

The PENTEGRA 3(I6) Difference

creating successful outcomes

 PENTEGRA

**“Save me time. Take work off my desk.
Eliminate complex responsibilities. Minimize risk and burdens.
Make it easy for me”.**

Retirement plan sponsors have day jobs--they are busy running their businesses.

But at the end of the day, plan sponsors are fiduciaries. They are legally responsible for their plans. Most mistakes involve plan administration. As our stories illustrate, there can be very real and significant consequences.

More importantly, our stories illustrate the real value of a 3(16) Fiduciary Administrator. The right 3(16) Administrator can virtually eliminate the risk of failing to meet deadlines or doing things incorrectly, and assume these responsibilities for your clients.

As one of the most experienced 3(16) Administrators in the industry, Pentegra can help. With more than 75 years of expertise serving as an institutional fiduciary, our fiduciary solutions are designed to simplify plan administration and minimize risk and burdens.



PENTEGRA SUCCESS STORIES

Paying \$91,500 In Fees Vs. \$600 For Fiduciary Services... Easy Choice.

In September, an advisor decided to move his own retirement plan. What he didn't realize at the time was that the prior provider had not filed the prior year Form 5500. In November, he was fined \$91,500 for not filing the Form 5500—he was on the hook personally for that amount. Coincidentally, earlier in the year the advisor had a discussion with Pentegra about their new fiduciary services and he made a decision to add them to his plan.

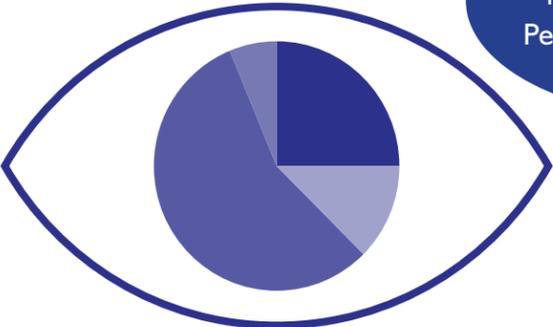
One step ahead of this, in October, his Pentegra Account Manager had already noticed that the prior provider had not filed the 2018 5500. Immediately, Pentegra filed a self-correction. The advisor then hired Pentegra Consulting team for \$1,000 to reach out to the IRS and resolve the situation.

The bottom line—instead of paying \$91,500, the advisor paid \$1,600—for the 3(16) and Consulting services and a \$750 self-correction fee.



As a plan sponsor, you are a fiduciary with a lot of responsibilities. One of those responsibilities is filing the Form 5500 each year. Is this really something you want to have to worry about?

Outsource your fiduciary responsibility and have Pentegra handle it for you.



Forfeited Contributions? Not So Fast

In this case, had not been for our 3(16) fiduciary services, all of a client's matching contributions could have been forfeited.

The plan in question had approximately 125 participants. In January and February, its payroll matching contributions were fixed. Then in March, it was necessary to adjust those contributions to make them discretionary. When we began to work on the 5500, something didn't look quite right. The numbers didn't align.

Fortunately, we were able to correct this while we were completing the 5500, since failure to do so would have resulted in all of those contributions—approximately \$56,000—being forfeited.

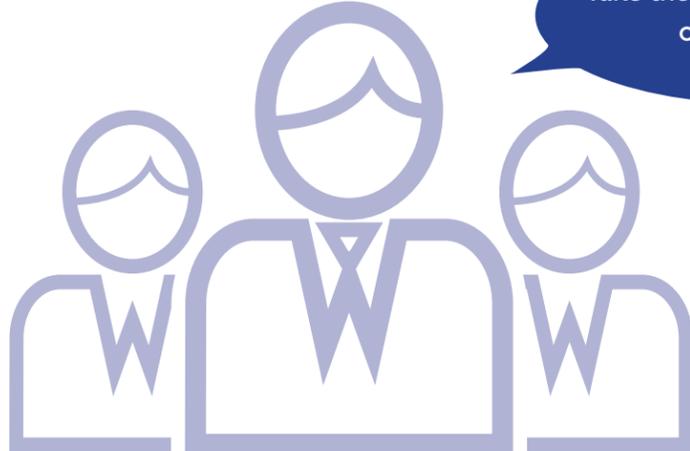
The moral of this short story—the larger the plan, the more likely we are to find something during our review and/or the compliance testing process and fix it before it becomes a bigger issue.

Our 3(16) fiduciary services takes the worry off your plate.



You're expert in your business. Do you have time to be a retirement plan expert too? Work with a professional to handle the details of your retirement plan for you.

Take the work and the worry off your plate.



It's Also About Saving Time

Sometimes it isn't necessarily money, but time, that Pentegra can help save.

In this case, one of our salespeople estimates he was trading 10 e-mails a day with a client. A "high service level" client can be a challenge, but the advisor was complicating the situation for himself by his reluctance to try selling the client our Comprehensive 3(16) Fiduciary Services.

One of our senior account managers eventually got involved, and soon enough we signed on as the plan's 3(16) fiduciary. The good news—not only is the client pleased with our work—the number of emails has gone down, though not (yet) to zero—but the advisor happily estimates he has gained back more than 60 hours a month that he can use to focus on growing his practice.

You have a business to run.
Let us help you focus on the important things,
like running your business.

Having professionals on board can
help take work off your plan and
provide you peace of mind.



How Many Participants are In a Plan?

A client had reported that they had 72 participants in their plan—but well over 100 who were eligible. The issue was complicated by the fact that the plan had never had an audit. In reporting numbers to the prior TPA, the employer excluded participants who shouldn't have been excluded and under-reported non-participating, but eligible employees. This happens more often than you would think, where an employer only reports actual participants to the TPA. Most TPAs don't go beyond what is reported to them.

Once Pentegra took over the plan as 3(16), we found a major discrepancy in terms of how many employees they were reporting. Pentegra helped the client ensure that the proper reporting requirements were being used to avoid fines and penalties. That entailed reviewing ten year's worth of data to make sure the contribution issue was corrected, and while it cost the client money to rectify the situation, it saved them a great deal more in potential fines and penalties.

As a 3(16) Fiduciary, Pentegra insists that the sponsor report all employees to us—even those they may believe are not otherwise eligible.

As a 3(16), we will go the extra mile.



Don't Assume

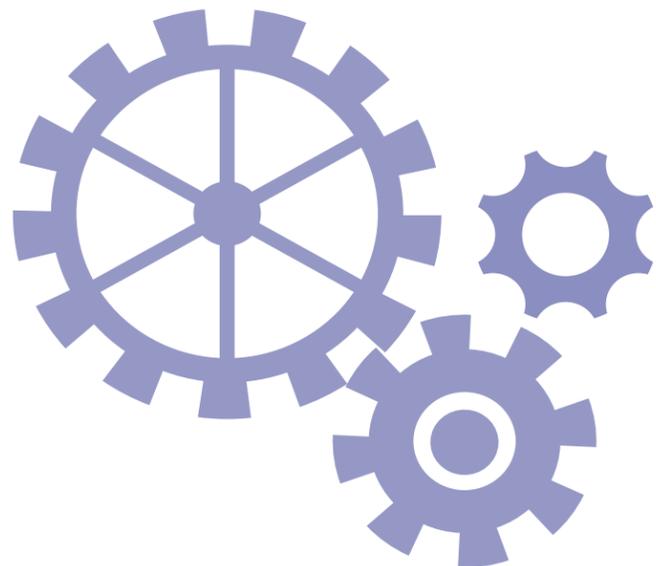
Pentegra associates had a meeting with a prospective client, the CFO of a large physician practice. Our conversation bounced around but at one point it landed on the delivery of required notices. We asked how these were being handled—paper or electronic delivery? He looked at us sort of funny and said, 'I delete them.'

Not sure of what he meant, we asked, 'When you say you delete them, what exactly are you deleting?' He explained that when he received the emails with the required notices and delivery instructions, he deleted them he assumed his TPA was delivering them to the participants. **They were not.**

Don't assume your TPA is handling something.



Only a 3(16) fiduciary assumes responsibility for ensuring that notices are delivered to participants and that you're meeting your compliance responsibilities.



No Employees?

"Faith is believing what you know ain't so." -- Mark Twain

This quote was invoked by a Pentegra staffer when recounting a discussion he had with a physician group. The group was very confident they did not fall under the Title I requirements of ERISA. The practice had outsourced all non-physician employees, and all the physicians were made partner after one year in the practice. The eligibility for their plan was one year, so, by their calculation, they had no employees.

However, even though the plan in this case would not be subject to ERISA because no employees were covered, it still had to satisfy all the requirements of the IRS Code in order to qualify for employee benefit tax breaks.

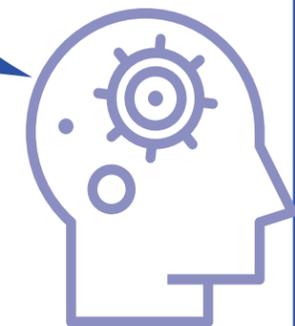
While speaking with their practice manager, who was a contract employee, the Pentegra staffer was also reading through their adoption agreement, which clearly stated they had a six-month eligibility requirement. When they pointed this out, the practice manager again said, 'No, it's a 12-month eligibility requirement.'

Needless to say, they had a problem.

Most plan sponsors know that they need to follow the terms of their plan document, but retirement plans are complicated. You may not have—or want—the knowledge of how they work. Despite that, sponsors are fiduciaries. As fiduciaries, they are legally responsible for administering their plans.



An expert 3(16) Fiduciary Administrator can assume these responsibilities for you, virtually eliminating the risk of failing to meet deadlines or doing things incorrectly.



Getting to the Truth of a True Up

Whenever a company offers a plan where the employer matches employee deferrals, the plan document will include information about the “calculation” and “funding” periods for the matching contributions.

When matching contributions are funded each payroll period, but are required to be re-calculated annually, a “true-up” calculation is needed. But sometimes true-up calculations can be wrong. Who, then, is responsible?

The answer may not be as simple as you think. In one such circumstance a large company was audited by the Internal Revenue Service (IRS), who determined that the matching true-up was calculated incorrectly. The employer went to their then-plan service provider—which was not acting in a fiduciary capacity—whose response essentially was that the employer must have supplied them with the wrong numbers.

The provider was correct in saying it wasn't on them—remember, they were not a fiduciary. If the service agreement didn't mention verifying calculations such as true-ups, then yes, they were probably off the hook.

Service providers often draft agreements that protect them and not the plan sponsor. If they don't say they will do it, then they're not responsible for doing it. As a 3(16) fiduciary, Pentegra takes as much of the audit work off the client's plate as possible. In fact, we prefer to work with the auditors directly to make the process that much easier.

A 3(16) fiduciary administrator not only does the work, but is responsible for ensuring it is done right.



The Missing Files (and Money)

One of our senior account managers was reviewing a client's 5500 and noticed that the listed assets seemed unusually low for a plan of its size. Although the plan had been in existence for five or six years, the assets totaled only about \$2,000.

While there can be valid reasons for this – perhaps a lack of participants contributed to the low sum – “Something just didn't sit right,” according to the Pentegra Account Manager.

She then began to go back into the client's records, only to find that no 5500 had been filed for its 2018 or 2017 plan year, and that the 5500 for 2016 showed only \$30 in contributions. What had happened to cause the missing deposits? The client had moved its payroll functions to a different bank in 2011, but the plan's funds had somehow not been transferred and continued to sit in the company's old bank account.

Pentegra's Account Manager immediately reached out to the client and created an action plan. The Pentegra Account Manager then went back all the way to 2011 and found that from then through 2019 they had made no deposits. So we carefully went through the employer's records and had them make the necessary deposits for eight years, and we also filed the 5500s to make the plan compliant.

Had the client not signed up for Pentegra's 3(16) Fiduciary Services, they could have faced a huge case with the DOL as well as with the plan's participants, since the money simply wasn't in the plan.

Work with a professional to handle the details for you.



Hardship Cases Can be Hard Work

Working with plan participants looking to make a withdrawal from their retirement plan to deal with a hardship can be challenging—especially for plan sponsors.

Often clients prefer not to get involved with hardship cases... and for some understandable reasons. In addition to understanding what the plan document says about hardships, the sponsor is required to gather a great deal of documentation to support the participant's statements about their hardship situation. Obviously it can be uncomfortable getting into an employee's personal life: reviewing their finances—including receipts—in a situation that can be difficult under normal circumstances, never mind at a particularly traumatic moment.

Even more difficult is telling the participant "no," in cases where they have failed to meet the hardship requirements... especially if you personally agree with the desperation they feel they are facing.

Pentegra will take the time to explain where, if necessary, the participant's request falls short, and take reasonable steps to find ways of making their request one that stands a better chance of acceptance.

Handing these duties off to a 3(16) Fiduciary administrator alleviates much of the emotion involved, and removes the employer from uncomfortable situations.



Plan Issues Highlight the Importance of a Fiduciary

One nonprofit we worked with had engaged another, nationally known TPA firm. The firm had experienced a fair amount of turnover—which created problems in and of itself—but the problem had been compounded by not filing a 5500 for three years. This went undetected until the company hired a new human resources director.

Pentegra helped fix the problem by going back over years of records to make sure the filing was correct.

With Pentegra as the 3(16) Fiduciary Administrator, you don't have to worry about signing something you haven't read or understand. We actually sign the plan document. We sign the Form 5500.

Sometimes it's hard for sponsors to see the value of a 3(16) Plan Administrator. Often the real value is seen when there is a plan issue or problem.

A circular inset showing a portion of a Form 5500-ES (Short Plan Year Return) form. The visible section is titled "Report Identification Information" and includes fields for "This return/report is for:" and "This return/report is:". The "Report Identification Information" section includes several checkboxes: "a multi-employer plan", "a multi-participating", "a single-employer plan", "a DFE (specify)", "the first return/report", "the final return/report", "an amended return/report", and "a short plan year return". Below this, there is a section for "Check box if filing under:" with options for "Form 5500", "automatic extension", and "special extension (enter description)". A "Caution" box states: "A penalty for the late or incomplete filing of this return/report will be assessed if...". At the bottom, there is a "SIGN HERE" section with a line for "Signature of plan administrator" and "Date". The name "Pentegra" is written in the signature line.

Making an Account Whole

In another instance, one of our clients reached out to ask how to handle a situation where a participant had contacted them inquiring about his account, but only had the first page of an old statement from their previous recordkeeper to work with. The statement showed 100 percent of the participant's account being forfeited in 2015. Since the issue occurred before Pentegra was the 3(16) Fiduciary, we instructed the client to contact the previous recordkeeper to research the issue.

Time passed, and one of our Relationship Managers eventually received a phone call from the DOL—a name you do not usually want to see on your caller ID. The understandably frustrated participant had written a letter about the situation to his local district attorney, who forwarded the letter to the DOL.

The DOL called Pentegra because our name was now on the 5500. We immediately gave our attention to resolving the issue—and to avoiding a full-scale plan audit.

The DOL was able to put us in contact with the right people at the prior recordkeeper in order to research and resolve the issue. It turns out the participant was in fact forfeited in error, due to an issue with the way his account was initially set up. In the end Pentegra calculated the rate of return that the participant would have received had he not been forfeited in error. We were able to make his account whole.

That's a key advantage of hiring Pentegra as your 3(16) plan administrator. We're named in the plan document, we sign the 5500. You can't put a price on peace of mind. If the DOL makes a call, they are calling Pentegra.

As 3(16), we're on the hook to make sure things are done correctly.



Plan Provisions Aren't Optional

The Pentegra team was conducting a document review for a large prospective client, which had over 300 employees. During the review, our team noted the plan document included an auto enrollment feature, to which the Director of HR responded, "Yes, but we've never used it."

When a provision is included in your plan document, it is not optional. The client hired us and asked us to resolve the issue. It required a multiple-year review of all employees and documentation as to whether the employee was in the plan or, if not, if the employee had affirmed their desire to not participate in the plan. It's not just the correction but also the time and disruption these types of mistakes cost the employer.

A 3(16) Fiduciary ensures that the provisions of the plan document are being followed. It's compliance confidence.



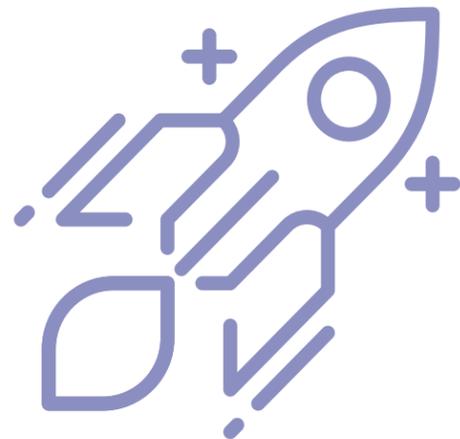
Failure to Launch

In another case, a plan sponsor had failed to start a participant's deferrals on time. Plan sponsors sometimes mistakenly assume the plan doesn't cover certain employees, such as part-timers; in other instances, employees who elect not to make elective deferrals are often mistakenly treated as ineligible employees.

In this case, we confirmed with the former TPA that they sent out alerts to the plan sponsor via e-mail regarding deferral changes that had been made by employees that the employer had omitted. The e-mail went to a person who did not handle the payroll and that person did not forward it to their HR department. Thus, the changes were missed. The result? Issues with deferral timing which the sponsor had to correct.

As the 3(16), Pentegra is alerted at the point an employee enrolls online and makes their deferral election. Pentegra takes action in a timely manner to ensure that the employee's elections are reflected in what the employer reports, eliminating these types of issues.

Removing fiduciary risk and eliminating retirement plan burdens is possible. Work with a professional to handle the details for you.



What's Included in a Plan Document?

No one wants to hear the word "prison" when discussing retirement plan administration. But it was unavoidable in a recent case, where we tried to help a client correct an issue.

Like most administrators, Pentegra issues plan enrollment kits to newly eligible employees. We had started to receive larger than normal quantities of returned kits. One of our fulfillment team members noticed that a lot of the kits being returned had the same address. Further investigation revealed that the employees did indeed share an address, though it wasn't a big house...but The Big House: The "home address" listed on the enrollment kits was actually the address of a prison.

As it turned out, the client had started to employ prisoners, but neglected to inform Pentegra. Complications arose from the fact that, while the client's contract with the state excluded the incarcerated employees, its plan document did not.

As the 3(16) fiduciary administrator for the plan, naturally, this set off a long series of conversations around the definition of an 'employee'. Ultimately, we accepted that the client did not consider these workers 'employees'. Not fully understanding what is, and is not, included in the plan document is a common occurrence.

A good 3(16) administrator handles these issues for clients. Outsource fiduciary responsibility and take one more thing off your plate.



The Missing Matching Formula

In this case, a plan was facing a dire outcome, in that it stood to either refund or forfeit over \$2.6 million in matching contributions!

The reason for this was because the plan's matching formula was "missing".

Matching formulas are often discretionary in the plan document. When a match is discretionary, the client has to provide their recordkeeper with the formula they elect to use for the year, or alternatively, provide it to their payroll provider.

In this case, neither of these took place, so when it was time to run compliance testing, without a known matching formula, the entire match was subject to be forfeited, because our initial compliance testing results were that every plan participant had technically "exceeded" the match limit.

Our review revealed a typical number of census data errors—two employees had exceeded their section 415 limit, and others were actually ineligible because the company had classified them as employees who worked less than 20 hours a week—but certainly not enough to cause a \$2.6 million forfeiture.

After a detailed conversation with the client, we were able to get to the cause of the problem—a lack of communication of the match for the year—and help them reconstruct the numbers. After all corrections were made, refunds went from in excess of \$2.6 million to \$533, and forfeitures to \$2,866.79.

But when you are a 3(16) fiduciary, you dig deeper.

Had the client not purchased our fiduciary services, it could have forfeited over \$2.6 million!

A More Preferable Outcome

In this case, the client had moved their plan to a new recordkeeper. They had elected to use prior-year data for compliance testing purposes – the only problem was that these results were not provided during the plan transition process.

Based on the current plan year data, the plan had failed the Actual Deferred Percentage and Actual Contribution Percentage testing and was looking at a refund of \$1.5 million—plus earnings!

Here, it appeared that the compensation involved was not correct, for the simple reason that some employees seemed to be receiving negative compensation.

As a fiduciary, we knew that the plan needed to go through additional testing, but further complicating the situation was the fact that, if a client did not respond to the recordkeeper's inquiries (as was the case here), the recordkeeper automatically defaulted to issuing of refunds—\$1.5 million plus earnings.

Fortunately, once the compensation error was fixed, the actual refunds were zero—a much more preferable outcome!

We realized how critical it was to get this fixed for the client, especially because it is very difficult to get the Department of Labor (DOL) and the Internal Revenue Service (IRS) to agree to put money that has already been distributed through refunds back in a plan.

Big Refunds vs. Big Data Errors

In this case, a client was about to receive compliance refunds of \$56,468. For a plan of its size, it didn't sit right with us.

In this instance, the cause of the large refund was attributable to two plan participants who were considered ineligible. It turned out the client had entered the wrong Social Security numbers for those employees. Our fiduciary due diligence was what helped find the error, fix the error, and re-run compliance testing with the corrected data.

As a result, the refunds that were actually issued totaled \$631.70. That's a pretty significant difference!

Our fiduciary due diligence was what helped find the error, fix the error, and re-run compliance testing with the corrected data.

Plan Design Insights

In this situation, the plan was going to issue refunds.

Based on our plan design expertise, we thought about a different way to approach the issue. Instead, we recommended that the client make a qualified non-elective contribution (QNEC) – an amount designed to replace the opportunity lost to a participant who has not been permitted to make elective deferrals. The client thus had a choice: Issue \$1,154.01 in refunds, or make an \$18 QNEC.

Not surprisingly, the client chose the \$18 QNEC.

When it comes to compliance refunds, zero is definitely a good thing.



When Zero is a Good Thing

Another example of how, as a fiduciary, we were able to save a client a significant amount of money came when a 313-participant plan was set to forfeit \$474,732. This amount would have been forfeited as a result of communicating an incorrect matching formula and other census data errors.

After researching the issue and uncovering the errors, Pentegra's Relationship Manager notified the client and worked with them to correct the census data items and provide the correct matching formula – and a grand total of zero was forfeited after our recommendations.

That's the benefit of having experienced professionals working on your plan--they know when something just doesn't look right. A similar situation unfolded in the case of another client. In this case, having completed prior-year testing, the plan's compensation seemed suspect.

Add in the fact that refunds of over \$51,000 were scheduled, and the plan's compensation looked very suspect.

After reviewing the situation with the client, it turned out that nearly every compensation number reported on the census data was incorrect. Once the changes were made, the refunds were actually zero.

Another instance when zero was a good thing!

That's the benefit of having experienced professionals working on your plan--they know when something just doesn't look right.



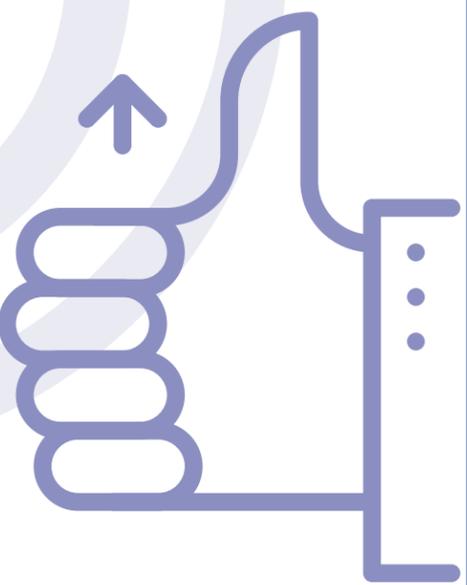
Not So Safe Harbor

COVID-19 reared its ugly head with this client, which necessitated stopping matching contributions in what had been a safe harbor plan. As a result, the plan had to undergo traditional compliance testing for the 2020 plan year.

Because they had been operating a safe harbor plan, however, the client didn't think to apply the Top Paid Group (TPG) formula.

Big mistake.

The client ended up with 88 Highly Compensated Employees (HCEs) for the 2020 plan year—whereas if they had calculated using the TPG formula, it would have been 55 HCEs. The benefit of our fiduciary oversight—the \$18,793.05 (excluding earnings) in refunds that the client was facing was brought down to \$8,628.69 (excluding earnings), spread over just 24 HCEs. A nearly 46% decrease!



To say that the client was pleased with would be an understatement.

The Difference a Dollar Makes

In this instance, a client's plan had ineligible participants make deferrals, which meant that monies needed to be refunded – but it also meant that the plan also failed coverage testing. In order to pass coverage testing, the client would need to bring those employees in from an excluded class if they were paid in U.S. dollars.

Again, it was the benefit of our experience that told us that something just didn't "add up." As it turned out they were paid in Haitian dollars, so the census had to be updated and the testing redone. With the new information, the results were a lot different—the only refund due was because the plan exceeded its match limits. As a result, refunds were reduced from \$8,551 to \$1,772.

Big difference!



Again, it was the benefit of our experience that told us that something just didn't "add up."

Saving time and money

Compensation was an issue with this plan, which was set to have refunds and/or forfeitures totaling \$269,096.

Again, the benefit of fiduciary oversight helped the client save money and time. We sorted through the plan data for the client, saving them the time of having to review the details.

Looking to determine the cause of what appeared to be excessive deferrals and match forfeitures, we discovered that there were three participants who were incorrectly allowed to defer prior to meeting eligibility, which had a disastrous effect on the compliance tests.

After implementing our recommendations and correcting the errors, nothing was refunded or forfeited. Saving time and money—another happy client.

Saving time and money = another happy client.



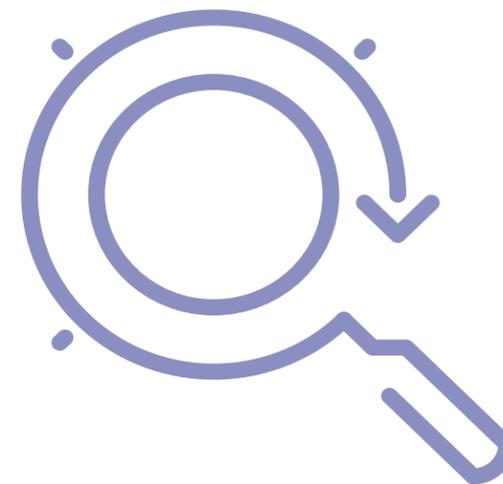
The Real Benefit of 3(16) Oversight

In this case, we had a plan whose compliance testing revealed that it had failed the match limit test – meaning that all participants who had received matching funds were going to have those funds forfeited—to be exact, \$16,465!

Again, this was a situation where we took the time to research the issue. It turned out to be a simple data error. One error had triggered the recordkeeping system to conclude that every participant had exceeded their match limit, which was not the case.

We reached out to the recordkeeper to correct the data error. The match was corrected, and after the correction NOTHING was forfeited.

As 3(16), we handle this for the client. Without the oversight of our 3(16) fiduciary services, the entire amount would have been forfeited.



As one of the most experienced independent Fiduciary Administrators
in the nation, Pentegra is your fiduciary expert.

A trusted fiduciary partner means peace of mind that having a professional on board provides.

Think of it as a better way to offer a retirement plan.

Learn more about our 3(16) fiduciary solutions.

Contact the Pentegra Solutions Center at solutions@pentegra.com or 855-549-6689

Follow our conversation.

