

# Retirement Plan

NEWS AND INFORMATION FOR EMPLOYERS

## FIDUCIARY PLAN GOVERNANCE



**Q1**  
2024

5 Helpful Ways to Organize  
Your 401(k) Fiduciary Files

Unlocking Tax Relief and  
Employee Appreciation:  
The Power of Profit Sharing

Is It Time to Benchmark  
Your Company's  
Retirement Plan?

# 5 Helpful Ways to Organize Your 401(k) Fiduciary Files

Discover top strategies for maintaining organized 401(k) fiduciary files with best practices for compliance and peace of mind.



As a plan sponsor, one of your primary responsibilities is ensuring that your company's retirement plan operates smoothly and within the boundaries of compliance regulations.

This is no small feat, especially when dealing with the complexities of a 401(k) plan. One of the ways to help enable hassle-free management is by maintaining neat and tidy records. This article will provide you with some practical tips and best practices on how to organize and document your fiduciary files.

## WHY IS RETIREMENT PLAN DOCUMENTATION IMPORTANT?

First, let's delve into why retirement plan documentation is crucial. Proper documentation serves as evidence of your diligent fiduciary oversight. It helps to show that you are actively managing your company's retirement plan in accordance with ERISA regulations. Moreover, it helps streamline the auditing process and makes it easier to answer inquiries from your plan's third-party administrator (TPA).

## BEST PRACTICES FOR ORGANIZING FIDUCIARY FILES

Now, let's explore some of the best methods to keep your fiduciary files in order:

- 1. Create a Fiduciary File System:** Designate a secure location, preferably a locked file cabinet or encrypted digital storage space, for all plan-related documents. This includes the plan document, amendments, participant communications, government filings, and investment reviews.

Action item: Create a new master folder and label it "401(k) Plan". Within this master folder, create subfolders with important categories such as, "Plan Document and Amendments", "Participant Communications", "Annual Filings", and "Investment Reviews". Ensure that relevant documents are correctly placed within their corresponding subfolders.

- 2. Implement a Document Retention Policy:** Develop a policy that outlines for how long different types of documents should be retained. For instance, the plan document and amendments should be kept permanently, while records related to plan operations should typically be kept for at least six years.
- 3. Regularly Update Your Files:** Make it a habit to update your files regularly. This includes adding new documents as they come in and removing outdated ones based on your retention policy.
- 4. Use Clear Labeling and Categorization:** Clearly label each document with its type and the date it was created or received. Categorize documents based on their nature, such as plan administration, investment management, participant records, and compliance tests.

**EXAMPLES**

Folder	File Name
Plan Document and Amendments	Plan Document-ABC Company-401k Plan-2010
Investment Reviews	Investment Review-ABC Company-401k Plan-Q1 2024
Participant Communications	Participant Education-ABC Company-401k Plan-Q1 2024

- 5. Ensure Accessibility While Maintaining Confidentiality:** Balancing accessibility with confidentiality is vital when managing fiduciary files. The documents should be readily retrievable as needed, yet stored in a manner that protects sensitive data from unauthorized access. Implement safeguards such as password protection for sensitive documents and restrict access to authorized personnel only.

Let’s take the company’s census file as an example. This file holds sensitive information like Social Security numbers, dates of birth, salaries, 401(k) deferral amounts, employer match, and profit sharing calculations.

This file should be safeguarded with a password and is only accessible to employees who require this information for their roles. For instance, a newly hired temporary employee would not have access to this file, ensuring the information remains confidential.

**REDUCE THE HASSLE OF COMPLIANCE TESTING**

One of the many benefits of maintaining organized fiduciary files is how much easier it makes compliance testing. For example, your plan’s TPA usually asks for uploading census data by January 31st to run their compliance tests for the year.

By having clean data and organized files, this task becomes significantly less daunting. Instead of spending hours searching for and compiling the requested information, you can access it within a few clicks. This not only saves you valuable time, but it also helps ensure that your TPA has all the necessary information to perform accurate compliance tests.

**STRUCTURE FOR SUCCESS**

Maintaining a well-organized 401(k) is more than just a tidy system of records. It’s an outward sign of effective fiduciary oversight, accurate audits, and comprehensive compliance testing. As a plan sponsor, you play an important role in the smooth operation of your company’s retirement plan.

However, you don’t have to navigate this path alone. Partnering with an experienced 401(k) advisor can offer valuable assistance, provide answers to your questions, and help ensure you’re on the right track. Remember, the success of your 401(k) plan is not just about its performance but also about its organization and compliance. We are here to provide guidance, help you stay organized, and support the development of a bright financial future for your employees.

# Unlocking Tax Relief and Employee Appreciation: The Power of Profit Sharing

Profit sharing is not just a tool to reduce your company's tax liability; it is also a powerful means of expressing gratitude towards your employees.



As we close the books on last year, employers often find themselves looking for ways to lower their impending tax bills. At the same time, companies are trying to retain and reward top talent. Is there a strategy that accomplishes both? Absolutely, and it's known as profit sharing. This tax-efficient strategy can serve as a power tool for expressing employee appreciation and has the potential to improve morale, engagement, and loyalty.

## THE POWER OF PROFIT SHARING

When a company makes a profit sharing contribution, it directly reduces its taxable income. This step can result in substantial tax savings, especially for closely-held businesses where the owner is also the largest shareholder such as LLCs, PLLCs, S-Corps, and Sole Proprietors.

Profit sharing is not a one-size-fits-all approach. The amount contributed can vary from year to year, offering flexibility, based on the company's performance. This means that in profitable years, you can choose to contribute more, while during leaner years, you can reduce the amount.



## ALIGNING PROFIT SHARING WITH COMPANY GOALS

The vesting schedule of the profit sharing contribution is another critical aspect that aligns with company goals. There are three primary types of vesting schedules: immediate, graded, and cliff vesting.

### Immediate vesting

means the employee owns the employer contributions right away.

### Graded vesting

gradually increases employee ownership of employer contributions over a set number of years, such as 20% vesting per year for five years.

### Cliff vesting

allows the employee to gain complete ownership after a specific period of service, like 0% in year 1 and 2, then 100% after 3 years.

Thoughtfully selecting the vesting schedule should encourage employees to stay with the company longer, reducing turnover, and boosting organizational stability. However, vesting schedules are dictated by your plan document. Consult with your TPA for specifics. Additionally, a retirement plan advisor can be instrumental in these discussions, helping to navigate the complexities of vesting schedules, and align them with your company's objectives.

## WHAT IF AN EMPLOYEE LEAVES EARLY?

A common concern is what happens if an employee leaves before they are fully vested. The unvested portion of the employer contributions goes into a forfeiture account. These funds can be recycled to pay for future employer contributions and/or plan expenses, without creating additional tax liabilities for the employer.

This mechanism ensures that your company does not lose out if an employee decides to leave early. Instead, these funds can be utilized to further enhance the retirement benefits of your remaining employees.

## LOOKING AHEAD

If your current vesting schedule doesn't resonate with your company's goals, it's worth discussing and potentially revising later in the year. By planning ahead, you can ensure that next year's profit sharing contributions are structured to optimally meet your company's objectives and your employees' needs. A retirement plan advisor can play a key role in these forward-looking conversations, providing strategic insights.

## A WINNING COMBINATION

Just like the classic combination of peanut butter and jelly, profit sharing contributions present a unique opportunity for companies to lower their tax liabilities while simultaneously expressing appreciation for their employees. It serves as a reminder that when the company succeeds, everyone shares in the success. This powerful message can significantly contribute to building a loyal, engaged, and motivated workforce.

As a 401(k) plan fiduciary, your actions can profoundly impact your employees' financial futures. By exploring and implementing strategies like profit sharing, you can play a pivotal role in boosting their retirement readiness while simultaneously working toward your company's financial and strategic goals. A retirement plan advisor can provide valuable guidance on profit sharing strategies.

# Is It Time to Benchmark Your Company's Retirement Plan?

While your 401(k) plan may not have a chirping reminder, regular reviews, fee benchmarking, and a prudent process are key.



Just as we routinely replace the batteries in our smoke detectors, it's equally crucial to give your company's 401(k) plan the attention it deserves.

Often, retirement plans are treated like a smoke detector with fading batteries – they're there, we know they're there, but unless there's an alarming beep, we don't really bother to examine them in detail. But just as you wouldn't overlook a chirping smoke detector, you shouldn't neglect your company's retirement plan, either.

As a plan sponsor, it's vital to regularly review your retirement plan and benchmark for fees, services, and overall value.

## STRIKING THE RIGHT BALANCE

Every employer has unique needs and preferences for the company's retirement plan. Some prefer comprehensive plans with features like financial wellness resources, one-to-one education, onsite educational meetings, regular benchmarking analysis, and hands-on 401(k) consulting. Others favor a simpler approach, with annual investment committee meetings, virtual employee education, online access to financial education, tri-annual benchmarking reports, and periodic vendor analysis.

Regardless of your preference, the key is to ensure that the costs and value of your plan are aligned. If you have ever used dollar store batteries for your smoke detector, you know that the low price means you need to change them out more often which may be more labor intensive and expensive in the long run. So, it's not about finding the cheapest offer, but rather about finding a plan that is reasonably priced for the services received.

## THE NEED FOR REGULAR REVIEWS

Regular reviews serve as an early warning system for your plan. They help you track your plan’s investments, fees, features, and benefits. You’ll be able to spot any potential issues early on, much like detecting a low battery signal from your smoke detector.

Here’s a quick guide:

Topic	Warning Sign	Action
Investments	Underperforming fund	Replace fund
Fees	Benchmark to peer group	Ask for a fee reduction
Payroll	Clunky uploads	360 integration
Participation	Less than 90%	Re-enrollment
Employee Education	Low contribution rates	Implement a robust education program

## DECODING PLAN FEES

Plan fees can vary widely. But as a plan fiduciary, what’s crucial is that you’re aware of what you’re paying and that it’s reasonable for the services received.

Fee reasonableness is necessary because ERISA requires plan fiduciaries to act prudently and solely in the interest of the plan’s participants and beneficiaries. This includes ensuring that the fees paid for services are reasonable and the plan receives fair value for those services.

The importance of maintaining a prudent process and regularly benchmarking retirement plans has been underscored by several court cases. For instance, in the case of *Sacerdote v. New York University*, the court highlighted the necessity for plan fiduciaries to follow a prudent process when selecting and monitoring service providers. Similarly, in the case of *Tussey v. ABB Inc.*, the court ruled that the plan fiduciaries breached their duties by failing to monitor recordkeeping costs and negotiate for rebates from the service provider.

These cases highlight the significance of having a robust process in place to regularly review and benchmark retirement plans, reinforcing the importance of fee reasonableness, and the duties of plan fiduciaries under ERISA.

## WE’RE HERE TO HELP

If you need help decoding your 401(k) plan fees, look for your 408(b)2 document. This document will provide a detailed breakdown of the costs associated with your plan, allowing you to make an informed decision about fees, and we can help you run a benchmarking report to determine if your fees are reasonable for the services provided.

## WORKING ORDER

Just as we ensure our smoke detectors are in working order, it’s crucial to sit down with an experienced retirement plan advisor to review your company’s retirement plan. Remember, we speak 401(k), and we’re here to help ensure your retirement plan is in top shape.

So, don’t treat your 401(k) plan like a chirping smoke detector any longer. Give it the attention it deserves. After all, a well-maintained retirement plan is a smooth ride towards a secure future.



For more information on how we support retirement plan sponsors and participants, **visit our website or contact us directly.**

**Ismael Delgado, CPFA®  
Retirement Plan Advisor**

2019 E Del Mar Blvd.  
Suite 100  
Laredo, TX 78041

956-267-8130  
ismael@crestaadvisors.com  
cresta401k.com



Investment Advisory services offered through Cresta Advisors, Ltd., a Registered Investment Adviser. Asset Allocation does not guarantee a profit or protect against a loss in a declining market. It is a method used to help manage investment risk. Exchange Traded Funds and Mutual Funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from the fund Company or your financial professional.

This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements and you should consult your attorney or tax advisor for guidance on your specific situation.

© 401(k) Marketing, LLC. All rights reserved. Proprietary and confidential. Do not copy or distribute outside original intent.