

# **Busting Retirement Plan Myths**

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## **DISCLOSURE:**

- You should consider the investment objectives, risks, charges and expenses of investing in any retirement plan. Always obtain and review a prospectus. The material included in this presentation is for general information only and may not apply to your organizations specific situation. Always consult competent legal and financial counsel before making any decision regarding retirement plans and the investment options included in those plans.

## **What are retirement plan myths?**

A retirement plan myth is a commonly held belief or notion held by some for profit, nonprofit and governmental employers that seem to be valid; but are very often simply not true?

Let's bust those myths!!!

### **MYTH—Nonprofits don't have to comply with ERISA requirements.**

- FALSE-Nonprofits must comply with all ERISA and DOL regulations in the exact same manner as for profit entities.

**MYTH-By putting in a retirement plan, the employer is locked into making contributions in the future when funds are not available.**

- FALSE-Discretionary 403(b) plans and profit sharing 401(k) plans allow the employer to NOT make deposits on their employees benefit in tough economic times.

**MYTH-When offering a retirement plan there always are hard dollar costs to the employer.**

False-

- > payroll reduction IRA's-no employer cost
- > SIMPLE IRAs/SEPs-no employer administration cost
- > Depending on the assets in the plan and average account balance, many providers will eliminate plan administrative fees when the plan reaches a certain size.

**MYTH- Nonprofits can not offer 401(k) plans**

- FALSE-nonprofits can offer 401(k) plans, however, in most cases, a 403(b) ERISA plan is the better alternative.

**MYTH-Offering only a voluntary 403(b) plan removes the employer from fiduciary responsibility**

- False—As a general rule, employers always have some level of fiduciary responsibility for a retirement program offered to employees-matching or not.

**MYTH- There is no difference in variable annuities and mutual funds when offered in a retirement program.**

- FALSE-Variable annuities usually have more expensive internal fees and even though they may have the same investment options as mutual funds, performance is often not the same.

**MYTH-Board members of nonprofit organizations can act of the behalf of the companies offering the organization's retirement plan; as long as they file official notification with the Board?**

- FALSE-even with disclosure, this could easily be considered a conflict of interest and should be reviewed by legal counsel

**MYTH-Nonprofit employers can not provide a retirement plan for 1099 employees**

- False- the option is a 457(b) Top-Hat plan, which can provide additional retirement benefits for a select few employees on a discriminatory basis and can include 1099 employees.

**MYTH-A 403(b) ERISA plan has no advantages over a 401(k) plan**

- FALSE- A 403(b) ERISA plan is not subject to discrimination testing on the salary deferral contributions (ADP Test), this means that all employees, including highly compensated employees, can contribute the maximum salary reduction amount.

**MYTH-An employer cannot share the cost of plan administration with employees.**

FALSE

- Employees can pay the annual participant fee
- The employer could opt to have the program provider increase internal fees on the investment options to cover the cost of plan administration in a bundled program.

**MYTH-Every nonprofit can establish either a 403(b) voluntary or ERISA plan**

FALSE- Only 501(c)(3) organizations may establish a 403(b) plan

**MYTH-Offering multiple providers for a voluntary NonERISA 403(b) plan reduces the employers fiduciary responsibility.**

- FALSE-offering multiple providers can increase the employers fiduciary responsibility.
- Note: it is considerably more difficult to maintain a voluntary NonERISA 403(b) plan today as to years past.

**MYTH-If the organization offers a 404(c) compliant retirement plan, the employer is released from its fiduciary responsibility regarding the investment options in the retirement plan**

- FALSE-404(c) provides some protection, but does not eliminate completely the employer's fiduciary responsibility under the plan.

**MYTH-The Roth Option cannot be offered in an 403(b)ERISA plan.**

- FALSE-Roth options are available in both 401(k) and any type of 403(b) plan.

**MYTH-A nonprofit 403(b) ERISA plan, regardless of number of participants, never needs an independent audit of their Form 5500.**

- FALSE-Over 100 eligible employees requires an independent audit of the Form 5500 annual filing.

**MYTH-Part time employees cannot be excluded from voluntary participation 401(k) & 403(b) plans.**

- FALSE-part time employees can be excluded, if the plan document is drafted and administered correctly. The most common provision is to exclude all employees who do not pass the 100 hour test.

**QUESTION-What % of employers offer some type of retirement plan.\***

- A. 38%
- B. 52%
- C. 76%
- D. 93%

**Question-What % of employers match more than 6% of the employees' salary?\***

- A. 20%
- B. 33%
- C. 9%
- D. 46%

**Question: What % of employers offer a retirement plan with NO employer contributions?\***

- A. 26%
- B. 43%
- C. 51%
- D. 64%

**QUESTION: What % of retirement plans include target date/life cycle investment options?\***

- A. 31%
- B. 55%
- C. 69%
- D. 74%

\* Human Resource Daily Advisor Retirement Plan Survey of 1,000 for profit and nonprofit organizations. 75% of the respondents had fewer than 500 employees.

## THANK YOU

- Always consult competent legal and financial counsel before making retirement plan decisions.
- What to ask for from a provider:
  - 1.) References—the best way to tell if the provider keeps their promises
  - 2.) Soft dollar administrative expenses—the hidden costs
  - 3.) Hard dollar costs and at what point will they be reduced
  - 4.) Service commitment—at the plan level and employee level
  - 5.) Level of fiduciary assistance
  - 6.) Type of investment options, performance, and expenses