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PENSION CONSULTANTS

# RETIREMENT PLAN SOLUTIONS

Insight from Alliance Benefit Group,
One of the Largest National Independent
Retirement Plan Providers

Founded in 1992 • Administration of Over 20,000 Plans and 1.3 Million Plan Participants • Over $70 Billion in Assets Under Administration • Plans in All 50 States

SPRING 2018

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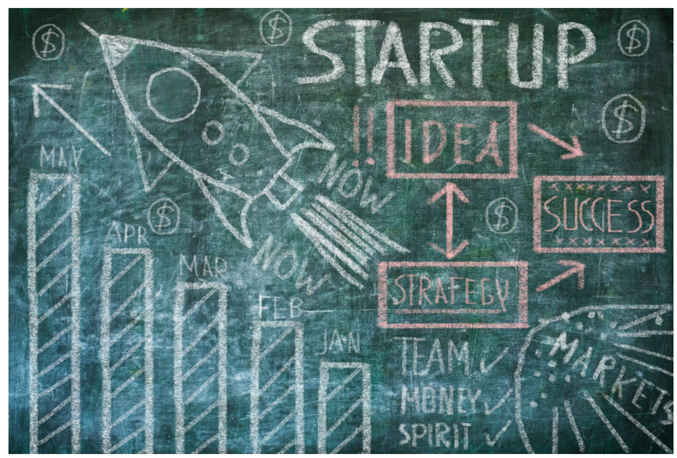
# AN ENTREPRENEURIAL CONUNDRUM – BUILDING RETIREMENT WEALTH WHILE BUILDING A BUSINESS




Entrepreneurship is alive and well in America. Nearly 15 million people in the US are self-employed, approximately 10% of the working population according to the Pew Research Center. These entrepreneurs have an additional 29.4 million people working for them and together they account for approximately 44 million jobs, which is 30% of the national workforce.

For many of these self-employed business owners, much, if not all, of their net worth is tied up in their businesses. Adequate cash flow to cover operating expenses and managing through times when business lags or client payments are slow is a key concern, as is putting aside money for reinvestment in the business.

As a result, for many self-employed individuals, saving for retirement is often last on their list of priorities. For some, a healthy nest egg at retirement is the optimistically anticipated result of the sale of their business upon retirement. In fact, over 34% of entrepreneurs surveyed by the small business site, Manta, did not have a retirement savings plan, while over 20% used their previous retirement savings to fund their businesses. Optimistic and driven, an entrepreneur's retirement planning may often be a leap of faith, relying on future business success and an eventual sale.

**Size and Structure Matter When Determining Retirement Plan Suitability**

Determining the retirement plan that makes the best sense for an entrepreneur and his or her business is primarily influenced by the structure of the business and the number of employees involved. For example, whether a company is a sole proprietor or a limited liability company will factor into the determination of the most appropriate plan design.

While 401(k) plans may make sense for larger companies in terms of set-up costs, investment choices, administrative duties and IRS filing requirements as well as fiduciary responsibilities, a SEP IRA may make

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# CYBERSECURITY – HOW PLAN PARTICIPANTS CAN HELP THWART POTENTIAL HACKERS

Total US retirement assets surpassed $26.1 trillion in 2017 according to the American Society of Pension Professionals & Actuaries (ASPPA). As a significant investment for many Americans, retirement assets are an attractive target for many hackers globally.

This growing threat is compounded by the fact that most people check their retirement accounts sporadically and not nearly as often as other accounts, such as checking accounts or credit cards. A cursory quarterly glance when a retirement statement is available may be the only review these accounts ever receive, which makes fraudulent activity potentially easier for the unscrupulous hacker lurking on the dark net.

**Prevention Is Only As Good As Participation**

While retirement plan providers and plan sponsors continue to implement multi-level security protocol and procedures to proactively prevent cybersecurity breaches, retirement plan participants also have an active role to play in safeguarding their retirement accounts. In reality, retirement plan security measures are only as good as their adoption by plan participants. With this in mind, there are a number of proactive, common-sense steps participants can take now to prevent future fraudulent activity. These protective measures include the following:

**Monitor Retirement Accounts:**

- Check retirement accounts regularly and immediately report any suspicious activity.

**Protect Passwords:**

- Create strong passwords that are different from the passwords used on other sites and include letters, numbers and special characters.
- Don't reuse passwords.
- Avoid sharing passwords.
- Change a password at least every 90 days.
- If a browser gives the option to remember a password, just say no.

**Access Account Information Wisely:**

- Don't access financial accounts on public Wi-Fi.
- Don't use public computers to check accounts.

**Prevent and Protect Against Phishing And Hacking:**

- Don't respond to suspicious email or phishing and never open or download suspicious attachments.
- Protect against malware by installing a security suite or program that includes antivirus, antispam and malware protection.
- Ensure that the answers set up for online security questions are not composed of publicly available information such as a birth date, child's first name or anything readily available on social media.

**ABG Can Help**

As cybersecurity threats intensify and hackers gain more access to personal information, proactive steps to protect personal information and access to retirement accounts is key. Reminding participants of their part to play and the ways they can protect their retirement accounts will help to thwart fraudulent activity in the future. ABG can help with any questions you may have.

# FOUR WAYS TO RETHINK EMPLOYEE EDUCATION IN 2018

According to the Employee Benefits Research Institute's 2017 Retirement Confidence Survey, American workers' confidence in their ability to afford a comfortable retirement remains low. In fact, some workers even reported that preparing for retirement is emotionally or mentally stressful. Clearly more can be done to help employees take advantage of the opportunity to save for retirement through employer-sponsored qualified plans, such as 401(k)s.

However, with a changing workforce that incorporates multiple generations, there are a number of interesting considerations to keep in mind when creating an impactful employee education program. Consider the following four ways to rethink employee education to finesse or spark the creation of an employee education program.

## 1. One And Done May Not Work

A one-time financial education effort is unlikely to change habitual long-term decisions and behaviors, according to economist Annamaria Lusardi of The George Washington University School of Business.* With this in mind, even an annual education event or campaign likely falls short of encouraging consistent, long-term retirement savings behavior. As with establishing any healthy habit, frequent reminders about the overall goal and communication about the practical steps to get there is key.

## 2. An Educational Focus May Require More Formal Definition

Some plan sponsors use an Education Policy Statement (EPS) as the foundation of a comprehensive employee education plan. This statement is used to document the plan sponsor's commitment to an effective and structured employee education plan that meets the needs of its employees over time.

The EPS outlines the steps that will be taken to increase employees' retirement readiness. It describes the communication methods and metrics used to measure progress such as plan participation rates, participant deferral rates and participant account balances. It should also define who will be responsible for the employee education program and detail their responsibilities.

## 3. A Multi-Generational Workforce, A Multi-Media Approach

With today's diverse, multi-generational workforce a "one-size-fits-all" approach to employee education may fall short. In an attempt to reach everyone at the same time using the same method and frequency, you may end up not really engaging anyone.

In addition, each of the three generations in the workplace, Baby Boomers, Generation X and Millennials, has significantly different financial concerns, communication preferences and perspectives on life, work, money and finances:

- **Baby Boomers** born between 1946-1964 and often known as the "me generation," are comfortable with in-person, email or online communications. While they will use the internet to research, they will also pick up the phone or meet in-person to get the information they need to make informed decisions. Some, but certainly not all of them, may be technologically savvy.

  Many Baby Boomers were mid-career when the shift from defined benefit to defined contribution plans began to take place. They will be more focused on ramping up contributions now in order to save as much as possible for the future, as well as managing retirement income as they transition into retirement. Many still plan to work in some capacity, even after "retirement."

- **Generation Xers** born between 1965-1981 are often characterized as being more adaptive to change and more focused on work-life balance than prior generations. Comfortable with email, online resources and other electronic communications, Generation Xers are often more comfortable emailing questions and expect comprehensive answers emailed in return.

  This group is the first group dependent on 401(k)s as the primarily funding vehicle and the first generation to prepare for retirement, potentially without the expectation of Social Security payments. They also know that they can't depend on the old

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# AN ENTREPRENEURIAL CONUNDRUM – BUILDING RETIREMENT WEALTH WHILE BUILDING A BUSINESS

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more sense for a much smaller business owner in terms of administrative burden and pricing. In this article we will explore the types of plans that may be more appropriate for the smaller business owner in America. These plans can be funded throughout the entrepreneur's working life so that the assets needed to help them live comfortably in retirement can be planned for over the long-term.

**Growing Retirement Wealth While Growing A Business**

There are a number of smaller-scale retirement plan options for the self-employed small business owner that can be funded throughout their working lives. For example, the following three solutions, among a number of others, provide America's growing entrepreneurs the opportunity to plan for their retirement while growing their business:

1. A SEP IRA - A popular solution for sole proprietors, a Simplified Employee Pension, or SEP IRA, enables self-employed individuals to contribute as much as 25% of their net self-employment income up to a maximum of $55,000 in 2018 into a tax-deferred savings account. Limited paperwork, no annual IRS reporting requirement and relatively high contribution limits make the SEP an attractive proposition. Contributions are made by the employer only and are tax deductible as a business expense.
2. A Solo 401(k) - With a Solo 401(k), self-employed individuals and their spouses can make annual salary deferrals up to $18,500 in 2018 as employees, plus an additional $6,000 if they are 50 years or older, on a pre-tax basis or as designated Roth contributions. In addition, as an employer, the entrepreneur can contribute another 25% of compensation, with a maximum overall contribution of $55,000 for 2018. Typically, it is also possible to take out a loan against a Solo 401(k), up to half of the account balance with a 5-year repayment period, which provides additional flexibility. However, there is an annual IRS filing requirement once the account exceeds $250,000.
3. A SIMPLE IRA - A Savings Incentive Match Plan for Employees is designed specifically for self-employed individuals with no more than 100 employees. For 2018, employees, including the self-employed business owner, can contribute up to $12,500 pre-tax income with an additional $3,000 in catch-up contributions for contributors 50 years and older as of the end of the calendar year. Employers are generally required to match each employee's contributions, including their own as an employee, on a dollar-for-dollar basis up to 3% of the employee's salary or a flat 2% of pay regardless of the employee's contribution amount.

**ABG - A Resource For A Variety Of Retirement Plans - Big Or Small**

Whatever the type or size of business and an entrepreneur's goals for the future, ABG's experienced retirement planning professionals can provide meaningful advice and relevant retirement solutions. From larger 401(k) plans to smaller-scale solutions tailored to smaller business owners such as the solutions discussed in this article, ABG can match the appropriate solution to the specific business situation. Contact your local ABG representative to learn more.

## DID YOU KNOW?

- Included in the Budget Act was relief to assist employees affected by certain California wildfires in 2017 and early 2018.
    - If you currently offer a Disaster HIM Distribution and/or a Disaster HIM Loan no action is required to add the inclusion of California Wildfires to your plan(s). They are now included.
    - If you currently do not offer Disaster HIM Distributions and Disaster HIM Loans for your plan(s) and wish to offer them, contact your local ABG representative.
- 51% of pre-retirees say that their efforts to save for retirement are "behind schedule" while only 15% of pre-retirees are "ahead of schedule" (Source: Society of Actuaries Risks and Process of Retirement Survey).
- Life expectancy at birth in the USA was 51.7 years in 1916. Life expectancy at birth was 78.6 years in 2016. Thus, life expectancy has increased by 10 years every 37 years (Source: National Vital Statistics Report).

## FOUR WAYS TO RETHINK EMPLOYEE EDUCATION IN 2018

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pension system that Baby Boomers may have enjoyed in the past. Funding college education for children while also saving as much as possible for retirement is the challenge many of them juggle.

- **Millennials** born between 1982-2000 were born into a digital world where Internet access and evolving mobile technologies have shaped their life experiences. Expectations for instant information and high comfort levels with sharing information through social media characterize this generation.

  Meeting current income needs and paying off student loans is often the priority. However, the importance of investing for retirement early and increasing contributions over time is important to stress for this group. In addition, based on what they have observed of the financial crisis, some Millennials may feel that it is too risky to invest or feel like they don't know enough to participate in a retirement plan.

Developing more personalized, relevant and interactive communications to these three distinctly different groups of plan participants that speak to their different needs and perspectives and are delivered through channels preferred by each is important.

### 4. Less Is More

Lastly, don't overload employees with too much information. Offering exhaustive seminars or extensive literature to employees may overwhelm them. Instead, seek to deliver more modest-sized, frequent communications through a variety of channels including online, email, print, video and seminars. These bite-sized chunks of information should be easier to digest and should always be presented from the participant perspective. Consider emphasizing how consistent retirement savings over time can help the employee achieve a more comfortable retirement in the future.

### ABG Can Help

Your local ABG representative is always available to help you explore ways to develop targeted communications programs for your retirement plan participants.

* Mitchell, O. S., & Lusardi, A. (2015). Financial Literacy and Economic Outcomes: Evidence and Policy Implications. The Journal of Retirement, 3(1), 107

## ABG NEWS

### ABG Retirement Plan Services Awarded CEFEX Certifications

ABG Retirement Plan Services was recently awarded its tenth annual CEFEX Certification for its retirement plan record keeping processes and its third for its Advisory Services. CEFEX (Center for Fiduciary Excellence) is an independent global assessment and certification organization. In conjunction with ASPPA the CEFEX certification is given in accord with their Standard of Practice for Retirement Plan Service Providers.

This standard describes the industry's best practices for recordkeepers, third party administrators and advisors in areas such as business planning, fee disclosure, information technology and quality control. CEFEX certification is the result of a voluntary annual audit by independent expert analysis for the purpose of identifying risks, fostering a culture of continuous improvement and, of course, distinguishing the firm in a changing market. A CEFEX-certified firm places its clients' interests first.

### ABG Participates In The Communities It Serves

As a leader in the retirement plan industry, ABG also strives to lead in its communities. An example of this community involvement occurred recently when A. Clifford Laine ("Cliff"), from ABG Retirement Plan Services (ABGIL), was recognized by the community he serves and presented with the NOVA award by the Creve Coeur Club at the Civic Center in Peoria, Illinois.

(From Left to right) John Blossom, Jr. - CEO and President, Cliff Laine - Assistant Vice President - Investment Services - ABG Retirement Plan Services, Sid Ruckriegel - Peoria City Councilman

The NOVA award honors rising stars in the Peoria, Illinois community where ABG Retirement Plan Services (ABGIL) is headquartered. Cliff's dedication to his community is apparent in his varied involvement and service, including extensive volunteer work with the United Way and Big Brothers, Big Sisters among others.

ABG strives to serve plan sponsors nationally backed by the resources and expertise you would expect from a larger organization but with the thoughtful, local involvement of an active community participant.

# TAX TALK

In this issue of Tax Talk, we update you on important upcoming compliance deadlines for defined contribution plans and provide an overview of the implications of Tax Reform for retirement plans.

**Upcoming Compliance Deadlines**

| January 2018 | |
|---|---|
| Deadline | Compliance Requirement Details |
| June 30 | » Deadline for processing corrective distributions for failed 2016 ADP/ACP test from plan with EACA without 10% excise tax (if applicable) |
| **February 2018** | |
| July 29 | » Deadline for sending Summary of Material Modification (SMM) |
| July 31 | » Deadline for filing Form 5500 (without extension)<br>» Deadline for filing Form 5558 to request automatic extension of time to file Form 5500<br>» Deadline for filing Form 5330 - Return of Excise Taxes Related To Employee Benefit Plans |

### Tax Reform And Retirement Plans

At the end of 2017, Tax Reform, otherwise known as House Resolution 1 or "An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018," was signed into law. This new law reduces specific tax rates, credits and deductions for both individuals and businesses.

Certain provisions of the law impact retirement plans and participants. Following is an overview of a number of these provisions:

### Roth Recharacterization Repealed

Effective for taxable years beginning December 31, 2017, the recharacterization of a rollover contribution from a non-Roth account to a Roth IRA is no longer permitted. The individual will no longer be able to "recharacterize" or reverse the conversion from a non-Roth to Roth vehicle. This includes rollovers from non-Roth qualified retirement plans into Roth IRAs.

### Loan Rollover Extension Provided

When a loan offset is caused by termination of employment or plan termination, the period to rollover a qualified loan offset amount (its outstanding balance) has been extended from 60 days to the individual's tax return filing due date for the taxable year in which the offset amount is treated as a distribution.

### Disaster Relief Distributions For 2016

Tax reform provided relief with respect to designated disaster areas in 2016 including tax-favored withdrawals from qualified plans. These withdrawals are now exempt from the 10% early distribution penalty and the 20% mandatory federal income tax withholding. In addition, withdrawals may be repaid within a 3-year period beginning the day after the distibution was made.

### Increased Deduction For Qualified Business Income

The deduction for qualified business income of pass-through entities such as S corporations has been increased to 20%. These businesses may now pay a lower tax rate by excluding up to 20% of their business income from taxation. As retirement plan contributions are typically deducted against an S corporation's business income, now taxed at a lower rate than the S corporation owners may pay on savings at retirement, this deduction may become less attractive.

### ABG Is Your Resource

For any questions about compliance deadlines or the impact of Tax Reform, please contact your local ABG representative.