Advisor Retirement Plan Update

QUARTER 1 2012

Consider Fee Disclosure as an Opportunity?

The "Final" Final Regs for Plan Sponsor Fee Disclosure were issued on February 3rd, extending the effective date to July 1, 2012 from April 1. As that deadline fast approaches, think about these words, as part of a presentation from Tom Warren, Senior Vice President and a national speaker for American Funds Distributors. "Soon, more than 500,000 sponsors of participant-directed retirement plans, along with their 70 million participants, will have a detailed breakdown of their retirement plan fees: Investment management fees, administrative fees, trustee fees, and advisory fees. That information could materially affect the relationship they have with their financial adviser." By effectively communicating your knowledge of fees and the value that you bring to your plan-sponsor clients and participants, "the new fee disclosure regulations present an opportunity to solidify client relationships." Most of this information will need to come from you as the plan's financial advisor, but we are here to help in any way that we can.

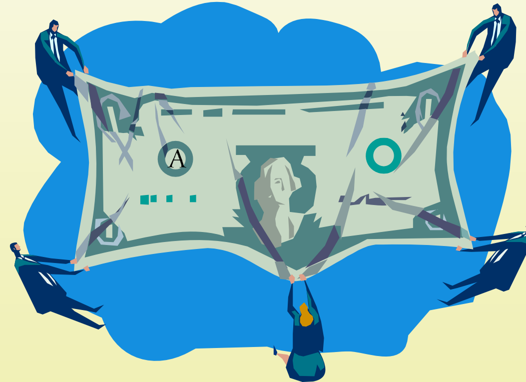
YOUR RETIREMENT PARTNER

Thank you to all of our advisor partners who have referred us a client in the past year… We truly appreciate the opportunity and know that we couldn't do it without you!

IRS Issues Guidance on Lifetime Income Options

In an effort to make it easier for participants to receive plan distributions in the form of lifetime income payments, the IRS recently published guidance addressing some of the issues.

Proposed regs have been issued which would allow amounts invested in a "Qualified Longevity Annuity Contract" (QLAC) to be excluded from the required minimum distribution calculations.
Longevity annuity contracts offer protection against the risk of outliving your assets and generally begin providing guaranteed payments at age 80 or 85. Currently, this makes it difficult for qualified plans to invest in them because of a conflict with the required minimum distribution rules. There are many requirements for QLACs, including a limit on the amount used to make premium payments (lesser of $100,000 or 25% of account balance), a payment commencement date of not less than age 85, restrictions on death benefits, other contract features and notice requirements.



Another rule that could potentially impact 401(k) plans attempts to clarify application of the spousal annuity rules when a deferred annuity contract is made available as an investment option in a defined contribution plan. Currently, many defined contribution plans avoid the annuity rules by providing for a 100% death benefit to the spouse, unless the spouse waives the benefit. However, if a participant is invested in a deferred annuity contract, effectively electing to receive a life annuity form of benefit, the spousal annuity rules are then triggered by that election. The IRS Revenue Ruling addressed the question of if and when investment in a deferred annuity contract does constitute an election to receive a life annuity triggering the application of the survivor annuity rules. Basically, as long as a participant has the option to transfer out of the deferred annuity contract and into other investments, and/or has the option to select a non annuity form of payment, investment in a deferred annuity contract does not trigger application of the survivor annuity rules. However, if a participant doesn't transfer out of the contract or elect another form of distribution prior to their annuity starting date, the spousal annuity rules will be triggered as of the annuity starting date.

You can expect to see more guidance issued on the Lifetime Income Topic in the coming year, as this seems to have become a "Hot Topic" with the Internal Revenue Service due to concern that many retirees are outliving their retirement plan savings.

Focus on Plan Fees may lead sponsors to reconsider revenue sharing and asset based fee allocations

The focus on plan fees generated by the participant disclosure regulations may lead sponsors to reconsider the manner in which fees are allocated. Bill McClain, Principal with Mercer Consultants and its Intellectual Capital Leader for DC Plans, noting that administrative costs are driven by head count and not market fluctuations, has observed in a recent article that the focus on fees has "fostered a movement away from an asset-based approach for calculating administrative fees to a per-capita approach."

In a December 2011 article, "Retirement, Risk and Perspective," McClain suggests that, attendant to the heightened focus on fees, plan sponsors are "weighing the relative merits of asset-based and per-capita approaches to fee allocation." The interest in alternative means of fee allocation is in large measure due to the realization that participants with larger account balances typically pay much larger fee assessments than participants with lower account balances