

# Money Market Rules for 401(k) and Other Qualified Plans

For Investment Advisor Use Only



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In 2014, the SEC approved new rules governing Money Market Funds that impact 401(k) and qualified retirement plans. The new rules take effect October 14, 2016. Some plan sponsors and advisors will wish to choose a new money market fund or cash investment option before the effective date to avoid subjecting participants to potential redemption fees or temporary freezes in liquidations.

## Background and Purpose

The new rules were enacted as a response to the market downturn of 2007 when prime institutional money market funds experienced significant outflows. These outflows created temporary liquidity challenges for fund boards. During this time some money market funds temporarily halted redemptions and the Reserve Primary Fund, the oldest U.S. money market fund, saw its net asset value drop to 97 cents – below the once-thought rock solid \$1.00. The liquidity crisis was mostly averted, but concerns that a future market downturn could create a bigger crisis caused the SEC to enact new rules.

## Redemption Fees and Gates

Under the new rules, money market funds are required to maintain 30% in weekly liquid assets. If weekly liquidity falls below 30% for up to 10 business days, the fund's board may impose a redemption fee on all redemptions of up to 2% or a liquidity "gate" to temporarily halt all redemptions for up to 10 days. These rules do not apply to government money market funds (unless opted by the fund's board).

## Floating NAV

In addition to the new redemption fee and liquidity gate rules, certain types of money market funds will no longer be able to utilize the rounded two-decimal NAV, which under normal circumstances allows a fund to maintain a stable \$1.00 share value. The floating NAV rules do not apply to government money market or "retail" funds.

## Impact to Plan Participants

Offering a money market fund option that is subject to redemption fees and liquidity gates means plan participants could incur a fee of up to 2% when redeeming shares, or could be temporarily prevented from redeeming shares, if a liquidity gate is imposed. The rules do not differentiate between the types of redemptions and may apply to participant requests for a distribution on separation from service, distributions for financial hardship, in-service distributions, transfers, or loans.

## Options for Avoiding New Requirements

Plan sponsors whose money market funds are subject to the new redemption fee and liquidity gate rules may find the new requirements burdensome and harmful to participants and wish to choose a cash option not subject to the new rules. Several options to consider include:

- 1. Government Money Market Funds** – Government Money Market Funds are generally not subject to the new rules. These are funds that hold 99.5% or more of assets in cash or government-backed securities, including U.S. Treasury Funds.
- 2. Bank Custodian Options** – Several retirement plan custodians now offer non-SEC regulated investment options similar in some respects to money market funds. These products are generally FDIC insured, and in some cases, provide a significant reduction in custodial fees paid by the plan.
- 3. Stable Value Options** – Stable value funds may also be worth evaluating as they are generally not SEC regulated and often have higher stated investment returns. These funds are typically offered via a collective investment trust through a bank trust company. While they are generally not subject to the new SEC rules, stable value funds often have their own redemption fee or liquidity gate provisions to consider.

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## Impact on Different Types of Money Market Funds

The table below summarizes the net asset value (NAV), redemption fee, and liquidity gate rules that apply to SEC-regulated money market funds effective October 14, 2016.

Money Market Type	NAV	Redemption Fee	Liquidity Gate
U.S. Treasury Fund	Stable	No	No
Government Fund	Stable	No	No
Retail Municipal / Tax Exempt	Stable	Yes	Yes
Retail Prime Fund	Stable	Yes	Yes
Institutional Municipal / Tax Exempt	Floating	Yes	Yes
Institutional Prime Fund	Floating	Yes	Yes

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