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QUALIFIED PLAN NEWS

Q1 2022

CAPITAL MARKETS REVIEW				PERIOD ENDING MARCH 31, 2022		
Index	Qtr	Ytd	1 Yr Return	3 Yr Return	5 Yr Return	10 Yr Return
S&P 500 TR USD	–4.60	–4.60	15.65	18.92	15.99	14.64
Russell 2000 TR USD	–7.53	–7.53	–5.79	11.74	9.74	11.04
Russell 3000 Value TR USD	–0.85	–0.85	11.10	12.99	10.16	11.61
Russell 3000 Growth TR USD	–9.25	–9.25	12.86	22.68	20.16	16.64
MSCI ACWI Ex USA NR USD	–5.44	–5.44	–1.48	7.51	6.76	5.55
Bloomberg US Agg Bond TR USD	–5.93	–5.93	–4.15	1.69	2.14	2.24
FTSE Treasury Bill 3 Mon USD	0.03	0.03	0.06	0.76	1.09	0.60

MARKET COMMENTARY

The U.S. equity market ended the first quarter down more than 5%. U.S. stocks declined in January amid the increasing likelihood that the Fed would impose several interest rate hikes in 2022 in response to rising inflation. Uncertainty over the economic fallout of the Russian invasion of Ukraine in late February added further downward pressure to equites during the period. A spike in oil prices pushed inflation upwards but led to strong performance from the energy sector.

Large-cap stocks outperformed both the mid- and small-cap segments of the market in the quarter. Despite negative quarterly returns, large-cap stocks produced strong returns during the 12 months ending March 31, outperforming mid- and small-cap stocks by 8.7 and 21.4 percentage points, respectively.

Value stocks outperformed growth stocks by 8.5 percentage points in the quarter. The energy sector, which is primarily categorized as value, produced the quarter's strongest returns driven by rising energy prices and supply concerns resulting from the Russia-Ukraine conflict. The sector is up over 64% in the 1-year period due to higher prices and renewed energy demand as global economies reopened following COVID-19 restrictions.

International equities declined in-line with U.S. stocks during the quarter while developed market equities continued to outperform emerging market equities. Developed European equities posted a –7.4% return in the period due primarily to the economic challenges created by the war in Ukraine. European economies are at increased economic risk due to their heavy reliance on Russian energy imports. Chinese equities ended the quarter down 14.2% as Omicron coronavirus lockdowns continued in major cities across the country. For the trailing 1-year period, Chinese equities were down approximately 32.5%.

Preliminary estimates from a subset of core equity real estate managers indicate a strong positive return of over 5% for the quarter. Over the last year, industrial and multi-family properties have performed better than holdings within the office and retail market segments.

The U.S. fixed-income market returned –5.9% for the three months ending March 31 — the worst quarterly return since 1980. The Fed announced an increase of 0.25% to the target Fed Funds Rate at its March meeting and anticipates multiple rate increases during the year. It will also reduce the size of its bond inventory — putting selling pressure on bond prices and raising rates. The 10-year treasury yield ended the quarter at 2.32%, an increase of 0.80 percentage points during the period. During the quarter, investment grade credits generated a –7.4% return and non-investment grade corporate bonds returned –4.8%. Municipal bonds declined 6.2% in the quarter as rates rose across the yield curve. Developed non-U.S. government bonds returned –4.1% in the quarter on a local currency basis but declined 7.1% for U.S.-based investors due to a strengthening U.S. dollar.

TIPS returned –3.0%, outperforming nominal Treasuries in the quarter as inflation expectations increased. The breakeven inflation rate implied in 10-year U.S. TIPS ended the quarter at 2.84%, versus 2.56% for the quarter ending December 31, 2021. The realized annual CPI (inflation) was 8.0% through February 2022. The annualized CPI remains elevated due to the economic impact of lockdowns on prices during 2020 and the subsequent rebound in 2021, supply chain constraints, tight labor supply, and higher commodity prices.

IS A PROFIT-SHARING PLAN RIGHT FOR YOUR BUSINESS?

Consider whether a profit-sharing plan would be an attractive retirement plan for your employees.

Business owners understand that a competitive benefits package can help attract and retain talented employees. Surveys consistently demonstrate that employees rate a retirement plan as a very important factor in accepting a job offer or staying with their current employer. Retirement plans come in different varieties, but a profit-sharing plan is one of the most flexible and attractive retirement plans currently available.

HOW PROFIT-SHARING PLANS WORK

A profit-sharing plan gives employees a sense of company ownership by allowing them to share in its growth and profitability. The employer makes contributions to the plan for each eligible employee, and those funds are invested for the employee's retirement on a tax-deferred basis.

What's advantageous from an employer's perspective is that contributions to a profit-sharing plan are both tax deductible and discretionary. This means that employers can reduce or eliminate contributions during those years when profits are declining, or cash flow is limited.

BASIC RULES

For 2022, annual additions to an employee's profit-sharing plan account are limited to the lesser of $61,000 or 100% of the employee's compensation. Keep in mind:

- The employer's deduction for plan contributions cannot be more than 25% of the compensation paid (or accrued) during the year to eligible employees participating in the plan.
- Plan contributions for the year must be made by the employer's tax return due date, plus extensions.

ADMINISTRATIVE REQUIREMENTS

As with other qualified retirement plans, operating a profit-sharing plan involves certain administrative duties. For example, the plan typically must file a

Form 5500 annually and it must provide participating employees with various disclosures. A profit-sharing plan can be coupled with a 401(k) plan, which allows employees to defer salary to the plan but add a degree of administrative complexity for the employer.

PROFIT SHARING VARIATIONS

There are a variety of profit-sharing plans employers can select, some more complex than others:

- **Basic Profit-Sharing Plan:** employer contributions are allocated to participating employees on a proportional, or *pro rata*, basis. Employees receive the same percentage of their salary, determined by the employer each year.
- **Integrated Profit-Sharing Plan:** permits employers to contribute different amounts for employees based on their Social Security tax levels.
- **Age-Weighted Profit-Sharing Plan:** takes the age of the employee into consideration in determining contribution amounts. Many self-employed or small business owners opt for this version since older employees typically receive larger annual contributions than their younger colleagues.

NEXT STEPS

Choosing a retirement plan for your business is an important decision. You want to be sure that the type of plan you select aligns with your goals. An experienced financial professional can provide guidance, discuss your options, and offer helpful insights.

COPING WITH A LABOR SHORTAGE

If you're an employer challenged by the labor shortage, you may want to consider these issues when developing a strategy to attract and retain key employees.

"Help Wanted" signs are an increasingly common sight across the country. Small business owners cite the unavailability of workers as one of their biggest challenges.[1] The labor shortage means that employers cannot, in some circumstances, operate at full capacity and must forgo some revenue opportunities. Businesses may have to delay planned expansions or the addition of new products or services because of the scarcity of workers.

ADAPTING YOUR BUSINESS STRATEGY

Employers understand that having a skilled, trained, and committed workforce is key to growth and profitability. In the competition for a decreasing pool of skilled employees, employers must assess their current hiring practices, identify any deficiencies, and develop and implement policies that help ensure that they can hire the employees they need, when they need them.

Consider the following when developing a strategy to attract and retain key employees:

1. **Sharpen Your Hiring Process**

   Use every available tool including social media to reach out and connect with potential hires. Social networks like LinkedIn and Facebook can be productive resources. Ask family members, friends, and current employees to share your company's job opportunities on social media platforms. Additional ways to reach potential hires include:

   - Posting open positions on your company website
   - Using headhunters, employment agencies, and radio/television advertising

2. **Revisit Your Compensation**

   Sectors such as information technology, typically offer higher compensation than industries like food services and retail. If the job opening you want to fill is critical to the future growth of your business, you may want to consider paying above market salary if you can afford to.

   The reality is that employees with in-demand skills typically command a premium salary. Before you make a prospective employee an offer, find out how much other employers in your area pay for similar jobs. The Bureau of Labor Statistics website (bls.gov) provides useful employment and wage statistics by geographical area, occupation, and job level.

[1] "The America Works Report: Quantifying the Nation's Workforce Crisis," U.S. Chamber of Commerce, June 1, 2021.

3. **Rethink Benefits**

   Most employees expect a compensation package that includes health care, paid vacation, and an employer-sponsored retirement plan. Offering low-cost incentives can complement these benefits and can include perks such as:

   - hybrid/remote work
   - summer hours
   - complimentary snacks/drinks
   - casual dress days

   Remember, not every incentive needs a price tag. Non-monetary awards — from recognizing an "employee of the month" to an expression of gratitude for a job well done — can leave a lasting impact on employees. Inexpensive incentives can include gift certificates, cash awards, and even extra paid vacation days.

4. **Offer Training**

   While costly, offering courses and educational opportunities that help individuals advance their professional expertise can help attract ambitious, committed employees. Developing well-rounded team players who can advance within your business are especially cost-effective in the long run.

5. **Consider Incentive Plans**

   Incentive plans reward employees for their achievements and create a sense of accomplishment. Plans can be used on a one-time or ongoing basis. Examples include:

   - **Annual incentive plan:** Rewards for this type of plan are tied to expected results that are identified at the beginning of the performance cycle.
   - **Discretionary bonus plan:** The owners/managers determine the size of the bonus pool and the amounts that will be given to individuals at the end of a performance period. Typically, payouts from this type of plan are not guaranteed, nor is there a predetermined formula.
   - **Profit-sharing plan:** A profit-sharing plan allows employees to share in their employer's profits. Such plans typically include a predetermined formula for allocating profit shares among participating employees and for distributing funds accumulated under the plan. Plans can be integrated with the employer-provided retirement plan or remain discretionary.

WORK WITH YOUR FINANCIAL PROFESSIONAL

Structuring an effective compensation and incentive package can be a complex and time-consuming task. The expertise of an experienced financial professional can be invaluable during every stage of this undertaking.

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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