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Changes in Employee Benefit Plans

Audits of employee benefit plans continue to evolve and the pace of this evolvement is unpredicted. Areas such as technology and skills continue to grow, as well as, the industry standards. Now we throw COVID-19 into the mix, and we not only have to adjust to new ways of having these plans audited but additional standards that come into play with it.

The Auditing Standards Board has recently been issuing new standards. These standards go hand-in-hand with the changes in technology and skills. These standards will improve the provisions of plans, will affect the audits of plans, and will address risk assessment and quality control. Auditors, as well as, plan sponsors and administrators should understand what these changes are and how they will affect retirement plans.

Therefore, what are some of the changes we can expect to see in the near future?

- Accounting Standards Updates (ASU) 2018-09 and 2018-13, which improve the standards on valuation of investments that use net asset value as a practical expedient and improvements to fair value disclosures. These both will be effective for years beginning after December 15, 2019.

- Statement on Auditing Standards (SAS) 134-141, with the biggest impact on limited scope audits, which will now be called ERISA Section 103(a)(3)(c) audits. These standards will also affect the form and content of engagement letters, auditor's opinions, and representation letters. The Statement on Auditing Standards were previously effective for years beginning after December 15, 2020, but due to COVID-19 has been moved and is effective for years beginning after December 15, 2021.

In addition to these new standards, new acts recently came into law.

- The Bipartisan Budget Act of 2018, which was signed into law on February 9, 2018. This act made changes in regulations for hardship distributions.

- The SECURE Act which became law on December 20, 2019. This act will make it easier for small businesses to setup safe-harbor plans, allow part-time employees to participant in retirement plans, push back the age limit for required minimum distributions from 70 ½ to 72, allow 401k plans to offer annuities, and changed distribution rules for beneficiaries. This act also added new provisions for Qualified Automatic Contribution Arrangements (QACAs), birth and adoption distributions, and in-service distributions for defined benefit plans.

- The CARES Act which was signed into law on March 27, 2020, which acted as an aid and relief act from the impact of the COVID-19 pandemic. This act allows participants who are in retirement plans the options of taking distributions and/or loan withdrawals early without penalties during certain time periods for qualified individuals.

Lastly, there is constant discussions on Cybersecurity. Cyber crime is one of the greatest threats to every company. Tips to consider: Does your company have a cybersecurity policy in place? Do you have insurance for cybersecurity? What is management's role on cyber risk management? Are their trainings on how to handle cyber crime for both your IT department and all employees of the company? Cyber attacks are a normal part of daily business. Cyber attacks can be significantly reduced if companies understand the risk, have adequate resources and trainings, and have effective monitoring.

These changes effect most defined contribution and defined benefit plans. Plan sponsors should be evaluating these changes and the impact they have on the retirement plans. Some of these changes are optional, some are required, and some require amendments to plan documents. Plan sponsors should be discussing these changes as soon as possible with their third-party administrators and auditors. Remember it's the fiduciary's responsibility to run the plan in the sole interest of its participants and beneficiaries and to do this in accordance with all industry rules, regulations, and updated standards.

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