

# GLOSSARY OF TERMS

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## **PLAN SPONSOR**

### **DEFINITION:**

The entity (e.g. school) that establishes and maintains a retirement plan.

## **PLAN FIDUCIARY**

### **DEFINITION:**

ERISA defines the term Fiduciary to include any person who:

- Has discretionary authority or responsibility in the administration of the plan
- Exercises any discretionary authority or control with respect to plan assets
- Renders investment advice as to plan assets for a fee

For plans (such as church plans) that are exempt from ERISA. State law contains similar concepts.

### **EXAMPLE:**

Examples of plan fiduciaries would be retirement plan committees, head of school, business manager or any other individual and/or committee that exercises discretionary authority in the administration of the retirement plan.

## **PLAN CUSTODIAN**

### **DEFINITION:**

A retirement plan custodian is a firm that holds plan assets to ensure that your retirement funds are kept separate from, and are protected from, your employer and your employer's creditors.

### **FUNCTION:**

- Hold plan assets
- Receive and process plan contributions
- Receive and process plan distributions
- Receive interest, dividend and capital gain distributions from plan assets
- Handle necessary paperwork and tax reporting for plan distributions
- Provide periodic summary reports for all plan activity
- Note that custodians can also be recordkeepers and/or third party administrators

### **EXAMPLE:**

Examples of plan custodians would include TIAA-CREF, Principal Financial, Lincoln Financial, Fidelity, and Vanguard.

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### **PLAN RECORDKEEPER**

#### **DEFINITION:**

A recordkeeper for a retirement plan provides a systematic procedure by which entries and records of the plan are created and maintained so that the plan can record daily transactions and be operational.

#### **FUNCTION:**

- Receive plan activity information from the plan sponsor such as employee contributions, employer contributions and distribution requests
- Process and allocate employee salary deferral contributions to each participant account
- Process and allocate employer contributions to each participant account
- Allocate all contributions to the specific investment funds selected by plan participants
- Allocate plan investment fund earnings to each participant account
- Keep track of each participant's source of plan assets such as pre-tax employee contributions, Roth employee contributions, employer contributions and rollover contributions
- Note that plan recordkeepers can also be custodians and/or third party administrators

#### **EXAMPLE:**

Examples of plan custodians would include TIAA-CREF, Principal Financial, Lincoln Financial, Fidelity, and Vanguard.

### **THIRD PARTY ADMINISTRATOR:**

#### **DEFINITION:**

Any person or group that performs plan administration functions which can include Form 5500 preparation, non-discrimination and coverage testing, Form 8955-SSA preparation and any other administrative functions required by the plan.

#### **FUNCTIONS:**

Third party administration functions can include the following:

- Provide plan documents, amendments, and summary plan descriptions
- Receive and review census data provided by plan sponsor
- Preparation of Forms 5500, 5330, 8955-SSA
- Actual Contribution Percentage "ACP" Test
- Actual Deferral Percentage "ADP" Test
- IRC Section 415 Annual Additions Test
- IRC Section 402 Deferral Limits test
- IRC Section 414 Compensation Test
- Safe Harbor and Profit Sharing calculations
- Hardship distribution calculations
- Age 70 ½ required minimum distribution processing

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- QDRO calculation and processing
- Corrective deferral processing
- Participant loan servicing
- Note that third party administrators can also be record keepers and/or custodians

**EXAMPLE:**

Examples of third party administrators would include Carroll Consultants, Ltd., TIAA-CREF, Principal Financial, Lincoln Financial and Fidelity.

### **INVESTMENT ADVISOR**

**DEFINITION:**

Any person or group that makes investment recommendations or conducts securities or mutual funds analysis in return for a fee.

**FUNCTION:**

To select and/or recommend investment options “funds” offered under the plan. The ongoing monitoring of funds in a regular and disciplined process including fund removal and new fund additions. In some instances, to provide investment advice to participants on an individualized basis.

**EXAMPLE:**

Examples of investment advisors would include Carroll Consultants, Ltd., Advisors, Ltd., Wells Fargo and UBS.

### **INVESTMENT POLICY STATEMENT**

**DEFINITION:**

A statement that outlines the process that a retirement plan sponsor intends to use in selecting and monitoring investments within the school’s retirement plan.

### **OPEN ARCHITECTURE**

**DEFINITION:**

The ability for a retirement plan to offer certain mutual funds from several different fund families that is custodied by one service provider.

### **PLAN ASSET/WRAP FEE**

**DEFINITION:**

Additional fees layered on top of the fund operating expense. These additional fees lower the return to a fund’s investors if paid from plan assets (in which case they are visible to participants as they involve liquidation of shares).

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## **ERISA PLAN EXPENSE ACCOUNTS**

### **DEFINITION:**

These accounts are also known as ERISA Accounts, ERISA Budget Accounts or Revenue Sharing Accounts. Defined as an account available to pay plan expenses to which your plan recordkeeper or custodian deposits a portion of the revenue sharing dollars from the investment funds or products used, effectively rebating the money to the plan.

## **REVENUE SHARING**

### **DEFINITION:**

Revenue sharing occurs when an investment company shares some of what it earns with plan recordkeeper, custodians, administrators and other service providers. Examples of common forms of revenue sharing can include 12b-1 fees and plan servicing fees. Revenue sharing reduces the amount that the other service providers need to charge on an explicit basis for their services.

## **LEGAL ADVISOR**

### **DEFINITION:**

Any lawyer or law firm that provides legal services for the plan or the plan sponsor.

### **FUNCTIONS:**

Legal services for retirement plans can include the following:

- Provide and/or review plan documents, amendments and summary plan descriptions
- Implement plan terminations through the IRS
- Advice on legal issues in relation to plan operations including fiduciary responsibilities

## **CPA Auditing Firm**

### **DEFINITION:**

A certified public accountant “CPA” or firm that can render an opinion on the retirement plan’s financial statements and accounting records after examination and verification procedures.

### **FUNCTION:**

- An audited financial statement for a retirement plan is generally required for plans with over 100 participants
- To provide an audited plan financial statement that must be attached to Form 5500 when filed
- CPA Firms review the plan document, plan assets including transactions during the year and test individual plan participant transactions including eligibility for accuracy
- Plan audits with CPA Firms can take time and are costly