Retirement Plan Newsletter

Quarterly Newsletter I Quarter Ending September 30, 2022

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Markets in Review

Global financial markets declined again in the third quarter as inflation persisted and remained at 40-year highs, geopolitical tensions escalated even further, and the Federal Reserve continued to aggressively raise interest rates. In late July, the Federal Reserve (the "Fed") raised interest rates by another 75 bps but comments by the Fed Chair, Jerome Powell, indicated a potential deceleration of the pace of interest rate hikes which gave the equity markets a boost in July and early August. Things took a dramatic turn in mid-August when Powell remarked the Fed would do what is needed to tame inflation and warned the U.S. economy will likely feel some "pain" from the Fed's action. Markets continued to sell-off in September as the August Consumer Price Index (CPI) report showed a slight increase in prices and the Federal Reserve raised interest rates again by 75 bps.

All major market indices finished the quarter with negative returns. Equity markets, as measured by the S&P 500 Index[1], fell by 4.9% during the quarter and is down almost 24% on a year-to-date basis.

With inflation persisting during the quarter, long term interest rates continued to surge. The 10-year U.S. Treasury started the quarter at 2.9%, hitting almost 4% during the quarter and subsequently finished the quarter at 3.8%. T-Bills posted a slightly positive return during the quarter, but all other fixed income indexes were negative with longer-dated government bonds posting the worst relative returns.

Unlike the first half of the year, growth outperformed value in the third quarter. Growth experienced a strong rebound early in the quarter with a bear market rally, however, much of those gains were erased by the end of quarter. On a sector level, only one sector of the S&P 500 finished the third quarter with a positive return. Consumer discretionary was slightly positive for the quarter due to strong consumer spending and low unemployment. The sector laggards for the quarter were communication services, real estate, and materials. Real estate declined as mortgage rates rose and home prices began to soften.

Foreign markets[2] underperformed the U.S. markets during the third quarter as the US dollar continued to strengthen, energy prices surged in Europe and the U.K., and the European Central Bank and Bank of England raised interest rates to combat persistent inflation. Emerging markets fared worse than foreign developed markets with the surge in the U.S. dollar and rising fears of a global recession.

Real economic growth contracted during the first two quarters of the year, but the advance estimate of Q3 GDP[3] showed a 2.6% annual growth rate for the economy. Despite lingering inflation and prolonged supply chain issues, the majority of Q2 earnings reports beat estimates indicating corporate America may be more resilient than previously believed by the markets.

The labor market tightened even more in the third quarter with 1.1 million jobs added to the U.S. economy. Jobs in leisure and hospitality and healthcare led the way. The overall U.S. unemployment rate remains at historic low levels at 3.5% with the total number of unemployed people standing at 5.8 million.[4]

Inflation, as measured by the Consumer Price Index (CPI-U), grew at a pace of 8.2% for the past 12-month period ending September 30, 2022. The core inflation reading, which excludes food and energy, rose 6.6%. Rising prices for shelter, food and medical care were slightly offset by a decline in gasoline prices.[4]

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Cost of Living Adjustments for 2023

Save even more for retirement in 2023 due to record breaking increases in limits. On October 21, 2022, the IRS announced the Cost of Living Adjustments (COLAs) affecting the dollar limitations for retirement plans for 2023. Retirement plan limits increased well over the 2022 limits, the largest increase in over 45 years. COLA increases are intended to allow participant contributions and benefits to keep up with the “cost of living” from year to year. Here are the highlights from the new 2023 limits:

The calendar year elective deferral limit increased from $20,500 to $22,500.

The elective deferral catch-up contribution increased from $6,500 to $7,500. This contribution is available to all participants aged 50 or older in 2023.

The maximum available dollar amount that can be contributed to a participant’s retirement account in a defined contribution plan increased from $61,000 to $66,000. The limit includes both employee and employer contributions as well as any allocated forfeitures. For those over age 50, the annual addition limit increases by $7,500 to include catch-up contributions.

The maximum amount of compensation that can be considered in retirement plan compliance has been raised from $305,000 to $330,000.

Annual income subject to Social Security taxation has increased from $147,000 to $160,200.

See chart titled *Annual Plan Limits:*

Annual Plan Limits	**2023**	**2022**	**2021**
Contribution and Benefit Limits			
Elective Deferral Limit	$22,500	$20,500	$19,000
Catch-Up Contributions	$7,500	$6,500	$6,500
Annual Contribution Limit	$66,000	$61,000	$58,000
Annual Contribution Limit including Catch-Up Contributions	$73,500	$67,500	$64,500
Annual Benefit Limit	$265,000	$245,000	$230,000
Compensation Limits			
Maximum Plan Compensation	$330,000	$305,000	$290,000
Income Subject to Social Security	$160,200	$147,000	$142,800
Key EE Compensation Threshold	$215,000	$200,000	$185,000
Highly Compensated EE Threshold	$150,000	$135,000	$130,000
IRA Limits			
SIMPLE Plan Elective Deferrals	$15,500	$14,000	$13,500
SIMPLE Catch-Up Contributions	$3,500	$3,000	$3,000
Individual Retirement Account (IRA)	$6,500	$6,000	$6,000
IRA Catch-Up Contribution	$1,000	$1,000	$1,000

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New Plan Year Checklist

Each year, a great deal of attention is paid to the upcoming year end work: census gathering, compliance testing, 5500s, oh my! But the year-end also brings with it a host of items that may need attention before the year closes. Below are a few action items that may need to be considered.

- Changes were made for the current plan year or upcoming plan year that required an amendment. Example: As of January 1, 2023, in-service distributions are available to participants at age 59 ½.
    - Do you have a signed copy of the amendment on file?
    - Have you revised your processes to ensure you are following the new terms of the plan?
- If your plan includes automatic enrollment provisions, the following may help you keep on track.
    - Identify participants who will be eligible at the start of the plan year and be sure that deferrals are scheduled to begin on time for those that do not opt out.

- For plans that include auto-escalation of contributions, create a list of participants whose deferrals need to be increased in accordance with the plan's schedule.

- With the significant increase in limits for 2023, it will be a great year for both participants and plan sponsors to take advantage of saving for retirement. It may make sense to review your current plan specifications to ensure that participants can take advantage of the higher limits. Some examples are raising your company match cap to a higher limit or letting employees enter the plan more quickly.

- The 2023 COLAs significantly raised the annual compensation limit from $305,000 to $330,000. If you fund employer contributions during the year, be sure to adjust your calculations for the upcoming plan year based upon the new limit.

- While some actions are needed ahead of the start of a plan year, the SECURE Act provided that a new plan can be added after the end of the year to which it applies. For example, if you maintain a 401(k) Plan and choose to add a Cash Balance Plan, the new plan can be implemented up to the due date of the company's tax filing. This means that even if you choose to add a Cash Balance Plan for 2022, the plan document can be executed in 2023 if it's adopted prior to filing the 2022 company tax return.

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Save or Toss? Proper Plan Record Storage a Must!

As the year comes to a close, you may wonder what plan records must be kept and what items can be tossed. Historical plan records may need to be produced for many reasons: an IRS audit, a DOL investigation or simply questions from participants about their benefits or accounts to name a few.

The Internal Revenue Service (IRS) takes the position that plan records should be kept until all benefits have been paid from the plan and the audit period for the final plan year has passed. This additional audit period is important to note. It may seem that with the final payout the plan is gone, but the reality is that the plan can be selected for audit for 6 years after the plan assets are paid out and your final Form 5500 is filed. The items that are typically needed in the event of an audit are:

- Plan documents and amendments (all since the start of the plan, not just the most recent)

- Trust Records: investment statements, balance sheets and income statements

- Participant records: Census data, account balances, contributions, earnings, loan records, compensation data, participant statements and notices

Under the Employee Retirement Income Security Act (ERISA), the following documentation should be retained at least six years after the Form 5500 filing date, including, but not limited to:

- Copies of the Form 5500 (including all required schedules and attachments)

- Nondiscrimination and coverage test results

- Required employee communications

- Financial reports and supporting documentation

- Evidence of the plan's fidelity bond

- Corporate income

In addition, ERISA states that an employer must maintain benefit records, in accordance with such regulations as required by the Department of Labor (DOL), with respect to each of its employees that are sufficient to determine the benefits that are due or may become due to such employees. These items don't necessarily have a set time frame, so you may want to consider keeping these items indefinitely. Documentation needed may include the following:

- Plan documents, amendments, SPD, etc.

- Census data and supporting information to determine eligibility, vesting and calculated benefits

- Participant account records, contribution election forms and beneficiary forms Documentation related to loans and withdrawals

It is the plan sponsor's responsibility to ensure documentation is kept regardless of which service providers are used during the life of the plan. Establishing a written process regarding how long to keep documentation is important as well as giving careful thought to whether the records will be electronic or paper. This ensures that, as staff members change over time, your processes will remain consistent and all necessary information will be handled appropriately. When storing plan records electronically, consider a naming convention that will make documents accessible to the proper personnel and easy to locate.

Security of the information should be considered as well to protect the confidentiality of personally identifiable information or PII. Many types of plan records include items considered PII, like social security numbers, dates of birth or account numbers. This information should be kept in a secure manner to avoid the possibility of identity theft and fraud. Take the necessary steps to ensure that the plan's service providers also have adequate policies in place to protect participant's PII as well.

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Deadline for CARES Act and SECURE Act Amendments Extended

The original due date of the CARES Act and SECURE Act amendments for qualified plans, other than governmental plans, was the last day of the first plan year beginning on or after

January 1, 2022, which means December 31, 2022, for calendar year plans. This has been extended to December 31, 2025, regardless of plan year end. However, the deadline for governmental plans (414(d) plans, 403(b) plans maintained by public schools or 457(b) plans) is 90 days after the close of the third regular legislative session of the legislative body with the authority to amend the plan that begins after December 31, 2023.

This does not restore the availability of Coronavirus Related Distributions or larger loan limits but refers to the amendments that document the provisions used to operate the plan. Check with your TPA or document provider to confirm if the amendments for your plan were already filed or if the extended deadline will apply to you.

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Upcoming Compliance Deadlines

December 2022

1st: Participant Notices – Annual notices due for Safe Harbor elections, Qualified Default Investment Arrangement (QDIA), and Automatic Contribution Arrangements (EACA or QACA).

30th: ADP/ACP Corrections - Deadline for a plan to make ADP/ACP corrective distributions and/or to deposit qualified nonelective contributions (QNEC) for the previous plan year.

Discretionary Amendments - Deadline to adopt discretionary amendments to the plan, subject to certain exceptions (e.g., anti-cutbacks).

Required Minimum Distribution (RMD) - For participants who attained age 72 in 2021 (and attained age 70 on or after July 1, 2019), the first RMD was due by April 1, 2022. The 2nd RMD, as well as subsequent distributions for participants already receiving RMDs, is due by December 30, 2022.

January 2023

31st: IRS Form 945 – Deadline to file IRS Form 945 to report income tax withheld from qualified plan distributions made during the prior plan year. The deadline may be extended to February 10th if taxes were deposited on time during the prior plan year.

IRS Form 1099-R – Deadline to distribute Form 1099-R to participants and beneficiaries who received a distribution or a deemed distribution during prior plan year.

IRS Form W-2 – Deadline to distribute Form W-2, which must reflect aggregate value of employer-provided employee benefits.

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Sources:

1. The S&P 500 is designed to be a leading indicator of U.S. equities and is commonly used as a proxy for the U.S. stock market.
2. The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries. With 2,354 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.
3. Source: Federal Reserve Bank of Atlanta GDPNow (https://www.atlantafed.org/cqer/research/gdpnow)
4. Source: U.S. Bureau of Labor Statistics (https://www.bls.gov/)