

## Assurance Report

### 2201F Empower Required Minimum Distribution (RMD) Testing

August 24, 2022

Cindy Rougeou, LASERS Executive Director  
The LASERS Audit Committee

#### EXECUTIVE SUMMARY

This project included a review of RMD's processed by Empower for the 2020 tax year. The following observations were noted and are detailed below:

- Joint Life and Last Survivor Expectancy Table should be used to calculate RMD amounts where applicable.
- Empower should contact beneficiaries upon notification of a participant's death.

#### BACKGROUND

This was a planned engagement on the fiscal year end (FYE) 2022 Audit Plan. The fieldwork for this engagement was completed on August 19, 2022.

The Fiscal Division processes RMDs for retirees and beneficiaries of retirees who participated in Deferred Retirement Option Plan (DROP) or took an Initial Benefit Option (IBO), prior to the establishment of the Self-Directed Plan (SDP). LASERS third party administrator, Empower, processes RMDs for retirees and beneficiaries that have an SDP account.

#### SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of this engagement was to review records for individuals that were subject to RMDs during the 2020 tax year for SDP accounts managed by Empower Retirement.

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The primary objective of this engagement was to determine if Empower processes RMDs in accordance with applicable laws and procedures.

Procedures used to complete this engagement included:

- Reviewing applicable laws and procedures.
- Using Audit Command Language (ACL) to test and analyze Empower data.
- Conducting other inquiries considered necessary to achieve engagement objectives.

This engagement was conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and the policies and procedures of the Audit Services Division.

## **OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES**

### **1. JOINT LIFE AND LAST SURVIVOR EXPECTANCY TABLE SHOULD BE USED TO CALCULATE RMD AMOUNTS WHERE APPLICABLE**

#### **OBSERVATION**

According to Empower, the Uniform Lifetime table is used to calculate participant RMD payments. This procedure can result in RMD calculation errors for participants that have designated a spouse as their sole beneficiary and the spouse is more than 10 years younger than the participant.

IRS Publication 590-B “Distributions from Individual Retirement Arrangements” states that account owners whose sole beneficiary is a spouse that is more than 10 years younger should use the Joint Life and Last Survivor Expectancy table to determine the appropriate factor to use to when calculating their RMD amount.

In order to correctly determine which factor table to use, Empower must have beneficiary information including their age and relationship to the participant. Currently, Empower does not receive beneficiary information from LASERS until after a participant’s death when a potential beneficiary submits a death claim.

#### **RECOMMENDATION**

Empower should work with LASERS to begin receiving and utilizing beneficiary data to determine when the Joint Life and Last Survivor Expectancy table should be used to calculate participant RMD amounts. Target completion date is December 31, 2023.

#### **EMPOWER’S RESPONSE**

Empower agrees with this recommendation. Empower complies with the IRS by calculating RMDs for participants using the IRS Uniform Life Table and offering a calculation using the IRS Joint & Last Survivor Table for participants who qualify and request the reduced calculation. Our RMD paperwork and annual notice support this “participant driven” process. The RMD paperwork indicates use of the Uniform Life Table and offers the option to elect the Joint & Last Survivor Table for those who qualify. Our annual RMD notice states that the RMD calculation is based on the Uniform Life Table unless the participant has requested the Joint & Last Survivor Table, in which case that table is used to calculate the RMD amount. The annual RMD notices generate in July to give participants time to respond and request a Joint Life calculation if desired. We will accept a request for the Joint & Last Survivor Table via phone for those who contact the call center. An advantage of this “participant driven” process is in the event of any marital status change; the participant should recall that he/she directed a reduced calculation and notify Empower of the change in circumstance.

The following is a complimentary option that Empower can support.

LASERS will send a letter of instruction to Empower to use the Joint Life Expectancy Table for members whose spouse is 10 years younger than the member. A listing of the members' names, social security numbers, spouses' names, spouses' social security numbers, and dates of birth will be sent with the letter of instruction to Empower. After the agreed upon effective date, the Joint Life Expectancy Table will be used where applicable. However, no adjustments will be made to prior withdrawals including RMDs already taken for the current year. Notices will not be updated if they have already been generated. Consider the following scenario. Empower mails the RMD notices in July and LASERS' passes on instructions to update an account after the July mailing. In this example, we will update the account and force the lower amount, but we would not send a new notice. The account will follow the reduced amount going forward.

On or shortly after November 1<sup>st</sup>, we will force out any RMDs that are due. So, any/all updates must be completed prior to November 1<sup>st</sup>. Updates related to grace/delayed RMDs must be completed before March 1<sup>st</sup>. Empower will force out grace/delayed RMDs beginning on/shortly after April 1<sup>st</sup>.

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## **2. EMPOWER SHOULD CONTACT BENEFICIARIES UPON NOTIFICATION OF A PARTICIPANT'S DEATH**

### **OBSERVATION**

LASERS sends SDP participant death dates to Empower on a weekly basis. Empower updates the participant's record with this information to prevent future payments from being issued. Currently, since Empower does not receive beneficiary information, no further action is taken until a potential beneficiary submits a death claim. Once a death claim is submitted, Empower will contact LASERS to verify and validate beneficiary information.

Since no steps are taken to contact beneficiaries of deceased participants, a participant's account can remain dormant if a beneficiary does not submit a death claim to Empower. This can result in a failure to timely issue RMD payments to beneficiaries as required by the IRS. As of May 31, 2022, there was a balance of approximately \$3.6 million residing in accounts of 105 deceased SDP participants with a death date occurring in 2006 through 2021.

### **RECOMMENDATION**

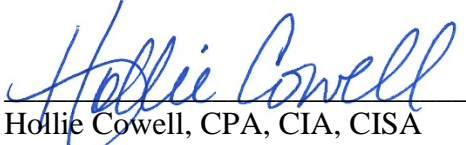
Empower should work with LASERS Member Services and Fiscal Divisions to develop a process that ensures beneficiaries or other appropriate parties are contacted and provided instructions related to death claims and RMD requirements after being notified of a SDP participant's death. Target completion date is December 31, 2023.

### **EMPOWER'S RESPONSE**

Empower agrees with the recommendation. Empower does not proactively contact beneficiaries when the date of death is received on the data file from LASERS. Once the death certificate has been received and there is a beneficiary on file, Beneficiary Services will send a letter and death claim form to the beneficiary to complete. In cases where RMD's have been missed for deceased participant accounts a review is completed and all missed RMDs are paid out to the beneficiary when a Death Claim Form is received.

## FOLLOW-UP

A follow-up to this engagement will not be scheduled at this time. Audit Services will maintain this information on a tracking report. These items will be tracked until they are closed.



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