PLAN SPONSOR RETIREMENT PLAN UPDATE

Quarter 1, 2016

Severance Pay Pitfalls

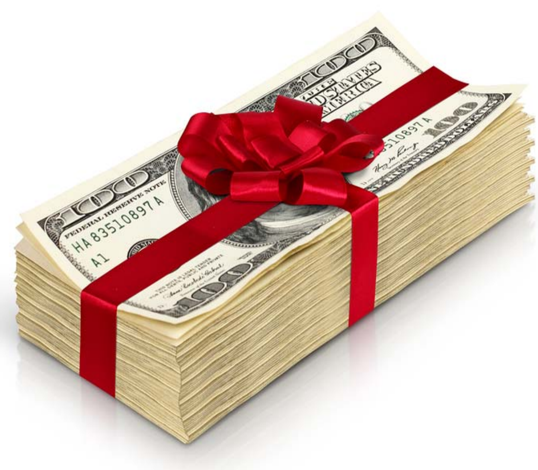
Did you know?

All clients have access to a secure portal called Plan Sponsor Link where all of your plan documents, annual or quarterly valuations and plan forms are stored. You can also use the portal to upload sensitive documents securely.

Inside this issue:

What is severance pay?

Severance pay is any compensation that would not have been paid if the employee had continued to work. We joke that's it's what you pay someone to "go away" - due to a layoff or job elimination. For compensation to be counted in a retirement plan, it has to be paid to an employee. Since severance pay would always be paid to an ex-employee and not for work actually being performed, it can never be counted for retirement plan purposes.



Conversely, there is also post-severance pay, This is the pay a person receives after their termination date that *is* related to the work they have performed and could include accrued sick or vacation time, bonuses, commissions or accrued compensation. This pay is typically included in compensation for retirement plans if it is paid by the later of 2 1/2 months after the termination date or the end of the plan year that includes the date of termination.

What are the pitfalls?

Since severance pay isn't allowed to be included as compensation for retirement plan purposes, it is very important to communicate to us what is and is not severance pay. You cannot withhold 401(k) deferrals from severance pay. The compensation that is attributed to severance pay should not be used when computing employer contributions (like a match or profit sharing contribution). For retirement plan purposes, it is completely ignored.

So, when you have someone who is receiving severance pay, it is important to contact your plan administrator or make a note on any payroll or summaries that you send to us so that we can make sure we are properly accounting for the severance. It is also important to let your payroll provider know so it can be correctly coded.

Sell Your Match

Most 401(k) plan sponsors offer their employees some type of matching contributions. The most common match, according to the Plan Sponsor Council of America, is 50 cents for every dollar an employee contributes to the plan, up to 6% of compensation.* The reason for offering this benefit is simple. The availability of matching contributions encourages employees to participate in their employer's plan and, in many cases, to contribute more to the plan — both of which can help at annual nondiscrimination testing time.

But many employees, particularly lower paid employees, fail to take full advantage of this important benefit. By some estimates, as many as two thirds of the lowest paid employees may not be contributing enough to receive the full company match. What can you do to get all of your employees on board?

Show Them the Money

To start, look at your enrollment and educational materials to see how matching contributions are explained. Many employers find that a "free" money approach, pointing out that the employer is *giving* employees extra money for retirement, is effective. Also helpful are illustrations showing the difference matching contributions can potentially make in their plan account balance at retirement.

Target Education

Also consider reviewing your plan data to determine which participants are not taking full advantage of your matching contributions. You might want to target these employees with payroll stuffers or e-mail communications pointing out the benefits of matching contributions. Or, if employees who are not taking advantage of your match seem to be concentrated in certain departments, you may want to post matching contribution posters in those areas. Another idea is to briefly talk about your 401(k) plan and your match program at the performance/pay reviews of select — or perhaps all — employees.

* *58th Annual Survey of Profit Sharing and 401(k) Plans*, Plan Sponsor Council of America, 2015 (2014 plan experience)

Put Your Plan on Autopilot

These days, it's a big mistake for employees not to set money aside for retirement during their working years. Unfortunately, not *every* employee thinks so. Which explains why some employer-sponsored retirement plans have low participation rates. If your company retirement plan's participation rate disappoints you, there may be an easy fix. Why not put your plan on autopilot?

The Nuts and Bolts

Putting a retirement plan on autopilot simply means introducing an automatic enrollment feature. In other words, employees are automatically enrolled in the retirement plan unless they elect otherwise. A specific percentage of the employee's wages will be automatically deducted from each paycheck for contribution to the plan unless the employee opts out. Once enrolled in the plan, employees can change their contribution rate and choose how to invest their contributions from the plan's investment menu. If they don't select their investments, their contributions are automatically directed to a qualified default investment option. Employees whose contributions are invested in the default option can later switch into other plan investment alternatives, if desired.

Does It Work?

Approximately 30% of employees do not participate in their employer's 401(k) plan. Studies claim that automatic enrollment plans could reduce this rate to less than 15%.* And U.S. employers are opting for automatic enrollment in growing numbers. According to the Plan Sponsor Council of America, automatic enrollment is used by 52.4% of plans (up from 50.2% in 2013).**

A Win-win

Many employees are confused about retirement planning. Many want guidance. Automatic enrollment makes the tough decisions for them and starts them on the path to a more secure financial future. Having a robust retirement plan usually helps businesses attract and keep talented employees. Automatic enrollment may be just the enhancement you need to get more employees to participate in — and appreciate — the benefits of working for you.

* *Automatic Enrollment 401(k) Plans for Small Businesses*, U.S. Department of Labor's Employee Benefits Security Administration and the Internal Revenue Service, November, 2013

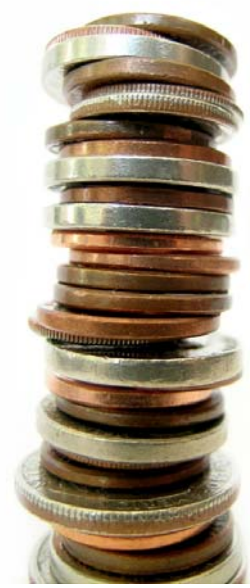
** *58th Annual Survey of Profit Sharing and 401(k) Plans*, Plan Sponsor Council of America (reflecting 2014 plan experience)

Build 401(k) Plan Participation by Adding Profit Sharing

Many a company has started a 401(k) salary deferral plan for non-tax as well as tax benefits. The most common non-tax benefits are to retain and attract qualified employees and to motivate present employees to improve their performance. But offering a plan with attractive features, such as matching contributions, investment options, and loan provisions, may not be enough to achieve the anticipated benefits. A low participation rate is a frequent 401(k) plan problem.

A Profit-sharing Feature Can Enhance the Attraction of Your Retirement Plan

The effect of profit sharing can be very positive on a company's competitiveness, profitability, and workers. Employer profit-sharing contributions to an existing 401(k) plan provide employees with a personal stake in the company's welfare. By making such contributions an employer can:



- Boost efficiency, because employees feel personally responsible for profits
- Avoid the losses and waste that discontent and carelessness can cause
- Help cut employee turnover through rewarding continued service
- Improve employees' job satisfaction
- Add more financial security for employees' retirement
- Emphasize management efficiency and encourage personal quality control
- Increase corporate profitability

Profit-sharing Essentials

A profit-sharing plan is a type of tax-qualified retirement plan that an employer establishes in order to allow employees to participate in company profits. The employer generally makes contributions to the participating employees' plan accounts from company profits using the method that the plan documents specify. The plan's trustee holds and invests any employer contributions until plan distributions are made.

A primary employer benefit of a profit-sharing plan is its flexibility. No contributions are required if there are no profits in a particular year. The plan may also be structured so that even when there are profits, the annual contribution depends on the employer's assessment of its ability to make the contribution. Moreover, a profit-sharing plan can permit higher plan contributions than just a 401(k) plan. The 2016 maximum total per-employee is $18,000 for a 401(k), plus a catch-up contribution of $6,000 if the employee is age 50 or older. But the total "annual additions" maximum, including profit sharing, is $53,000 per employee account or 100% of annual compensation, whichever is less, in 2016. The employer's maximum deduction for profit-sharing contributions is 25% of the compensation paid for the year to plan participants.

Relatively Simple To Add

Making the changes necessary to add profit-sharing contributions to an existing 401(k) plan isn't difficult. The major difference is that a combined plan would include all eligible employees, even those who don't participate in your present plan. It is possible that as a result of their participation in profit sharing, more of your employees will be aware of retirement planning and choose to make voluntary 401(k) contributions as well.

For more information on profit sharing, 401(k), or combined retirement plans, please contact your administrator.

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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.)

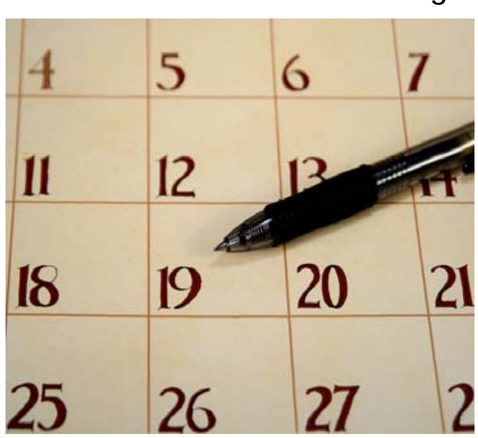
Each Payroll: Remit deferral and loan repayments within 7 business days (small plans) or as soon as possible (large plans).

April 15: The deadline for correcting 402(g) excess deferrals (for any participant that exceeded the $18,000 deferral limit)

April 15: Tax Returns and contributions due (without extension) for Unincorporated Entities, Individuals and/or Partnerships

May 15: First Quarter PPA Statements due for participant directed plans

June 30: Corrective distributions due for failed ADP/ACP Testing from a plan with an eligible automatic contribution arrangement (EACA) (without employer 10% excise tax)



July 31: Form 5330 and excise tax due on prohibited transactions (i.e.: late 401(k) deposits)

August 1: Annual Form 5500 report and schedules due to be filed electronically with DOL without extension)

August 14: Second Quarter PPA Statements due for participant directed plans

September 15: Extended deadline for filing of corporate tax returns and contribution deadline for deductibility.