



RETIREMENT PLAN ADMINISTRATION AND COMPLIANCE: A COMPLEX AND CONTINUALLY MOVING TARGET

Retirement plans require investment, recordkeeping and administrative/plan level compliance services. **Investment** services are important for investing assets of any retirement plan, and are particularly significant when plan participants direct the investment of retirement plan assets. **Recordkeeping** (including internet functionality, quarterly statements, a voice response unit and live operators) for plans involving individual participant accounts are a big job and errors are often immediately visible to the affected plan participants. **Plan administration** and legal plan level compliance are an essential element for any tax qualified retirement plan, whether it be a 401(k), profit sharing, money purchase, or defined benefit pension plan.

Fee Transparency Will Help Employers

Pending regulations regarding retirement plan fee transparency continue to move through the Washington pipeline. Currently, we understand that the proposed regulations are under review by the Office of Management and Budget. It's a good bet that they will be released later this year.

Before daily valuations and participant investment direction in retirement plans became common, third party administrators ("TPAs") were almost always retained to handle plan recordkeeping and plan level compliance while the employer looked to financial advisors, including banks and insurance companies to manage the money accumulated under the plan. With the rapid growth of 401(k) plans came participant investment direction and "daily" valuations to promptly allocate investment results. Most financial service providers found it only natural to assume the

recordkeeping function under a daily valuation system due to the close ties between money movements and associated participant account maintenance. However, some of the larger financial service providers and payroll providers also bundle plan level compliance with their financial and recordkeeping services, making it difficult or impossible to determine the true cost of these services.

Keeping plan level compliance as a separate function provides a better sense of assurance and flexibility. For example, if an employer becomes dissatisfied with the performance of his/her financial advisor or financial service provider, they can be changed without also changing the plan's TPA. Likewise, an employer unhappy with plan level compliance services can change from one TPA to another without changing the entire plan financial and recordkeeping platform.

Ultimately, fee transparency will make it easier for employers to better understand what is paid to plan service providers, particularly larger financial institutions and payroll providers that bundle services.

Plan Level Compliance is Complex.....

The number of IRS audits for 401(k) plans may be increasing! Now, more than ever, a TPA may be a Plan Sponsor's best friend. According to a large New York accounting firm, the IRS is in the process of ramping up their audit activities, particularly for 401(k) plans. Initially, this is taking the form of a questionnaire sent to thousands of employers who sponsor 401(k) plans. The IRS has repeatedly expressed concerns over perceived non-compliance on the part of plan sponsors. Plan level compliance is complicated and severe penalties apply to those who fail to comply with the myriad of applicable rules and regulations.

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Plan level compliance includes creating and maintaining a timely adopted written plan document describing plan provisions, operating the plan according to the terms of the document, performing non-discrimination testing or following alternative “safe harbor” rules, filing necessary government reports, overseeing benefit payments, and preparing required disclosures to participants and other interested parties. The law requires that the plan must be in writing, so preparation of suitable legal documents, including amendments to reflect ever changing laws, is a key element for proper plan level compliance.

TPAs typically represent a coordinated team of specialists with many years of experience in their specialty. They are much more inclined to focus their talents and experience on the unique problems and objectives of their retirement plan clients, because plan level compliance is their core competency, as opposed to a more mass produced approach. A given financial fund family or insurer may be highly skilled in managing and investing money, just as a payroll provider is with payroll, but retirement plan level compliance is seldom, if ever, part of their core competency.

Cost and convenience are often mentioned as arguments for bundled services. But, TPA provided plan level compliance services offer a direct response and support to the plan sponsor when the IRS, DOL and PBGC come calling..... Also, TPAs are more suitable for specific plan designs, or reacting to company mergers, acquisitions, work force expansions and contractions. This is particularly true for 401(k) plans in a climate of increased government scrutiny.

Please call your NRS Account Manager for more information and how we can create additional value added strategies for your retirement plan.



For more information or to request a proposal, please visit our website at www.NRServices.com, or for sales support, please contact:

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