Qualified Plan Newsletter

Third Quarter 2015

Plan Sponsors Ask…

Question: We hear a lot about differences between the generations; is there something different we should do to encourage our younger employees to save?

Answer: Actually, millennials are off to a pretty good start in terms of saving. In fact, 63% of millennials who responded to a recent survey said they started saving before they reached age 25. However, less than a third of them are saving at least 10% of their salary through their employer-sponsored retirement plan. The survey reported that millennials who are offered an employer-matching contribution are very likely to take full advantage of it; 83% of them do so. That's great, but because a traditional match may help them reach only 3% or 4% of pay when 10% should probably be their goal, the match only gets them part of the way there. Employers may be able to help millennials (and all other employees) save more by changing the formula for the employer match to one that provides, for example, 25% of the first 12% of pay contributed by the employee. This kind of "stretch" feature may entice more participants—including millennials—to contribute the full 12% of pay.

More encouraging findings from The Principal's Millennial Research Study, 2015:

- About two-thirds (66%) of the millennials surveyed have established a monthly budget, and 35% use a digital budgeting system
- 57% have an emergency fund, although only about a third (32%) of them believe their emergency fund could cover their basic expenses for more than six months.

September 2015 Capital Markets Review

	Period Ending September 30, 2015					
Index	Qtr	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	-6.44	-5.29	-0.61	12.40	13.34	6.80
Russell 2000	-11.92	-7.73	1.25	11.02	11.73	6.55
Russell 3000 Value	-8.59	-9.05	-4.22	11.40	12.11	5.68
Russell 3000 Growth	-5.93	-1.86	3.21	13.54	14.38	8.05
MSCI ACWI Ex U.S.	-12.17	-8.63	-12.16	2.34	1.82	3.03
Barclays U.S. Aggregate Bond	1.23	1.13	2.94	1.71	3.10	4.64
3-Month U.S. Treasuries	0.01	0.02	0.02	0.04	0.06	1.26

Commonly used economic indicators told an inconsistent story throughout the third quarter of 2015. National unemployment continued its positive trend on the year. Unemployment remained at 5.3 % in July and subsequently fell to 5.1% in August, where it would remain through September. Nonfarm payroll employment increased from 141,870 in July, 142,220 in August, to 142,371 in September. Job gains were found in the healthcare and information industries, while mining fell.

Meanwhile, the major stock indices reflected a quarter of market volatility. The Dow Jones Industrial Average declined 8% (1354 points) in Q3, after starting at 17,638 and ending at 16,284. The S&P 500 told a similar story, as it declined 7% (147 points) over the same period, starting at 2067 and ending at 1920. The Russell 2000 Index fell during the third quarter, dropping 162 points (13%) over the period. The NASDAQ fell 409 points (8%) and the NYSE Composite fell 1091 points (10%) over the same period.

The Federal Reserve once again avoided a highly-anticipated rate increase in the third quarter, perhaps showing its ambivalence regarding the direction of the economy. The Federal funds effective rate started the quarter at 0.13%, and dropped to 0.07% by quarter end.

Interestingly, the Bureau of Labor Statistics reported a drop in the Consumer Price Index of 0.1% in August following an increase of 0.1% in July. September numbers were not available at the time of writing, however data shows a 0.2% increase in the unadjusted 12-month period ending in August 2015. The August drop is being largely attributed to the month's sharp decline in the gasoline index.

According to Freddie Mac, the Monthly average commitment rate on 30-year fixed-rate mortgages dropped slightly each month in Q3. After starting the quarter off at 4.05% in July, it dropped to 3.91% in August, and ultimately ended the quarter at 3.89% in September.

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.

Helping Employees Reach a Higher Level of Preparedness

There are a variety of goals for any retirement plan. Surely one of the most important is to help employees reach a state of retirement readiness. This is no small task, considering that retirement may last 30 years or even longer. Recognizing this dilemma and seeking to help employers pave a smoother road for their employees, Fidelity identified a four-pronged strategy they call "Retirement Vision 2020." This strategy was designed to ensure that as many American workers as possible can achieve a secure retirement.

According to Fidelity's roadmap, a successful retirement program should:

Design for Income

Traditionally, employers and advisors recommend that employees strive to contribute a particular percentage of pay. Rather than focusing on contributions, the report suggests that employees should be encouraged to aim for an income replacement level in retirement, and measure their contributions and balances against that goal. The 2020 report suggests a reasonable starting point of 50% of final net pay, but acknowledges that some employers may set different goals, depending upon other factors, such as an existing pension plan.

Account for Health Care

When designing or making changes to the retirement plan, the retirement committee should not operate in a vacuum. Rather, the design group should include representatives from the employer's health care team and other pertinent areas. All parties (including plan participants) need to understand the increasingly significant role health care costs are playing for retirees. In fact, Fidelity's 2014 Retiree Health Care Cost Estimate shows that the average 65-year-old couple may need more than $220,000 to pay for health care expenses in retirement.

Engage and Empower

Employees in general need more than a handout and a link to a website in order to engage with the plan. The right combination of guidance and easy access to resources can make a big difference in employee engagement. Of course, some employees don't engage at all. For those, aggressive auto features can help. Setting the bar high in terms of enrollment percentage and contribution increases, and automatically investing them in age-appropriate funds, may make a real difference.

Transition with Confidence

Retirement dreams differ from person to person, but one thing is constant: the need for an income to support it. Fidelity's research shows that 31% of Americans are unsure whether they can meet their retirement income requirements, and 11% are sure they can't. Employers can help them gain confidence to take on their futures by providing needed tools and support, and helping them engage—engaged employees tend to save more!

Safe Harbor 401(k) Notices

Plan participants must be provided with a safe harbor notice no earlier than 90 days and no less than 30 days before the beginning of each plan year. There are special rules for new plans and new participants.

New Plans

If a new 401(k) plan is established with safe harbor provisions and the plan design provides immediate eligibility for deferrals and employer contributions, a safe harbor notice must be provided anytime between 90 days before the effective date of the plan and the actual effective date of the plan.

Example: An employer adopts a safe harbor 401(k) plan effective September 1, 2015. The plan design allows employees immediate eligibility and permits them to make deferrals and receive safe harbor matching contributions as of September 1, 2015. The employer must provide the safe harbor notice between June 3, 2014, and September 1, 2015.

Newly Eligible Participants

The same notice time frame applies to a newly eligible participant in an existing safe harbor 401(k).

Example: A safe harbor 401(k) plan has a six-months-of-service eligibility requirement. A new employee hired on March 31, 2015, will be eligible to enter the plan on October 1, 2015. The employer must provide the safe harbor notice no earlier than July 3, 2015, but no later than October 1, 2015.

Special Timing Rule

There is a special rule for coordinating the notice time period for newly eligible participants with the annual safe harbor notice. For safe harbor notice purposes, a new employee is defined as an individual who becomes eligible to participate after the 90th day before the beginning of the plan year. Thus, in a calendar-year plan, any employee who becomes eligible to participate between October 2 and December 31 may be provided with a safe harbor notice under the new employee rules (i.e., the notice must be provided no sooner than 90 days before the eligibility date but no later than the date of eligibility).

The annual safe harbor notice (sent between October 3 and December 2 each year by calendar-year plans) covers all ongoing participants. The same notice will cover employees who become newly eligible through the date the notice is provided. Under the special rule, the annual safe harbor notice may be used to satisfy the notice requirements for those who become eligible up to the last day of the plan year.

MBL Advisors Inc.
1017 East Morehead Street
Charlotte, NC 28204

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