that now identifies the plan provisions that the auditor tested (eligibility, benefit payments, vesting, contributions, etc)



# Proposed Plan Audit Report

- Things of interest to plan sponsors
  - Report on Specific Plan Provisions Relating to the Financial Statements
- The new section will also include any findings related to the plan provision testing (unless clearly inconsequential)

# Proposed Plan Audit Report

- Things of interest to plan sponsors
  - Report on Specific Plan Provisions Relating to the Financial Statements
- In discussion with many other firms, most firms are opposed to having the plan findings included in the audit report.



# Proposed Form 5500

- The proposed changes are intended to make the information more useful to plan participants and plan sponsors, and will require additional details on investments and other plan matters.
- The new Form 5500 is targeted for 2019.



# Proposed Form 5500

- Significant changes/new requirements
  - defined contribution participant count will now be based on account balances, not eligibility
- May have an impact on the audit requirement for smaller employers
- May also offer incentive for smaller plans to distribute terminated participant balances

# Proposed Form 5500 – Schedule C

- Significant changes/new requirements
  - Schedule C must be completed for (1) each covered service provider who receives more than \$1,000 in direct or indirect compensation and (2) other persons who receive \$5,000 or more in direct compensation
  - Small plans would also be required to complete (unless filing 5500-SF)
  - Total indirect compensation reported as a dollar amount, can be estimated, but formulas would not be allowed, and the dollar threshold is lower.

# Proposed Form 5500 – Schedule C

- Increased administrative costs for smaller plans
- Better (??) Information on provider fees by aligning fee reporting with 408(b)(2) disclosures
- More transparency on provider fees????

# Proposed Form 5500 – Schedule D

- Significant changes/new requirements
  - Plans are no longer required to complete Schedule D to disclose DFE investments
- Reduced administrative costs for plans that hold DFE investments

# Proposed Form 5500 – Schedule H

- Significant changes/new requirements
  - Trustee must sign Schedule H
  - New requirements for reporting
    - CCT/PSA reported as single line item, regardless of whether the entity was a DFE or not
    - interest in funds held in insurance general accounts further detailed to include sub-categories
    - derivative sub-categories would be expanded to include futures, forwards, options, swaps and ‘other’

# Proposed Form 5500 – Schedule H

- New requirements for reporting
  - Expense section would detail such expenses as accountant's fees, bank custodial fees, legal fees, etc.
  - administrative expenses would require a separate breakout of expense charged to participant accounts
  - Filers required to check a box for hard-to-value assets
  - Add investment identifiers such as CUSIP for each asset



# Proposed Form 5500 – Schedule H

- New requirements for reporting
  - It may be difficult for trustees/custodians to provide information regarding the underlying investment detail of the master trust/CCT/PSA, if investment details are required to be reported on the Schedule of Assets
  - Trustee/custodian systems will need to be reconfigured for new investment detail. Certain information may need to be provided by alternative sources (e.g. investment managers, plan sponsor treasury departments, etc.)

# Proposed Form 5500 – Schedule H

- New requirements for reporting
  - Form 5500 reporting of investments does not align with reporting of investments under generally accepted accounting principles (GAAP) used in preparing financial statements. Plans and providers will need to ensure that information provided by trustees/custodians meets needs of Form 5500 and GAAP reporting.
  - The proposed changes to the asset and income/expense related items would allow DOL to capture and identify:
    - alternative investments and/or hard-to-value assets owned by plans and investments in collective investment funds
    - data about charges to participants for plan administrative expenses

# Proposed Form 5500 – Schedule H

- New requirements – Accountant's Opinion
  - Additional information required includes:
    - name of audit engagement partner
    - whether preparer reviewed and discussed IQPA report with the accountant
    - whether the accountant had a peer review
    - questions about participant fee disclosure compliance and attach a copy of the ERISA 404a-5 disclosure to the Form 5500
    - questions about leverage and overall exposure
    - questions as to whether there any were uncashed checks as of the end of the plan year and the amount of the uncashed checks

# Documentation



# Committee Documentation

- Are there committee meeting minutes?
- Documentation of reasonableness of fees



# Investment Policy Statement

- **The Investment Policy Statement is intended to :**
  - Clarify goals and responsibilities
  - Provides a framework for evaluating investment performance
  - Ensure continuity of decision making as committee members change
  - Protects committee from making arbitrary decisions



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**Questions?**

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