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RETIREMENT PLAN SOLUTIONS

Insight from Alliance Benefit Group, One of the Largest National Independent Retirement Plan Providers

Founded in 1992 • Administration of Over 22,000 Plans and 1.2 Million Plan Participants • Over $64 Billion in Assets Under Management • Plans in All 50 States

WINTER 2017

Inside This Issue

RETIREMENT READINESS IN THE NEW YEAR

As plan sponsors move forward in the new year, now is a great time for them to encourage employees and plan participants to:

- Take stock of where they are in terms of their retirement savings.
- Proactively plan to make the most of their tax-deferred savings plans in the year ahead.

In this article we address three important issues retirement plan participants should consider whether they are just starting to save for retirement, are mid-way through their working life or are rapidly approaching retirement.

For Employees Who Are Just Starting Out

Plan sponsors may want to encourage employees who are just starting out in their careers to consider the following questions:

1. Are you participating in a retirement plan?

When entering the workforce, young employees may be overwhelmed by information and paperwork. From employee applications to health benefits forms, to 401(k) paperwork, it is very easy for that employee to put the retirement plan paperwork to one side thinking "I'll get to it later." But sometimes that later isn't soon enough. It is always good to remind employees the sooner they start participating in a retirement plan, the greater the benefits will be over the long term.

2. Do you understand what you are investing in?

If a participant has been automatically enrolled in a retirement plan, they may have been placed in a default investment strategy that may not make sense for them in terms of their retirement goals, time horizon and risk tolerance. Now is a great time for this participant to review their investments to make sure the objectives of the funds they are invested in match their long-term goals. Investing too conservatively is an easy mistake to make. Typically the younger the plan participant, the more exposure they should have to equities to achieve greater long-term growth.

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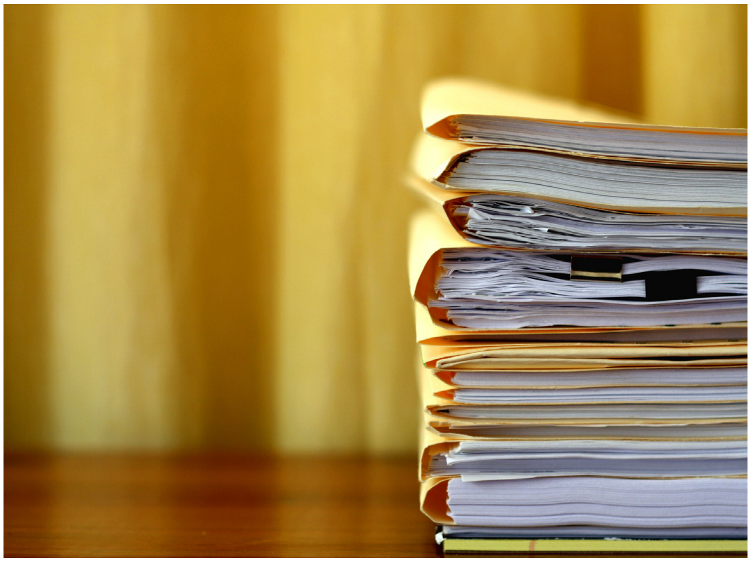
ARE YOUR PLAN'S REQUIRED PARTICIPANT DOCUMENTS READILY AVAILABLE?

Retirement plans are required to make certain plan documents available to participants as well as those beneficiaries that are receiving retirement plan benefits. These required documents include the following materials:

The Summary Plan Description



The Summary Plan Description (SPD) is the description of a retirement plan's provisions and must be distributed to participants within 90 days after becoming eligible to participate. It contains specific information about the plan including:

- Requirements for participation in the retirement plan
- A description and explanation of the retirement plan's provisions for determining years of service for purposes of eligibility and vesting

Whenever a retirement plan is amended or modified, the SPD must be updated within 210 days after the end of the plan year that occurs five years after the last update. If no amendments have been made, an updated SPD must be provided within 10 years and 210 days after the original was first provided.

The Summary of Material Modifications (SMM)

If a retirement plan is amended and the amendment affects information that is required to be in the SPD, participants must receive a Summary of Material Modifications (SMM):

- The SMM must be distributed within 210 days after the close of the plan year in which the modification occurred.
- If an updated SPD lists the modifications made, it can be issued instead of the SMM as long as it is distributed within the same 210-day period.

The Summary Annual Report (SAR)

The Summary Annual Report (SAR) summarizes a retirement plan's financial activities including assets and expenses as well as basic plan information such as plan name, identification number and the date the plan year begins and ends. The SAR must be distributed in the later of the following two timeframes:

1. Nine months after the end of the plan year.
2. Two months after the due date of the plan's Form 5500 (including any extensions from the IRS).

Timeframe For Providing Required Materials To Participants

When receiving a request from a retirement plan participant, the plan administrator must provide the materials requested within 30 days of receiving that request. A penalty of up to $110 per day per participant requesting these materials may be assessed for failing to meet this deadline.

In addition it is always a good practice to clarify with the plan participant the documents they are actually requesting if there is any confusion as to what their request entails. If you have any questions about any of these required documents or time frames, please contact your local ABG representative. ■

REASONABLE FEES UNDER THE DOL'S CONFLICT OF INTEREST PROPOSAL

As plan sponsors adjust to the rulings under the Conflict of Interest Proposal brought forward by the Department of Labor (DOL), the ABG newsletter has provided insight on the proposal's impact from Pete Swisher, CFP©, CPC, Senior Vice President and National Sales Director at Pentegra Retirement Services, an ABG member firm.

Of the many parts to the final rules, the DOL requires advisors who oversee retirement accounts to act under fiduciary standards. Additionally, the DOL has provided guidance on variable or indirect compensation as it pertains to business models related to retirement plans and IRAs.

The Best Interest Contract Exemption

In this issue of the newsletter, we explore the Best Interest Contract Exemption (BIC Exemption). According to Swisher, the BIC Exemption is a "mechanism whereby advisors are held to ERISA-like loyalty, prudence, and conflict of interest standards" when it comes to retirement accounts. This prohibited transaction exemption allows advisors to provide fiduciary advice but still continue to receive compensation as long as it is deemed to be reasonable.

According to the DOL, the BIC Exemption "ensures that retirement investors receive advice that is in their best interest while also allowing advisers and their financial institutions to continue receiving compensation that would otherwise be prohibited, such as commissions, 12b-1 fees, and revenue sharing." The BIC Exemption becomes available to advisors on April 10, 2017.

Considerations For Plan Sponsors

Under ERISA, plan sponsors have always had to determine "reasonable compensation." Now with the new DOL regulations, plan sponsors and advisors have a dual responsibility to ensure compensation is reasonable.

With this in mind, plan sponsors should consider the following proactive steps:

- Review any agreements with service providers and revise if needed.
- Read any new disclosures from service providers and ask questions if anything is unclear.
- Understand that some service providers may continue to act as fiduciaries while others may require that advisors only provide education.

Contact your local ABG representative with any questions you may have about how these new regulations may impact your plan. ■

ABG NEWS

ABG Partners With GRP Advisor Alliance

ABG has formed a strategic partnership with California-based GRP Advisor Alliance (GRPAA). GRPAA is comprised of a large network of approximately 250 advisors who work with more than 5,000 retirement plans totaling over $120 billion in assets.

Bill Chetney, CEO of GRPAA has noted that "What GRPAA is to advisors, ABG is to the recordkeeping world. There is tremendous synergy between our organizations. We are excited to build innovative products that align with our advisor centric business model."

ABG President Don Mackanos commented that GRPAA's "scale, their innovative collective investment trusts, and their commitment to financial wellness" are the key benefits of this new alliance. ABG provides retirement plan administration to over 22,000 retirement plans totaling over $64 billion of assets under management and 1.2 million participants.

Sentinel Wins 2016 Best-in-Retirement Business Award From Schwab

ABG member Sentinel Benefits & Financial Group (Sentinel), headquartered in Massachusetts, has won the 2016 Best-In-Retirement Business IMPACT Award™ from Schwab Advisor Services. This prestigious award was presented at Schwab's IMPACT conference in October 2016.

IMPACT AWARDS®

Sentinel was selected as a firm that has "demonstrated excellence through leadership, innovative business practices, client dedication, and fresh thinking," according to Schwab.

On an annual basis, the Best-In-Retirement Business IMPACT Award™ honors a firm that has a focus on retirement plans, an understanding of the unique needs of plan sponsors and/or participants and an innovative approach to serving them.

As part of the award, Schwab plans on making a $15,000 donation to the St. John's Preparatory School John A. Carnevale '81 Scholarship Fund, on behalf of Sentinel Benefits & Financial Group. John Carnevale, one of the founders of Sentinel and an alumni of St John's, died suddenly in 2016. ■

RETIREMENT READINESS IN THE NEW YEAR

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3. Do you have a strategy for increasing contributions over time?

Often if a participant is automatically enrolled in a retirement plan they may have started off with a contribution amount of 3% of their salary, the typical starting contribution percentage for auto enrollment. Increasing this percentage at the beginning of each year with the goal of ultimately saving at least 10% of their salary annually is a worthwhile strategy for participants to adopt. Plan sponsors reminding participants at the beginning of the year how to go about increasing their retirement plan contribution can help. A number of retirement plans offer an automatic contribution escalation feature that will automatically increase the participant's contribution by a stated percentage annually.

Mid-Way Through A Working Career

Plan sponsors will need to take a different tack when communicating with retirement plan participants who are mid-way through their working lives. The beginning of the year is a great time for these mid-life plan participants to review their retirement savings strategy. Questions they may need to consider include:

1. Do you know where all your retirement accounts are?

Employees may have a number of jobs over the years and it is easy to lose track of retirement accounts as a result. Over time, an employee may have multiple 401(k) accounts, rollover IRAs and for some employees company-sponsored pensions to keep track of. Consolidating the 401(k) accounts or IRA balances may make sense. Providing employees with the information they need to rollover multiple 401(k) accounts into their retirement plan with their current employer could be helpful. Often employees in this situation know it is something they should do but just don't know how to get started.

2. Are you contributing enough and are your investments appropriately allocated for continued growth?

Mid-life stage retirement plan participants also need to consider their contribution percentage. There are a number of questions for them to consider:

- Are they contributing enough?
- If they are not contributing at least 10% of their salary, do they have a strategy for getting there?
- For those 50 years and older who are able to contribute the annual 401(k) maximum of $18,000, are they able to now contribute that additional catch-up contribution of $6,000 that the IRS allows?

In addition, mid-life participants need to make sure they are not overly conservative when it comes to their investments. Realistically once they reach retirement many of them, particularly women, will be living potentially 20 or 30 years in retirement. With this in mind, their retirement accounts still need to include a component of growth investments such as equity funds that historically offer greater long-term growth than income funds.

3. Are your records up to date and beneficiaries updated?

Over the years, the participant's beneficiaries may become outdated. As these participants evaluate their retirement strategy and may look to consolidate accounts, it's a great time to organize and update records particularly as it comes to naming beneficiaries. One often overlooked issue for many participants is keeping their beneficiaries current. A reminder from the plan sponsor to participants about how to do this can help.

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Approaching Retirement

As participants approach retirement, reviewing their retirement strategy to make sure it is in keeping with their overall retirement goals and determining best next steps is key. Typically the following three questions need to be considered by these participants:

1. When should you retire?

Deciding when to retire is an important decision that is based on a number of factors including finances, health and personal interests. Some participants may want to retire outright, while others may choose to retire gradually, transitioning from a full-time to a part-time schedule. Others may decide to retire from their existing career to pursue another business interest or passion. Ideally all of this should be considered several years in advance of the actual retirement date.

2. What assets will support you in retirement?

For employees approaching retirement, getting a clearer picture of the income level they will need in retirement as well as the source of that income is important. Financial experts often recommend that retirees expect to need at least 75% of their current income in retirement. This may consist of distributions from 401(k)s, IRAs, pension plans and social security benefits. Understanding what percentage these sources of income can make up of overall retirement income is an important factor to consider.

3. Have you thought about how you will manage money in retirement?

People, especially women, are living longer. Retirement assets may need to support a retiree for 20 to 30 years. As they transition to the retirement phase of their lives, retirees need to think about how their retirement assets can provide them with current income as well as fund future income needs. The last thing a retiree needs to worry about is outliving their money. This is where professional advice from a financial advisor may help.

Consider ABG Your Resource For Employee Communications

Depending on what stage they are in their work lives, different issues may arise for plan participants when it comes to their retirement accounts. Your local ABG representative is always available to help with any participant communication needs you may have as you move forward in 2017. ■

DID YOU KNOW?

- An estimated 9,900 Americans will turn 65 years old each day in 2017. This group represents the 7th year of 19 years of "Baby Boomers" turning age 65. An estimated 11,500 Americans will turn 65 years old each day in the year 2029 (source: Government Accountability Office).

- When President Franklin D. Roosevelt proposed the Social Security retirement program in 1935, FDR's financial people projected that total Social Security expenditures would reach $1.3 billion in 1980 or 45 years into the future. Actual outlays in 1980 were $149 billion. Thus, the analysts' 1935 estimate represented less than 1% of actual 1980 Social Security expenditures (source: Social Security).

- The Pension Benefit Guaranty Corporation (PBGC) was forced to take over an average of 10 failed pension plans per month over the last 14 fiscal years (2003-2016), a total of 1,685 pension plans over the entire 14 years. The PBGC protects defined benefit pension plans in the private (non-government) sector (source: Pension Benefit Guaranty Corporation).

TAX TALK

In this issue of Tax Talk, we update you on important upcoming compliance deadlines for defined contribution plans in the first quarter. We will also discuss the issues surrounding the Actual Deferral Percentage (ADP) and Actual Contribution Percentage (ACP) deadline in March, explaining the rationale for ADP/ACP testing and the penalty for missing the deadline.

Upcoming Compliance Deadlines

February 2017	
Feb. 28	• Deadline for filing Form 1099-R with IRS to report distributions made in the previous year. The deadline for electronic filing is March 31.
March 2017	
March 15	• Deadline for processing corrective distributions for failed actual deferral percentage (ADP)/ actual contribution percentage (ACP) test without 10% excise tax. • Deadline for filing corporate tax returns and contribution deadline for deductibility (without extension) for companies operating on a calendar-year fiscal year.
March 31	• Deadline for electronic filing of Form 1099-R to report distributions made in the previous year.

The ADP/ACP Test – What It Is And Why It Matters

Required annually by the IRS, Actual Deferral Percentage (ADP) and Actual Contribution Percentage (ACP) testing helps ensure that 401(k) plans are not discriminating in favor of the business owner or highly compensated employees at the expense of non-highly compensated employees. Plan sponsors need to determine that the contributions made by and for rank-and-file employees are proportional to those contributions made for owners and managers. Whether the plan uses current year or prior year contributions in these calculations is specified in the retirement plan documents.

The ADP Test

The ADP test counts elective deferrals and divides a participant’s deferrals by their compensation to get an Actual Deferral Ratio. The average Actual Deferral Ratio for non-highly compensated employees is that group’s ADP. The average Actual Deferral Ratio for highly compensated employees is that group’s ADP.

The ADP test is met if the ADP for highly compensated employees doesn't:

- Exceed the greater of 125% of the ADP for non-highly compensated employees or
- The lesser of 200% of the ADP for the group of non-highly compensated employees or
- The ADP for the non-highly compensated employees plus 2%.

The ACP Test

The ACP is calculated by dividing the participant’s matching and after-tax contributions by the participant's compensation. The ACP test is met if the ACP for the eligible highly compensated employees doesn't exceed the greater of:

- 125% of the ACP for the group of non-highly compensated employees or
- The lesser of 200% of the ACP for the group of non-highly compensated employees or
- The ACP for the non-highly compensated employees plus 2%.

What Happens When a Plan Fails The Test?

When retirement plans fail ADP/ACP testing, the first step is to conduct an independent review to determine if highly compensated and non-highly compensated employees are properly classified. If the plan still fails the test after that is done, non-elective contributions for non-highly compensated employees need to be made to keep the plan qualified. To avoid this mistake and the penalty of potentially losing qualified plan status, plan sponsors can transition an existing traditional 401(k) plan to a safe harbor 401(k) plan. Under a safe harbor 401(k) plan, the employer isn’t required to perform the ADP and ACP tests if certain requirements are met. To learn more, contact your local ABG representative. ■