

Anticipating Additional Changes to the *Status Quo*: PPA'06 Requires Revising Retirement Plan Administration (Yet Again)

Plan sponsors and plan administrators have had their work cut out for themselves for years: keeping benefit plan administration processes up to date in response to a seemingly endless sequence of benefits legislation and regulation. The Pension Protection Act of 2006 (PPA'06), which became law in August 2006, compounds the challenge of plan administration by introducing new requirements. In addition, recent focus on administrative services in context of market-related fee levels and transparency should now be considered. This *Spotlight* briefly notes the implications of these new and emerging requirements and outlines an action plan for preparing to enhance current processes and procedures to ensure ongoing compliance and value-added support to plan participants, which is expected to become increasingly demanding.¹

WHAT ARE THE IMPLICATIONS?

From an administration point of view, the changes and new compliance requirements introduced by PPA'06 are significant. Employers that offer retirement plans will have to:

- Incorporate all plan modifications and law requirements into administrative materials and processes,
- Revise benefit calculations, as needed,²
- Update administrative forms and communications in compliance with new disclosure requirements,
- For outsourcing situations, review level of administration services versus contract fees in relation to the outsourcing marketplace,
- Review administrative offerings and fee levels in context of a changing marketplace, and
- Review DC employee communications to ensure compliance with appropriate administrative fee disclosure.

Although plan amendments are generally not required until the end of the 2009 plan year, some of the reporting and disclosure requirements under PPA'06 already apply (as noted in the [box on the next page](#)) and, therefore, need to be incorporated into administrative processes and procedures today. As a result, employers have to be on top of all changes in the law having an impact on plan administration.

¹ Previous issues of *Spotlight* discussed making the most of the new benefit statements to defined benefit (DB) plan participants and individual benefit statements to defined contribution (DC) plan participants (“*Carpe Opportunitatem*: Think Beyond PPA'06-Required Participant Communications”: <http://www.sibson.com/publications/spotlight/june07.pdf>) and outlined an action plan for preparing to enhance current processes and procedures to ensure ongoing compliance (“Meeting the Challenges Introduced by PPA'06: Preparing to Satisfy New and Revised Compliance Requirements”: <http://www.sibson.com/publications/spotlight/july07PPA-compliance.pdf>), which is also discussed in this issue. The next issue of *Spotlight*, which will focus on reviewing annuity investment offerings and the associated fee levels, will be prepared by Segal Advisors, Sibson's investment consulting affiliate.

² Examples include allowing for a 75 percent joint-and-survivor annuity as an additional DB plan option; updating the maximum benefit limitation under Section 415 of the Internal Revenue Code; and abandoning the “whipsaw” minimum benefit calculations for participants in cash balance plans.

WHAT RESPONSE IS RECOMMENDED?

Sibson Consulting recommends the following process to ensure compliance with PPA'06 and smooth administration, both of which are closely connected:

- **Preliminary Assessment** This initial step is to examine the “current state” of an employer’s compliance and administrative procedures and forms with focus on the non-funding provisions of PPA'06 and administrative fees compared to the vendor marketplace. This assessment should identify required and/or optional changes and the timing for implementation of those changes in light of required effective dates. In addition, Sibson recommends this as an opportunity to conduct an overall review of ongoing plan operations to enhance accuracy and efficiency and assure compliance with plan sponsor fiduciary standards. The outcome of the preliminary assessment is a report of findings providing a synopsis of the items to be addressed and general recommendations.
- **Action Plan** The action plan should spell out what needs to be done, by whom, and by when. This plan will address those internal functions which may need to be modified and/or enhanced to assure compliance and confirm that vendors and service professionals are ready to make the changes necessary to support plan changes and meet the new requirements.

It is important to note that recently proposed legislation and pending litigation is focused on increased disclosure to plan participants. In this respect, plan sponsors may expect to be held to a higher fiduciary obligation and would be well-advised to review current administration operations to assure their plans are providing appropriate disclosure and are consistent with industry standards.



To discuss developing a strategy for your organization’s PPA'06 compliance and revised administration, contact your Sibson consultant or the nearest Sibson office.

THE NEWS IN BRIEF

The mandatory PPA'06 provisions that affect plan administration include the following:

- **Additional Language** Election forms for DB plans must describe the implications to a participant’s benefit for retiring early or late as opposed to retiring at normal retirement date. Election forms for DC plans must describe the fund availability and fee charges, if the participant defers distribution to a later date. DC benefit statements must reflect revised language.
- **More Frequent Release of Plan Information** DC benefit statements must be issued quarterly. DB plans must release a statement at least once every three years.
- **Changes to Calculations** There are changes to the lump-sum interest rate and mortality rate used to calculate DB lump-sum distributions. There are also changes to §415 maximum benefit limitation calculations.
- **Changes to DC Plan Minimum Vesting Requirements** Three-year cliff or two- to six-year graded vesting are required.
- **Changes to Cash Balance Plan Provisions in Order to Be “Safe-Harbored,” Assure Tax Qualification and Comply with ERISA** Three-year cliff vesting, elimination of the whipsaw calculation and a reasonable rate of return for account crediting are required.

PPA'06 also includes *optional* provisions that may affect administration, including:

- Extension of benefit election period to 180 days prior to annuity starting date,
- Non-spousal rollovers and rollovers directly to Roth IRAs allowed,
- Distributions at age 62 as part of a phased retirement situation, and
- Liberalized DC plan hardship withdrawal requirements to spouses or dependents.

(To return to the discussion of the implications and action items, click [here](#).)

SIBSON CONSULTING A DIVISION OF SEGAL

Atlanta	678.306.3100
Boston	617.424.7300
Calgary	403.692.2264
Chicago	312.984.8500
Cleveland	216.687.4400
Denver	303.714.9900
Hartford	860.678.3000
Houston	713.664.4654
Los Angeles	818.956.6700
Minneapolis	952.857.2480
New Orleans	504.483.0744
New York	212.251.5000
Phoenix	602.381.4000
Princeton	609.520.2700
Raleigh	919.233.1220
San Francisco	415.263.8200
Toronto	416.969.3960
Washington	202.833.6400

www.sibson.com