Solutions Spotlight

June 2010

Target Date Funds: Fiduciary Considerations

Target Date funds have become a popular investment choice in most retirement plans. Participants simply pick the fund that most closely approximates the year in which they turn 65 and the fund will be managed in a way that becomes more conservative over time.

But what are the Fiduciary Responsibilities with these funds? While the collective “scores” of these funds demonstrate the manager’s effectiveness for the level of risk they are taking, the fund score is only part of the story. Fiduciaries should consider the following key characteristics:

- The Equity Glide Path represents the range of allocation to equities during the participant’s use of these funds. That range will have a starting allocation and an ending allocation. The balance would be invested in fixed income investments. For example, an Equity Glide Path of 90-30 would be one where the youngest of employees would have 90 percent of their balance in equities and as they get older, that equity weighting would gradually be reduced until it dropped to 30 percent. At the same time their allocation to fixed income investments would grow from 10 percent initially, to 70 percent. While the percentages differ from one fund family to another, the basic premise of getting more conservative over time is the same.
- The Roll Down Timeframe is the range of years during which the Equity Glide Path is reduced. Some funds may start reducing their equity exposure in the participant’s 20s, while others in their 40s. Perhaps the most important element during the Roll Down is where it stops. Target Date funds can be divided into two categories: those that manage “to” the retirement age of 65, and those that manage “through” retirement. While there is no right or wrong way, fiduciaries should consider participant behavior as they monitor these options. Noting, for example, employees working well beyond age 65 could influence the type of Target Date funds used.
- The approximate Equity Exposure at Age 65 is also important. In discussing this topic with Committees around the country, we are finding fiduciaries shocked to learn that many popular Target Date funds may have an upwards of 50-55 percent equity exposure at age 65. Again it’s not necessarily a question of what is right or wrong, but rather a consideration of the Target Date’s approach, along with how your participants are using/viewing them. More often than not, we find funds that manage “to” retirement will typically have a lower exposure to equities at age 65 than those that manage “through” retirement.

Looking Ahead

Regulating Target Date funds continues to be at the forefront of the agenda for Phyllis Borzi, assistant secretary of labor for the Employee Benefits Security Administration (EBSA). Recently, federal guidance regarding Target Date funds was released with additional guidance on the horizon. The majority of participants do not understand the construction and the risk associated with their respective Target Date funds. Plan sponsors are beginning to learn about the vast differences between fund families’ internal management philosophies, the glide path, equity exposure at age 65, and other differences that exist with these funds. The degree with which Target Date funds will be regulated is yet to be determined, however, a few things are certain: participants should not merely select a target date fund based on name alone, and further education is needed for both participants and sponsors. If you have any questions about Target Date funds or would like to learn more about our retirement plan solutions, contact Forrest Ross at fross@whafs.com or 800-362-7121.

Article courtesy of Retirement Plan Advisory Group.

Health Care Reform and Grandfathered Plans

The Affordable Care Act specifically exempts “grandfathered plans” (those plans that were in effect on March 23, 2010) from having to implement a number of the Act’s requirements. Thus, it is vital for employers and administrators of these grandfathered plans to understand what changes they must make in 2010 and in future years. The following is a timeline of required key changes to grandfathered health plans:

What Must Be Done in 2010

Extend Dependent Coverage Up to Age 26: For plan years starting on or after September 23, 2010, the new health law requires

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group and individual health plans that cover dependents to continue to make dependent coverage available until age 26. This requirement applies to grandfathered as well as non-grandfathered plans. However, for plan years beginning before January 1, 2014, grandfathered group health plans offering dependent coverage will not need to make this coverage available if the adult child is eligible to enroll in another employer-sponsored health plan.

Prohibit Lifetime Limits: For plan years starting on or after September, 23, 2010, grandfathered health plans may not impose lifetime limits on coverage for "essential health benefits." Essential health benefits will be further defined by the U.S. Department of Health and Human Services (HHS).

Restrict Annual Limits: For plan years starting on or after September 23, 2010, grandfathered group health plans are prohibited from imposing annual limits on essential health benefits other than restricted annual limits to be set by HHS. Effective January 1 2014, grandfathered group health plans may not set any annual limits on essential benefits coverage.

Drop Pre-Existing Condition Exclusions for Children: For plan years starting on or after September 23, 2010, grandfathered group health plans must not exclude children on the basis of pre-existing conditions. Effective January 1, 2014, group health plans may not impose pre-existing condition exclusions on adults or children.

No Rescission of Coverage: For plan years starting on or after September 23, 2010, grandfathered health plans are prohibited from rescinding a participant's coverage, absent fraud or an intentional misrepresentation of material fact.

Required Change in 2011
No Reimbursements for Over-the-Counter Drugs Not Prescribed: For expenses incurred after December 31, 2010, distributions from HSAs or Archer MSAs, or reimbursements for FSAs or HRAs, qualify only if made for a medicine or drug that is a prescribed drug, or insulin. Over-the-counter medicine obtained with a prescription will continue to be a qualified medical expense.

What Grandfathered Plans Must Do in 2014
No Exclusions for Dependent Coverage: In 2014, grandfathered group health plans offering dependent coverage will need to continue to make this coverage available until age 26, even if the adult child is eligible to enroll in another employer-sponsored health plan.

No Annual Limits: In 2014, grandfathered group health plans may not set any annual limits on essential benefits coverage.

No Excessive Waiting Periods: For plan years starting on or after January 1, 2014, grandfathered health plans may not apply waiting periods for coverage that exceed 90 days.

Future Changes to Grandfathered Health Plans
Employers and administrators should note that thus far, the Affordable Care Act does not provide guidance as to what extent a plan can be changed without losing grandfathered status. Changes relevant to a plan's continuing status as "grandfathered" might include changes in premiums, deductibles, and types of coverage.
Article courtesy of HR and Benefits Essentials.

Did You Know?

Check out some highlights from the 2010 MetLife Study of Employee Benefit Trends:

- Employers mostly maintained their benefits plans and employees tended to maintain participation as well
- Controlling costs is now the most common benefits objective for employers, followed by employee retention and employee productivity
- Employees are seeking (and employers are mostly providing) more education about retirement and investing wisely
- Employers and employees agree that wellness, financial and work-life balance programs improve productivity at work

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