Qualified Plan Newsletter

Fourth Quarter 2016

Plan Sponsors Ask...

Question. Many younger participants are simultaneously saving for retirement and paying off student loans. How do we help them successfully accomplish both?

Answer. Putting off retirement savings to pay down student loans is among the biggest financial mistakes younger workers can make. In fact, LIMRA found that a 22-year-old with $30,000 in student loan debt could have $325,000 less in savings at retirement than their debt-free counterparts.

So what's a plan sponsor to do? Emphasize holistic financial well-being by:

- Encouraging DC plan participants to make the minimum monthly payments on their student loans, and also reminding them to save enough in their retirement plan to get matching contributions. According to Financial Engines, one in four employees doesn't take advantage of the match, meaning they're leaving up to $43,000 on the table over 20 years.
- Emphasizing creating an emergency fund for unforeseen expenses so they won't be tempted to borrow from their retirement account or use credit cards.
- Advising them to direct any remaining funds strategically, either by paying down high interest student loans, or investing more into their retirement portfolios and putting the money to work through compounding.
- Encouraging participants to stash that extra cash in their retirement accounts once their debt is paid off. Many experts say workers should be saving 15 percent of their income by age 25 to ensure a comfortable retirement.

December 2016 Capital Markets Review

	Period Ending December 31, 2016					
Index	Qtr	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	3.82%	11.96%	11.96%	8.87%	14.66%	6.95%
Russell 2000	8.83%	21.31%	21.31%	6.74%	14.46%	7.07%
Russell 3000 Value	7.24%	18.40%	18.40%	8.55%	14.81%	5.76%
Russell 3000 Growth	1.20%	7.39%	7.39%	8.27%	14.44%	8.28%
MSCI ACWI Ex U.S.	–1.25%	4.50%	4.50%	–1.78%	5.00%	0.96%
Barclays U.S. Aggregate Bond	–2.98%	2.65%	2.65%	3.03%	2.23%	4.34%
3-Month U.S. Treasuries	0.08%	0.27%	0.27%	0.11%	0.09%	0.73%

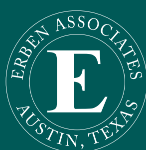
The U.S. economy continued to add jobs in Q4 2016. The national unemployment rate was 4.9 percent at the beginning of Q4 and dropped to 4.7 percent by the end of December. Total nonfarm payroll employment went up, 161,000 in October, 178,000 in November, and 156,000 in December, for a total increase of 495,000 over the course of the quarter. Over the course of 2016, the national unemployment rate fell from 5.0 percent to 4.7 percent, and total nonfarm payroll employment growth totaled 2.1 million. The total nonfarm payroll increase in 2016 is less than the increases in 2015 and 2014, which were 2.7 million and 3.1 million, respectively.

Q4 2016 ended on a positive note for the U.S. the stock market. The Dow Jones ended 2016 at 19,762.60, reflecting an 8.1 percent increase in Q4 and a 13.5 percent increase over the entire year. The S&P 500, NASDAQ Composite, Russell 2000, and NYSE Composite similarly increased in Q4, as well as over the course of the full year. The S&P 500 increased 3.4 percent in Q4 and 9.8 percent over 2016. The NASDAQ Composite increased slightly (1.6 percent) in Q4, part of a more robust 9.9 percent increase over 2016. The Russell 2000 increased 8.5 percent in Q4, capping off a positive 2016 which showed a total increase of 19.7 percent. The NYSE Composite increased 3.1 percent in Q4 and 10.3 percent over the course of 2016.

The effective federal funds rate (EFFR) climbed in 2016. The EFFR ended 2016 at 0.55 percent after starting the fourth quarter at 0.4 percent, and starting the year at 0.2 percent. This represents a 175 percent increase over the course of the year, though only a 37.5 percent increase in Q4.

The average 30-year fixed rate mortgage also increased in 2016. At the start of the year, the average 30-year fixed rate mortgage was 3.97 percent. By the start of the fourth quarter it had fallen to 3.42 percent. However, it would end the quarter (and the year) at 4.32 percent, reflecting a 26.3 percent increase in Q4, though just an 8.8 percent increase over the course of the year.

S&P 500 is a commonly used measure of common stock performance. Russell 2000 is a commonly used measure of small capitalization stocks. Russell 3000 Value measures performance of U.S. equity universe broad value segment with lower price-to-book ratios and lower forecasted growth values. Russell 3000 Growth measures performance of Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. MSCI ACWI EX U.S. tracks 850 stocks traded in 22 world markets (excludes U.S. based stocks). Barclays U.S. Aggregate Bond Index tracks domestic investment grade bonds (including corporate, government, and mortgage-backed securities). Citigroup 3-Month U.S. Treasury Bill Index tracks short-term U.S. Government debt instruments. All referenced indices are unmanaged and not available for direct investment. Past performance is not a guarantee of future results.



Plan Sponsors: Employees Want Automatic Retirement Plan Features, So Why Not Offer Them?

Eighteen years ago, the retirement industry rolled out automatic enrollment to help combat employee inertia, increase participation in workplace retirement plans, and foster higher savings rates. Still, a surprising number of plan sponsors don't offer it. However, employees say they value defined contribution plans, and they desire automatic enrollment and escalation features.

A recent survey revealed this disparity between the DC plan benefits employers offer and those employees actually say they want. It's an interesting conundrum that provides food for thought for plan sponsors considering ways to modify their retirement plans to better fit employees' needs.

Overall, just 21 percent of plan sponsors offer automatic enrollment, the survey found. However, 71 percent of workers would like to be auto-enrolled in their retirement plan. Breaking it down, large companies (41 percent; with 500 or more employees) are more likely than small, non micro companies (28 percent; with 100–499 employees) and micro firms (18 percent; 1–99 employees) to offer an auto enroll feature.

Is a 3 Percent Automatic Deferral Enough?

In plans with automatic enrollment, sponsors report median default contribution rates of 3 percent of annual pay, according to the survey. However, industry observers fear that this number may mislead participants, as it implies that a minuscule deferral rate is sufficient to fund a comfortable retirement. In most cases, however, it is not.

Fortunately, workers seem to understand this, as many say they believe 6 percent (median) would be an appropriate deduction from their paycheck upon being automatically enrolled in a 401(k) or similar plan.

Auto Escalation is Appealing

Moreover, 67 percent of employees say they would like their employer to offer auto escalation. In fact, they would opt for an automatic increase in their contributions of 1 percent of their pay annually, or each time they receive a raise, until they decide to switch off the auto escalation feature. Again, larger company plans are more likely to offer auto escalation—43 percent automatically increase participants' contributions every year, while just 26 percent of small and micro companies do so, the survey found.

The survey findings are revealing, particularly with regard to how plan sponsors and employees view features such as auto enrollment and auto escalation. The knowledge that employees desire these provisions creates an opportunity for sponsors to proactively encourage participation in retirement plans. By implementing these features to increase participation and salary deferrals, sponsors play a key role in making it easier for workers to save and prepare for retirement.

You can see the study, from Transamerica Center for Retirement Studies, online at http://tinyurl.com/TCRSsurvey.

Depositing Employee Contributions

Situation: Our company is considering hiring a payroll provider. We want to make sure that any new payroll processing procedures we implement will give us enough time to deposit participant contributions to our 401(k) plan in a timely manner.

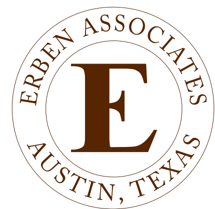
Question: What are the deadlines for depositing participant contributions?

Answer: Plan sponsors have a fiduciary responsibility to make deposits of participant contributions on a timely basis. The U.S. Department of Labor (DOL) has issued guidelines to help clarify timelines for plan sponsors.

Discussion: Generally, participant contributions include all amounts paid by participants or withheld by the employer from participants' wages as contributions. Under the DOL guidelines, sponsors must deposit all such amounts as of the earliest date they can reasonably be segregated from the employer's general assets. However, it cannot be later than the 15th business day of the month following the withholding (or the date the plan sponsor receives the amount). That is the latest date and is not a safe harbor deadline. If the contributions can reasonably be segregated from the employer's general assets before then, the contributions should be deposited into the plan trust at that earlier time.

For plans with fewer than 100 participants at the beginning of the plan year, there is a safe harbor deadline. Participant contributions need to be deposited no later than the seventh business day following the date they are received or withheld by the employer. Meeting this deadline is sufficient even if the plan sponsor can reasonably segregate the amounts from general assets within seven business days.

To help prevent late deposits, plan sponsors may want to review and document the steps taken to process their payroll. If late deposits do occur, plan sponsors should take corrective measures. The participant contributions should be deposited as soon as possible, along with any missed earnings on the late deposits to be allocated to the accounts of affected participants. Plan sponsors may also want to use the voluntary correction programs provided by the DOL and the IRS.



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