

# PROPOSED REVISIONS TO THE FORM 5500 AND SCHEDULES

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# AGENDA

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- Background
- Investment and fee disclosure
- Administrative disclosures
- IRS issues
- Health and welfare
- Next steps

# BACKGROUND

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- Purpose of Form 5500
- Tri-agency process
- Objective of revisions
  - Modernize financial statements and investment reporting
  - Expand reporting for health plans
  - Improve compliance and oversight
- Effective Date – 2019
  - Except IRS changes

# BACKGROUND

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- Effect on plan sponsors
  - Considerably more reporting
  - More coordination with service providers
  - Shift in agency enforcement strategy
- Agency engagement
  - Comment Deadline – October 4, 2016
  - Everything is open for comment

# INVESTMENTS & FEE DISCLOSURE CHANGES

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## *Highlights of Proposed Changes*

- Service Provider Information
  - Schedule C changes
  - Schedule H, Part II –expense reporting
- Asset categories
  - Schedule H, Part I – Assets & Liabilities
  - Schedule of Assets Held
  - DFEs
  - Self-directed brokerage windows
  - Schedule H, Part II – income reporting
- Securities Lending
- Trustee Certification

# SCHEDULE C: SERVICE PROVIDER INFORMATION

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*Agency Goals: Harmonize Schedule C with 408b-2, improve data mineability & transparency*

- **Expands to small plans and welfare benefit plans**
- **Separate Schedule for each service provider**
  - Threshold: received \$1,000 + in total direct and indirect comp, or \$5,000+ in indirect comp
  - Expanded contact information (name & address) and whether they are a fiduciary
  - Requires service codes for all providers (direct & indirect comp)

# SCHEDULE C: SERVICE PROVIDER INFORMATION

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- **Indirect Compensation**
  - Eliminates “eligible indirect compensation” distinction
  - Requires estimated dollar amount; eliminates option to provide a formula
  - Provides flexibility to use reasonable method for allocating indirect fees
- **Additional questions**
  - Y/N question on whether an ERISA recapture/ERISA budget account was used
  - Bundled services (e.g., recordkeeping), potential conflicts of interest questions
  - Schedule H: Expanded “Terminated service provider “ question (added to actuaries & accountants)

# SCCHEDULE H, PART II INCOME & EXPENSE STATEMENT

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## *Expanded Administrative Expense Reporting*

- **Participate-level charges**
  - Segregate admin expenses charged directly against participant accounts versus those charged to other plan asset sources
  - Identify how & when participants are being charged admin expenses
    - Per capita
    - Pro rate based on account balance
    - Other

# SCCHEDULE H, PART II INCOME & EXPENSE STATEMENT

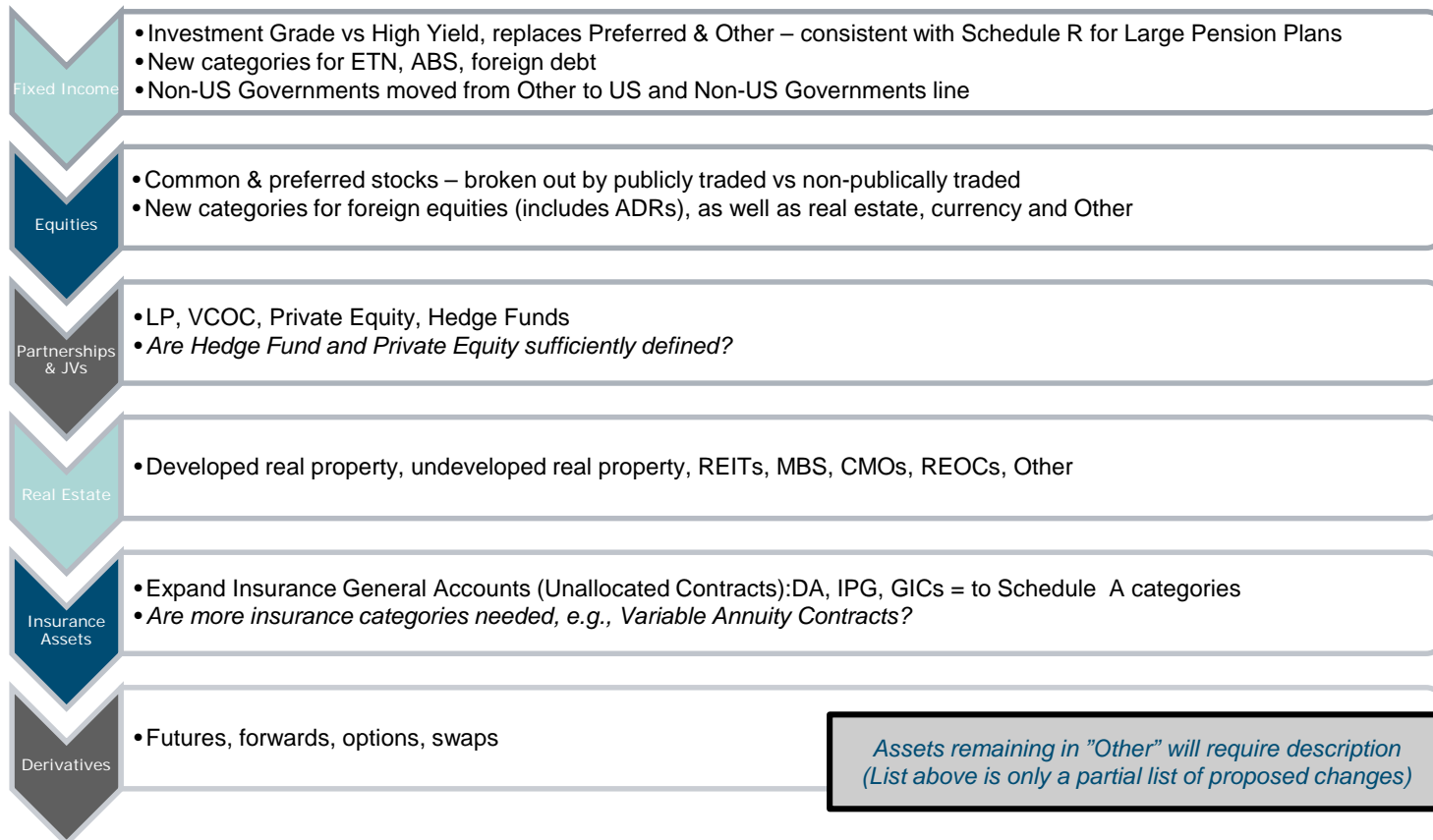
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## Expanded admin expense categories

- Salaries & allowances
- IQPA audit fees
- RK and other accounting fees
- Bank or trust co trustee/custodial fees
- Actuarial fees
- Legal fees
- Valuation/appraisal fees
- Trustee fees/expenses (travel, seminars, meetings)

# SCHEDULE H, PART I ASSETS & LIABILITIES

*Agency Goal: Improve data mineability and transparency; reduce “Other” category*



# DIRECT FILING ENTITIES (DFE): HOLDINGS IN MTIA, CCT, PSA, AND 103-12 ENTITIES

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*Schedule D, Part I replaced by attachment per Line 4i(1) Schedule of Assets Held for Investment at End of Year*

- Master Trusts
  - Show plan's proportionate interest in each holding of the master trust and PSA on new Schedule of Assets Held section specifically for master trust investment account participation
  - Eliminates "MTIA" reporting
- CCTs & PSAs
  - Underlying investments of CCTs and PSAs, which have been provided only to plan fiduciaries, will now be part of the annual return/report data set; it will be filed either by the participating plans or by the CCT or PSA
  - CCTs & PSAs will be required to file Form 5500 with Schedule of Assets Held in order to provide participating plans/trusts relief from having to disclose underlying assets of the DFE
  - Current requirement to break out the assets of non-filing CCTs or PSAs would be retained
  - If CCT holds HTVAs, then CCT is flagged as a HTVA on the plan's Schedule of Assets Held

The Agencies are particularly interested in information on how investments in DFEs relate to investment alternatives in participant directed accounts and how much of the underlying assets of DFEs consist of hard-to-value and alternative investments

# SCHEDULE OF ASSETS HELD – ASSET IDENTIFIERS

“ALL THAT APPLY”

**(a) Assets Held directly by the plan (including assets held through an participant-directed brokerage window)** For each asset which the plan holds for investment purposes that is not a type of assets required to be listed in (b) through (e) below, complete elements (i)–(vii).

<b>Direct Investments</b> Borrower, lessor or similar party is party-in-interest <input type="checkbox"/>	(ii) Name of issuer, borrower, lessor, or similar party	(iii) Is the asset a hard-to-value asset? <input type="checkbox"/> Yes <input type="checkbox"/> No	(iv) CUSIP, CIK, LEI, NAIC Company Code, other registration number:	(v) Cost	(vi) Indicate Sch. H, Line 1b asset category.	(vii) Description of investment, including, as applicable, share class, maturity date, rate of interest, par or maturity value, including whether asset/investment is subject to surrender charge. See instructions for reporting assets held through a participant-directed brokerage account.

**(b) Investments in Master Trust (repeat as many entries as needed to identify holdings in master trusts)** For each master trust in which the plan invested, break out plan’s interest in each asset in the master trust(s) in elements (i)–(viii). Do not include master trust holdings in which the plan has no interest.

(i) Enter name, EIN/PN of sponsor of master trust used on master trust’s Form 5500.						
<b>Master Trust Look-Through</b> Borrower, lessor or similar party is party-in-interest <input type="checkbox"/>	(iii) Name of issuer, borrower, lessor, or similar party (See instructions)	(iv) Is the asset a hard-to-value asset? <input type="checkbox"/> Yes <input type="checkbox"/> No	(v) Enter all that apply: EIN, CUSIP, CIK, LEI, NAIC Company Code, other registration number:	(vi) Cost	(vii) Indicate Sch. H, Line 1b asset category	(viii) Description of investment, including, as applicable, share class, maturity date, rate of interest, par or maturity value, including whether asset/investment is subject to surrender charge.

Example of “structured data attachment

# SCHEDULE H, PART II INCOME & EXPENSE STATEMENT

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*Expanded income categories consistent with new Schedule H,  
Part I asset categories*

- **New Interest Categories**
  - Partnership/JV
  - Commodities
  - Derivatives
  - Employer securities
  - Foreign investments
  - Employer real property

# SELF DIRECTED BROKERAGE WINDOW

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*New subtotals for certain types of investments*

- **Generally follows the same breakout requirements as the current options:**
- (1) As individual investments in the applicable asset and liability categories in Part I and the income and expense categories in Part II, or
- (2) by including on the “Other” lines (Line 1c(15) on the balance sheet and 2c on the income statement) the total aggregate value of the assets and the total aggregate investment income (loss) before expenses ....
- *.... provided the assets are not loans, partnership or joint venture interests, real property, employer securities, or investments, including derivatives, that could result in a loss in excess of the account balance of the participant or beneficiary who directed the transaction.*

# SELF DIRECTED BROKERAGE WINDOW

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- **Proposed change:**
  - Separate subtotals for brokerage account investments in tangible personal property, loans, partnership or joint venture interests, real property, employer securities, and investments that could result in a loss in excess of the account balance of the participant or beneficiary who directed the transaction.
  - Line 4i Schedule of Assets Held – present the types of investments held in participant directed brokerage accounts that are not eligible for aggregated reporting under current annual reporting rules.

# SCHEDULE H - SECURITIES LENDING

4w [New] Does the plan have investment acquisitions that are leveraged, including assets subject to collateralized lending activities (e.g., securities lending arrangements, repurchase agreements etc.)?

- Yes
- No If “Yes,” you must complete Lines 4w(1), (2), and (3).
  - 1) Check box to indicate type of activity:
    - securities lending, including repurchase agreements or sell/buy-backs
    - other, e.g., transactions that subjected plan assets to a mortgage, lien, or other security interest (describe)
  - 2) (A) amount of cash obligated in connection with collateralized lending activities at end of year  
(B) value of securities obligated in connection with collateralized lending activities at end of year  
(C) other assets obligated in connection with collateralized lending activities at end of year
  - 3) approximate ratio of collateralized/leveraged investments to total plan assets at end of year

The Agencies specifically request comments on whether there could be effective breakout line items on the balance sheet that would more clearly show assets that are subject to securities lending or similar arrangements or whether there are specific instructions that would be helpful for filers to know where to categorize the various components of such transactions on both the balance sheet and earnings statements on the Schedule H

# LIMITED SCOPE CERTIFICATION

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## *Changes to the limited scope exemption language*

- Separate certification page
- Identification of certifying entity & description of the manner in which the assets are held
- Indication that the certified assets have been separately identified in the list of assets that are provided
  - Otherwise, include a caution that the certification is not certifying to current fair value and that the values may not be suitable to satisfy the plan's reporting obligations
  - If certifying on behalf of a bank or insurance company, indicate that the certifying entity is authorized to issue the certification and that the bank or insurance company is taking responsibility for the accuracy and completeness of the certification and the underlying records
- Note: See changes to the auditor representations as well

# COMPLIANCE QUESTIONS

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- General questions
  - Disqualified persons
  - Payment of administrative expenses not reported as service provider comp
  - Plan sponsor as paid service provider
- Participant directed plans
  - Investment alternatives
  - Participant fee disclosure
  - Uncashed checks
  - Default investment

# IRS-ONLY CHANGES

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- Background
  - 2009 and 2015 changes
- Examples of specific changes
  - Determination letter date
  - Method of satisfying nondiscrimination, ADP testing, and minimum participation
  - Hardship distributions
  - Unrelated business taxable income

# HEALTH PLANS

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- Plans with fewer than 100 participants required to file
- New compliance questions re –
  - COBRA
  - HSAs, FSAs, or HRAs
  - Service providers
  - Stop loss
  - SPD, SMM, and SBC requirements

# NEXT STEPS

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- Review changes
- Collect comments from CIEBA membership
- Consider submitting comment letter
- Deadline – October 4