PIERCE FINANCIAL Retirement Report

NEWS AND UPDATES FOR PLAN SPONSORS AND FIDUCIARIES OF DEFINED CONTRIBUTION PLANS

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Top Five New Year's Resolutions for Retirement Plan Fiduciaries

We always hear the same resolutions when the new year rolls in: lose weight, get organized, travel more, etc. Resolutions for fiduciaries are not something you read about every day, which is why we are bringing you the top five resolutions to become a better plan fiduciary in 2015.

5. **Providing Information in Participant-Directed Plans.**[1] When plans allow participants to direct their investments, fiduciaries need to take steps to regularly make participants aware of their rights and responsibilities under the plan related to directing their investments. This includes providing plan and investment-related information, including information about fees and expenses, that participants need to make informed decisions about the management of their individual accounts. Participants must receive the information before they can first direct their investment in the plan and annually thereafter. The investment-related information needs to be presented in a format, such as a chart, that allows for a comparison among the plan's investment options.

4. **Be Educated on Prohibited Transactions.**[1] Who is prohibited from doing business with the plan? Prohibited parties (called parties in interest) include the employer, the union, plan fiduciaries, service providers, and statutorily defined owners, officers, and relatives of parties in interest.

Some of the prohibited transactions are:

- A sale, exchange, or lease between the plan and party in interest;
- Lending money or other extension of credit between the plan and party in interest; and
- Furnishing goods, services, or facilities between the plan and party in interest.

Other prohibitions relate solely to fiduciaries who use the plan's assets in their own interest or who act on both sides of a transaction involving a plan. Fiduciaries cannot receive money or any other consideration for their personal account from any party doing business with the plan related to that business.

3. **Monitoring Your Service Providers.**[1] An employer should establish and follow a formal review process at reasonable intervals to decide if it wants to continue using the current service providers or look for replacements. When monitoring service providers, actions to ensure they are performing the agreed-upon services include:

- Evaluating any notices received from the service provider about possible changes to their compensation and the other information they provided when hired (or when the contract or arrangement was renewed);
- Reviewing the service providers' performance;
- Reading any reports they provide;
- Checking actual fees charged;
- Asking about policies and practices (such as trading, investment turnover, and proxy voting); and
- Following up on participant complaints.

2. **Review and Monitor Plan Expenses and Fees.**[1] Fiduciaries should ensure that all required fee disclosures are made timely and monitor fees on a regular basis. Fiduciaries should establish a policy for ongoing plan expense and fee monitoring and benchmarking. Also, as necessary, disclose plan fees to participants.

1. **Adopt a Financial Wellness Program.** These programs optimize employee participation and action through engaging group and individual guidance. Financial Wellness looks beyond a participant's retirement plan and provides an individualized blueprint that summarizes goals, objectives and identifies action items to create a well-

rounded financial picture.

Final Words of Wisdom for 2015[1]: Being a fiduciary brings with it many responsibilities as well as potential liability. A fiduciary who does not follow the basic standards of conduct may be personally liable to restore any losses to the plan, or to restore any profits made through improper use of the plan's assets resulting from their actions. It's important for all fiduciaries to understand their fiduciary obligations and the steps they can take to limit their exposure.

[1] dol.gov/ebsa. Meeting Your Fiduciary Responsibilities.

Solutions for a Stressed-out Nation

Financial stress is a reality faced by the American worker every day—its ripple effects impacting individual health, productivity, and quality of life. In May, 2014 New York Life Retirement Plan Services sponsored a research study, in which they surveyed more than 1,500 workers to uncover individual stress levels, its causes, and how to best combat it.

How stressed are we?
Quite simply—we are very stressed. Nearly three-quarters of survey respondents admit to experiencing stress in their daily lives—and more than 25% report feeling extremely stressed. And when asked to identify the causes of stress, financial worries bubbled to the top:

- 60% worry about possible financial difficulties
- 47% are concerned with facing potentially unaffordable medical expenses
- 46% fear possible job loss

Only half of all survey respondents considered their financial situation to be good.

The impact of stress:
Stress is not something to be taken lightly. It impacts the individual and their employer.

On organizations:
- The World Health Organization estimates the cost of stress to U.S. businesses to be $300 billion annually.[1]
- Productivity losses related to personal and family health problems cost U.S. employers $1,685 per employee per year, or $225.8 billion annually.[2]
- One in four workers reports that financial stress distracts them at work.[3]

The different faces of stress
Individuals identifying as highly stressed people are aware that they are not taking action to rectify their financial situation. 58% of highly stressed respondents admitted showing poor effort in saving for retirement, and half report that they fail in the basics of budgeting.

Financial stress is not limited to low earners. More than one quarter of respondents earning more than $100,000 reported feeling highly stressed.

Women feel financial stress more acutely—34% of women responding to the study reported experiencing extreme stress, compared to 22% of men—and are significantly more likely to bring that stress with them to work.

Lower income workers—those earning less than $50,000—are more concerned with establishing an emergency savings than higher paid colleagues, establishing that safety net trumps retirement savings, day-to-day bills, and medical bill concerns.

Solving for stress
As it stands now, 70% of respondents see their stress levels staying the same or increasing in the next year. But can we change that?

By and large, respondents recognize the value of taking action, considering the act of establishing a financial plan

the most helpful in reducing stress. A holistic financial plan—one encompassing basic financial skill sets like budgeting, savings, debt management, and retirement and investments—may effectively combat financial stress.

This means we must re-examine the best way to engage plan participants. Simply focusing on retirement planning in participant education and engagement strategies ignores the complexities of an individual's financial life—and rings hollow and incomplete.

To successfully empower individuals to save for retirement, it is imperative that we utilize tools and advice to support the broad spectrum of their financial lives. In order to increase productivity and lower the healthcare costs associated with financial stress, we need to help reduce financial stress.

[1]Forbes, 2012
[2]Center for Disease Control, October 2013
[3]PwC Employee Wellness Survey, 2013

This article was written by New York Life and published in RPAG's magazine *Impact*, Fall 2014. Minor changes were made for compatibility purposes.

Improper Handling of Hardship Distributions May Result in Significant Problems

These days, many plans are experiencing an uptick in the number of participant requests for hardship distributions. Much of this increased activity may be attributed to our prolonged and tepid economic recovery.

As these requests are considered, you want to be sure not to act to the detriment of your plan. Improper handling of hardship requests can ultimately result in plan disqualification. It is important to understand what the law, and your plan document, allows so your actions do not result in unintended but impermissible hardship distributions.

First, the law requires that any hardship distribution can only be made due to a participant's immediate and heavy financial need.

The law does not permit a distribution in excess of the amount necessary to satisfy the need, which cannot be met by other resources reasonably available to the participant. Unless the plan has knowledge to the contrary, the regulations allow a plan to rely on the participant's written representation that the need cannot be reasonably relieved by insurance, liquidation of other assets, cessation of contributions, distributions, or non-taxable loans from employer plans or commercially available loans.

Also, assets available for distributions are limited to the participant's accumulated elective contributions, exclusive of earnings but reduced by losses.

If the plan allows hardship distributions, the plan document must specifically state so.

A safe harbor set of guidelines for what qualifies as an immediate and heavy financial need can be incorporated into the plan document. Also, regulations provide for the availability of safe harbor provisions to be included in the plan document to aid in determining if the distribution may be deemed necessary as long as any other loan or distribution available under the plan has been exhausted and the participant is suspended for making elective contributions for at least six months.

Take this opportunity to review your plan's hardship provision to make certain that you are following its procedures correctly. Remember, inconsistent, sloppy, or overly liberal distributions may result in significant problems for the plan.

Communication Corner: Leaving the Company

This month's employee memo is titled: Leaving the Company. This memo instructs participants on their four options to handling the money in their retirement plan when they leave their company.

Call or email your Lee Pierce at 901-271-3720 or lee@piercefinancial.org if you have questions or need

assistance.

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