FINANCIAL CONCEPTS INC
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Executive Compensation ■ Succession ■ Wealth Transfer Planning

M Financial Group®

Q4 2021

QUALIFIED PLAN NEWS

CAPITAL MARKETS REVIEW[1]			PERIOD ENDING DECEMBER 31, 2021			
Index	Qtr	Ytd	1 Yr Return	3 Yr Return	5 Yr Return	10 Yr Return
S&P 500 TR USD	11.03	28.71	28.71	26.07	18.47	16.55
Russell 2000 TR USD	2.14	14.82	14.82	20.02	12.02	13.23
Russell 3000 Value TR USD	7.54	25.37	25.37	17.65	11.00	12.89
Russell 3000 Growth TR USD	10.89	25.85	25.85	33.21	24.56	19.39
MSCI ACWI Ex USA NR USD	1.82	7.82	7.82	13.18	9.61	7.28
Bloomberg US Agg Bond TR USD	0.01	−1.54	−1.54	4.79	3.57	2.90
FTSE Treasury Bill 3 Mon USD	0.01	0.05	0.05	0.96	1.11	0.60

MARKET COMMENTARY

The U.S. equity market advanced 9.3% during the quarter, earning 25.7% for the full year. Continued strong corporate earnings drove U.S. equities higher to start the quarter. Stocks retreated briefly at the end of November due to elevated inflation, an increasingly hawkish tone from the Fed, and concerns that the spread of the omicron variant could disrupt the economy. U.S. equities bounced back to end the quarter as easing fears regarding the severity of the omicron variant boosted investor sentiment amid an already strong holiday shopping season.

Large-cap stocks outperformed both the mid- and small-cap segments of the market in the quarter. All capitalization segments of the market posted strong returns for the full year, with large-cap stocks outperforming mid- and small-cap stocks by 6.1 and 13.9 percentage points, respectively. Growth stocks exceeded value stocks by 3.4 percentage points in the quarter. Strong relative performance from the technology sector, which accounts for over 45% of the growth segment of the market, was the primary driver of the growth segment's outperformance in the period. For the one-year period, the growth and value segments performed in-line with each other.

The real estate sector posted the strongest return in the quarter (+14.9%) due to strong investor demand, particularly in the industrial sub-sector. The energy sector produced the largest return in the 1-year period after posting the weakest sector return in 2020. Rising demand for oil and natural gas drove energy prices higher in the year as economies around the world reopened from COVID restrictions.

International equities returned 1.8% during the quarter with developed market equities outperforming emerging market equities by 4.0 percentage points. Developed European equities advanced 5.7% in the period, despite volatile energy prices, tensions between Russia and Ukraine, and an increase in COVID-19 infections. Emerging markets equities declined 1.3% in the quarter and closed the year down 2.5%. Weak returns from China were the primary driver of the decline in both the quarter and year. China declined 6.1% in the quarter due to concerns regarding lockdowns because of the omicron variant.

Preliminary estimates from a subset of core real estate managers indicate a strong positive return for the quarter. Over the last year, industrial and multi-family properties have performed better than holdings within the office and retail segments of the market.

The U.S. fixed income market was flat in the quarter and declined 1.5% for the year. At its last meeting, the Fed indicated it would increase the pace of its bond tapering, ending the program earlier than planned and setting the table for interest rate increases in 2022. During the quarter, investment grade credits returned 0.2% while non-investment grade corporate bonds rose 0.7%. U.S. Treasury Inflation Protected Securities (TIPS) returned 2.4%, which outperformed nominal treasuries in the quarter as inflation expectations increased. The breakeven inflation rate implied in 10-year TIPS ended the quarter at 2.56%, versus 2.37% at the end of the prior quarter. The realized annual Consumer Price Index (CPI) was 6.9% through November 2021. The annualized number remains elevated due to the impact of the economic lockdowns on prices during 2020 and the subsequent rebound in 2021, supply chain constraints, and a tight labor supply. Municipal bonds increased 0.7% in the quarter and 1.5% for the year on strong investor demand. Developed non-U.S. government bonds increased 0.2% in the quarter on a local currency basis but declined 1.8% for U.S. based investors due to the U.S. dollar strengthening. Emerging market bonds were down 0.4% in the quarter.

5 THINGS YOU CAN DO TO HELP EMPLOYEES SAVE FOR RETIREMENT[2]

For many employers like yourself, introducing a retirement plan is a big undertaking. Despite the numerous administrative and regulatory requirements it entails, you are committed to helping employees successfully save for retirement.

But even when you offer a plan, participants can find it hard to prioritize saving for retirement. According to the 2021 Retirement Confidence Survey by EBRI, 40% of workers say saving for college and debt negatively impacts their ability to save for retirement. And 1 in 3 workers say the COVID-19 pandemic has had a negative impact.

In the face of urgent and competing demands on income, employees may stop saving for retirement altogether or reduce their plan contributions. As an employer, it can be disheartening to see participation rates drop off and contribution levels fall.

So how can you help your employees save for retirement? Here are 5 steps you can take to help them keep up with their retirement plan contributions.

1) Take a fresh look at your plan.

Assess how well your current plan motivates people to participate:

- Would employees participate or contribute more if your plan offered or increased matching contributions?
- Would a more generous vesting schedule encourage higher participation rates?
- Would offering a plan loan program have any impact?

Review how your plan is structured to see if it can be made more attractive to your employees.

2) Communicate regularly.

Use every available communication channel—from meetings and webinars to emails and online education—to highlight the benefits of plan participation.

When communicating with employees, reinforce the advantages for participants, e.g.,

- Reduce the income taxes you currently pay by contributing to your tax-deferred retirement plan.
- You don't have to pay income tax on pretax contributions, or on any income your contributions might earn, until you withdraw money from the plan.
- Contributions in a tax-deferred retirement account potentially compound more quickly than savings in a taxable account.
- Employer matching contributions are an extra benefit—a bonus that stops when you stop contributing to the plan.

3) Remind participants that Social Security may not be enough.

In 2021, the average person collecting Social Security receives $1,553 per month, according to the Social Security Administration (SSA). That works out to an annual income of $18,644. For most people, Social Security payments are a safety net. They help retirees pay their most basic expenses.

Most people simply cannot rely solely on Social Security. They'll have to save for retirement if they want to maintain a standard of living similar to what they enjoyed while working. An employer-provided plan is one of the best retirement savings options available.

4) Educate participants on the impact of stopping contributions.

It can be helpful to illustrate for participants just exactly how the growth of their retirement plan assets could be affected if they stop contributions even for a short time.

Temporarily discontinuing plan contributions can come at a high cost, because:

- Participants miss out on the power of compounding
- Any extra cash participants think they'll gain also increases their tax bill
- Participants miss out on employer matching contributions (i.e., free money)
- Research has shown that participants who keep investing, even as markets drop, tend to fare better than those who stop making regular contributions

5) Help employees improve their financial know-how.

Trying to pay off student loans, saving for that first home, or setting money aside for a child's college education can leave little left over to put aside for retirement. Competing financial demands can be a struggle.

However, plan participants need to believe it's possible to set aside money for retirement and save for other short- and long-term goals.

Help Employees See What's Possible

There are an increasing number of financial education resources and tools available that help people budget, manage debt, and lay the groundwork for financial wellness. Your plan's investment managers or recordkeeper likely have resources available.

Talk with your financial professional. Together, you can develop a strategy that encourages your employees to keep participating in your company's retirement plan and helps them achieve their retirement goals.

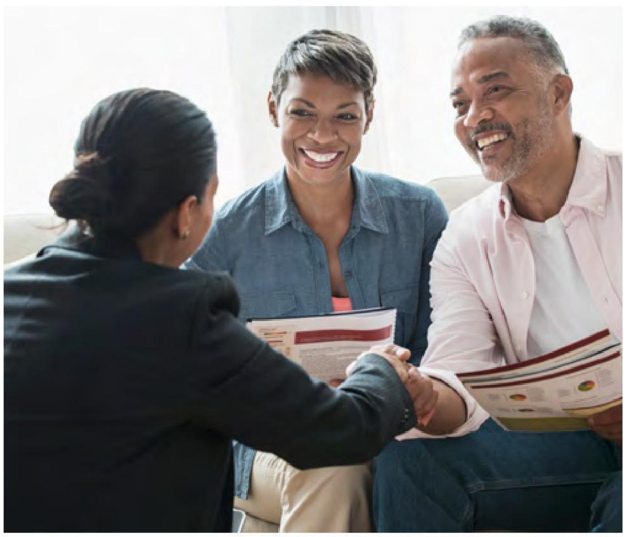
TRANSITION TIME? PLANNING COUNTS WHEN CONTINUITY IS THE GOAL[3]

Are you a business owner who wants to retire someday? Do you want to see the business prosper even after your exit, with younger family members and/or other key employees in charge?

According to the 2021 Business Owner Benchmark, 30% of business owners have no succession plan in place. And half of those who do have a plan are concerned about their successors' ability to run the business.*

It is possible to achieve the dual goal of retirement and business continuity, but it takes planning.

Because every situation is different, your plan should be tailored to achieve the results you desire. That said, here's just one example of how a transition plan could be crafted.



Step 1: Establish a new entity

Form a new business entity some time before your anticipated retirement date. Let's call this new entity "Company 2"—a limited liability company or LLC. Capitalize this new entity with contributions from the new owners and a small contribution from you.

Step 2: Transition operations

Company 2 operates alongside your old company during a buyout period, with you as the managing member. During that period, your old company finishes its existing work and collects its outstanding accounts receivable. New work is funneled to Company 2 as it comes in. Company 2 rents equipment from your old company and gradually buys the equipment. Any new equipment that must be acquired during the transition period is purchased by Company 2.

Your old company receives a management fee for your assistance during the transition and is reimbursed for any operating expenses it incurs on Company 2's behalf. You continue to receive a salary from your old company. At a prearranged time and price, the new owners of Company 2 buy out your interest in Company 2.

Step 3: Liquidate

At the end of the transition period, your company sells its remaining equipment to Company 2 and liquidates, distributing its equity to you.

Potential Benefits

- **Limit liability and retain equity value.**

  With this plan, liability for claims that could arise from Company 2's operations during the transition period are shifted away from your old company, helping to ensure that its equity will be available to you for retirement.

- **Set new owners up for success.**

  Meanwhile, Company 2's new owners are in a position to benefit from any future increase in the new company's value.

This is just one of many potential ideas for implementing a business transition. Any plan you put in place should be customized to your specific situation.

Don't Leave the Future to Chance

The future of your business is too important to leave to chance. Think of your transition as a long-term process, rather than a single event. Why not get ahead of the curve by starting to think about a continuity plan well in advance?

Talk with a trusted financial professional about your goals for yourself and your business, so that you can successfully navigate your exit and enjoy a prosperous and well-deserved retirement.

*https://www.northerntrust.com/ntlanding/wm/institute/business-owner-benchmark/index.html

WEB RESOURCES FOR PLAN SPONSORS

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

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

401(k) Help Center
› 401khelpcenter.com

BenefitsLink
› benefitslink.com

Plan Sponsor
› plansponsor.com

Plan Sponsor Council of America
› psca.org

Employee Benefit Research Institute
› 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.

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[1] Capital Markets Review #4151700.1 Expires 1/2024

[2] 5 Things You Can Do to Help Employees Save for Retirement #414456.1 Expires 1/2025

[3] Transition Time? Planning Counts When Continuity Is the Goal #41445921 Expires 1/24

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