Qualified Plan Newsletter

Second Quarter 2015

Pump Up Your Education Program

Different generations have their own favorite music, their own slang, and different ideas of what's important. So it shouldn't be surprising that they will respond to employer educational materials in different ways—one of which may be to not respond at all. If your employee education program isn't as effective as you'd like it to be, you might be able to pump it up by tailoring information to specific employee groups.

Vary the Message

Rather than talking retirement to young, lower paid employees who are just starting their careers, consider a broad-based financial education program. Help them see how they can afford to start saving for retirement. Incorporating financial planning in your retirement planning materials can work with other employee groups, too. The message for employees in their 30s and 40s might be how to contribute to your retirement plan while working toward competing financial goals.

Employees nearing retirement want retirement-specific information. Also, they may respond better to seminar and presentation speakers who are closer to their age, rather than significantly younger. And, no matter what your message, keep it clear and simple.

Use Different Media

Also look at the ways you make information available to your employees. Targeted seminars and workshops with handouts can be particularly effective at reaching employees. However, some people prefer to research things on their own, and others like to find out more after attending a seminar or workshop. Internet access to educational information and planning tools can appeal to these employees' learning needs. Telephone help and additional printed materials may be needed, as well, if you have a significant group of employees who are not computer savvy.

June 2015 Capital Markets Review

	Period Ending June 30, 2015					
Index	Qtr	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	0.28	1.23	7.42	17.31	17.34	7.89
Russell 2000	0.42	4.75	6.49	17.81	17.08	8.40
Russell 3000 Value	0.00	-0.51	3.86	17.20	16.36	7.03
Russell 3000 Growth	0.27	4.33	10.69	18.15	18.64	9.17
MSCI ACWI Ex U.S.	0.53	4.03	-5.26	9.44	7.76	5.54
Barclays U.S. Aggregate Bond	-1.68	-0.10	1.86	1.83	3.35	4.44
3-Month U.S. Treasuries	0.00	0.01	0.02	0.05	0.06	1.34

Volatility of the U.S. stock market continued during the second quarter of 2015, much like it has for the rolling year. Major indices ended the quarter with slight gains, with the S&P 500, NASDAQ, and Russell 2000 (U.S. Small Cap Stocks) higher by 0.28%, 2.03%, and 0.42% respectively.

Investors continued to be concerned by the Federal Reserve's monetary policy and plans for future interest rate hikes. Even though the U.S. economy was hampered by disappointing GDP data—which showed the U.S. economy decreasing by 0.2% during the first quarter—the Fed communicated during its June meeting that the first rate hike would take place sometime this year. As a result of the Fed's communication, bond prices sank, with yields of the benchmark 10 year treasury spiking to a high of 2.49%, after having plunged to a low of 1.68% earlier in the year. Yields ended the quarter at 2.35%.

In addition to anxieties about the Federal Reserve, the market remained on edge due to continued trouble in Greece. Global market indices experienced volatility as investors wavered between pessimism and optimism regarding Greece's ability to repay its debts, and whether it will remain a member of the European Union.

Sector performance varied widely during Q2, with the best performing sectors being Communication Services and Financial Services, experiencing a return of 4.9% and 4.3% respectively, while Utilities and Industrials were the worst performing sectors returning losses of 6.3% and 2.4% respectively. Oil prices rebounded in the second quarter, with Brent Crude jumping by 15%. While this was the single biggest percentage gain since the first quarter of 2011, oil still remains well below the highs of the previous few years.

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.

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Offering Catch-up Contributions

Catch-up contributions give older employees who may not have contributed enough to their employer's 401(k) or other retirement savings plan in earlier years an opportunity to catch up by making higher contributions now.

Catch-up Basics

To be eligible to make catch-up contributions, an employee must be age 50 or older by the end of the year *and* must first contribute the maximum allowed deferral to the plan. The maximum is determined by the plan document limits or by certain tax law restrictions. For 2015, an eligible employee can make catch-up contributions of up to $6,000 to a 401(k), 403(b), or 457 plan and up to $3,000 to a SIMPLE.

How Contributions Are Treated

Catch-up contributions are not subject to the dollar limit on annual additions to an employee's plan account. Nor do these contributions have to be counted in your actual deferral percentage (ADP) nondiscrimination testing. In addition, catch-up contributions by key employees are not included as part of the threshold amount that triggers required minimum contributions in a top-heavy plan.

To gain these advantages, you must take care not to misclassify an elective deferral as a catch-up contribution. For example, an employee who simply contributes $6,000 more than in past years cannot choose to have that amount classified as a catch-up contribution.

Determining Catch-up Contributions

A plan determines whether elective deferrals are catch-up contributions by comparing the total amount deferred by an employee during the year to the applicable tax law and plan limits. Here are some examples. All of the employees are age 50 or older in 2015.

- Employee #1 defers $21,000 to the plan. The $3,000 contribution in excess of the $18,000 (in 2015) dollar limit on elective deferrals is treated as a catch-up contribution. If the plan had a lower elective deferral limit, a deferral in excess of that limit would be considered a catch-up contribution.
- Employee #2 defers $23,000 to his employer's safe harbor 401(k) plan, and his employer makes a 3% nonelective contribution of $2,000 to his account, for a total contribution of $25,000. $5,000 is considered a catch-up contribution because the employee exceeded the tax law's elective deferral limit by that amount. The nonelective employer contribution doesn't factor into the determination.
- Employee #3, a key employee, receives a $53,000 profit sharing contribution from her employer in 2015. She also defers $6,000 to the plan. Her deferral is a catch-up contribution because the profit sharing and elective deferral contributions, when combined, exceed the 2015 dollar limit on annual additions ($53,000).

Self-employed? Have a Retirement Plan *and* Save Taxes

Retirement security is a concern for everyone. But when you're self-employed, you really have to think about the future. Just as you're responsible for generating your own income now, you're going to be pretty much on your own during your retirement years. With the exception of Social Security and any benefits you receive from former employment, your retirement income will have to come from your savings and investments. A tax-favored retirement plan can help you prepare.

You can choose from several retirement plans. All allow you to make tax-deductible contributions. And those contributions, along with investment earnings, grow tax deferred until withdrawn from the plan. Here are three options you might consider:

Solo 401(k)

This plan is suitable for someone who works alone or employs only his/her spouse. It has relatively high deductible contribution limits. For example, in 2015 you're allowed to defer up to $18,000 ($24,000 if you'll be at least age 50 by December 31) plus contribute another 25% of "earned income," as defined in the tax code (25% of your compensation if you're a corporate employee)—for a maximum contribution of $53,000 ($59,000 if you're age 50 or older).

SEP IRA

One of the least complicated plans, the SEP IRA allows you to make tax-deductible contributions to individual retirement accounts (IRAs) established for yourself and your eligible employees. You don't have to contribute to the plan every year, but if you make a contribution for yourself, you also have to contribute to each eligible employee's account (generally a uniform percentage of compensation). In 2015, the most you can deduct is 25% of "earned income" (25% of compensation if you're a corporate employee) subject to a contribution dollar limit of $53,000.

SIMPLE IRA

With this plan, you set up an IRA for yourself and each participating employee. Employees (and you) elect to defer compensation to the plan (no more than $12,500 in 2015; $15,500 if age 50 or older). An additional employer contribution is required annually. You must either: (1) match employee contributions up to 3% of pay (a lower 1% match is allowed in certain years) or (2) contribute 2% of pay for each employee who's eligible to contribute, even if the employee chooses not to contribute.

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