What You Need to Know About Operating the Practice Retirement Plan

As a manager, you know that the practice retirement plan is an integral part of your employee benefit package. However, establishing and running an IRS-qualified plan is complex, time-consuming and risk-oriented. To select and run the best plan possible for your practice, you need to understand the alternatives and the regulations governing them thoroughly.

Maybe your practice has sponsored a plan for years, or perhaps you are only now beginning to explore the subject. Either way, it is important that you comprehend all of the elements of a successful employee retirement package. Following is a description of the key aspects to an effective retirement plan for all employees.

A Well-Managed Plan

A well-managed plan must be evaluated by more than how it does investment-wise. To serve the needs of both the practice and its employees, a retirement plan should:

- be understood and appreciated by participating employees;
- provide timely financial statement and other required disclosures;
- achieve consistent and superior investment results; and
- be easy to administer.

In order to meet these objectives, each aspect of the plan must be as well-coordinated and efficient as possible. The important operational measures of a well-run retirement plan are: (1) effective plan administration; (2) participant communication; and (3) investment performance.

Plan Administration

Many employers are frustrated by the operational and record keeping headaches involved with a qualified retirement plan. The key components of plan administration are:

- participant record keeping;
- plan design; and
- filing required reports with the federal government.

The Employee Retirement Income Security Act (ERISA), a federal law governing retirement plans, requires that plan assets be held in trust and that a person or entity be named as trustee. Typically, the practice owner or co-owners act as trustee(s) of the retirement plan.

Professional trustees are sometimes preferred because the practice owners have an extremely low tolerance for risks associated with trustee obligations (also known as fiduciary duties). As a practical matter, however, the risk of fiduciary lawsuits is relatively low compared to other business/professional risks, so long as plan investments for the employees are not unduly aggressive.

It is important, however, that the plan trustee and the plan administrator/record keeper communicate with each other. Otherwise, late or inaccurate reports and benefit statements can result.

Many retirement plans allow participants to allocate their contributions and account balances among a variety of investments on a quarterly basis. Since this process requires frequent adjustments to participant accounts and allocations, it can be burdensome and time-consuming, particularly if the accounts are administered internally. The better choice is to have a professional administrator equipped to manage the accounting aspects of directed investments on an automated system, thus reducing costs and potential errors.

Another key area of concern is the regulatory monster known as nondiscrimination testing. Retirement plans are heavily scrutinized by government auditors to insure that all eligible non-highly compensated employees are timely entered into the plan, and are allocated the correct amounts of employer contributions in comparison to the high-paid participants. A plan administrator with a proven ability to perform nondiscrimination tests either monthly or quarterly can help your practice avoid year-end problems and surprises.

Communications with Employees

The most often overlooked aspect of retirement plan operations is employee communications. Although many plans attempt to provide periodic benefit statements to their participants, additional information and guidance is often prudent from a fiduciary perspective. Many participants ignore their retirement plan accounts only to discover too late that their plan assets did not perform well enough to build the necessary nest egg. For example, over the long term, participants relying on fixed-income investments to generate returns may fall short of their expectations (especially after inflation is factored in). Consider improving employee communications and possibly enhancing each employee’s investment experience by providing access to professional advisory services. Such services are typically offered by the investment broker or custodian that holds the plans assets and indeed are often available free of charge. Ask your investment advisor to prepare a complete communication package designed to educate participants about investment alternatives. In some institutions, even personal guidance may be available.

Investment Review

To meet fiduciary duties, the practice owners must follow the ERISA-mandated process of adopting a written investment policy, and thereafter selecting appropriate funds that are consistent with that policy and conducting investment reviews. Fund selection and performance reviews should include the following tasks:

- prudent selection of funds and advisors to be offered to participants;
- periodic (usually quarterly) analysis of each funds performance compared to the appropriate market index;
- periodic analysis of each funds performance compared to risk limits established in the investment policy;
- periodic evaluation of portfolio managers (if any); and
- ongoing due diligence review as to whether the selected funds should remain available as plan investment alternatives.

Summary

The three keys to a successfully operating retirement plan: effective administration, comprehensive employee communication and investment performance monitoring can be difficult for a medical practice plan sponsor to manage effectively. Recognize each step and address it functioning in a critical way to be sure that each component of the plan runs smoothly. Work with your practice's retirement plan attorney to coordinate these important functions and enhance the overall benefit package offered to your employees.

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