NEW MONEY MARKET FUND RULES REQUIRE REVIEW BY PLAN SPONSORS

In July 2014, the U.S. Securities and Exchange Commission (SEC)—the primary regulator of money market mutual funds—issued new rules for further regulation of money market mutual funds that are to be implemented by October 2016. The new rules will change how money market funds are invested, priced, operated, and acted upon when financial markets are under stress.

Sponsors of retirement plans should consider how their use of money market funds should be changed in light of these revised rules. We have put together this summary to help you determine how the changes will affect your plan options.

What plan sponsors need to know
The new SEC rules include the following changes:

- Money market funds can fall into three classifications: institutional, retail, or government funds.
- Institutional funds will be required to have a floating NAV and may impose redemption fees and gates.
- Retail funds will have a stable NAV but may impose redemption fees and gates.
- Government funds (retail or institutional) will have a stable NAV and are not subject to redemption fee or gate requirements.

Figure 1. Money Market Reform Requirements by Type

Money Market Fund Type	NAV	Temporary Fee or Gate on Redemptions	Customer Availability
U.S. Treasury	Stable	No	Retail and institutional customers
Government	Stable	No	Retail and institutional customers
Retail Municipal/Tax-Exempt	Stable	Yes	Retail only
Retail Prime	Stable	Yes	Retail only
Institutional Municipal/Tax-Exempt	Floating	Yes	Retail and institutional customers
Institutional Prime	Floating	Yes	Retail and institutional customers

Source: Putnam Investments, "Money Market Reform and Its Impact on Plan Sponsor"; Commonwealth

How does this affect your plan?
For retirement plan investors, the two most significant reforms are the requirement that institutional funds use a floating NAV and the option for institutional and retail mutual funds to impose liquidity fees and gates in times of market stress or low levels of fund liquidity.

Defined contribution plans are exempt from the new floating-rate NAV requirements; however, any non-government money market fund in the plan will be subject to potential liquidity fees and redemption gates. In addition, defined benefit plans that are considered institutional will need to consider whether the possibility of a gate or fee could reduce the liquidity to such an extent that the plan would not be able to make required pension payments in a timely fashion.

Steps you can take now

Here are some steps that you can take now in order to prepare your plan in advance of the October 14, 2016, implementation deadline:

1. Understand the SEC amended rule for money market funds and its potential impact on your plan participants.
2. Explore alternatives to retail money market funds, including a shift to a government money market fund or a stable value collective trust.
3. Contemplate preferences for safety, liquidity, and return for this type of investment, then select a new investment, and match the preferences with that investment.
4. Implement a communication strategy to educate participants about any changes to your plan's money market fund options.

Definitions

A **redemption gate** is a temporary measure that may be implemented by a mutual fund that limits redemptions for a short period of time (e.g., 10 days).

A **liquidity fee** is imposed upon a participant when he or she needs to access cash in times of market stress and wants to make a redemption from the fund. This fee may be levied in order to pay for liquidity. (The fund charges this fee to manage the transactional costs of redemptions.)

A **retail money market fund** is defined as a money market fund that has policies and procedures reasonably designed to limit beneficial owners of the fund to "natural persons," which means that a retail money market fund's shares can be held only by individual investors. "Natural persons" covers individuals, certain trusts, certain retirement accounts under IRC 408, and participant-directed defined contribution plan accounts, such as 401(k)/401(a), 403(b), and 457(b).

Questions?

The current regulatory environment can be challenging for retirement plan sponsors. Our firm is ready to provide you with the ideas, guidance, and foresight to prepare for what lies ahead. If you would like to review any aspect of your retirement plan in light of the upcoming rule changes, we're here to assist you.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other governmental agency; although the fund seeks to preserve the value of the investment at $1 per share, it is possible to lose money. Non-bank deposit investments are not FDIC- or NCUA-insured, are not guaranteed by the bank/financial institution, and are subject to risk, including loss of principal invested.