Qualified Plan Newsletter

Fourth Quarter 2015

Plan Sponsors Ask...

Question. Our plan is on the smaller side, and we want to boost participation and deferrals. How can we accomplish this?

Answer. You may find that emphasizing plan features and education will help. Recent research from Guardian Retirement Solutions indicates that participants in smaller plans don't have access to the same features and investment options available to those in larger plans. There are three primary ways you can make the plan more enticing:

- *Diversify the Investment Offerings*. Too many funds may leave participants overwhelmed. And don't include more than one or two of each investment type.
- *Focus on Income*. Fifty-four percent of respondents said they pay a "great deal" of attention to their account balance, vs. 29% who pay a "great deal" of attention to how much income that balance will create in retirement. Including income projections on participant statements can help, but it's even more impactful to remind participants to focus on income during open enrollment or face-to-face meetings, for example.
- *Education is Key*. Ongoing education and communication programs, including enrollment meetings, online tools, calculators and more, can help increase participation, deferral rates and engagement. A little education can prompt employees to make better choices in managing their DC plan accounts, boost overall job satisfaction, and help them achieve more successful outcomes in retirement.

December 2015 Capital Markets Review

	Period Ending December 31, 2015					
Index	Qtr	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	7.04	1.38	1.38	15.13	12.57	7.31
Russell 2000	3.59	-4.41	-4.41	11.65	9.19	6.80
Russell 3000 Value	5.41	-4.13	-4.13	12.76	10.98	6.11
Russell 3000 Growth	7.09	5.09	5.09	16.62	13.30	8.49
MSCI ACWI Ex U.S.	3.24	-5.66	-5.66	1.50	1.06	2.92
Barclays U.S. Aggregate Bond	-0.57	0.55	0.55	1.44	3.25	4.51
3-Month U.S. Treasuries	0.01	0.03	0.03	0.04	0.05	1.17

The U.S. economy capped off a year many might characterize as stagnant in Q4 2015. The national unemployment rate entered Q4 at 5%, and it would remain there through the end of the year. October saw an increase of 307,000 in nonfarm payroll employment, while November and December saw increases of 252,000 and 292,000, respectively, in the same category. In all, national unemployment dropped from 5.6% to 5% over the course of 2015, as payroll employment growth totaled 2.7 million, about 13% less than the 3.1 million increase in payroll employment over 2014.

Q4 2015 also put an end to a tumultuous 2015 for the stock market. The Dow Jones ended 2015 at 17,425.03, representing a 7% increase in Q4 but a 2.23% decrease over the year. The S&P 500, Russell 2000, and NYSE Composite told similar stories. The S&P 500 increased 6.5% in Q4, but fell 0.7% over the course of 2015. The Russell 2000 increased 3.2% in Q4 but fell 6.1% over the course of 2015. The NYSE Composite increased 3.3% in Q4, but fell 6.3% over the course of 2015. The NASDAQ had a somewhat anomalous year in the group, as it increased 8.3% in Q4 and also enjoyed an increase of 5.2% over the course of 2015.

Q4 2015 also bore witness to a highly anticipated increase in the federal funds (effective) rate. The federal funds rate ended 2015 at 0.2% after starting Q4 at 0.13%, and starting 2015 at 0.06%. This represents a 54% increase in Q4 alone, and a 233% increase over the course of the year.

The average 30-year fixed rate mortgage also increased in Q4 2015, as it began the quarter at 3.85% and ended the quarter at 4.01%, representing a 4.2% increase. The average 30-year fixed rate mortgage at the start of the year was 3.73%, making the total increase on the year 7.5%.

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.

Weighing Automatic Plan Features

Situation. We're thinking about adding automatic enrollment and contribution increase features to our 401(k) plan but have concerns about employee resistance, especially to contribution increases.

Questions. Do many plans use automatic plan features, and how receptive are plan participants to them?

Answers. According to the Plan Sponsor Council of America, in 2013 50.2% of defined contribution plans surveyed offered automatic enrollment, up from 47.2% in 2012 and 45.9% in 2011. Nearly two thirds of those plans (65.2%) had an automatic contribution escalation feature in 2013. Another study by Cogent Research found 49% of plan participants surveyed wanted access to automatic contribution increases.

Discussion. With automatic enrollment, a set percentage of the employee's compensation is withheld and then deposited in a plan account for the employee—unless the employee chooses not to participate or wants to contribute a different amount. Employees must be given the opportunity to opt out of participating. You also have to provide employees with an option to change the election in the future.

An automatic escalation feature gradually increases a plan participant's deferral rate over time with no effort on the part of the employee. The increases must be according to a specified schedule. And you must notify employees of the amount of the deferral increases and when increases will occur. You also have to give employees the opportunity to opt out of increases.

For many employers, automatic enrollment is an effective way to increase participation. Plans surveyed by the Defined Contribution Institutional Investment Association in 2012 saw participation rates increase from an average of 69% to an average of 81% after adopting automatic enrollment.

As for employee resistance to contribution increases, the Employee Benefit Research Institute reports that 20% of surveyed employees said they would allow annual one percentage point contribution increases up to at least 15% of salary before discontinuing the increase. Another 20% would allow increases to between 10% and 14% of salary.

Comment. Before adding automatic features to your plan, look at what you expect the automatic features to accomplish, how much the features will cost, and how you can implement them to fit your work force. Some recordkeepers even offer a discount in fees if automatic features are added to your plan.

2016 Plan Contribution Limitations

IRS has announced most cost-of-living adjustments affecting retirement plan dollar limitations will not be changing for tax year 2016.

- 401(k), SARSEP, 403(b), and 457 plan deferrals remain unchanged at $18,000 (catch-up contributions also remain at $6,000)
- IRA maximum annual contribution remains at $5,500 (additional catch-up remains at $1,000)
- Annual addition limit for Defined Contribution Plans (maximum annual combined employee and employer deferral) remains at $53,000
- Annual benefit limit for Defined Benefit Plans (maximum) remains unchanged and is equal to the lesser of $210,000 or 100% of the participant's average compensation for the highest three years, adjusted for inflation
- Limit on annual compensation (maximum) used to determine qualified plan benefits or contributions remains unchanged at $265,000
- Highly compensated employee dollar limitation remains unchanged at $120,000
- Key employees in top-heavy plans—compensation limit taken into account in determining who is a key employee under top-heavy plans remains unchanged at $170,000
- Social Security taxable wage base remains unchanged at $118,500
- SIMPLE deferrals remains unchanged at $12,500 (catch-up contributions remain unchanged at $3,000)
- SEP minimum compensation limit for an allocation remains unchanged at $600
- QLAC maximum remains unchanged at $125,000

Traditional IRA changes. There are changes to the adjusted gross income (AGI) "phaseout" limits for determining what portion of contributions to a traditional IRA are deductible. For taxpayers who are active participants filing a joint return (or qualified widow(er)s), the deduction is phased out with a combined AGI of $98,000 to $118,000 (unchanged from 2015). For taxpayers other than "married filing separate returns," the deduction phaseout range is $61,000 to $71,000 AGI (unchanged from 2015). For a taxpayer who is not an active participant but whose spouse is an active participant, the deduction phaseout range is a combined AGI of $184,000 to $194,000 (up from $183,000 to $193,000).

Roth IRA changes. There is an AGI-based limitation for determining the maximum Roth IRA contribution. For married taxpayers filing a joint return (or qualified widow(er)s), the contribution phaseout range is from $184,000 to $194,000 (up from $183,000 to $193,000). The AGI phaseout range for single taxpayers is $117,000 to $132,000 (up from $116,000 to $131,000).

MBL Advisors

A McColl Bros. Lockwood Company

MBL Advisors Inc.

1017 East Morehead Street
Charlotte, NC 28204

Luther Lockwood
704.335.4522
Luther.Lockwood@mbl-advisors.com