Qualified Plan Newsletter

First Quarter 2015

Tailoring Your Retirement Plan Communications

Research shows that American workers aren't saving enough for retirement. According to the EBRI *2014 Retirement Confidence Survey*,* 60% of workers report that the total value of their household's savings and investments is less than $25,000. Here are some ideas to help tailor your employee communications and education. This can help encourage employees not only to participate in your plan but also to use it effectively.

- Depending on work force demographics, group employees by criteria such as life stages, income or educational level.
- Look at retirement plan behaviors. Target messages toward employees who 1) don't participate in the plan, 2) contribute only enough to receive an employer's match, 3) don't increase their contribution level over time, 4) don't adjust investment risk level over time, and 5) employees who take loans from their plans.
- Incorporate communications on issues such as a longer average life expectancy in women and impact of family demands on careers. This may encourage female employees to take action to have sufficient income during retirement.
- If a workplace has a significant non-English speaking population, consider providing bilingual plan communications and presentations that also are sensitive to specific cultural differences.
- Younger employees need information on the importance of joining their retirement plan and contributing as much as possible, explaining how the plan works and the advantages of pretax contributions, tax-deferred compounding, starting early, and contributing regularly.
- Employees nearing retirement need information on shifting their account's asset allocation into more conservative investments, the impact of inflation on expenses and investments, plan's distribution options and the need for a withdrawal strategy during retirement that helps guard against depleting savings too quickly.

**The 2014 Retirement Confidence Survey*, Employee Benefit Research Institute

March 2015 Capital Markets Review

	Period Ending March 31, 2015					
Index	**Qtr**	**YTD**	**1 Year**	**3 Year**	**5 Year**	**10 Year**
S&P 500	0.95%	0.95%	12.73%	16.11%	14.47%	8.01%
Russell 2000	4.32	4.32	8.21	16.27	14.57	8.82
Russell 3000 Value	-0.51	-0.51	8.94	16.30	13.66	7.24
Russell 3000 Growth	4.05	4.05	15.76	16.45	15.71	9.41
MSCI ACWI Ex U.S.	3.49	3.49	-1.01	6.40	4.82	5.46
Barclays U.S. Aggregate Bond	1.61	1.61	5.72	3.10	4.41	4.93
3-Month U.S. Treasuries	0.01	0.01	0.03	0.05	0.07	1.41

The momentum of a strong 2014 did not continue to carry the American Economy upward during Q1 2015 when viewed against certain key indicators. In the second of half 2014 the national unemployment rate dipped below 6% for the first time in over six years and ended the year at 5.6%. According to the Bureau of Labor and Statistics, unemployment actually increased during the first month of 2015, climbing to 5.7% in January, only to drop to 5.5% in February and remain unchanged through the end of the quarter. Some surprise came from the announcement that nonfarm payroll employment increased by only 126,000 in March, 2015, after increases of 257,000 and 295,000 in January and February, respectively.

Markets performed unimpressively, with the Dow Jones Industrial Average dipping to 17,776.12 by the end of the quarter, representing a 0.26% decrease for the quarter. While the S&P 500 outperformed the Dow, climbing to 2,067.89 by the end of the quarter, representing a 0.43% increase much was left to be desired.

Consumer spending decreased during the quarter, dropping to $81 and $82 in January and February, respectively. The drop in consumer spending represents not only a drop from the $98 mark during December 2014, but also a drop from the $87 mark that we experienced one year ago, in February and March, 2014.

The housing sector provided some reason for optimism, as sales of single-family houses experienced a seasonally adjusted increase of 500,000 in January and another 539,000 in February. Mortgage statistics from Freddie Mac may encourage those on the fence about making a home purchase to do so sooner than later to avoid a higher interest rate. The average commitment rate and points on 30-year fixed-rate mortgages climbed, reaching 3.67% in January, 3.71% in February, and 3.77% in March.

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.

Understanding What It Means To Be a Plan Fiduciary

Many activities involved in operating a qualified retirement plan may make the person or entity performing those activities a plan fiduciary. As a plan sponsor, it's important for you and other fiduciaries of your plan to fully understand your responsibilities and the consequences of not fulfilling them.

Who is a fiduciary? With limited exceptions, under ERISA, a fiduciary is anyone who: exercises any discretionary authority or discretionary control over the management of the plan; exercises any authority or control with respect to management or disposition of the plan's assets; has any discretionary authority or discretionary responsibility over the administration of the plan; gives investment advice to the plan for a fee or other direct or indirect compensation or has the authority or responsibility to do so. Thus, fiduciaries may include, but aren't limited to, the plan's trustee, investment manager, administrator, administrative committee, and the plan sponsor.

What are a fiduciary's duties? A plan fiduciary must follow the plan documents (unless they're inconsistent with ERISA) and act solely in the interests of the plan participants and their beneficiaries and for the exclusive purpose of providing benefits to them. In addition, a plan fiduciary must act with the care, skill, prudence, and diligence that a prudent person would exercise under similar circumstances. Fiduciaries must also make sure the plan's investments are diversified (unless it's clearly prudent not to do so under the circumstances) and pay only reasonable plan expenses.

Does the pension law prohibit any specific actions? Yes, ERISA prohibits certain types of transactions between the plan and specified related parties (called "parties in interest"). As employer/plan sponsor/fiduciary, you are considered a party in interest to the plan. Other parties in interest include employees of the plan, any other fiduciaries (such as the plan's administrator, officer, trustee, or custodian) the plan's counsel, plan service providers, a direct or indirect owner of 50% or more of the sponsoring company, and relatives (as defined under ERISA) of 50%-plus owners.

What transactions are prohibited? Examples of prohibited transactions between the plan and a party in interest include selling, exchanging, or leasing property; lending money or extending credit; and furnishing goods, services, or facilities. The law contains exceptions that protect the plan in conducting necessary transactions that would otherwise be prohibited and for many dealings with financial institutions that are essential for the plan's ongoing operations. For example, a plan can hire a service provider, as long as the services are necessary to operate the plan and the contract or arrangement with the provider and the compensation paid for the services are reasonable. And plans may offer loans to participants as long as certain requirements are met.

Are there any other prohibitions? Fiduciaries also are prohibited from self-dealing. Various restrictions prevent a fiduciary from deriving personal gain from actions that involve the plan. Because of the complexity of the prohibited transaction rules, you should consult your plan's ERISA attorney for advice before engaging in transactions involving plan assets.

What happens if a plan sponsor breaches its fiduciary duty? Fiduciaries that breach their responsibilities may be personally liable to restore the plan to the condition it was in prior to the breach, including restoring any monetary losses and returning any profits made through the use of plan assets. A fiduciary also may be subject to excise taxes for violating the prohibited transaction rules.

The Importance of Internal Controls

Internal controls are business processes designed to detect and prevent mistakes in the administration of retirement plans, maintain the plan's tax-favored status, and avoid incurring penalties. They should include two regular reviews:

- A *plan operations review* helps verify that your plan is operating according to its written terms. The IRS recommends that you look at 1) whether employee loans and distributions were made according to plan rules and 2) if eligible employees were included in the plan in a timely manner.
- A *plan document review* helps determine whether your plan needs updating due to changes in the law or in plan operation.

If the IRS selects your plan for audit, the process will start with the agent evaluating the plan's internal controls, and their strength will determine whether the agent performs a focused or expanded audit. If an error is found, internal controls may be a factor in determining any sanction amount. Which practices your plan uses will depend on your organization, plan type, and its features. Common internal control procedures include:

- Comparing salary deferral election forms with the actual amounts deducted from employees' paychecks
- Verifying the types of compensation used for allocations, deferrals, and testing
- Checking that plan service providers received accurate compensation and ownership records
- Monitoring annual contribution and compensation limits
- Confirming years of service for eligibility and vesting were accurately determined
- Verifying marital status and spousal consent for plan distributions
- Ensuring participants received required minimum distributions

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