Benefit Financial Services Group

Quarterly Newsletter

Retirement PLAN News

Quarter Ending March 31, 2019

Markets in Review

Domestic equity investors have been on a wild ride in recent years with the S&P 500 Index experiencing periods of 20% and 15% growth, followed by 10% and 20% declines, respectively, during the 18-month period prior to January 1, 2019. During the first quarter of 2019 domestic equity markets were once again on the move with the S&P 500 Index rallying 20% from its low on December 24, 2018, reversing the majority of losses experienced in the fourth quarter of 2018, and finishing just 3.3% off all-time highs.

Mid-cap stocks were the best performers with the Russell Mid Cap Index returning 16.5% during the quarter. In contrast to the previous quarter, growth-oriented stocks outperformed their value-oriented counterparts across all market-caps. Following a difficult fourth quarter, Technology was the best performing sector, followed by Real Estate and Industrials. Healthcare was the worst performing sector, following a year of relative outperformance, as potential regulatory changes weighed on investor sentiment.

International equity markets rebounded from the sharp declines experienced in the fourth quarter of 2018, but generally underperformed domestic equity markets. Japanese stocks lagged with the MSCI Japan Index returning just 6.7% as exports and production slumped on the back of slowing global growth. European markets benefited from the European Central Bank's surprisingly dovish tone as it announced that it would leave interest rates unchanged until at least 2020, acknowledging the negative impact trade tensions and geopolitical concerns have had on the region's economy. Emerging markets benefited from a more accommodative tone from central banks, and perceived improvement in U.S.-China trade relations, with the MSCI EM Index rising 9.9%.

The Federal Open Market Committee ("FOMC") held the target range for the federal funds rate at 2.25% to 2.50% during its March meeting and lowered its forecast for U.S. economic growth. The yield of the benchmark 10-year Treasury Note declined significantly in March after the FOMC indicated that no rate hikes are expected in 2019. After remaining relatively flat for the first two months of the year, 10-year Treasury yields fell from 2.61% on March 19th, to a 15-month low of 2.39% on March 27th, before ending the quarter at 2.41%. The yield curve continued to flatten with the short end of the curve inverting and the spread between 2- and 10-year Treasuries finishing the quarter at just 14 basis points.

The initial estimate of first quarter gross domestic product (GDP) came in well above market expectations at 3.2% growth. Net trade accounted for around 1% of growth, with exports jumping by 3.7% and imports falling by 3.7%. Other positive contributors to GDP growth included personal consumption, inventories, government spending, and nonresidential fixed investment, which were slightly offset by a small decrease in residential investment. Economic indicators were broadly mixed during the first quarter, impacted by the government shutdown and a series of other economic crosscurrents. Consumer confidence rebounded in March after sharply declining in January. Global economic growth continued to slow as fears relating to the U.S.-China trade war and a potentially disorderly Brexit persisted.

The unemployment rate decreased marginally from 3.9% to 3.8% during the first quarter of 2019. The labor force participation rate remained relatively flat, ending the quarter at 63.0%. The U.S. economy added an average of 180,000 jobs per month during the first quarter, despite adding just 33,000 jobs in February. In the March report, notable job gains were seen in health care and in professional and technical services.

The year-over-year headline inflation rate fell to a two-and-a-half year low of 1.5% in February before ending the quarter where it started at 1.9%, as food prices and easing energy deflation drove the index back up. During the same period, core inflation, which excludes food and energy, fell from 2.2% to 2.0%. Increases in the indexes for housing, medical care, and new vehicles helped to offset declines in the indexes for apparel, used cars and trucks, and airline fares during March.

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Automatic Enrollment is on the Rise

With the future of Social Security in question, it is becoming ever increasingly important for workers to self- prepare for post-retirement living. Studies show that approximately one out of every three eligible workers choose NOT to participate in their employer-sponsored 401(k) plan. Offering automatic enrollment in your 401(k) plan is a way for you, as Plan Sponsor, to help lend a hand to employees that are not fully aware of the significance of having a post-retirement source of revenue.

Plans with an automatic enrollment feature nearly doubled over the past decade according to the Plan Sponsor Council of

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America's (PSCA) 60th Annual Survey of Profit Sharing and 401(k) Plans. PSCA, part of the American Retirement Association, found that 59.7 percent of plans had an automatic enrollment feature in 2016 compared to 35.6 percent in 2007. Having an automatic enrollment provision can also help allow Highly Compensated Employees (HCE's) contribute more to the plan by either boosting the participation rate of Non-Highly Compensated Employees (NHCE's) or by satisfying the Safe Harbor requirements which exempt the plan from certain nondiscrimination testing.

Your current plan document gives you the option to choose different levels of automatic enrollment, described in the following paragraphs.

Automatic Contribution Arrangement

The Automatic Contribution Arrangement (ACA) is the most basic of the automatic enrollment options and has existed since the late 1990's. A 401(k) plan with an ACA provides for increased participation by stating that eligible employees will be automatically enrolled in the plan unless they elect otherwise. A beginning "default" withholding percentage or dollar amount is chosen by you as the Plan Sponsor. Employees have the right to choose not to have salary deferred, or to elect a percentage or dollar amount that is different from the default withholding.

If the ACA provision is newly added to the plan, you as the Plan Sponsor may elect to apply the automatic enrollment to existing participants or apply it solely to new employees moving forward. If your plan allows for Roth deferrals, the default withholding may be traditional pre-tax 401(k) or Roth-based. You even have the option of escalating the initial automatic deferral amount annually for employees, thus increasing their savings every year of employment.

In the event that a discretionary company match is offered, automatically-enrolled employees' contributions are matched just as they normally would be for employees that voluntarily participate. Any discretionary contributions follow your plan's regular vesting schedule.

Eligible Automatic Contribution Arrangement

The Eligible Automatic Contribution Arrangement (EACA) builds on the basic ACA. All aspects mentioned above also apply to EACA's, with two primary additions:

1. The plan has the option to choose to allow permissible withdrawals for employees that were initially automatically enrolled, but then elected not to participate in the plan.
2. A window of 30-90 days may be chosen within the date of the first automatic deferral to allow participants who were automatically enrolled to "opt-out" and withdraw any money that was already withheld from their pay. Any associated company match would, in turn, be forfeited.

If your EACA plan covers all employees, the deadline to complete your ADP/ACP nondiscrimination testing and withdraw any necessary testing failure refunds without a penalty is six months following the close of the Plan year, rather than two and a half months following the close of a plan year for a non-EACA plan.

Qualified Automatic Contribution Arrangement

A Qualified Automatic Contribution Arrangement (QACA) combines automatic enrollment provisions with the IRS' Safe Harbor provisions. Thus, QACA plans increase participation among employees while also making the plan exempt from certain nondiscrimination testing and allow HCE's to maximize their annual 401(k) contributions. QACA provisions require a minimum of 3% automatic enrollment; however, certain annual escalations may be necessary such that by year five, an automatically enrolled employee must have at least a 6% contribution rate. You may opt to begin year one with 6% as the automatic enrollment percentage to avoid the required escalations, but in no event can the automatic withholding exceed 10% of annual compensation.

Unlike the other automatic enrollment arrangements, QACA plans have a required employer contribution. An employer must make at least a 100% matching contribution of salary deferrals up to the first 1% of compensation, plus a 50% matching contribution on the next 5% of compensation deferred, or a non-elective contribution equal to 3% of compensation to all eligible participants. Either of these contributions must be fully vested by the time an employee has completed two years of service.

Qualified Default Investment Alternative

All automatic enrollment options may elect a Qualified Default Investment Alternative (QDIA). The default fund is utilized when an employee does not make their own investment election but is entitled to a contribution in the plan — whether being their own salary deferrals, company funded contributions, and/or reallocated forfeitures. A QDIA requires an annual notice be provided to your employees, summarizing the plan's QDIA selection.

The purpose of the QDIA is to minimize the risk of large losses and at the same time provide long-term growth. Choosing a QDIA offers liability relief to an extent for plan fiduciaries. Your investment advisor may be able to provide you with more details regarding what funds constitute a QDIA. While not required by law for an ACA, EACA, or QACA, most automatic enrollment plans do elect a QDIA for administrative convenience.

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Protect Your Retirement Plan

With the prevalence of data breaches in today’s news, now is as relevant a time as ever to remind employees about protecting their retirement accounts from potential fraud. What steps can employees take to help secure their accounts?

- Strong password management. Many times, the retirement plan account password is the same, or very similar, to another password in an account that may have been breached. Changing passwords and using stronger, randomly-generated passwords goes a long way towards protecting private information.

- Review account transactions. Online access that is available 24/7/365 has taken the scrutiny from quarterly or annual statements. Reviewing your account on a frequent basis can help identify fraudulent activity quickly.

- Avoid using security questions where a hacker may potentially be able to find the answers from information which can be found publicly, such as on social media.

What steps can you take as the plan sponsor?

- Ask for verification of distributions and loans if the recordkeeper allows for it. It might seem to be an excessive burden to approve individual transactions but checking with an employee by cell phone or protected communication channels will prevent a lot of problems down the road. Remember, if the participant's email was the source of the hacked information, the hacker could still be accessing email accounts undetected.

- Establish a system of checks and balances within your own human resources and accounting departments. Fraud can occur in many ways, and hacking seems to be the most prevalent today. Internal personnel have the power to request and direct retirement distributions for the plan's recordkeeper.

It's good practice to review your retirement plan's transactions each month like you would your company bank account or credit card accounts. If you see any questionable transactions, please contact your TPA immediately.

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Upcoming Compliance Deadlines

May 2019

15th: Deadline for participant-directed plans to supply participants with the quarterly benefit/disclosure statement including a statement of plan fees and expenses charged to individual plan accounts during the first quarter of this year.

July 2019

1st: EACA ADP/ACP Corrective Testing - ADP/ACP refunds are due to highly compensated employees (HCEs) to avoid a 10% excise tax on the employer for plans that have elected to participate in an Eligible Automatic Enrollment Arrangement. Note: Deadline is normally June 30th, which this year falls on a Sunday.

15th: Defined Benefit Contributions - Deadline for Defined Benefit Plans to make the second quarter contribution.

29th: Summary of Material Modifications (SMM) - A SMM is due to participants no later than 210 days after the end of the plan year if a plan change or amendment was adopted in that year.

31st: Due date for calendar-year plans for the filing of **Form 5500** (Annual Return Report of Employee Benefit Plan), **Form 5558**(Application for Extension of Time to File Certain Employee Plan Returns), **Form 5330** (Return of Excise Taxes Related to Employee Benefit Plans), and **Form 8955-SSA** (Annual Registration Statement Identifying Separated Participants With Deferred Vested Benefits).

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