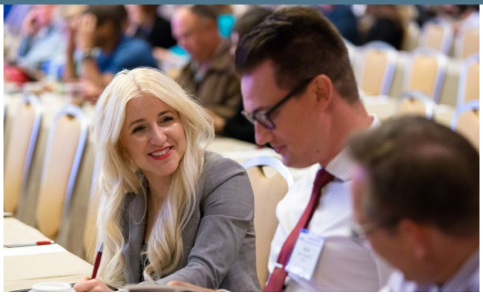
THE VOICE OF PUBLIC PLAN SPONSORS



INTRODUCTION TO PUBLIC SECTOR DEFINED CONTRIBUTION PLANS

According to the National Association of Government Defined Contribution Administrators' (NAGDCA) 2019 Perspectives in Practice Survey, 62% of NAGDCA members report that their organization sponsors a 457(b) plan and 22% a 401(a) defined contribution plan. Add 401(k) and 403(b) plans and you have yourself an alphabet soup of plans! This four-part publication will help you decipher the characteristics and interplay between these various plan types and provide some practical information for effectively engaging with these plans, as a trustee, board member, plan sponsor or administrator.

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I. Overview of Public Sector Defined Contribution Plan Types

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In general, there are two types of retirement plans: defined benefit and defined contribution[1]. Ninety-three percent of participants in NAGDCA member plans have access to both[2]. This overview focuses on defined contribution plans, which provide benefits based on contributions to participants' accounts, and any related income, expenses, gains, or losses. More specifically, this overview examines plans established under Internal Revenue Code ("IRC" or "Code") sections 401(a), 401(k), 403(b), and 457(b) and some of the regulations, rulings, procedures, and guidance[3] that govern such plans.

401(a) Plans

Generally, any state or political subdivision, or its agency or instrumentality, may establish a qualified 401(a) plan. A "qualified plan" refers to the favorable tax treatment of the plan (i.e., tax-qualified), under IRC Section 401(a). Sometimes, a 401(a) plan is referred to as a "governmental plan"[4], as this term is used in both the IRC and in the Employee's Retirement Income Security Act of 1974 ("ERISA"). However, while a "governmental plan" is defined in ERISA[5], such plans generally are not subject to, or required to abide by, ERISA provisions[6]. Nonetheless, many plan fiduciaries use ERISA standards as a best-practice benchmark to guide various aspects of 401(a) plan administration[7]. In addition to the required IRC regulations and optional best-practice ERISA standards, 401(a) defined contribution plans for state and political subdivisions are typically subject to various state and local laws, further adding to the uniqueness of each plan[8].

TIP

401(a) plans may be structured as either a defined benefit **or** a defined contribution plan. It is possible that your retirement system offers both a 401(a) defined benefit plan and a 401(a) defined contribution plan to its participants. Remember, the defined contribution plan provides a benefit to a participant based on contributions to the participant's account, and any related income, expenses, gains or losses, whereas, the benefits under a defined benefit plan are often set using a formula based on a participant's age, years of service, and level of compensation[9].

Endnotes

1 Chapter 6, IRS Publication 963: https://www.irs.gov/pub/irs-pdf/p963.pdf
2 National Association of Government Defined Contribution Administrators 2019 Perspectives in Practice Survey, pg. 16.
3 For additional information on Internal Revenue tax administration, read Understanding IRS Guidance – A Brief Primer: https://www.irs.gov/newsroom/understanding-irs-guidance-a-brief-primer
4 26 U.S.C. § 414(d) (2019)
5 29 U.S.C. § 1002(32) (2019)
6 29 U.S.C. § 1003(b)
7 https://www.dol.gov/general/topic/retirement/fiduciaryresp
8 For additional information on the specific code sections that apply to 401(a) Plans, read Governmental Plans Are Different: A Regulatory Overview by Daniel Schwallie, Ph.D., available at https://www.aon.com/getmedia/2a1382f9-884a-499c-9663-4f19412a4123/Schwallie_Governmental_Plans_Are_Different_Benefits_Quarterly_Q3_2018.aspx
9 Chapter 6, IRS Publication 963: https://www.irs.gov/pub/irs-pdf/p963.pdf

401(k) Plans

401(k) plans are the most common type of employer-sponsored, tax-qualified retirement plans; however, only 9% of participants in NAGDCA member plans have access to a 401(k) plan[10]. Why? Since 1986, state and local governments have been ineligible to adopt new 401(k) plans[11]. Thus, the only state and local government 401(k) plans operating today are "grandfathered" plans, that were established prior to May 6, 1986[12]. Because 401(k) plans are so widely used in the private sector, it is important to understand the nuances of this special, grandfathered status in order to maneuver through the applicable regulations.

For example, private sector 401(k) plans are generally subject to various ERISA provisions, but grandfathered public sector 401(k) plans are exempt from ERISA. Similarly, the IRC rules related to highly compensated employees, such as the actual deferral percentage (ADP) test and top-heavy rules[13], do not apply to grandfathered, public sector 401(k) plans.

However, many IRC requirements related to employer contributions, employee contributions, automatic enrollment, loans, and withdrawals (or distributions) do apply to grandfathered, public sector 401(k) plans.

It is important to note that the compliance requirements for private sector and public sector plans often overlap. For example, the IRC Section 415(c) limits, which restricts the amount of employer and employee contributions to a participant's account, apply to both plans. If a plan sponsor offers both a 401(a) defined contribution plan and a grandfathered 401(k) plan, then the 415(c) limit is applied to the aggregate contributions made to both plans. However, the 415(c) limit is separate from the limits applicable to a 457(b) plan.

TIP

Annually, the IRS adjusts the limits on employee contributions and employer contributions for retirement plans, typically referred to as contribution coordination rules. These rules apply to 401(a), 401(k), 403(b), and 457(b) plans. Separate, but similar rules apply to the amounts that a participant may borrow from such defined compensation plans. Visit IRS.gov for current information about the various limits and coordination requirements.

Endnotes

10 National Association of Government Defined Contribution Administrators 2019 Perspectives in Practice Survey, pg. 16

11 https://www.ebri.org/docs/default-source/fast-facts/ff-318-k-40year-5nov18.pdf?sfvrsn=1b773e2f_6

12 https://www.irs.gov/government-entities/federal-state-local-governments/government-retirement-plans-toolkit

13 https://www.irs.gov/retirement-plans/a-guide-to-common-qualified-plan-requirements#4

403(b) Plans

Historically, 403(b) plans were arrangements under which a university or public school purchased individual annuity contracts from an insurance company on a tax-deferred basis for eligible employees, mainly professors, teachers, and school administrators. Over time, 403(b) plans have become structured more like defined contribution plans, with a few exceptions. For example, while other plans may offer any investment types, such as Exchange Traded Funds (ETFs) or Collective Investment Trusts (CITs), pursuant to the plan's investment policy statement, 403(b) plans may only offer mutual funds and tax-sheltered annuities. Additionally, a participant is typically immediately vested in a 403(b) plan, while other qualified plans may have vesting periods or schedules. This is because employer contributions are not typically provided under 403(b) plans, making employee contributions the primary source of assets.

Beginning January 1, 2009, 403(b) plans were required to operate under a written plan document. At that time, many universities and schools adopted a pre-approved plan document[14]. The pre-approved plan document was typically drafted by a vendor, such as a recordkeeper or third-party administrator (TPA) and approved by the IRS. A pre-approved plan document generally consists of an adoption agreement, whereby the plan sponsor elects specific plan provisions, and a basic plan document setting forth the terms that apply to all adopting employers. Universities and schools with a 403(b) plan had until March 31, 2020 to correct any form defects occurring within the written plan document[15]. This prompted many 403(b) plan sponsors and administrators to recently review both the plan document and plan operations to ensure full compliance with IRS requirements[16].

TIP

It is important for trustees, board members and plan administrators to understand that some Internal Revenue Code rules and regulations are *required*, and some are *permissive or optional*. Optional provisions or features, such as automatic enrollment, are typically adopted through the written plan before operational implementation. Some required plan provisions may be operationally implemented and later adopted through a written plan amendment. The IRS publishes a Required Amendments List, which establishes the date by which plan amendments must be made for required rule and regulation changes. In general, items on the Required Amendment List must be adopted through the written plan by the end of the second calendar year following the year the list is published by the IRS[17].

Endnotes

14 https://www.irs.gov/retirement-plans/tips-for-employers-using-pre-approved-plans
15 https://www.irs.gov/pub/irs-drop/rp-19-39.pdf
16 https://www.mercer.com/our-thinking/law-and-policy-group/irs-creates-program-for-403b-plan-document-compliance.html
17 https://www.irs.gov/retirement-plans/required-amendments-list

457(b) Plans

A 457(b) plan is similar to a 401(k) or 403(b) plan, but with one major distinction: a 457(b) plan is a non-qualified retirement plan[18]. This distinction may offer tax-advantages to the plan participants. As previously noted, the annual contribution limit is separate for 457(b) plans. In other words, for 2020, a participant may contribute $19,500 to a 457(b) plan account, in addition to contributing $19,500 to a 403(b) plan account[19]. This may be advantageous, because contributions are most frequently made pre-tax (except for Roth Contributions), so participants pay less current income tax now. Furthermore, participants are not subject to a tax penalty for withdrawing funds from a 457(b) account prior to reaching age 59 ½. Generally, participants must pay an additional 10% early withdrawal excise tax when taking a distribution from a 401(k) plan, 403(b) plan, or 401(a) account before reaching age 59 ½[20]. This plan feature may benefit a participant who intends to save substantially before retiring early (prior to age 59 ½).

TIP

Administrative errors happen, but it is important for plan mistakes to be remedied in accordance with IRS regulations, specifically Employee Plans Compliance Resolution System (EPCRS), to avoid serious consequences, such as plan disqualification[21]. Many plan errors may be corrected without contacting the IRS or paying a fee. The IRS's EPCRS provides correction methods. Additionally, the IRS publishes The Employee Plans Examination Process Guide[22], which provides additional resources for retirement plan compliance, and provides Top 10 Issues listings for various qualified plans[23]. As a plan fiduciary, you should ensure that your plan has implemented appropriate control and oversight activities to mitigate known operational, legal, and regulatory risks.

Concluding Remarks

Defined contribution plans, whether structured under IRC Section 401(a), 401(k), 403(b) or 457(b), provide benefits to participants based on employee, and possibly employer, contributions to the participant's account, along with related income, expenses, and gains or losses. The overview detailed some of the similarities (e.g. written plan document), differences (e.g. eligible investment options) and interplay (e.g. contribution coordination rules) between these various plans and offered some practical tools for effectively engaging with these plans. While you may not be a defined contribution plan expert, educating oneself[24] is a prudent step towards understanding your fiduciary responsibilities as a plan trustee, board member, plan sponsor or administrator. As always, NAGDCA urges plan fiduciaries to consult with their own legal, financial and tax advisors about the issues addressed herein and the situations and circumstances unique to their retirement plans.

Endnotes

18 https://www.irs.gov/retirement-plans/comparison-of-governmental-457b-plans-and-401k-plans-features-and-corrections
19 https://www.irs.gov/retirement-plans/how-much-salary-can-you-defer-if-youre-eligible-for-more-than-one-retirement-plan
20 https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions
21 https://www.irs.gov/retirement-plans/epcrs-overview
22 https://www.irs.gov/retirement-plans/ep-examination-process-guide
23 https://www.irs.gov/retirement-plans/top-ten-issues-for-irc-403b-and-457-plans; https://www.irs.gov/retirement-plans/top-ten-failures-found-in-voluntary-correction-program; https://www.irs.gov/retirement-plans/plan-sponsor/fixing-common-plan-mistakes;
24 http://www.ca-ilg.org/sites/main/files/file-attachments/resources__Everyday_Ethics_Feb08_0.pdf

II. NAGDCA Resources

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As a NAGDCA member, you have access to an abundance of content and resources including past publications, conference presentations, webinars, survey data and more. The resources are divided into four main topic areas and have been developed to provide practical information to assist with understanding and administrating public sector defined contribution plans. This section includes a description of each topic area and links to access NAGDCA's online resources.

> **TIP**
>
> Bookmark the resources pages or NAGDCA's **full resource library** to easily browse resources in the future.

Plan Design

Defined contribution plans may be structured under Internal Revenue Code Section (IRC) 401(a), 401(k), 403(b) or 457(b) and all provide a benefit to participants based on contributions to the participant's account. As fiduciaries, it is often left to us to recommend or approve the plan structure, design and features that will be offered to participants – participant eligibility requirements, compensation, contributions, vesting, distributions and loans. Some features are dictated by regulation, and others are optional, permitted by the IRS and elected by employers through the plan's written document or adoption agreement.

Click here for Plan Design Resources

Plan Administration

Ongoing administrative procedures are at the heart of defined contribution plan management. From enrollment, to receiving contributions, to participant statements and distributions, the day-to-day responsibilities are generally delegated to internal staff, consultants, recordkeepers and other third-party administrators. Developing internal control activities to prevent and detect mistakes in administering your plan are crucial to protecting your plan's tax-favored status, mitigating unintended costs and safeguarding participant trust[25].

Click here for Plan Administration Resources

Endnotes

25 https://www.irs.gov/retirement-plans/retirement-plan-operation-and-maintenance

II. NAGDCA Resources Continued

Plan Governance

Plan governance begins with creating a framework that establishes the roles and responsibilities of fiduciaries, outlines a deliberative process for decision-making and documenting rationale, and verifies that appropriate control activities are implemented to effectively oversee plan management. The governance framework involves creating and implementing written plan documentation and an investment policy statement, regularly monitoring third-party administrators and delegated responsibilities for adherence to written policies, and periodically evaluating investment performance, reasonableness of costs and fees, and participant engagement.

Click here for Plan Governance Resources

Participant Engagement

Plan sponsors serve plan participants in part by providing them with the tools to make informed, financial decisions. Plans may choose to monitor participants' retirement readiness, as measured through contribution rates, account balances, and popular investment selections; encourage participation, through auto enrollment, auto escalation and default investment options; and offer participants resources, such as financial literacy and investment advice, to promote positive, financial behaviors.

Click here for Participant Engagement Resources

III. Frequently Asked Questions (FAQs)

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What is the difference between a defined contribution plan and a defined benefit plan?

A defined contribution plan provides a benefit to a participant based on contributions to the participant's account, adjusted for investment gains or losses and administrative expenses. A defined benefit plan provides benefits using a formula based on a participant's age, years of service and level of compensations. For both defined contribution plans and defined benefit plans, the determination of whether an individual is qualified or eligible to participate is generally based on when the employee is hired, for how long they are employed, and the services they perform.

Source: Chapter 6, IRS Publication 963: https://www.irs.gov/pub/irs-pdf/p963.pdf

What is the difference between a Qualified and a Nonqualified Defined Contribution Plan?

Tax treatment, of both employer contributions and employee contributions, is the primary difference between a qualified (such as a 401(a)) and nonqualified (such as a 457(b)) defined contribution plan. Sometimes the term qualified plan is used in the context of the Employee's Retirement Income Security Act of 1974 ("ERISA"). Generally, plans sponsored by a state or local government are not subject to, or required to abide by, ERISA provisions. It is important to note that qualified plans and nonqualified plans are both subject to IRS eligibility requirements and must satisfy the Internal Revenue Code in both form and operation.

Sources:

- https://www.irs.gov/retirement-plans/a-guide-to-common-qualified-plan-requirements
- https://www.irs.gov/government-entities/federal-state-local-governments/government-retirement-plans-toolkit

What is the difference between a plan sponsor and a plan administrator?

The plan sponsor is generally the employer, which can be is the state, local government, political subdivision, or its agency or instrumentality, that has established and maintains a defined contribution plan on behalf of its employees.

Generally, a plan administrator is an entity responsible for managing the day-to-day operations of a defined contribution plan on behalf of the participants and beneficiaries.

The plan sponsor and plan administrator may be the same entity. Multiemployer plans (i.e., collectively bargained plans maintained by more than one employer) may establish a board of trustees which serves as the plan administrator.

Source: https://www.irs.gov/retirement-plans/plan-sponsor/a-plan-sponsors-responsibilities

What is the difference between the trustee and the plan administrator?

As noted above, a plan administrator is an entity responsible for managing the day-to-day operations of the defined contribution plan on behalf of the participants and beneficiaries. A trustee of a qualified retirement plan is the entity or group of individuals who hold the assets of the plan in trust. Both a trustee and plan administrator have fiduciary obligations to the plan participants and beneficiaries.

Source: https://www.irs.gov/retirement-plans/retirement-plan-fiduciary-responsibilities

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What is the difference between a recordkeeper and a third-party administrator?

Sometimes the plan sponsor or plan administrator will hire or outsource the day-to-day operations of the defined contribution plan to a recordkeeper, third-party administrator or both. Third-party administrators often handle amendments to the plan documents, assisting with loans and vesting schedules, testing for IRS requirements, and preparing annual reports. Recordkeepers track participants' transactions, provide statements and confirmations, and reconcile transaction activities related to contributions, distributions, and investment transactions.

The third-party administrator and recordkeeper may be the same entity.

Sources:

- https://www.nagdca.org/plan-sponsor-tools/best-practices/administration-guidance/contracted-inhouse-service-providers/
- https://www.nagdca.org/plan-sponsor-tools/best-practices/administration-guidance/plan-services/

What is the difference between a bundled and unbundled arrangement?

A bundled arrangement typically means the recordkeeper is providing all the administration, investment, communications, and education for a plan sponsor. In other words, the recordkeeper and the third-party administrator are the same organization, for operational purposes.

In an unbundled arrangement, the plan sponsor has selected multiple parties to provide different services to the plan. The plan sponsor may use a firm for recordkeeping, a third-party administrator, and another firm to provide financial and retirement education.

Source: https://www.nagdca.org/plan-sponsor-tools/best-practices/administration-guidance/bundled-unbundled-plan-models/

Who is ultimately responsible for the plan?

The plan sponsor. Whether or not the plan sponsor decides to delegate some or all of the operational and administrative tasks to internal staff and/or external third-parties or vendors, the plan sponsor has ultimate responsibility for the plan as outlined within the written plan document.

Source: https://www.irs.gov/retirement-plans/plan-sponsor/a-plan-sponsors-responsibilities

Can the plan sponsor delegate and/or eliminate fiduciary responsibility?

A plan sponsor may delegate some or all of the operational and administrative tasks to internal staff and/or external third-parties or vendors, in accordance with the plan document; however, the plan sponsor is the ultimate fiduciary of the plan. The plan sponsor has an obligation, always, to prudently operate the plan and oversee delegated responsibilities with a duty of care and trust.

Sources:

- https://www.irs.gov/retirement-plans/retirement-plan-fiduciary-responsibilities
- https://www.nagdca.org/plan-sponsor-tools/best-practices/plan-governance/fiduciary-responsibility/

Are there any restrictions to investing plan assets?

Yes. While there is no list of approved investment options for retirement plans, there are special rules, restrictions and considerations that apply to retirement plan investments. For example, 403(b) plans are limited to mutual funds and annuities. Many plan sponsors rely on an investment consultant or advisor in establishing the plan's investment policy statement and a menu or line-up of investment options available to participants in the plan.

Sources:

- https://www.nagdca.org/plan-sponsor-tools/best-practices/plan-structure-and-design/core-investment-menu/
- https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-investing-plan-assets

IV. Glossary of Commonly Used Terms

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401(a) Plan	A defined contribution, money-purchase or profit-sharing retirement plan that is established and maintained by an employer for eligible employees. The principal funding of a 401(a) plan is through employee and employer contributions; employee contributions may be voluntary and/or mandatory deferrals from compensation. The structure of the plan, including eligibility, vesting, and withdrawal rights, and whether contributions are dollar-based or percentage-based, are all determined by the sponsoring employer.
401(k) Plan	A qualified plan established by employers to which eligible employees may make salary deferral contributions on a pre-tax or Roth after-tax basis, if permitted by the plan. Contributions to a 401(k) plan are subject to IRS regulatory caps. Employers offering a 401(k) plan may make matching or non-elective contributions to the plan on behalf of eligible employees and may also add a profit-sharing feature to the plan. Earnings accrue on a tax-deferred basis.
403(b) Plan	A retirement plan for employees of public schools, 501(c)(3) tax-exempt organizations and certain church-related employees. The features of a 403(b) plan are very similar to those of a 401(k) plan. Employees may contribute on a pre-tax or (if permitted by the 403(b) plan) Roth after-tax basis, subject to IRS regulatory caps.
457(b) Plan	A non-qualified, deferred compensation plan established by state and local governments and tax-exempt employers. Eligible employees are allowed to make salary deferral contributions to the plan. If the employer is governmental, earnings grow on a tax-deferred basis and contributions are not taxed until the assets are distributed from the plan. If the employer is tax-exempt, amounts are taxed when paid or made available.
Account	An account that is established for an individual for the purpose of saving for retirement.
Administrator	The person who is identified in the plan document as having responsibility for running the plan. It could be the employer, a committee of employees, a company executive or someone hired for that purpose.
Adoption Agreement	The separate agreement which is executed by the Employer and sets forth the elective provisions of the Plan. The Adoption Agreement is considered a part of the Plan Document.

After-Tax (Employee) Contribution	Contributions made to a qualified retirement or investment account using money that has already been subject to eligible income tax.
Alternate Payee	A spouse, former spouse, child or other dependent of a Participant who is recognized by a domestic relations order as having a right to receive all or a portion of a Participant's benefit under the Plan.
Anniversary Date	An annually recurring date upon which a specific event took place.
Annuity or Annuity Contract	An annuity is an insurance contract sold by insurance companies. For more information, please **click here**.
Automatic Enrollment	The practice of enrolling all eligible employees in a plan and beginning participant deferrals without requiring the employees to submit a request to participate. Plan design specifies how these automatic deferrals will be invested. Employees who do not want to make deferrals to the plan must actively file a request to be excluded from the plan. Participants can generally change the amount of pay that is deferred and how it is invested. For more information, please **click here**.
Automatic Escalation	A plan which automatically increases the percentage of (retirement) funds saved from salary. This type of plan generally features a default or standard contribution escalation rate. For more information, please **click here**.
Beneficiary	A beneficiary can be any person or entity the owner chooses to receive the benefits of a retirement account or an IRA after he or she dies.
Blackout Period	The amount of time during which participants and beneficiaries under the plan are restricted from performing transactions that would otherwise be available. These transactions include directing investments, diversify assets credited to their accounts, obtaining loans from the plan, or obtaining distributions from the plan.
Bundled Provider	An arrangement where a plan sponsor contracts with a single provider to provide most or all of the major service categories: recordkeeping, administration, communications and investment management.

Catch-Up (Employee) Contribution	A provision found in retirement plans that allows an eligible employee who are at least age 50 to make higher annual contributions in the years prior to retirement.
Code (or Internal Revenue Code)	The Internal Revenue Code of 1986, as amended and includes applicable IRS Guidance.
Collective Investment Trust (CIT)	A fund that is operated by a trust company or bank and handles a pooled group of trust accounts in order to create a larger, well-diversified portfolio. They are not allowed to be sold to retail investors, only institutional investors such as qualified retirement plans. Because they do not allow retail investors, these funds are exempt from some regulatory requirements (e.g., no prospectus, ticker symbol or detailed holdings report). Therefore, they are relatively lower cost compared to mutual funds.
Consultant	A third party that helps the plan sponsor with key plan functions such as fiduciary responsibilities, mitigating risk, and providing an appropriate plan based on employer and employee needs. For more on the role of the consultant, please **click here**.
Contribution	See ***Employee Contribution and Employer Contribution.***
Custodian	A person or entity generally responsible for the safekeeping of plan assets; complying with applicable rulings, regulations, and legislation; and acting in accordance with the provisions of custodial agreements. For more information, please **click here**.
Defined Benefit Plan	Defined benefit plans are qualified employer-sponsored retirement plans that guarantee individuals a specified monthly benefit at retirement that are typically determined based on the employee's salary, years of service and age.
Defined Contribution Plan	Defined contribution plans are tax-qualified employer-sponsored retirement plans under the provisions of the internal revenue code in which the employee and/or the employer make contributions to the employee's account under the plan. The contributions are often a set dollar amount or percentage of salary.
Defined Contribution Investment-Only (DCIO)	Defined Contribution plans where an asset manager serves only in an investment capacity and is not involved in recordkeeping.

Early Retirement Age	The Social Security Administration defines early retirement as age 62; however, some plan documents may define early retirement age differently.
Eligibility	A participant's eligibility to retire is determined by several factors including age, service date, appointment, and the number of years worked/served for the employer.
Employer Contributions	Employer Contribution means **Nonelective Contributions** and **Matching Contributions**, as applicable.
Employee Contributions	The portion of an employee's salary that they contribute to a retirement plan. *See also* **After-Tax Contribution**, **Catch-up Contribution**, and **Special Catch-up Contribution**.
ERISA	Employee Retirement Income Security Act of 1974, as amended, a federal law that establishes minimum standards for pension plans in private industry and provides for extensive rules on the federal income tax effects of transactions associated with employee benefit plans. For additional information, please **click here**.
Exchange-traded Funds (ETFs)	An ETF is a basket of securities that trade on an exchange, just like a stock. Unlike a mutual fund, ETF share prices fluctuate throughout the day rather than at market close.
Fee Equalization	Plan expenses are distributed equally among plan participants.
Fiduciary	As defined in ERISA for covered plans and State Trust Law for governmental entities, a person or group of persons or entity that is legally appointed and authorized to hold assets in trust on behalf of retirement plan participants. A fiduciary typically is determined by whether or not they are responsible for exercising discretion or control over the plan. Responsibilities of a fiduciary include acting solely in the interest of plan participants, carrying out their duties prudently, following the plan documents and relevant law, monitoring service providers and investments, and paying only reasonable and customary plan expense.
Fiduciary Liability Insurance	Also known as management liability insurance, is intended to protect businesses and employers against claims resulting from a breach in fiduciary duty. Essentially, the policy protects parties against liability for managing or administering employee benefits plans.
Forfeiture	The portion of a Participant's Employer Contributions Account that is not Vested and in which the Participant no longer has an interest.

Hardship	A situation in which a person cannot keep up with debt payments and bills. This particular term is also used in decision-making processes about whether to offer someone relief from certain types of payment obligations. For more information, please **click here**.
In-Plan Roth Conversion	Converting qualified pre-tax savings into a Roth account in the plan.
Internal Revenue Code	See **Code.**
Investment Policy Statement (IPS)	A document that defines the process used by a committee, board or trustees, when making investment decisions for the plan.
Loans	A qualified plan may, but is not required to, provide for loans. If a plan provides for loans, the plan may limit the amount that can be taken as a loan. The maximum amount that the plan can permit as a loan is (1) the greater of $10,000 or 50% of the participant's vested account balance, or (2) $50,000, whichever is less. For more information, please **click here**.
Managed Accounts	An investment account that is owned by an individual and looked after by a hired professional money manager. In contrast to mutual funds, managed accounts are personalized investment portfolios tailored to the specific needs of the account holder. For more information, please **click here**.
Matching Contribution	The employer contributes a certain amount to a participant's retirement account based on the amount the employee contribution (for example, 50 cents are contributed by the employer for each dollar deferred by the employee).
Mortality and Expense (M&E) Fee	The M&E charge reflects the mortality risk undertaken by the insurer and other risks that the insurer may assume, including investment risks related to the guarantee of minimum annuitization rates and the guarantee of a set level of administrative charges over the lifetime of the contract.
Mutual Fund	A '40 Act fund is a pooled investment vehicle offered by a registered investment company as defined in the 1940 Investment Companies Act (commonly referred to in the United States as the '40 Act or, in some instances, the Investment Company Act (ICA).

Non-Qualified Retirement Plan	Retirement plans that are deferred compensation arrangements that typically are not subject to ERISA. Nonqualified plans include 457 plans and other deferred compensation arrangements.
Nonelective Contribution	The employer contributions a discretionary amount, other than Matching Contributions, to participants accounts.
Normal Retirement Age	The normal retirement age (NRA) is the age at which retirement benefits commence. For purposes of Social Security, NRA, also referred to as "Full Retirement Age," varies from age 65 to age 67 by year of birth.
Open Architecture	Typically refers to the ability to select non-proprietary investment options from the recordkeeper.
Plan Document	The plan document describes the plan's terms and conditions related to the operation and administration of the plan. For more information, please **click here**.
Plan Sponsor	A plan sponsor is the employer or entity that establishes a retirement plan for employees. For more information, please **click here**.
Qualified Distribution	The term qualified distribution refers to a withdrawal from a qualified retirement plan. These distributions are both tax and penalty free. Qualified distributions cannot be used at an investor's discretion as they come with certain conditions and restrictions set by the IRS.
Qualified Domestic Relations Order ("QDRO")	A qualified domestic relations order, is a judicial order in the United States, entered as part of a property division in a divorce or legal separation that splits a retirement plan or pension plan between spouses.
Qualified Retirement Plan	Retirement plans that meet the Internal Revenue Code requirements under Section 401 or 403(b). These plans offer several tax benefits: they allow employers to deduct annual allowable contributions for each participant; contributions and earnings on those contributions are tax-deferred until withdrawn for each participant; and some of the taxes can be deferred even further through a transfer into a different type of IRA.

Recordkeeper	A person or entity that keeps track of participant accounts, including contributions, withdrawals, balances, transactions (e.g. fund transfers), and other activities. Most agencies will contract with an outside vendor to provide recordkeeping services. Some large government plans perform them in-house. For more information, please **click here**.
Rollover	A rollover is when a participant moves funds from one eligible retirement plan to another. For more information, please **click here**.
Self-Directed Brokerage Account (SDBA/ SDBO)	An option found in some qualified retirement plans such as a 401(k) that allow the participant to invest in a wider selection of investments than is provided within the plan.
Separate of Service	Participants are eligible to withdraw funds from their 457(b) plan when separating from service (for any reason). After separation from service, a participant may leave their account in their former employer's plan, rollover their account into a traditional IRA or an existing qualified retirement plan.
Special Catch-Up (Employee) Contribution	Special 457(b) catch-up contributions, if permitted by the plan, allow a participant for 3 years prior to the normal retirement age (as specified in the plan) to contribute the lesser of twice the annual limit or the basic annual limit plus the amount of the basic limit not used in prior years (only allowed if not using age 50 or over catch-up contribution.
Spousal Consent	The written consent provided by the spouse of a retirement account owner, for the retirement account owner to take certain actions with his/her retirement account.
Target Date Funds	A mutual fund in the hybrid category that automatically resets the asset mix of stocks, bonds and cash equivalents in its portfolio according to a selected time frame that is appropriate for a particular investor.
Third Party Administrator	Partnered entities that process and manage the administrative and compliance aspects of plans as required under the Internal Revenue Code and/or ERISA.
Trustee	The entity or group of individuals who hold the assets of the plan in trust. Trustees are either designated in the plan document or appointed by another fiduciary, typically the employer who sponsors the plan.

Unbundled Provider	The unbundled provider is where the plan sponsor may choose a variety of providers to provide one or more services i. e. investment, recordkeeping, administration and education.
Vesting Period or Vested	When a participant becomes entitled to employer contributions, including matching and discretionary contributions, after a certain period of service with the employer. Generally, if a participant separates services before becoming fully vested, the participant forfeits all or part of the benefits.
Withdrawal	See ***Distribution.***
Years of Service	The total number of full years in which a Participant has been employed by one or more Employers.