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Outsourcing Actuarial Services

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DB Plans and Your Practice

- Why bother with DB plans in your practice?
  - Cement existing client relationships
  - Referral sources appreciate TPAs with more services
  - Generally, less fee pressure than DC plans
  - Fewer transactions / touches than DC plans
- Barriers to entry
  - Hiring / Training staff. Actuarial staff can be expensive
  - Valuation / plan document software costs
  - Tracking DB plan requirements that don't apply to DC plans
  - Communicating about DB plans with clients
- Outsourcing actuarial work eliminates / minimizes these barriers

What are We Going to Cover?

- General Considerations for DB Outsourcing
- Sales and Marketing
- Documents
- The Annual Valuation Process
- Participant Distributions
- PBGC Considerations
- Plan Terminations

General Considerations for DB Outsourcing

KEYS TO SUCCESSFUL OUTSOURCING:

- Choose your administration model:
  - TPA runs vals and actuary reviews. TPA preps SB for actuary to sign
  - Actuary runs the vals for the TPA, does the actuarial work <u>on request</u> *(val, testing, SB, AFTAP, AFN, PBGC filing)* and TPA tracks all deadlines; collects data; has client contact, and prepares 5500
  - Same as previous, but actuary also tracks deadlines and follows up if work is not requested

General Considerations for DB Outsourcing

- Same as previous, but actuary essentially handles everything through the 5500 with the TPA collecting data and communicating with the client
- Some other variation you agree on
- Obviously pricing is different for each model
- Make sure you both have a common understanding of what model you want to work under
- Some TPAs work with more than one actuary, so you need to understand each actuary's model because they may not be the same

General Considerations for DB Outsourcing

- Clearly define the TPA and actuary roles:
  - Is an engagement agreement needed between TPA and actuary?
  - Deliverables: what do they look like and when will you get them?
  - How will TPA use them?
- Clearly define the fees of the TPA and actuary:
  - When does the actuary expect to be paid?
  - Do you pay the actuary when the client pays?
  - Does the timing of actuary's billing coordinate with yours?
  - Are TPA's fees and actuary's fees such that TPA can still make money? Actuary can't charge retail and expect TPA to make money.

General Considerations for DB Outsourcing

- Effective communication between TPA, actuary, and client:
  - DB plans, by nature, can require more planning than DC plans with discretionary employer contributions *(e.g., 1000 hour accruals)*
  - Appropriately eliciting client's funding goals
  - Turnaround expectations between TPA, actuary and client
  - Non-actuary TPA personnel need enough DB knowledge to interact with clients, recognize impact on plan of new information provided by client, and speak some "actuarialese" like the actuary
  - Know when to get actuary involved in interaction with client.

General Considerations for DB Outsourcing

- Other considerations:
  - Training, if appropriate, for your staff – actuary should train TPA staff on the process, deliverables etc.
  - Potential coordination of marketing efforts between TPA and actuary
    - Referral source CPE and other marketing support
    - White papers and one-sheets appropriate for plan sponsors

Outsourcing Advantages and Disadvantages

- Advantages:
  - Hiring / Training staff. Actuarial staff can be expensive
  - Valuation / plan document software costs
  - Tracking DB plan requirements that don't apply to DC plans
  - Communicating about DB plans with clients

  Outsourcing eliminates these above and often provides a lot more expertise for the money spent.

  - In some cases firms with their own DB staff and actuaries even outsource some of their work to deal with rushes or where they don't have certain expertise, e.g. larger plan valuations, ASC 715 disclosures or forecasting.
  - TPA is exposed if they lose in house DB staff, more depth with outsourcing.

Advantages and Disadvantages

- Disadvantages:
  - TPA loses some control over timing of deliverables
  - TPA loses control over the valuation process where the actuary runs the vals for them.
  - At some number of plans, TPA will sometimes conclude they will save money doing the work in house.

Sales and Marketing

- Obvious sales point: DB plans provide greater tax deferral opportunities
  - Start with your current stand-alone DC client list – who is hitting 415 / max deduction on a regular basis?
  - Does actuary offer any marketing / educational pieces appropriate for a plan sponsor that could lead to an illustration
  - CPAs you work with regularly
- Traditional vs. Cash Balance

Sales and Marketing

- Integration of new or existing DC plan
  - Testing implications
    - Your discretionary profit sharing is no longer discretionary
- Potential friction points not applicable to stand-alone DC plans
  - PBGC requirements
  - Understanding funding requirements / accrual rules
  - Assets can’t be participant directed

Sales and Marketing

- Who is running the proposal?
  - If run by TPA, actuary should review *before* its presented.
  - If run by actuary, make sure they know the objectives for the proposal.
  - Will actuary bill for proposals?

Plan Documents

- Prototype / Volume Submitter *(P / VS)* vs. Individually Designed Plan *(IDP)* Documents
  - Most traditional DB plans can be accommodated on P / VS
  - Cash balance has required IDP for some years, but P / VS is forthcoming. Most generic CB designs will be allowed on the P/VS documents.
- Cost and responsibility of ongoing maintenance – who is handling it, TPA or actuary? Make sure this is clear.
  - Whatever the DB restatement cycle, it isn't the DC cycle, so set client's expectations for document maintenance accordingly

Plan Documents

- If TPA does the document, make sure the actuary is sent draft documents and amendments to review *before* they are adopted.
- Paired plans may require / warrant certain design features / amendments to DC plans
  - Top heavy provisions: often 5% in DC plan
  - Very broad classes *(e.g., each individual in his/her own class)* in class-based profit sharing allocation
  - Removal of profit sharing allocation conditions
  - Limiting safe harbor non-elective contributions to NHC staff
  - Reconsideration of any testing specifications in an existing plan *(e.g., top paid group)*
  - Utilization of forfeitures *(offset, don't allocate)*

Annual Valuations

- Data Collection
  - Administrative information
    - Census
    - Assets
  - 5500 information
  - Consulting with client re funding / other goals
  - All normally done by TPA
- Coordination of paired plans
  - Preliminary calculations – is this part of the actuary's regular fee or extra?
  - Additional DC funding for testing

Annual Valuations

- Notices
  - Annual Funding Notice (AFN)
  - AFTAP
  - PBGC filing
  - When applicable 204(h) and 101(j)
  - All normally done by actuary as needed. TPA should not have to request these items

Annual Valuations

- Friction Points
  - Beginning vs. end of year valuations
    - Timing of valuations, testing and reporting
  - Understanding testing / funding and being able to explain it
  - Corrective amendments

Participant Distributions

- Processing requests
  - Engage for the appropriate level of service from your actuary
    - E.g., full-service (election forms to Form 1099-R prep)
  - Distributions over $5K must provide annuity form of payment
  - Election forms over $5K must list relative values
  - RMD calculations differ from DC plans
  - Late retirees may require adjusted accrued benefit calculations
  - Recalcs if forms are late or a new 417e period is crossed into – how is this billed?

Participant Distributions

- Friction points
  - Top 25 HCE restricted benefits
  - AFTAP / IRC Sec 436 considerations
  - IRC Sec 415 limits
  - Other subsidies (e.g., early retirement)
  - Timing vs. paired 401(k) plan

Pension Benefit Guaranty Corp (PBGC)

- Generally, what plans are NOT covered (not subject to ERISA Sec 4021)?
  - Plans covering only Substantial Owners
  - Professional Organizations with < 25 active participants with benefits
  - Governmental, non-electing church plans, Indian tribal government plans
- Any “advantage” to being covered?
  - 31% deduction limit on paired plans no longer applies (But is it worth it)?

Pension Benefit Guaranty Corp (PBGC)

- Annual Comprehensive Premium Filings (see session "The PBGC Process")
  - My PAA (https://egov3.pbgc.gov/mypaa/)
    - Setup
      - Assigning roles
      - Takeover plan considerations (invitations from prior Filing Coordinator)
    - Ongoing coordination of annual returns
  - Managing client expectation about premiums
- Reportable Events (e.g., missed quarterly contributions, failure to make required contributions)
- Plan termination considerations (see next slides)

Plan Terminations (*in Brief*)

- Timing of Participant Notices / Documentation
  - Rules same as DC plan for adoption of termination amendments (by date of termination), providing Notice to Interested Parties (10-21 days prior to filing Form 5310), and ongoing annual filing / notice requirements (e.g., Forms 5500)
  - 204(h) notice for benefit reduction: 15 / 45 days
  - Notice of Intent to Terminate (PBGC): 60-90 days pre-termination
  - Notice of Plan Benefits (PBGC): before Filing Form 500
  - 45-Day Notice of Annuity Information (PBGC)
  - Election to forego benefit by substantial owner or commitment to fully fund (PBGC)
  - Paired plan testing may require termination date be end of year

Plan Terminations (*in Brief*)

- General flow of PBGC Filings for Single-Employer Standard Terminations
  - File Form 500 Standard Termination Notice with Single-Employer Plan Termination
    - Includes Schedules EA-S (Certification of Sufficiency), REP-S (Designation of Representative) and sample NOIT and NOPB
  - Do nothing through later of PBGC 60-day review period or issuance of IRS determination letter (if applicable)
  - Remit any outstanding final funding due & distribute all assets within 120 days (recall, HCE restriction effectively requires all NHCs are paid before HCEs)

Plan Terminations (*in Brief*)

- File Form 501 Post-Distribution Certification for Standard Termination.
  - Includes copies of annuity contracts, copies of cancelled check or bank statement with individual's name and distribution amount for lump sums paid, copy of most recent plan document, and Schedule MP for any benefits transferred PBGC's Missing Participant program
- Client receives letter from PBGC that they might be audited
- We could spend an entire session here; this truly is 'in Brief'

Parting Thoughts

- Final thoughts:
  - Communication is key for successful outsourcing
  - TPAs should reflect on what sort of assistance / support they'll require from the actuary, and outsource accordingly
  - Know your limits: though the actuary is often 'hidden' in the background, the TPA should bring them in for a consultation when appropriate; and, since the actuary is not typically engaged directly with the client, they should typically communicate via the TPA

- Questions?