PLAN SPONSOR RETIREMENT PLAN UPDATE

Quarter 3, 2014

Did you know?

We recently were awarded the NorthCoast 99 Award (which recognizes the best places to work in Northeast Ohio) for the sixth consecutive time!

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Back to School

Since the kids are heading back to school, we thought we'd also get back to basics with some retirement plan fundamentals. Here are some commonly misunderstood retirement plan features.

Forfeitures: Forfeitures happen in a plan when someone receives a distribution from the plan when they are not 100% vested in their employer contributions. When a participants receives their share of the account balance, the amount that they are not entitled to "forfeits" back to the plan. Forfeitures can be applied in several ways. The most popular is to use the forfeiture to offset plan expenses. The next most popular is to use the forfeiture to reduce the amount of the next employer contribution. Occasionally, a plan will take the forfeited amount and use it to make a contribution to all of the current plan participants. We often don't advise this as it can cause headaches in other parts of the plan. The plan document typically instructs how and when the forfeitures are to be used. Unfortunately, the forfeitures will need to be used in the current or next plan year. You can't hold onto them indefinitely.

Catch Up Contributions: Catch up contributions are a special type of contribution for those participants who are 50 or over. It allows them to defer an additional amount into their 401(k) plan above the normal limits. In 2014, the normal deferral limit is $17,500. The catch up contribution would allow the participant to defer an additional $5,500 into their account balance for the calendar year. The government allows catch up contributions to give older participants a chance to save more money before retirement. Some contributions can also be categorized as catch up contributions to help pass non-discrimination testing. The plan document will say if catch up contributions are permitted and if they are subject to the plan's matching contributions.

Highly Compensated Employee: An individual who:

- Is a more than 5% owner (or family member of owner) at

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Going Paperless

Now that many companies are striving to be 'paperless', we are often asked – can I just e-mail that to my participants? The answer is going to be a general YES! if your employees have regular access to a computer at work. If not, then you must continue to use paper copies of notices for your participants, unless they provide an alternate email address *and* consent to receiving information via electronic delivery. If you send information to a non-work email address, you need to notify participants that the information is being sent out, and you need to ensure that they received the information (return receipt or undeliverable mail functions).

Most annual notices such as the Summary Annual Report and Participant Fee Disclosure may be delivered to participants electronically. Other documents that may be delivered electronically include the Plan's Summary Plan Description (SPD) and/or Summary of Material Modifications (SMM) – you will be receiving updated copies of these items with the plan document restatement which will be processed in the next year.

In addition, your Participant Benefit Statements can be delivered electronically. If all employees have regular access to computers at work, you can mandate that they receive 'electronic statements' if this option is available (if we produce your statements, we can provide electronic delivery.) If employees do not have access to computers at work, they can receive electronic statements if they provide their email address and consent to electronic delivery.

Your administrator can assist you if you have any questions on electronic delivery of plan notices or would like to initiate the electronic delivery for Participant Statements.

Is it Time for Lifetime Income Solutions?

In the retirement plan world the focus has almost always been on making sure participants are saving for retirement. The industry has not been so focused on what happens <u>after</u> retirement. Our workforce is getting older and retired participants are finding that they don't have the information or tools needed to make sure that their retirement savings won't run out before they do.

An April 28, 2014 article from Drinker Biddle outlines the most important risks that retirees face. They include:

- Retirees are living longer. For a 65-year-old couple, there is a significant possibility one of them will live to 95.
- There are market risks associated with their retirement savings.
- Retirees aren't sure how much they should withdraw. Studies show some retirees think they can withdraw 10% of their retirement savings each year while experts recommend no more than 4% in order for the money to last 30 years.
- They aren't prepared for an erosion of the cognitive abilities. As retirees age, their ability to make prudent financial decisions is seriously diminished.

Although traditional annuities (which would guarantee a fixed monthly payment for the life of the retiree or the retired couple) have been available for years, retirees would typically be on their own to understand, find and purchase these annuities. A newer product, called Guaranteed Withdrawal Benefits (GWB) also guarantees lifetime income based on the retiree meeting several conditions. While these offerings have not typically been part of a retirement plan's offerings, it may be time that plan fiduciaries consider offering some form of guaranteed lifetime income product to help insure that their older employees have a smart and easy retirement solution.

Back to School continued

any time during the current or preceding year, or:

- Earned more than $115,000 in the preceding plan year (subject to cost of living adjustments)

Much of what we need to look at when keeping your plan in compliance is proving that the plan is not discriminatory towards the Highly Compensated Employees. As such, this definition drives most of our testing. If you are thinking of changing ownership, giving us a call so is always a good idea that we can run some preliminary scenarios.

Key Employee: An individual who is:

- An officer making over $170,000 (indexed for cost of living adjustments),
- A 5% owner of the business (a 5% owner is someone who owns **more** than 5% of the business or a family member), **or**
- An employee owning more than 1% of the business and making over $150,000 for the plan year.

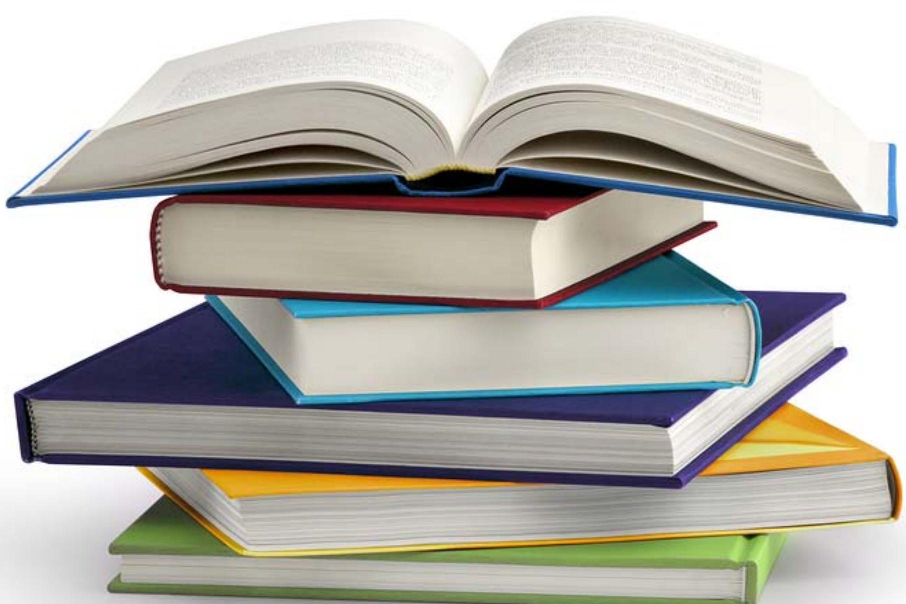
There are several non-discrimination tests that require us to look at key employees instead of highly compensated employees to determine if the plan is passing the guidelines.

Plan Fiduciary: Anyone who exercises discretionary authority or discretionary control over management or administration of the plan, exercises any authority or control over management or disposition of plan assets, or gives investment advice for a fee or other compensation with respect to assets of the plan.

Safe Harbor 401(k): A safe harbor 401(k) is similar to a traditional 401(k) plan, but the employer is required to make contributions for most participants. The safe harbor 401(k) eases administrative burdens on employers by eliminating some of the complex tax rules ordinarily applied to traditional 401(k) plans.

Years of Service: The time an individual has worked in a job covered by the plan. It is used to determine when an individual may participate and vest and how they may accrue benefits in the plan. Generally, a Year of Service requires that an employee accrues at least 1,000 hours of service over a 12-consecutive-month period. Years of service for eligibility purposes (entry into the plan) are based on the anniversary of the participant's date of hire. Years of service for vesting are usually based on the plan year.

That was just a quick lesson in some of the retirement plan terminology we use everyday.



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Mark Your Calendar

Stay on top of your retirement plan's mandatory deadlines! Here are some important dates in the upcoming months. (Please note that filing dates are for calendar year plans. Non-calendar year plans must adjust these dates.)

Each Payroll: Remit deferral and loan repayments within 7 business days (small plans) or as soon as possible (large plans).

September 30: Summary Annual Report due to participants (if Form 5500 not extended).

October 15: Extended deadline for filing Plan's annual Form 5500 filing.

November 14: Third quarter PPA Statements due for participant directed plans. Quarterly fee disclosure documentation also due to plan participants.

December 2: Last date to send out annual notices for safe harbor, QDIA and automatic enrollment plans.

December 15: Summary Annual Report due for plans that extended the Form 5500.

December 31: Required Minimum Distributions must be paid to those affected participants over age 70 1/2

January 1: Check Cost of Living Adjustments (COLA) to consider the effects of any annual increases on deferral and catch up amounts

January 31: 1099-R Forms are due to participants who received distributions in the prior year

February 14: Fourth quarter PPA Statements and quarterly Fee Disclosure documents due for participant directed plans