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Q4 2017

Qualified Plan News

December 2017 Capital Markets Review

						Period Ending December 31, 2017
Index	**Qtr**	**Ytd**	**1 Yr Return**	**3 Yr Return**	**5 Yr Return**	**10 Yr Return**
S&P 500	6.64%	21.83%	21.83%	11.41%	15.79%	8.50%
Russell 2000	3.34%	14.65%	14.65%	9.96%	14.12%	8.71%
Russell 3000 Value	5.08%	13.19%	13.19%	8.71%	13.95%	7.19%
Russell 3000 Growth	7.61%	29.59%	29.59%	13.51%	17.16%	9.93%
MSCI ACWI Ex U.S.	5.00%	27.19%	27.19%	7.83%	6.80%	1.84%
Barclays U.S. Aggregate Bond	0.39%	3.54%	3.54%	2.24%	2.10%	4.01%
3-Month U.S. Treasuries	0.28%	0.84%	0.84%	0.38%	0.24%	0.34%

The U.S. equity market advanced 6.3% in the fourth quarter, marking the ninth consecutive quarterly gain. U.S. equities returned 2.2% in October due to continued strong corporate earnings and favorable macroeconomic data. The increasing likelihood of the Trump administration's tax reform plans being adopted supported the positive sentiment through November, as the market gained 3.0% in the month. The anticipated tax reform became reality in December after Congress passed the most significant change to the U.S. tax code in decades. The pro-growth reforms, including cutting the corporate tax rate by 14 percentage points, supported investor confidence as the market sustained its rally through December.

The value of the U.S. dollar fell against most other currencies as the favorable global growth outlook led several central banks to begin reducing monetary stimulus. The price of oil rose more than 20% in the quarter as OPEC and some non-OPEC countries agreed to extend production cuts through 2018. The rise in commodity prices led to favorable returns in many commodity-based Latin American countries. Emerging Markets overall posted a 7.4% return in the quarter as the weaker U.S. dollar was also supportive for equity prices. Japan returned 8.5% in the quarter after the re-election of Prime Minister Shinzo Abe provided clarity on the continuation of economic policy.

FAQs About Low Balance Accounts

Work force reductions over the past couple of years have left some employers with a lot of low-balance plan accounts owned by former employees. These accounts can be expensive to maintain and burdensome to administer. Below, you will find answers to commonly asked questions about handling these small accounts.

Can we just distribute small accounts to the former employees? Check your plan's provisions. Under

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federal law, plans can provide that, if a former employee has not made an affirmative election to receive a distribution of his or her account assets or to roll those assets over to an IRA or another employer's plan, the plan can distribute the account—as long as its balance does not exceed $5,000. For accounts valued at $1,000 or less, the plan can simply send the former employee a check for his or her balance. Distributions of more than $1,000 must be directly transferred to an IRA set up for the former employee. Accounts valued at $1,000 or less may also be rolled over for administrative convenience.

Should nonvested assets be included when determining whether a mandatory distribution can be made? You only have to include the value of the former employee's nonforfeitable accrued benefit. If the employee was not fully vested in any portion of the account when he or she left your employ, you do not have to count the nonvested portion.

What about rollovers? A plan may provide that any amounts that a former employee rolled over from another employer's plan (and any earnings on those rolled over assets) are to be disregarded in determining the employee's nonforfeitable accrued benefit. Thus, you may be able to cash out and roll over accounts greater than $5,000. Note that rolled over amounts are included in determining whether a former employee's accrued benefit is greater than $1,000 for purposes of the automatic rollover requirement.

What requirements do we have to meet when rolling over a small account? To fulfill your fiduciary duties as a plan sponsor, the following requirements must be met:

- The rollover must be a direct transfer to an IRA set up in the former employee's name.
- The IRA provider must be a state or federally regulated financial institution, such as an FDIC-insured bank or savings association or an FCUA-insured credit union; an insurance company whose products are protected by a state guaranty association; or a mutual fund company.
- You must have a written agreement with the IRA provider that addresses appropriate account investments and fees.
- The IRA provider cannot charge higher fees than would be charged for a comparable rollover IRA.

(Other fiduciary responsibilities apply.)

Are there rules for investing the rollover IRA? The investments chosen for the IRA must be designed to preserve principal and provide a reasonable rate of return and liquidity. Examples include money market

Plan Sponsors Ask...

Question. When the fee disclosure rules were announced a few years ago, part of the discussion was an increase in spending by the IRS to make sure plans were complying. Is the IRS still focusing on employer sponsored retirement plans?

Answer. The IRS Employee Plans division (EP) recently announced where they will be concentrating their resources in the employer plans area for fiscal year 2018. The goal is to make sure plan sponsors achieve compliance for their plans, and of course, the participants. Among their compliance efforts they will look closely at plans of companies that are merging or being acquired; plans that have failed to comply with ADP and ACP tests or that didn't supply required notices to participants; plans that don't meet age and/or service requirements; forfeiture allocations; and plans that fail to withhold correct elective deferral amounts. The IRS FY 2018 Work Plan also specifies some situations in which EP will use compliance checks to determine if a plan is adhering to certain requirements. Those situations are: plans with partial terminations, plans with non-participant loans, 403(b) plans, 457(b) plans that have excess deferrals, SEP plans with RMD failures, and SIMPLE IRA plans sponsored by more than 100 employees. You can read more here: http://tinyurl.com/2018-IRS.

mutual funds, interest-bearing savings accounts, certificates of deposit, and stable value products.

Do we have to provide disclosures? Yes. Before you cash out an account, you must notify the former employee in writing, either separately or as part of a rollover notice, that, unless the employee makes an affirmative election to receive a distribution of his or her account assets or rolls them over to another account, the distribution will be paid to an IRA. As long as you send the notice to the former employee's last known mailing address, the notice requirement generally will be considered satisfied. In addition, you must include a description of the plan's automatic rollover provisions for mandatory distributions in the plan's summary plan description (SPD) or summary of material modifications (SMM).

Staying on Track and Planning Ahead: Plan Sponsor Calendar

Consult your plan's counsel or tax advisor regarding these and other items that may apply to your plan.

April

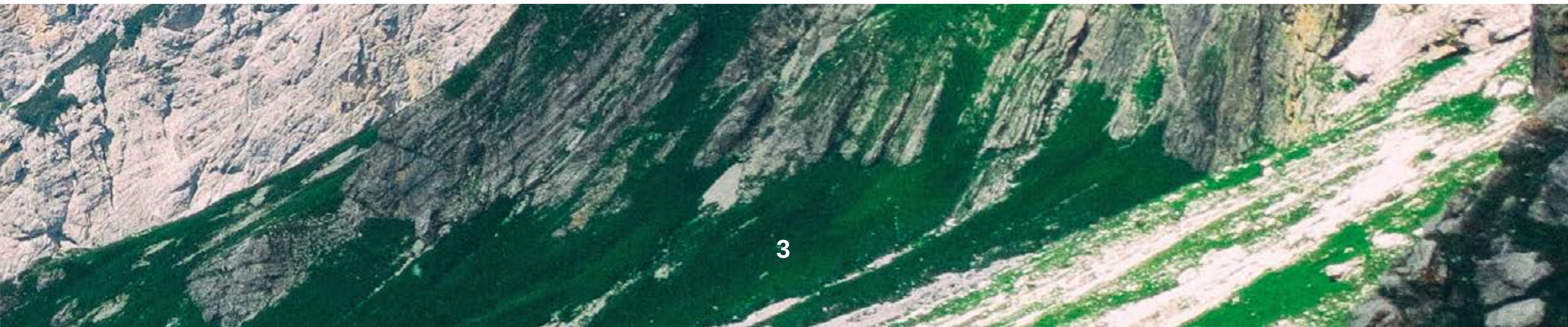
- If a plan audit is required in connection with the Form 5500, make arrangements with an independent accountant/auditor for the audit to be completed before the Form 5500 due date (calendar-year plans).
- Audit first quarter payroll and plan deposit dates to ensure compliance with the Department of Labor's rules regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between January 1 and March 31 received and returned an enrollment form. Follow up for forms that were not returned.

May

- Monitor the status of the completion of Form 5500, and, if required, a plan audit (calendar-year plans).
- Issue a reminder memo or email to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans by which they are covered.
- Perform a thorough annual review of the Plan's Summary Plan Description (SPD) and other enrollment and plan materials to verify that all information is accurate and current, and identify cases in which revisions are necessary.

June

- Begin planning an internal audit of participant loans granted during the first six months of the year. Check for delinquent payments and verify that repayment terms and amounts borrowed do not violate legal limits.
- Confirm that Form 5500, and plan audit if required, will be completed prior to the filing deadline or that an extension of time to file will be necessary (calendar-year plans).
- Review plan operations to determine if any qualification failures or operational violations occurred during the first half of the calendar year. If a failure or violation is found, consider using an Internal Revenue Service or Department of Labor self-correction program to resolve it.



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Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans
www.irs.gov/ep

Department of Labor, Employee Benefits Security Administration
www.dol.gov/ebsa

401(k) Help Center
www.401khelpcenter.com

BenefitsLink
www.benefitslink.com

Plan Sponsor
www.plansponsor.com

Plan Sponsor Council of America
www.psca.org

Employee Benefits Institute of America
www.ebia.com

Employee Benefit Research Institute
www.ebri.org

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.

Contact Information

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