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

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WINTER 2018

Inside This Issue

INCREASING FINANCIAL WELLNESS WITH A PARTICIPANT PERSPECTIVE

When it comes to financial wellness and retirement plan participants, the statistics are startling. For example, according to a recent PricewaterhouseCooper's 2017 Employee Financial Wellness Survey:

- 53% of workers overall are stressed about their finances.
- 47% say their stress level related to financial issues has increased in the last 12 months.
- 46% of those who are distracted by their finances say they spend three hours or more at work thinking about or dealing with issues related to personal finance.

Clearly there is a both a need and an opportunity to be met when it comes to helping employees/ plan participants better manage their financial lives. The challenge is two-fold in terms of meeting daily financial obligations as well as effectively working towards future financial goals.

Using A More Personalized Lens

With this in mind, Larry Raymond, President of ABG Michigan, notes there is an important evolution underway in the retirement planning industry. A single-minded focus by the industry on asset allocation and accumulation has been supplanted by a growing need to look through a different and more personalized lens, that of the plan participant.

According to Mr. Raymond, *"The question is how can we help plan participants become more financially successful in a way that is meaningful for them and their overall financial health, including retirement readiness? We have an opportunity now to make retirement plan programs adapt to the individual*

(continued on page 4)

LEASING EMPLOYEES? HOW DOES THIS IMPACT YOUR RETIREMENT PLAN?

Adding additional expertise, reducing overhead costs, boosting staffing resources for large projects, these are some of the reasons many companies may contract leased employees from a staffing agency or Professional Employer Organization (PEO). These leased employees are paid by the staffing agency to work for an employer.

Often overlooked, but worthy of note, are the issues that arise concerning leased employees and retirements plans. In this article, we highlight several considerations plan sponsors/employers should keep in mind, particularly with regards to retirement plan compliance.

What Are Leased Employees?

According to IRS regulations, leased employees are employees that meet the following criteria:

1. They are hired based on an agreement between an employer – the sponsor of the retirement plan – and a staffing agency or PEO.
2. They work on a full-time basis for at least a year.
3. They must perform services under the primary direction and control of the employer.

Counting Is Key

Employers are required by IRS regulations to count leased employees in nondiscrimination tests although they may be excluded from the employer's retirement plan and are not on the employer's payroll.

Important to note:

- Leased employees must be included in the employer's annual coverage testing for retirement plans. In fact, this is an audit item for IRS review.
- The IRS considers leased employees eligible for retirement plans unless the plan document excludes them. Failing to include them just because they are not on the employer's payroll can result in IRS fines and penalties.
- A retirement plan sponsor/employer can exclude any nondiscriminatory category of employees including leased employees.

Exceptions To The Rule

As always, there is an exception to the rule. In this case, a safe harbor exception applies and the employer is not required to count leased employees in performing the minimum coverage test if the following applies:

- The employer offers a money purchase plan provided by their staffing agency, which provides an employer contribution of at least 10% of annual compensation, immediate participation and full vesting.
- Leased employees do not constitute more than 20% of the employer's non-highly compensated staff.

ABG Is Here To Help

Confused by the nuances of managing leased employees and retirement plans? Please contact your local ABG representative. Our ABG experts are familiar with all the IRS requirements and corrective measures, if needed, and can help a plan sponsor navigate a variety of leased employee scenarios. ■

DID YOU KNOW?

- The Social Security Administration has reduced the maximum amount of earnings subject to Social Security tax for 2018 to $128,400 from $128,700.
- 68% of plan sponsors of defined contribution retirement plans offer automatic enrollment for their new employees today. (Source: Alight Solutions)
- An estimated 10,100 Americans will turn 65 years old each day in 2018. This group represents the 8th 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)

COMPENSATION AND RETIREMENT PLANS - AVOIDING COMMON MISTAKES

One of the most complex issues for a plan sponsor can be the definition of compensation as it relates to a retirement plan. An employee's compensation is used as the basis for performing a number of retirement plan functions including:

- Calculating a participant's contributions.
- Calculating an employer's contributions.
- Performing nondiscrimination testing.
- Determining tax deductions.

However, using an incorrect definition of compensation is on the top ten list of mistakes the IRS often sees in voluntary correction filings. The IRS considers the failure to use the definition of compensation as defined in a retirement plan as an operational failure.

Three Typical Definitions of Compensation

Internal Revenue Code (IRC) section 415 provides three alternative definitions of compensation that may be used by qualified retirement plans:

1. Form W-2, Box 1 Wages: Wages, tips and other compensation subject to federal tax withholding. This does not include elective deferrals (except for Roth deferrals) so they must be added back in.
2. Section 3401(k) Wage: This is the same as the above but with certain exclusions.
3. Section 415 Safe Harbor or Simplified Compensation: This includes all compensation received from the employer that can be included in gross income.

Many employers use W2 wages, option #1 above, as the definition of compensation. However, qualified plans are permitted, within certain limits, to use different definitions for different plan purposes.

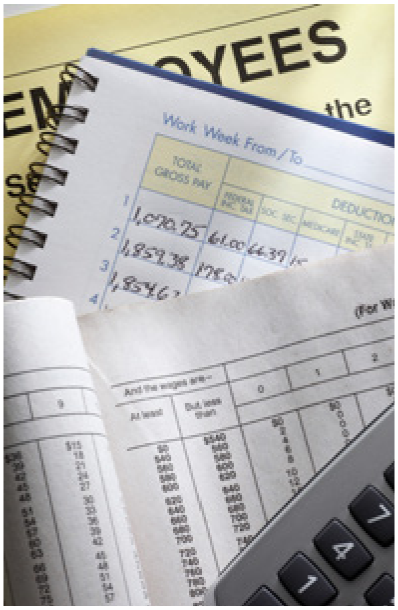
For example, a plan sponsor may choose to exclude bonuses, overtime, or other types of payments from compensation for certain plan purposes, but not for others. If a plan sponsor wishes to exclude a certain form of compensation that isn't already excluded under one of the three IRC definitions above, it must be identified as excluded in the retirement plan document.

The Compensation Ratio Test

If certain types of compensation are excluded, it can trigger additional nondiscrimination testing to ensure that non-highly compensated employees are not disproportionately affected. The compensation ratio test divides included compensation by total compensation to arrive at a compensation ratio for each participant.

- The average ratio for highly compensated employees may not exceed that of non-highly compensated employees by more than a de minimis amount.
- A difference of 3% or less is usually considered acceptable by the IRS.

Typical Oversights and Errors



Errors can be made when:

- The person calculating the contribution does not know the plan's definition of compensation.
- The plan's definition of compensation is amended and the payroll processor is not notified.

For example, if an employer makes contributions using base compensation rather than base compensation plus shift differential as defined as compensation in a retirement plan, than a plan operational failure occurs.

Correcting Compensation Errors

Contribution errors due to the use of incorrect compensation figures, including insufficient or excess contributions, may be corrected using the Employee Plans Compliance Resolution System available through the IRS. There may be a fee associated with that correction.

To avoid mistakes:

- Review your retirement plan document's definitions of compensation.
- Transmit accurate compensation data for each employee to your payroll processor and plan administrator.
- Periodically review your plan for errors and correct them as quickly as needed using the IRS correction program.

For any questions, contact your local ABG representative. ■

(continued from page 1)

participant rather than trying to make a participant adapt to the plan as we have tried to do in the past."

ABG Launches A Proactive Financial Wellness Solution

Working from the plan participant's perspective and assessing what is really happening in their financial lives includes helping them take steps to address their daily concerns as well as their long-term retirement needs. From managing debt to establishing an emergency fund to setting up a will, a participant's full financial picture and how planning for retirement fits into that overall picture, needs to be considered.

That's why ABG has partnered with GRP Advisor Alliance and Financial Finesse to roll out a comprehensive Financial Wellness program. As Larry Raymond noted *"This Financial Wellness program is insightful without being invasive. There is nothing like it in the marketplace that is as comprehensive and available for all participants."*

Amy Glynn, Managing Partner at GRP Advisor Alliance provides additional perspective. *"We unquestionably have a financial literacy problem in this country which we need to address from the participant's perspective. After all, how can a participant think clearly about contributing to a retirement plan when he or she is struggling with debt? The reality is many people who don't know where to start, end up doing nothing."*

Ms. Glynn continues, *"What we like about the Financial Wellness program from Financial Finesse is that there is a legacy of intelligence and successful outcomes behind it. Liz Davidson, who founded Financial Finesse in 1999, is a pioneer in the industry and is committed to helping people from all walks of life find financial security."*

The Financial Wellness Program At A Glance

The Financial Wellness program is a user-friendly, multi-media program with employer-branded email communication campaigns and online and video educational resources. In fact, Financial Finesse reports a 55% engagement record for the Financial Wellness program due to this comprehensive mixed media approach. The program is also available in Spanish and is accessible through a mobile app.

For additional fees the Financial Wellness program can be tailored to include unlimited access to Certified Financial Professionals through a CFP helpline. These experienced professionals can provide invaluable and actionable information to plan participants and their family members on a wide variety of issues ranging from managing debt, buying a house, leasing a car and estate planning among others.

At the core of the Financial Wellness program is a comprehensive Financial Wellness Assessment that consists of an easy-to-complete online questionnaire that helps a participant:

- Identify their top financial priorities.
- Develop a personal action plan with immediate actionable steps.
- Create positive financial management habits.
- Work towards a financial goal.

According to Financial Finesse:

- Only half the participants who have taken a financial assessment have an emergency fund. They are just one unexpected event away from taking money out of their 401(k) or maxing out their credit cards.
- Only 25% indicate that they are on the track for a comfortable retirement.

INCREASING FINANCIAL WELLNESS WITH A PARTICIPANT PERSPECTIVE

(continued from page 4)

However the good news according to Financial Finesse is that:

- 89% of people that go to the Financial Wellness website take one affirmative action to improve their financial outlook within 30 days.
- Over 50% take two affirmative actions to improve their financial outlook within 30 days.

Customized Reporting Helps Tailor Participant Outreach

Not only will the Financial Wellness program help the plan sponsor in terms of overall employee engagement, the participants' Financial Wellness Assessments are aggregated into a detailed workforce report that is provided to the plan sponsor. This report provides an insightful snapshot of the specific financial stress points for employees and is broken down by age, income and gender.

Based on this information, the plan sponsor is able to identify areas of concern and determine, with the help of their retirement plan advisor, where seminars and additional educational outreach may be needed. Reporting can also be used to measure overall company progress as the improvement in overall employee scores is tracked. In addition, the report compares a firm's overall financial wellness to national averages.

Next Steps In Financial Wellness

From the plan sponsor perspective, set up of the Financial Wellness program is efficient, easy and coordinated through ABG representatives in partnership with GRP Advisors Alliance. As of year-end 2017, more than 100,000 participants have been introduced to this proactive, new program. Continued rollout through ABG member firms is planned through 2018.

The potential benefits are many and include:

- Increased employee loyalty.
- An enhanced benefits package for talent recruiting.
- Decreased employee stress which may lead to reduced absenteeism, decreased healthcare costs and enhanced productivity.
- A more retirement ready work force.

Contact your local ABG representative with any questions about this or any of the other comprehensive retirement plan programs available from ABG. ■

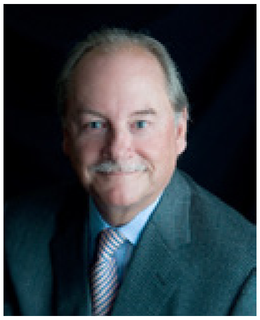
ABG NEWS

ABG Expands West Coast Presence

Jocelyn Pension, an independent recordkeeper and third-party administrator in the western U.S., has joined Alliance Benefit Group as its newest member firm. Providing exceptional guidance and advice to their clients through state of the art technology, is the hallmark of Jocelyn Pension's approach.

"I've known Bob Jocelyn for years and I am thrilled that Jocelyn Pension has decided to join ABG. His firm's stellar reputation and commitment to their clients and to their employees is what you expect from a strong partner," said Don Mackanos, President of Alliance Benefit Group. *"Adding Jocelyn Pension to the ABG family provides us with an expanded geographic footprint for our various distribution opportunities on the West Coast."*

"We are excited to be a part of this diverse group and look forward to strengthening existing relationships and forming new partnerships with all of the ABG member firms," said Bob Jocelyn, President of Jocelyn Pension. *"Being able to collaborate and work closely with industry peers will be a big benefit to our clients and our staff."*



Bob Jocelyn
President, Jocelyn Pension

ABG Retirement Plan Services Wins Schwab IMPACT Award™

For the third time in four years, ABG Retirement Plan Services has been selected as the winner of Charles Schwab & Co's 2017 Best-in-Retirement Business IMPACT Award™. This is more great recognition for ABG in terms of being at the forefront of the retirement plan industry.

The Best-in-Retirement Business IMPACT Award™ honors an independent record keeper or advisor that focuses on retirement plans, understands the unique needs of plan sponsors and/or participants, and has developed an innovative approach to serving them.

For more than 40 years, ABG Retirement Plan Services in Peoria, Illinois, has served retirement plan participants and health savings account holders and currently oversees more than $3 billion in retirement plan assets. ■

TAX TALK

In this issue of Tax Talk, we update you on important upcoming compliance deadlines for defined contribution plans and take a quick look at required minimum distributions.

Upcoming Compliance Deadlines

Deadline	Compliance Requirement Details
January 2018	
January 31	» Deadline for determination letter submission for individually designed plan documents. The year of submission is determined by the last digit of the employer identification number (EIN). » Deadline for sending Form 1099-R to participants who received distributions during the previous year.
February 2018	
February 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 2018	
March 15	» Deadline for processing corrective distributions for failed prior year ADP/ACP test without 10% excise tax.
March 31	» Deadline for electronic filing of Form 1099-R to report distributions made in the previous year
April 2018	
April 1	» Deadline for taking first required minimum distribution for participants attaining age 70 ½ or retiring after age 70 ½ in prior year.
April 18	» Deadline for processing corrective distributions for IRC Section 402(g) excesses.

Plan Participants and Required Minimum Distributions (RMDs)

Required minimum distribution rules apply to all employer-sponsored retirement plans except Roth 401(k)s but are sometimes overlooked by participants who may not fully understand the penalties that may occur for a missed distribution. The required minimum distribution is the minimum amount a plan participant must withdraw from their account each year.

When Must Participants Start Taking RMDs?

Participants must take their first required minimum distribution by April 1 after the calendar year in which they reach age 70½. However, depending on the terms of the plan the participant is enrolled in, they may be allowed to wait until the year they retire to begin RMDs (unless they are a 5% owner).

How Much Should They Take?

The required minimum distribution for any year is the account balance as of the end of the preceding calendar year divided by a distribution period as noted in the IRS's Uniform Lifetime Table. The IRS provides worksheets that can be used to calculate the required distribution amount. The plan participant may withdraw more than the minimum required amount and for each year after their initial distribution, they must withdraw their RMD by December 31.

The Penalty For Missed RMDs

The penalty for missed RMDs is steep. If the plan participant does not take the required minimum distribution or if the distributions are not large enough, there will be a 50% penalty on the amount they failed to withdraw.

ABG Is Your Resource

For any questions about required minimum distributions or any other compliance deadline, please contact your local ABG representative.