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How Mandatory Force-Outs Turned into a Fiduciary Concern

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THE RATIONAL FOR AUTO ROLLOVERS TAKE A NEW PATH.....

4Q2018

Auto Rollovers Examined

- Why it's important for fiduciaries to scrutinize the auto-rollover process
- Pitfalls to avoid for complying with auto-rollover rules
- What a prudent auto-rollover process looks like
- Relevant due diligence factors for auto-rollover providers
- Q&A



Presenters



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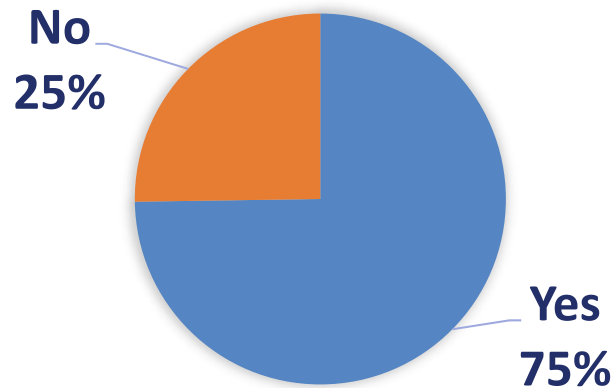
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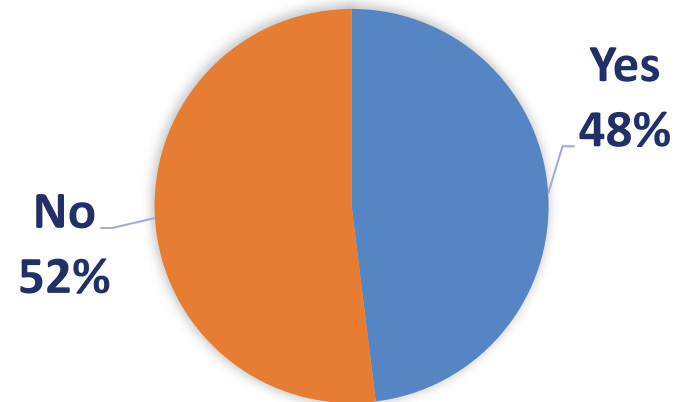
Realizing The Risk

Poll Questions asked by Fi360

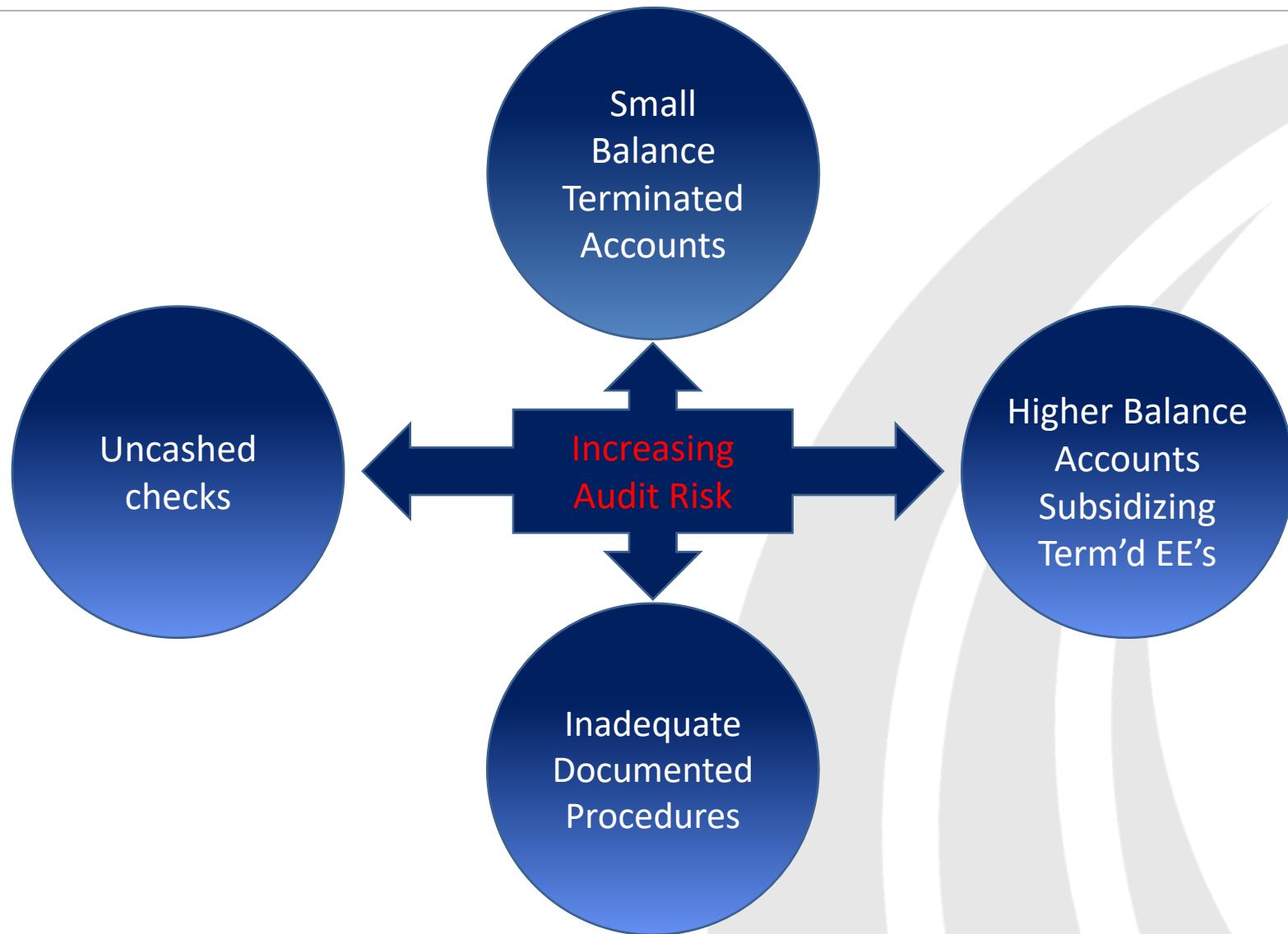
DO YOU THINK TERMINATED EMPLOYEES WITH BALANCES LESS THAN \$5,000 HAVE A NEGATIVE IMPACT ON THE PLAN? (317 RESPONSES)



DO YOU REVIEW AUTO ROLLOVER PROVIDERS AS PART OF A FIDUCIARY REVIEW? (306 RESPONSES)

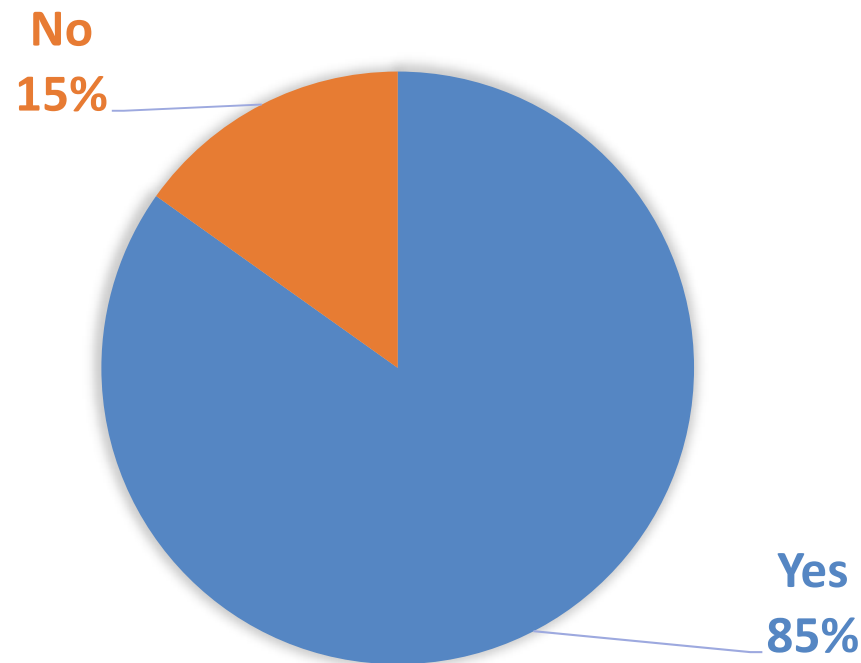


Realizing The Risk



Are Uncashed Checks A Big Deal?

DO YOU THINK UNCASHED CHECKS SHOULD BE A CONCERN OF THE PLAN SPONSOR? (310 RESPONSES)



The Hidden Danger

Uncashed checks are plan assets until constructive receipt is made.

- Prior guidance in DOL Advisory Opinion 1993-24A (9/13/1993)
 - Footnote 1 states “It is commonly understood that a check does not of itself operate as an assignment of any funds in the hands of the drawee bank available for its payment and the bank is not liable on the instrument until it accepts it. U.C.C. §3-409(1).



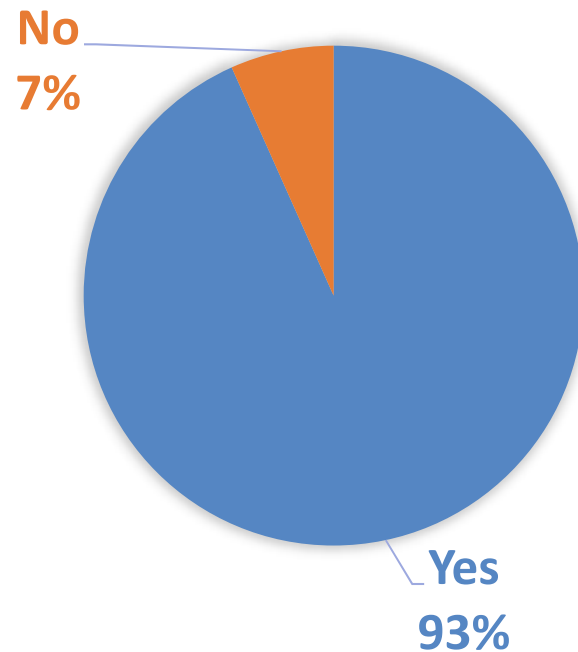
- August 1994 clarifying position letter to the American Bankers Association (EBSA Information Letter 8111994) and later the DOL FAB 2002-03
- Until the instrument (check) is negotiated and “constructive receipt” is made by the participant, beneficiary or rollover IRA, these references support that the DOL considers uncashed checks plan assets

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Would You Act To Improve Your Client's Experience?

IF YOU COULD ELIMINATE MOST ALL UNCASHED CHECKS FOR YOUR CLIENTS, WOULD YOU RECOMMEND THE CHANGE IN PROCESS? (299 RESPONSES)



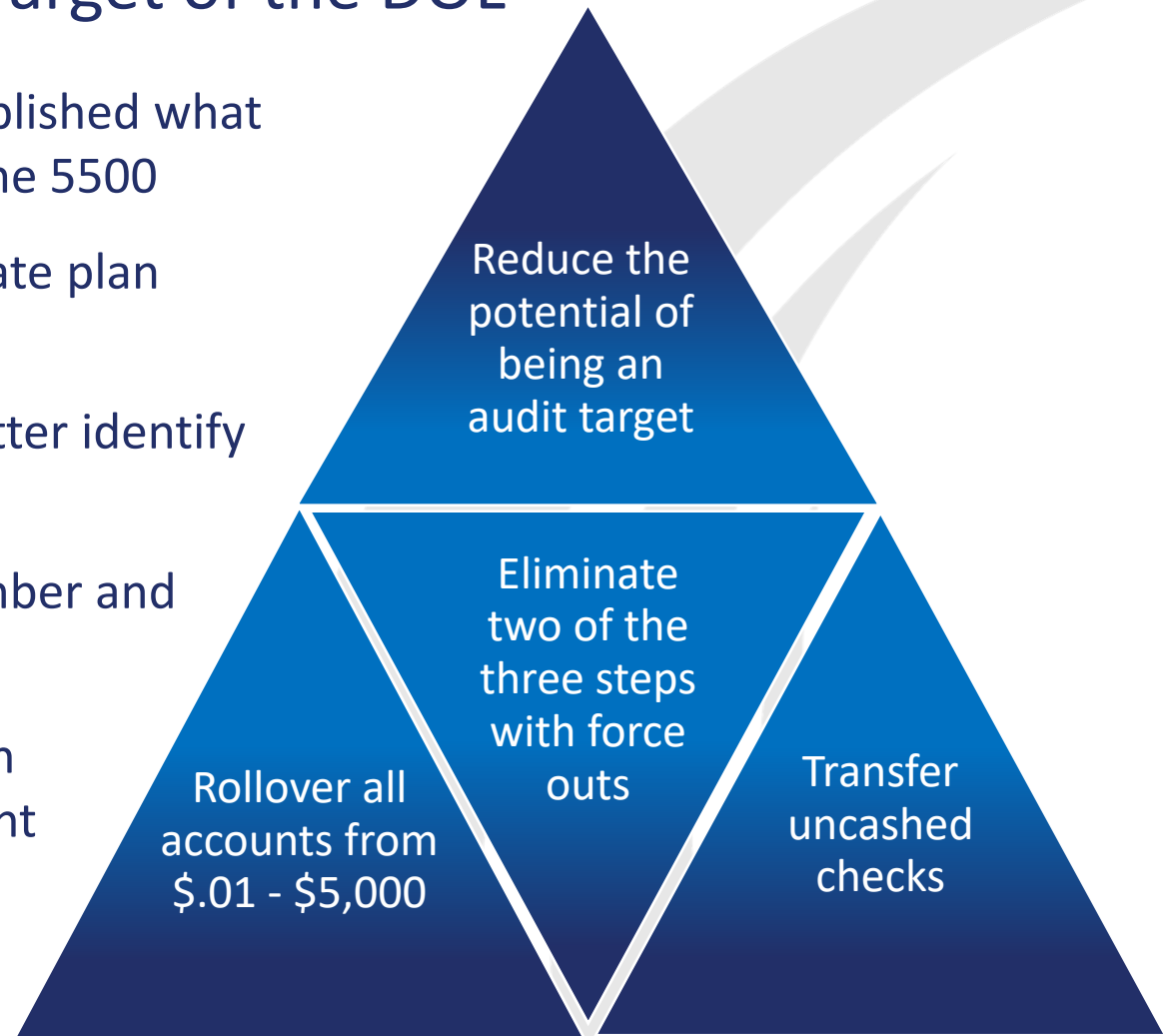
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Be Proactive, Increase Your Success

Missing Participants – Target of the DOL

- In 2016, The DOL and IRS published what they expected overhaul on the 5500
- “Compel fiduciaries to evaluate plan compliance...”
- Expand data collection to better identify areas of non-compliance
- Require reporting of the number and value of uncashed checks
- Report written procedures on uncashed checks management by the Plan Sponsor



Why Waste Time Reviewing Auto Rollovers

- Competitive developments have expanded service and pricing deviations.
- Third-party Service Agreements are portable between record keepers and require a periodic due diligence review.
- It is an AIF Advisor's requirement to apply the Fi360 Prudent Practices[®] .
- Plan Sponsors are required to follow the five basic fiduciary principles
 - Duty of Loyalty, Prudence, Monitor, Diversify and Follow Plan Documents



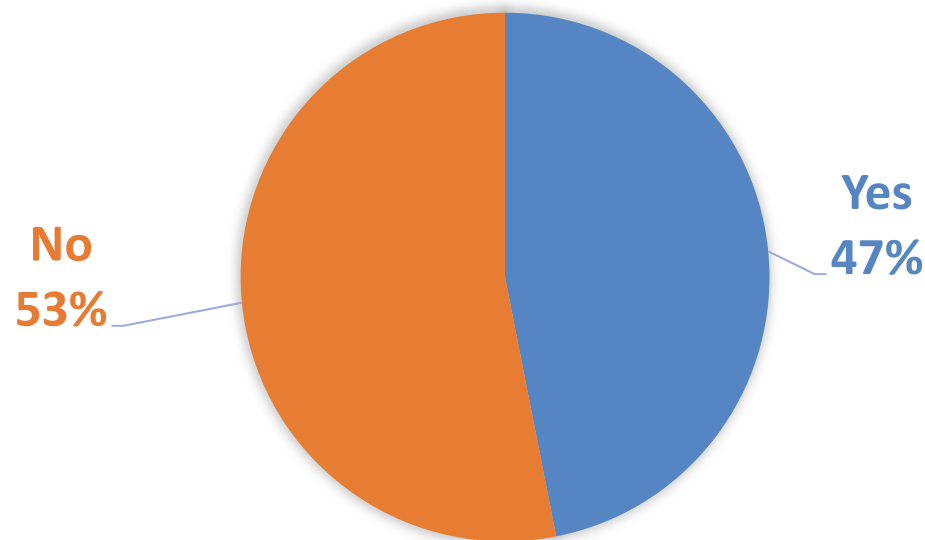
Where The Prudent Practices[®] Apply

- Advisors need to recall Prudent Practices[®] 1.3.2 and 3.1 and take their clients through the due diligence on service providers
- Automatic rollover safe harbor compliance requires review to ensure it meets DOL requirements as outlined in practice 3.2.5.
- Prudent Practices[®] 4.4.3
 - investigate the reasonableness of compensation for each service vendor involved
 - compare the costs of the same services on an à la carte basis.



Plan Sponsors At Risk

**HAVE YOU ENCOUNTERED A PLAN DOCUMENT THAT SPECIFIES A MANDATORY FORCE-OUT PROCEDURE, BUT THE PLAN ISN'T EXECUTING THE PROCESS?
(307 RESPONSES)**

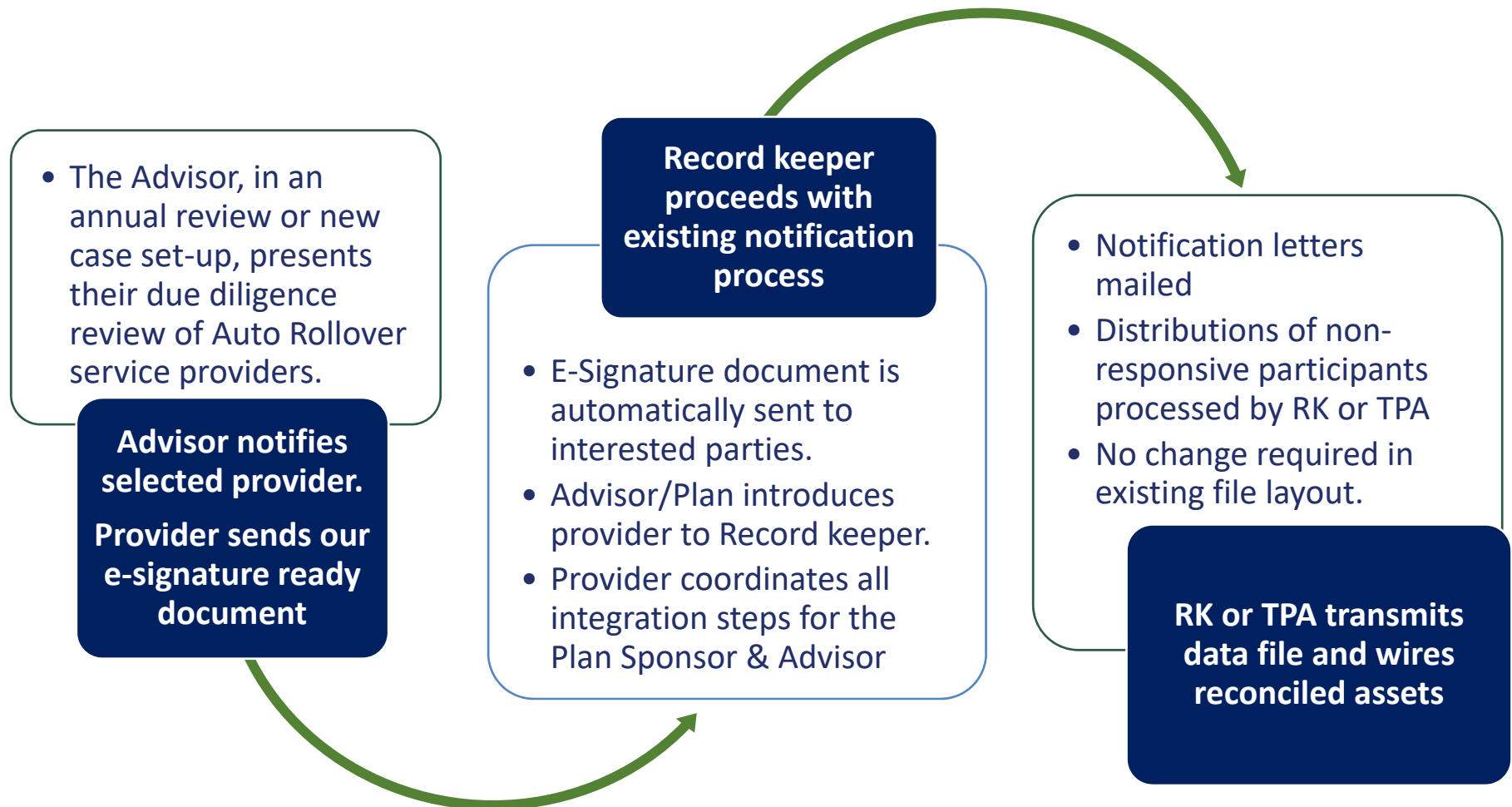


Pitfalls In Complying With Auto Rollover Rules

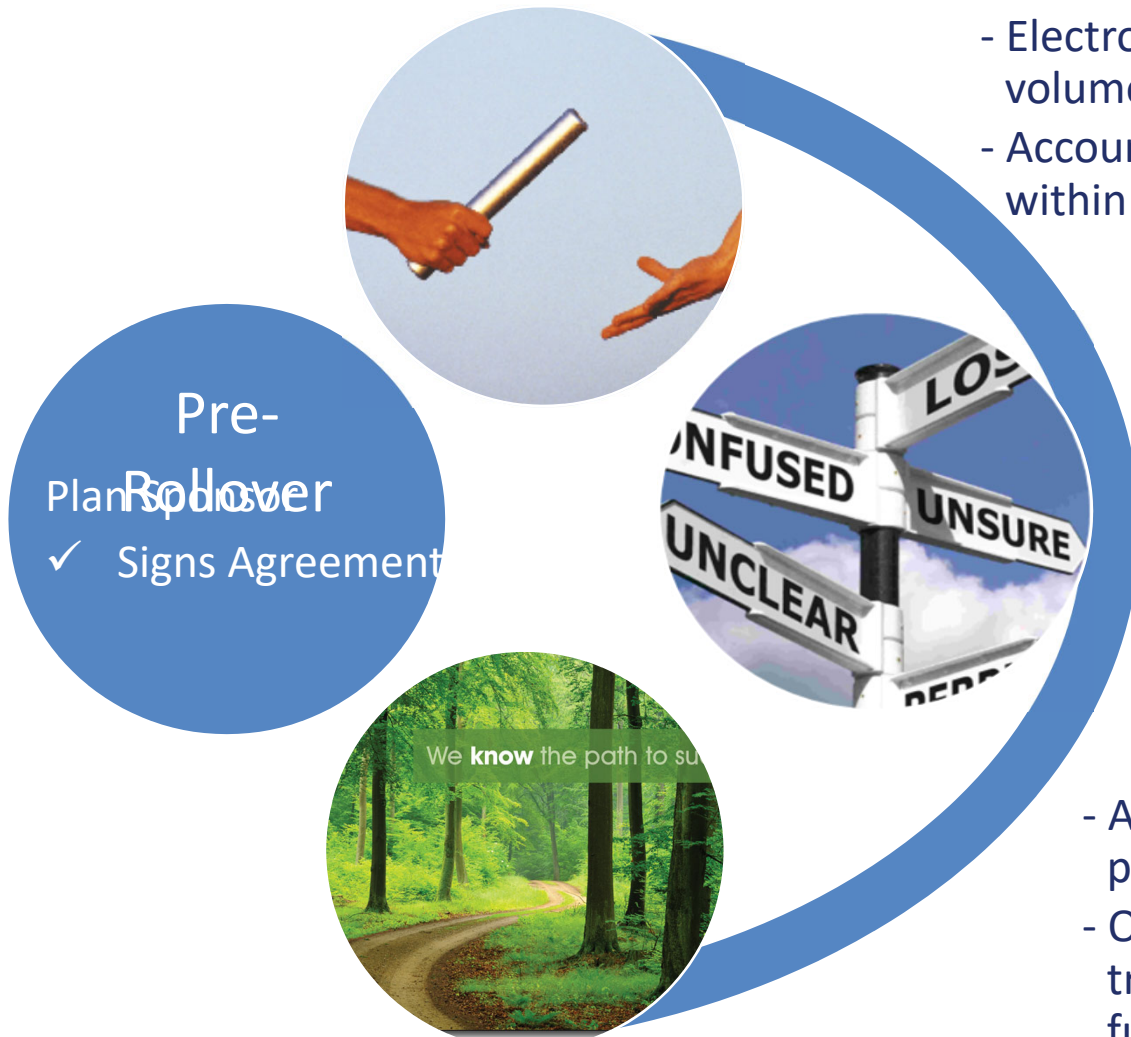
- Within the provisions of EGTRRA, a fiduciary must enter into a written agreement with an individual retirement plan provider.
 - Do record keepers that use their own product have the necessary language in their services agreement to meet the Safe Harbor Requirements of the DOL?
- It is a thoughtless process that participants under \$1,000 are forced-out in cash.
 - The accepted consequence of that creates added work on the Plan Sponsor. Requiring searches for participants with uncashed checks.
- Plan Sponsor's inconsistent execution of processing mandatory force-outs
 - The DOL has issued fines to Plan Sponsors for failure to follow the plan document provision.



The Perfect Integration



Keys To A Successful Program



- Electronic data transfers to handle large volume account establishment.
- Accounts established and reconciled within one business day.
- Conducts extensive address searches
- Welcome kits are clear and comprehensive
- Provide new participants the education and coaching so they can make the best decision.
- Assist participants through the process.
- Offer unique options, HSA account transfer and institutional share class funds.



Key Factors For Auto Rollovers

- Of course fees are the starting point, but there are many to consider.
 - Account Set-up, Annual Administrative, and Distribution fees are what the majority of advisors and Plan Sponsors ask about.
 - Other fees that need consideration; search fees for accounts that remain unresponsive, distribution fees for beneficiary account processing and statement fees.
- Available default fund and credited rate.
- Does the provider change fees based on circumstances with the prospective client
- Is the auto rollover provider outsourcing to a custodian or is the auto rollover provider a custodian



Key Factors For Auto Rollovers

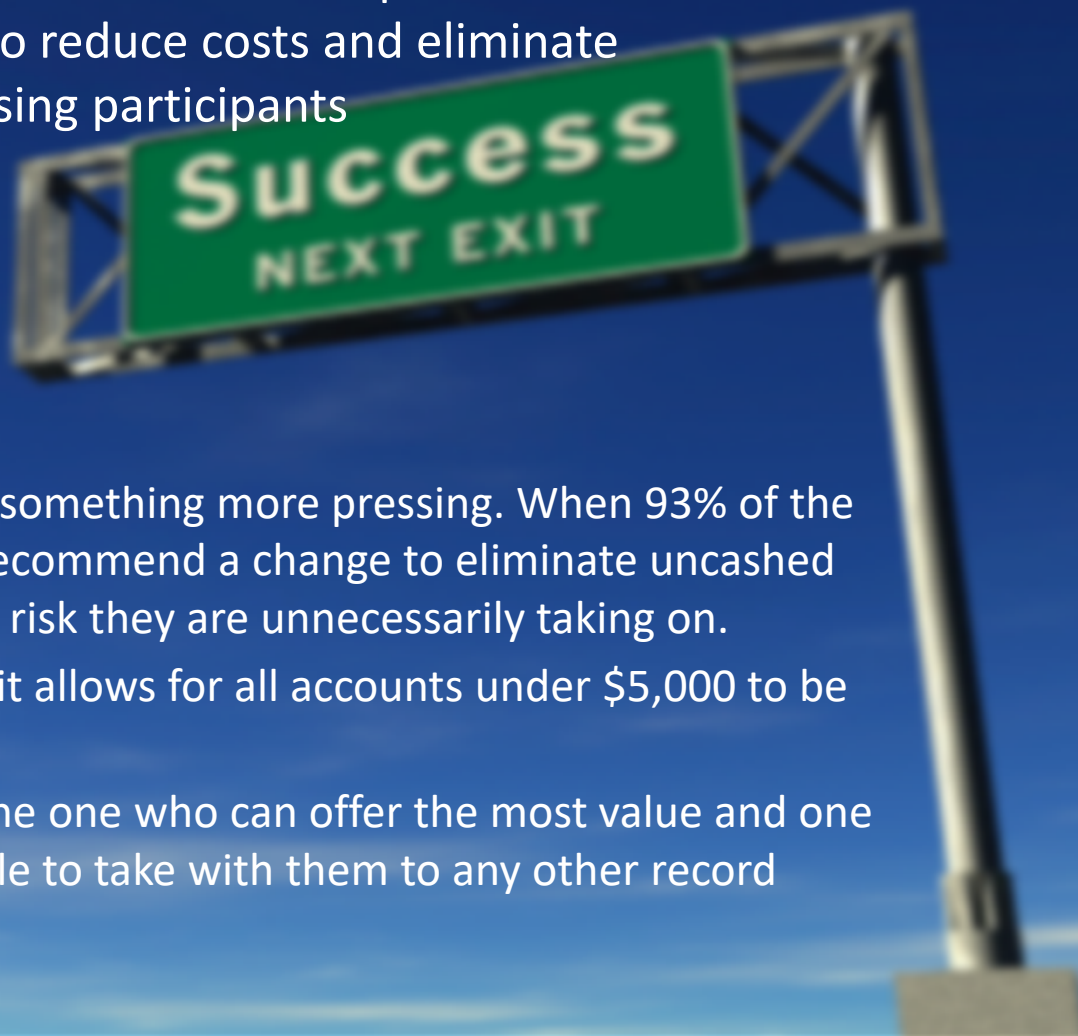
- When and how many address validation searches are done.
- Customer Identification requirements completed so the participant can do all account establishment and distributions electronically
- Provider has a product with unique features that offers the participant
 - Access to other investments, ETFs, mutual funds, stocks and bonds
 - Financial Wellness integration into the IRA
 - HSA transfer feature
 - Personal Pension Plan modeling and execution
 - Financial Account Data Aggregation
- Provider has a product customizable for the Advisor in capturing assets for wealth management business.



Summary

The auto rollover IRA market has become more competitive because of Plan Sponsors looking to reduce costs and eliminate unproductive work looking for missing participants

- Advisors and Plan Sponsors should review auto rollover providers to make sure the former participants receive the best service for the best value.
- Plan Sponsors usually say they have something more pressing. When 93% of the advisors surveyed by Fi360 would recommend a change to eliminate uncashed checks, be proactive and convey the risk they are unnecessarily taking on.
- Review the document to make sure it allows for all accounts under \$5,000 to be rolled over into an IRA.
- Review providers and recommend the one who can offer the most value and one you would want your client to be able to take with them to any other record keeper.



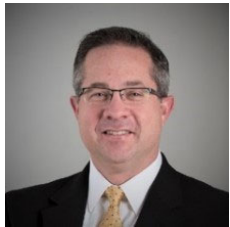
Thank You For Attending The Fi360 Webinar



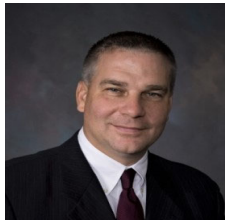
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Questions?



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THANK
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