Defined Contribution and Defined Benefit Plans:

Have you considered everything?

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Objectives

- Identify industry developments and trends impacting benefit plans
- Identify risks around cybersecurity specific to benefit plans
- Review upcoming regulatory developments affecting benefit plans

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Agenda

- Select industry developments
- Cybersecurity landscape
- Accounting and auditing updates
- Regulatory developments
- What to do if selected for audit

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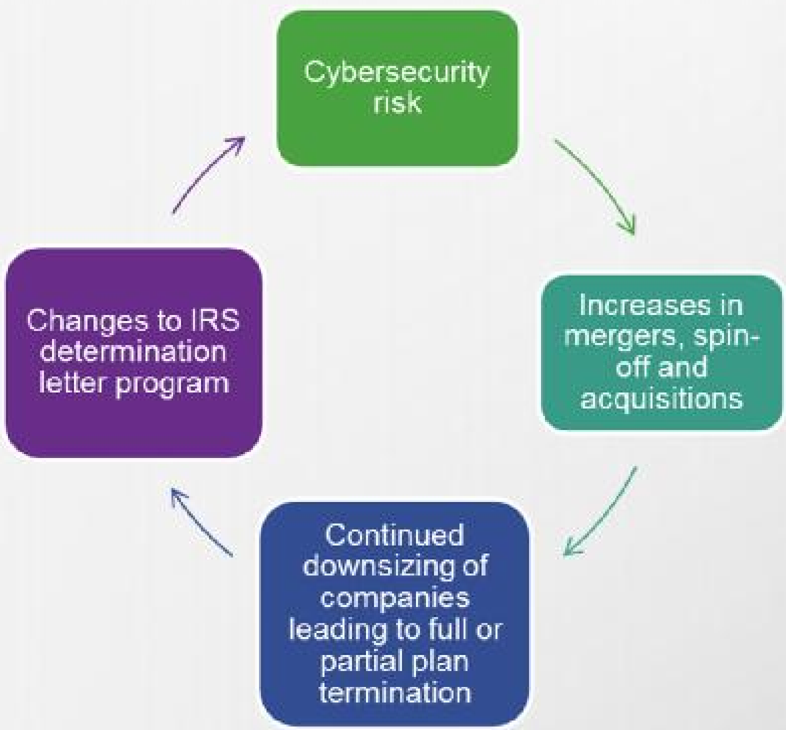
Select Industry Developments

Current economic environment



Trends impacting defined contribution plans

- Increased litigation
- Move to lower fee share class
- Fewer investment options
- Increase in hardship withdrawals and participant loans
- Auto enrollment/ auto escalation

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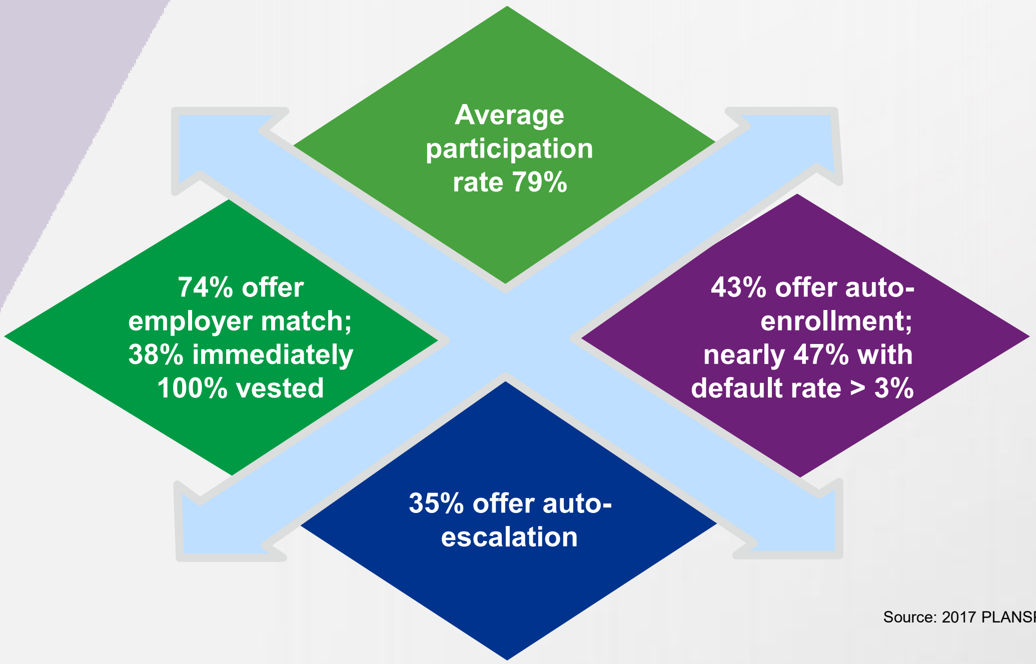
2017 contribution trends



Source: 2017 PLANSPONSOR Defined Contribution Survey

2017 other trends

79%	Include a loan provision
41%	Allow multiple loans
64%	Require repayment of loan at separation
69%	Use target date funds for default investment option
83%	Neutral or undecided on employees reaching retirement goals by age 65

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Source: 2017 PLANSPONSOR Defined Contribution Survey

Trends impacting defined benefit plans

- Freezing benefits and/or participation
- Increase in employees working beyond retirement age
- De-risking (actions to reduce or eliminate a company's pension benefit obligation)
- Merging plans, yet maintaining separate programs for various legacy groups
- Terminating plans
- Mortality table changes

DB plans can be frozen in several ways

Active Plan – eligibility and accruals

"Soft" freeze

- No new participants but accrual of benefits continue

or

- Cease benefit accruals for active participants, but allow benefits to increase with growth in participants' wages and/or service

"Partial" freeze – stop benefit accruals for some, but not all, participants (perhaps based on age, tenure, job classification, or plant location)

"Hard" freeze – no new participants **and** no accruals

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What is meant by de-risking?

Taking actions to reduce or eliminate a company's pension benefit obligations resulting in a reduction in future volatility of cash contributions and financial statement impacts

Examples:

- Plan design – shift away from final average pay
- Settlement of terminated vested participants
- Buy-in annuity contract investments
- Buy-out annuity contract purchases
- Settlement of retired participants with buy-out annuity contracts
- Asset allocations (liability driven investing)

Maintaining pertinent records - a real challenge!

- Plan sponsors have experienced difficulty in maintaining all pertinent participant data relating to census data and benefit payments
- Lapses in data caused for various reasons
- Two basic record retention provisions under ERISA exist
  - Section 107
  - Section 209
- Plan sponsors should assume that records regarding plan benefits must be maintained indefinitely
- The inability to test participant data or benefit payments may be considered a scope limitation

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Trends impacting health & welfare plans

Termination of VEBAs

Balancing rising health care costs with competitive benefits

- Surcharge for insuring spouse who has access to coverage
- High deductible plans
- Health Savings Accounts

New benefits/programs

- Telemedicine
- Wellness programs

Cybersecurity Landscape

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What is at risk?

- Participant Data:
  - Social security numbers
  - Birth dates
  - Addresses
  - Bank account information
- Plan assets:
  - Unauthorized distributions, loans or transfers
  - Information on account balances and investments

Why is cybersecurity overlooked for benefit plans?

- Belief that SOC 1 reports cover cybersecurity, when they only focus on financial and processing controls
- Rely on the third party service providers to have it covered, when in fact they could introduce new risks
- Organizations typically don’t consider the benefit plans in the entity’s overall cybersecurity plan
- Assumption that IT department has good controls and has it covered, when in fact it is everyone’s responsibility

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Other considerations

- Multiple service providers means data may move around various entities:
  - Who exactly has access to sensitive data? (e.g., payroll provider, plan sponsor, custodian, recordkeeper, actuary, advisors).
  - How is information transmitted? Are appropriate encryption forms used or even considered?
  - Some of the largest breaches come from third-party vendors (e.g., Target) making use of service providers even more of a concern.
- Size of organization may be a factor:
  - Larger organizations may have more resources than smaller but risks are the same regardless of entity size.

What can you do?

- Start discussions in committee meetings with plan's fiduciaries
- Review what the plan's service providers are doing to address risks at their organizations
- Identify information at risk
- Have a plan in place to address a breach or a plan in place to mitigate the risk
- Review existing frameworks as a starting point (e.g., NIST, Safety)
- Review current industry developments (e.g., SPARK)
- Consider the AICPA's SOC for Cybersecurity (e.g., asking service providers if they have one or considered it)

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Cybersecurity considerations plan

- What should be protected? **SSN, Birth Dates, Address, Bank Account, Beneficiary**
- What is the plan type? **Defined Contribution**
- How is the data classified? **PII**
- Where is the data stored? **Server at plan sponsor, service providers and backup facility**
- Who is accessing the data? **Plan Sponsor, Recordkeeper, Participants, Custodian**
- How is the data accessed? **User ids, passwords, logical security policies to restrict access to those who need it**
- Is access properly controlled? **Use of encryption when sending, file exchange vs. email, limited access**
- What data is needed? **Not providing entire SSN to others**
- What data needs to be retained? **Retention policies for personnel data for terminated employees**
- What are the threats? **Multiple access points that could be compromised**

Remember…

- One size doesn't fit all
- Consider resources, integration, cost, cyber insurance, certifications

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Accounting & Auditing Update

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Accounting & auditing update

- SOA mortality improvement scale
- Master trust reporting
- Fraud considerations
- Auditor reporting

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SOA mortality improvement scale

October 23, 2018, the Society of Actuaries updated the Mortality Improvement Scale (Scale MP-2018) to accompany its most recent Mortality Table (RP-2014)

- Does not update RP-2014 base mortality tables
- Reflects slight decrease in rate of improvement in life expectancies versus the 2017 mortality improvement scale
- Expected reduction in current pension plan liabilities by .2% to .6% depending on individual characteristics of plan

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FASB ASU 2017-06: Master Trust Reporting

- Clarifies the presentation and enhances the disclosure requirements for an employee benefit plan's interest in a master trust
- Amendments do not affect sponsor accounting
- Must adopt the master trust amendments and the 401(h) amendments at the same time, if both are applicable
- Limits required disclosures related to changes in accounting principle (BC25)
  - Disclose only the nature of and reason for the change in accounting principle (that is, the requirement of paragraph 250-10-50-1(a))

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FASB ASU 2017-06: Master Trust Reporting

What's new or clarified

- Reporting a plan's interest in a master trust and the change in the value of that interest as separate line items on the plan's financial statements (clarified)
- Disclosing the master trust's investments by general type of investment (clarified)
- Disclosing the master trust's other assets/liabilities (new)
- Disclosing the dollar amount of the plan's interest in the master trust's investments (for each general type) and other assets/liabilities (new)

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Fraud considerations

- EBPAQC prepared a summary of the DOL's criminal enforcement cases from October 2014 through November 2018 to assist members in considering how fraud may occur in benefit plans
- Can encompass all plan types and all levels (owners, trustees, service providers, plan administrators, etc.)
- Typically smaller plans, but can occur at plans of all sizes
- Examples of fraud include retaining Plan contributions in corporate bank accounts and using them to pay for general operating expenses, loans obtained from Plan to fund payroll, not testing and correcting ACP/ADP failures, false statements in annual reports, altering participant account and contact information to improperly obtain distributions, identity theft, etc.

Auditor reporting - EBP ERISA audits

- Proposed new AU-C section (703)
- AICPA Auditing Standards Board recently voted to approve Statement on Auditing standards, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (EBP SAS) as a final standard – look for issuance in first half of 2019
- Revisions to auditor's report on ERISA plan financial statements to enhance audit quality and provide better insight into responsibilities of management and the auditor
- Proposed SAS includes:
  - Form and content of unmodified opinion (AU-C 700 would no longer apply for ERISA plans)
  - Procedures and new opinion for ERISA limited scope audit
  - Procedures performed on specific plan provisions relating to the financial statements and reporting requirements on findings

Auditor reporting - continued

EBP ERISA - Permitted Audit Scope Exception Audits

- The new form of report in the proposed SAS would require
  - A new Basis for Limitation on the Scope of the Audit section
    - No longer refer to “limited scope audit”, now “ERISA section 103(a)(3)(C) audit”
    - No longer a modified opinion (disclaimer)
  - Expanded management and auditor responsibilities sections
- A special form of opinion on the ERISA plan financial statements that includes:
  - Audit procedures performed on the information not covered by the certification
  - Management’s obtaining of an appropriate certification that is provided to the auditor
  - Procedures performed on the certified information, as required by the proposed SAS

Auditor reporting - continued

EBP ERISA - Permitted Audit Scope Exception Audits

- Other key provisions for management:
  - Engagement acceptance – acknowledgement by management of their responsibility as to the investment certification and determination that the entity preparing the certification is a qualified institution under DOL rules
- Applicable for periods ending on or after December 15, 2020 and early adoption is not permitted

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Regulatory Developments

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Regulatory developments

- Tax Cuts and Jobs Act of 2017
- Bipartisan Budget Act of 2018
- Proposed Changes
- 2018/2017 Plan Limits
- 2018/2017 PBGC Premiums

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Tax reform

- Repeal of Roth IRA conversion recharacterization
- Extension of rollover period for plan loan offsets
- Increase in length of service awards under Section 457

Bipartisan Budget Act of 2018

- Three changes to rules applicable to hardship distributions from 401k plans:
  - Suspension of deferrals following hardship distributions
  - Portions of the account available for hardship distributions
  - The need to take loans before taking hardship distributions

Proposed changes

- Two pieces of legislation affecting retirement plans, some overlap (Portman/Cardin and House bill)
- Portman/Cardin:
  - New automatic enrollment safe harbor includes auto enrollment to start at 6%, go up to 10%, matching contributions at a 100%/50%/25% rate, with a tax credit for certain employers
  - Long-term part-time employees (> 500 hours per year) are allowed to make 401(k) deferrals
  - Required minimum distribution age increases to 73
  - Funding deadline changes to 9 ½ months after year-end

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Proposed changes (continued)

- House bill:
  - Open multiple-employer plans
  - Repeal maximum age for IRA contributions
  - Exempt individuals with less than $50,000 from minimum distribution requirements
  - Modifies nondiscrimination rules for frozen defined benefit plans
  - Allows penalty free withdrawals from retirement plans for birth of a child or adoption
  - Other changes are similar to Portman/Cardin proposal

2019/2018 Plan Limits

	2019	2018
Maximum annual pension	$225,000	$220,000
Maximum annual addition	56,000	55,000
Maximum elective deferral [401(k)]	19,000	18,500
Maximum elective deferral [403(b)]	19,000	18,500
Catch-up contributions	6,000	6,000
Maximum compensation limits	280,000	275,000
Highly compensated limits	125,000	120,000

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2019/2018 PBGC premiums

- Single Employer Plans
  - Flat-Rate Premium: $80 per participant ($74 for 2018)
  - Variable-Rate Premium: $43 per $1,000 of unfunded vested benefits; capped at $541 per participant ($38 per $1,000; cap of $523 per participant for 2018)
- Multiemployer Plans
  - Premium Rate: $29 per participant ($28 for 2018)

For more info see: https://www.pbgc.gov/prac/prem/premium-rates

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What to do if selected for an audit

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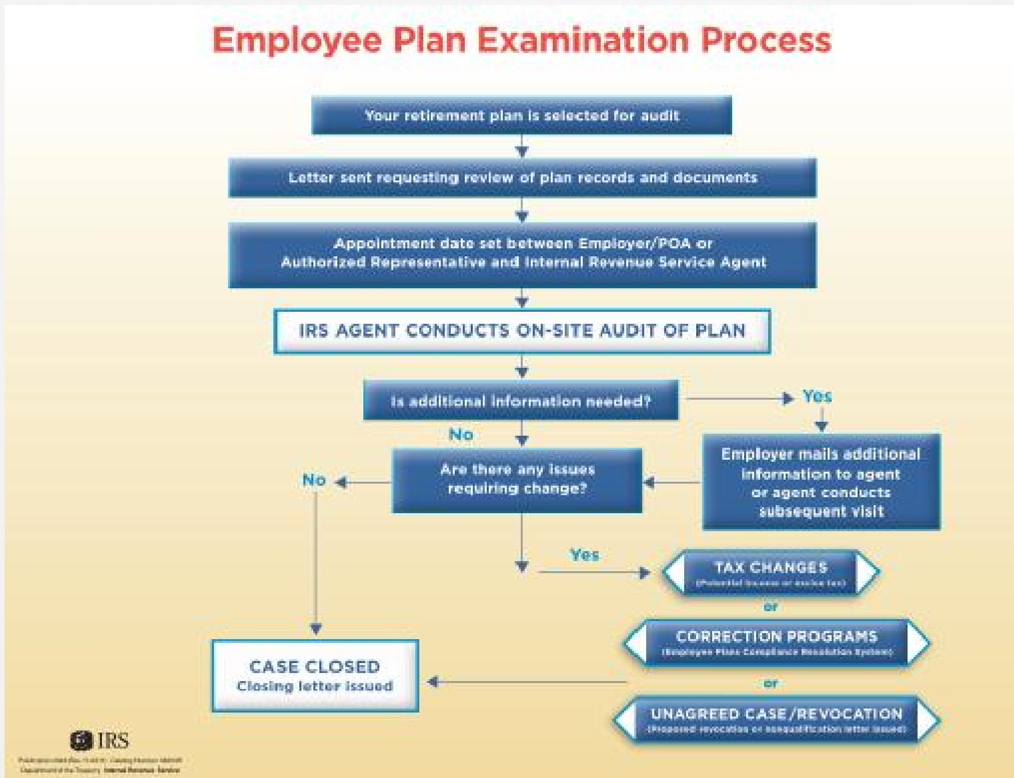
We’ve been selected for an audit – what do we do?!?!?

- Don’t panic!
- Contact your accounting firm – they can help gather requested information and communicate with the IRS on your behalf
- Contact the IRS to:
  - Confirm receipt of the notice
  - Schedule opening meetings
  - Request an extension of time to gather information

Employee plan examination process



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General process

- Will request a significant amount of information
  - Plan documents, trust agreements, policies and procedures, minutes, 5500, financial statements, SPD’s, fidelity bonds, records, etc.
- Typical questions you may receive
  - HR and personnel questions – structure, hiring process, how new and/or terminated employees are handled, what records are maintained
  - Payroll questions – system or service provider used, company controls in place, remittance policies, how loans are handled
  - Plan administration questions – what third parties are involved, processes and controls in place internally and over service providers
  - General questions

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Any questions?

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