

# QUALIFIED PLAN NEWSLETTER

First Quarter 2016

## PLAN SPONSORS ASK...

**QUESTION.** Women are better retirement savers, but still lag behind men in outcomes. What gives?

**ANSWER.** Indeed, there is a noteworthy imbalance in retirement wealth accumulation among men and women. Men consistently come out ahead, despite women's superior savings behaviors.

Women are more likely to save, but men have higher account balances, according to a Vanguard white paper. Their data shows that women are 14% more likely than men to participate in their employer-sponsored retirement plan. Further, once enrolled, women save at higher rates—typically 7%–16% higher than men.

Don't "autopilot" provisions like auto enrollment equalize things? On the participation front, yes; for savings, no. Among auto enroll plan participants, men and woman participate at similar rates, but men defer at 5% higher rates. Moreover, women are conscientious savers, and auto enrollment provides them an advantage. Sixty percent fall into lower wage brackets than men, but lower-income individuals experience more positive impacts on savings due to auto enrollment.

What's more, higher incomes cancel out default features. Among male Vanguard participants, average wages were 25% higher, accounting for higher contribution rates by men in auto enroll plans. In voluntary enroll plans, women save at 6% higher rates. Vanguard's paper highlights a lingering income disparity between men and women, and shows that American employers have more work to do to close the gender gap in retirement outcomes.

Read more at <http://tinyurl.com/WomenAreBetterSavers>.

## MARCH 2016 CAPITAL MARKETS REVIEW

INDEX	PERIOD ENDING MARCH 31, 2016					
	QTR	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
S&P 500	1.35	1.35	1.78	11.82	11.58	7.01
Russell 2000	-1.52	-1.52	-9.76	6.84	7.20	5.26
Russell 3000 Value	1.64	1.64	-2.05	9.08	9.95	5.60
Russell 3000 Growth	0.34	0.34	1.34	13.16	12.00	8.09
MSCI ACWI Ex U.S.	-0.38	-0.38	-9.19	0.32	0.31	1.94
Barclays U.S. Aggregate Bond	3.03	3.03	1.96	2.50	3.78	4.90
3-Month U.S. Treasuries	0.04	0.03	0.06	0.04	0.05	1.11

The U.S. economy followed a relatively static Q4 2015 with an equally static Q1 2016. The national unemployment rate started the quarter at 4.9%, but rose 2% through March 2016, ending Q1 2016 where it ended Q4 2015, at 5.0%. According to the BLS, total nonfarm payroll saw increases of 151,000, 242,000, and 215,000 in January, February, and March, respectfully. Through March 2016, the labor force participation rate is 63%, up 0.6% since September.

Commonly watched stock markets and indexes moved in different directions over Q1 2016, though movement was limited. During Q1 the S&P 500 increased 1.35%; the Russell 2000 decreased 1.52%; the MSCI ACWI (ex. U.S.) decreased 0.38%; and the Barclays U.S. Aggregate Bond increased 3.03%.

The federal funds (effective rate) climbed 25% over the course of Q1 2016, starting at 0.2% and ending at 0.25%. Many expect to see further increases by year-end.

The average 30-year fixed rate mortgage dropped in Q1 2016, reversing course from the trend of rising rates that dominated 2015. After beginning the quarter at 3.87%, the average 30-year fixed mortgage dropped to 3.69% by March 31, 2016, representing a 4.65% decrease.

*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.*



**FINANCIAL CONCEPTS INC.**

A MEMBER FIRM OF M FINANCIAL GROUP

Executive Compensation ■ Succession ■ Wealth Transfer Planning

## ACCEPTING ROLLOVERS FROM OTHER EMPLOYER PLANS

**SITUATION.** A new employee wants to roll over his account balance from a former employer's 403(b) plan to our 401(k) plan.

**QUESTION.** Can we accept his rollover without jeopardizing our plan's tax-exempt status?

**ANSWER.** Generally, yes, if your plan's provisions allow rollovers from other employer plans. Plans are not required to accept rollovers. However, if your employee has any designated Roth 403(b) contributions and earnings in his former employer's plan, these amounts can be rolled over to your 401(k) plan only if your plan has a Roth feature. Various requirements apply.

**DISCUSSION.** Accepting rollovers can have advantages. For instance, it may make your plan more attractive to prospective hires and help you recruit qualified employees. However, you should take precautions with rollovers to avoid

having a contribution considered an after-tax contribution subject to nondiscrimination testing and counted as an annual addition to the plan.

Verify that your employee's rollover is from an eligible plan (see table below). And, if the funds aren't directly transferred to your plan from the employee's former plan, also make sure the rollover was made in a timely manner. An indirect rollover must be made within 60 days of the date the employee receives the distribution from the former plan.

### PLAN ROLLOVERS AT A GLANCE

ROLLING DISTRIBUTION FROM	ROLLING DISTRIBUTION TO			
	401(k)/ QUALIFIED PLAN <sup>1</sup> (PRETAX)	ROTH 401(k)	TRADITIONAL IRA	ROTH IRA
<b>401(k) and Other Qualified Plans<sup>1</sup></b> (Pretax)	Yes	Yes <sup>2&amp;3</sup>	Yes	Yes <sup>3</sup>
<b>403(b)</b> (Pretax)	Yes	No	Yes	Yes <sup>3</sup>
<b>Governmental 457(b)</b> (Pretax)	Yes	No	Yes	Yes <sup>3</sup>
<b>Designated Roth Account</b> (401(k), 403(b), or 457(b))	No	Yes <sup>4</sup>	No	Yes
<b>SIMPLE IRA</b>	Yes, after 2 years	No	Yes, after 2 years	Yes <sup>3</sup> , after 2 years
<b>SEP-IRA</b>	Yes	No	Yes	Yes <sup>3</sup>

<sup>1</sup> Profit sharing, money purchase, defined benefit plans.

<sup>2</sup> Must be an in-plan rollover.

<sup>3</sup> Must include in income.

<sup>4</sup> Must be a direct trustee-to-trustee transfer.

Source: IRS

## THE DEFAULT INVESTMENT DECISION

**SITUATION.** Our 401(k) plan has had the same default investment for several years. We want to make sure it is still a suitable choice for our plan.

**QUESTION.** What should we consider when choosing a default investment?

**ANSWER.** First, you should decide if you want a default investment that meets the pension law's requirements for a "qualified default investment alternative," or QDIA. Using a QDIA in conjunction with automatic enrollment can help you secure liability protection for the investment of employees' account assets when they have been given the opportunity to direct their investments but have failed to do so.

Under U.S. Department of Labor regulations, a QDIA must be a mutual fund or managed by an investment manager, plan trustee, or plan sponsor who is a named fiduciary and generally cannot invest employee contributions in employer securities. Options include:

- Lifecycle funds, targeted retirement date funds, and similar products that take into account the individual's age or retirement date
- Balanced funds and similar products with a mix of investments that take

into account the characteristics of the group of employees as a whole, rather than each individual

- Professionally managed accounts and similar investment services that allocate contributions among existing plan options to provide an asset mix that takes into account the individual's age or retirement date
- Capital preservation products, but only for the first 120 days of plan participation

Many plan sponsors have selected target date funds as their plan's QDIA. Recently, the U.S. Government Accountability Office (GAO) solicited feedback regarding why sponsors select target date funds over other QDIAs. Sponsors completing the GAO's questionnaire said that they generally looked for asset diversification, ease of participant understanding, limited fiduciary liability, and fit with participant characteristics when selecting a default investment.

In its report, the GAO notes that some plan sponsors forgo the fiduciary relief associated with using QDIAs and instead select a non-QDIA default investment, such as a money market fund or a stable value fund. The GAO notes that sponsors may do this for a variety of reasons. For example, a sponsor may have few employees and decide to require

participants to make an investment election.

Clearly, there are many factors to consider in choosing a suitable default investment. If you would like assistance, please contact us.



**FINANCIAL CONCEPTS INC.**

A MEMBER FIRM OF M FINANCIAL GROUP  
Executive Compensation ■ Succession ■ Wealth Transfer Planning

**Financial Concepts Inc.**  
24 Frank Lloyd Wright Drive, H 3050  
PO Box 554  
Ann Arbor, MI 48106-0554  
734.214.9770

[www.finconcepts.com](http://www.finconcepts.com)

Patrick J. McNamara, MSFS  
Firm Managing Principal  
[info@finconcepts.com](mailto:info@finconcepts.com)

Securities offered through M Holdings Securities, Inc., a Registered Broker/Dealer, Member FINRA/SIPC. Financial Concepts Inc. is independently owned and operated.



M Financial Group™