

FASCore Documentation

FUNCTIONAL PROCESS: Contributions

PROCEDURE: Establishing Default Funds

Date: February 2007

Overview

Every Plan typically selects a default fund at conversion. If a participant does not specify an investment election, the individual processing the first payroll for that participant is given the option during contribution processing to establish one for the participant by defaulting into the specified default fund(s). Or a default allocation may be applied when an employee is added to the system via the MADD process. For example: when a Plan is using on-line enrollment or auto-enrollment.

Procedure

I. Establishing the Default Fund:

A. Conversion

1. The client designates the default fund(s)
2. The default fund(s) are set up on the system

B. Post-conversion

1. Clients can make changes to their default fund by completing and signing the Default Election Form.
2. The form is sent to FASCore for processing.
3. New participants added to the system can be defaulted into the new default fund(s).
4. Participants currently defaulted will not change to the new default fund(s) unless the fund(s) they were defaulted into is being eliminated.

C. Defining Default Funds - The method for defaulting participant allocations is to define a default fund or funds on a Plan level in one of the following ways:

1. A plan's default fund can be specified, such as 100% to the ABC Fund
2. A plan's default election between funds can be specified, such as 50% to ABC Fund and 50% to DEF Fund.
3. Age based defaults can be specified as the plan's default funds.
Age based defaults typically use either target retirement date/lifecycle or risk-based funds.

4. Target date funds refer to funds with a specified future date that assumes the participant's retirement age.
 - a. Plans elect a range of birth dates(DOB) and participants whose dates of birth fall within that range will be defaulted to the fund(s) or model assigned to that range.
 - b. A low and a high threshold for the date of birth must be defined for each target date fund when completing the Default Fund Election Form.
 - c. No overlapping or gaps are allowed in date ranges.
 - d. Participants will stay within a particular range and the target date fund into which they were defaulted will change their investment strategy, as appropriate, until they choose to make a positive investment election.
 - e. The addition or deletion of target date funds does not trigger an Advisory Services lineup review.

Example - Retirement age 65

DOB	Target Date Fund/Lifecycle
1940 – 1950 defaults into:	ABC Target Date 2015
1951 – 1960 defaults into:	ABC Target Date 2025
1961 & over * defaults into:	ABC Target Date 2035

*The last fund can have the high threshold left blank until another target date fund is added for the plan.

5. Risk-based funds/models refer to funds such as profile funds that take into consideration the level of risk a participant is willing to take.
 - a. Plans elect a range of ages and participants whose age is within that range will be defaulted to the fund(s) or model assigned to that range.
 - b. As the participant ages, they will remain in their original default until they choose to make a positive investment election.
 - c. Participants will not be automatically moved to a different model or investment option as they age.
 - d. No overlapping or gaps in age ranges are allowed.

Example

Age Range	Risk-Based Fund
Age 0-34 defaults into:	Aggressive Profile
Age 35- 55 defaults into:	Moderate Profile
Age 56 & over defaults into:	Conservative Profile

II. **Default Process**

- A. The client must input allocation (investment) elections for all new participants through PSC unless the plan has elected to have all allocations defaulted when an employee is added to the system via the MADD process. For example Plan's using on-line enrollment or auto-enrollment.
- B. The PCS processor will receive a reject message if they process a file with a participant that does not have an investment election on file for their contributions.
- C. The PSC processor can clear the reject message by entering investment elections for the participants or by indicating to use the designated default fund(s) selected at conversion as the investment election.
- D. If the participant is added using the default fund(s), an indicator is set at the participant level indicating the participant allocations were defaulted.
- E. When the Welcome Letter (PARPIN) document is produced, it recognizes the presence of the indicator and special verbiage is included that addresses the defaulted allocations as follows:

"Our records indicate that your contributions are being allocated to the default investment option for your Plan. Please call VRU or access the web site to make changes to this default allocation, and to transfer any existing balance in the default investment option."
- F. Upon receipt of elected allocations, through the web site, VRU, or PSC, the defaulted allocations are terminated and the new allocations defined.
- G. The Plan Administrator may create the Incomplete Recordkeeping Report on PSC.
 - 1. This provides a list of participants for whom FASCore has incomplete recordkeeping information
 - 2. This report includes participants with default allocations, as well as those with incomplete or missing address, birth date or date of hire.