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Q3 2017

Qualified Plan News

September 2017 Capital Markets Review

						Period Ending September 30, 2017
Index	**Qtr**	**Ytd**	**1 Yr Return**	**3 Yr Return**	**5 Yr Return**	**10 Yr Return**
S&P 500	4.48%	14.24%	18.61%	10.81%	14.22%	7.44%
Russell 2000	5.67%	10.94%	20.74%	12.18%	13.79%	7.85%
Russell 3000 Value	3.27%	7.72%	15.53%	8.79%	13.20%	6.01%
Russell 3000 Growth	5.93%	20.43%	21.87%	12.65%	15.18%	9.03%
MSCI ACWI Ex U.S.	6.16%	21.13%	19.61%	4.70%	6.97%	1.28%
Barclays U.S. Aggregate Bond	0.85%	3.14%	0.07%	2.71%	2.06%	4.27%
3-Month U.S. Treasuries	0.26%	0.56%	0.64%	0.29%	0.19%	0.42%

The U.S. equity market posted its eighth consecutive quarterly gain in the third quarter, returning 4.6%. July started off strong as investors responded favorably to positive economic data, strong corporate earnings reports, and the Fed's decision to leave short-term interest rates unchanged. Performance for August was flat amid escalating tensions with North Korea, the disbandment of two CEO advisory councils to the President, and the disruption caused in the aftermath of Hurricane Harvey. September finished the quarter on a positive note.

The value of the U.S. dollar fell against most other currencies as the improved global growth outlook led to increased discussion among many other central banks to remove some monetary stimulus. The U.S. dollar also fell on the lack of confidence investors had that U.S. tax reform and infrastructure spending bills would be passed in 2017. The price of oil rose over 14% in the quarter due to increased global demand and loss of refinery production caused by Hurricane Harvey. The prices of industrial metals rose as the Chinese economy continued its steady pace of growth. The rise in commodity prices led to favorable returns in many Latin American countries, and Emerging Markets overall posted a 7.9% return in the quarter. Despite the launch of North Korean ballistic missiles that passed over Japan on multiple occasions, Japan and Pacific ex-Japan returned 4.0% and 3.7% in the quarter.

Qualified Plan News

Getting the Message: Younger Workers "Crushing It"

When it comes to saving, workers under the age of 52 seem to get it. Millennials and Gen Xers seem to be acting on the message that saving for retirement should be a priority.

Among this group, those who are saving 90% or more of the maximum allowed by the Internal Revenue Code in their 401(k) account say retirement is one of their main savings goals. In fact, more than twice as many pointed to retirement as their savings goals than said the same about raising a family, which came in at 40%.

Of course, saving at a rate of $16,200–$18,000 per year (90%–100% of the maximum allowed) means sacrifice. These workers appear ready to make necessary sacrifices, according to a recent survey. [1] Prioritization, they said, is the key. About 47% of the "super savers" said they are driving an older vehicle in order to direct dollars into their retirement savings. Many (45%) choose to live in a modest home, and 42% travel less than they would like. More than ¼ of them work extra hours in an effort to accumulate more for retirement.

1. http://tinyurl.com/PrincipalSuperSavers

Plan Sponsors Ask...

Question. Some of our employees have told us they look forward to the day Medicare takes over all of their health care expenses in retirement. Others are concerned because they understand they will still have health care costs once they retire. We want to help employees prepare. What should we do?

Answer. You're right that there is a lot of misunderstanding about what Medicare will and won't pay for retirees' health care. Your 401(k) plan is a great tool for employees to use to save for these expenses, and the 401(k) meetings are a good time to discuss this topic. First, employees need to know how much they may need to save for health care expenses. According to Fidelity, the average 65-year-old couple retiring in 2016 is expected to need around $260,000 to pay for their health care in retirement.[1] That may be more than your average 401(k) plan participant has saved in total. By helping employees understand the need, you may be able to motivate them to save more in the plan. AARP has a tool that can help. Their health care cost calculator, What's Your Magic Number? allows employees to predict their health care costs in retirement. AARP's website (www.aarp.org) also includes information to help people understand the costs they may face, ways to save for them, and how they may reduce them by staying healthy.

Question. We're noticing that some of our near-retirement employees are not retiring when we thought they would. We have younger workers waiting in the wings to move up, but we don't always have a spot for them. Is it just our company?

Answer. No. In fact, Bloomberg recently addressed this trend,[2] stating that nearly 1-in-5 Americans over the age of 64 continued to work at least part-time during the second quarter of 2017. This is the highest percentage noted on the U.S. jobs report in at least 55 years. Some continue to work because they want to and are physically and mentally able. Others simply can't afford to retire. As an employer, the actions you take today may help younger employees avoid staying in the workforce only because they need the money. Stay on top of trends in 401(k) plan design and communication, and make sure your plan advisor does, too. For example, auto enrollment and auto escalation can encourage more saving. Using a stretch matching contribution strategy can also encourage a higher contribution rate. And a quality default investment, like a target date fund, can help too.

1. http://tinyurl.com/FidelityRetHC
2. *Working Past 70: Americans Can't Seem to Retire*, Ben Steverman, July 10, 2017

Qualified Plan News

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.

November

- Prepare to issue a payroll stuffer or other announcement to employees to publicize the plan's advantages and benefits, and any plan changes becoming effective in January.
- Conduct a campaign to encourage participants to review and, if necessary, update their mailing addresses to ensure their receipt of Form 1099-R to be mailed in January for reportable plan transactions in 2017.
- Check current editions of enrollment materials, fund prospectuses and other plan information that is available to employees to ensure that they are up-to-date.

December

- Prepare to send year-end payroll and updated census data to the plan's recordkeeper in January for year-end compliance testing. (Calendar year plans).
- Verify that participants who terminated during the second half of the year selected a distribution option for their account balance and returned the necessary form.
- Review plan operations to determine if any ERISA or tax-qualification violations occurred during the year and if using an IRS or DOL self-correction program would be appropriate.

January

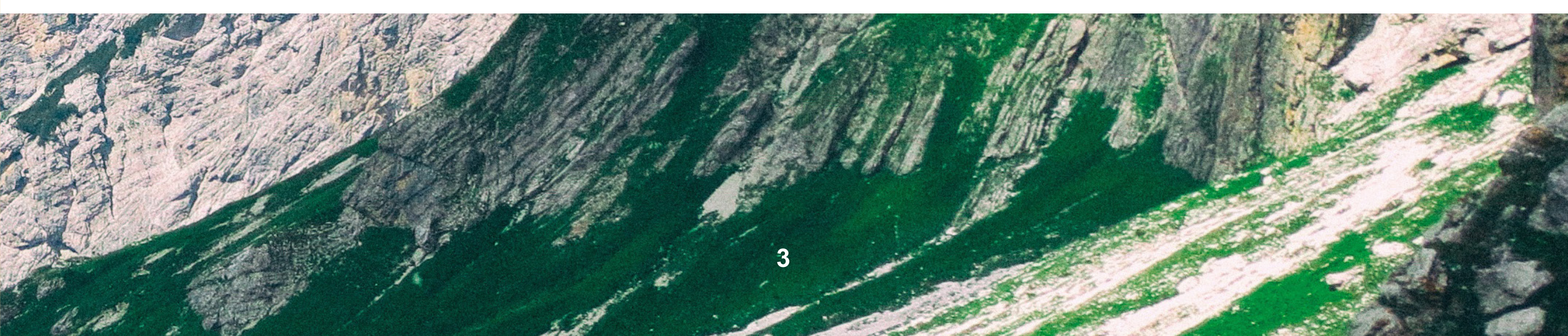
- Send payroll and employee census data to the plan's recordkeeper for plan-year-end compliance testing (Calendar year plans).
- Audit fourth quarter payroll and plan deposit dates to ensure compliance with the Department of Labor's rules regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between October 1 and December 31 received and returned an enrollment form. Follow up for forms that were not returned.

February

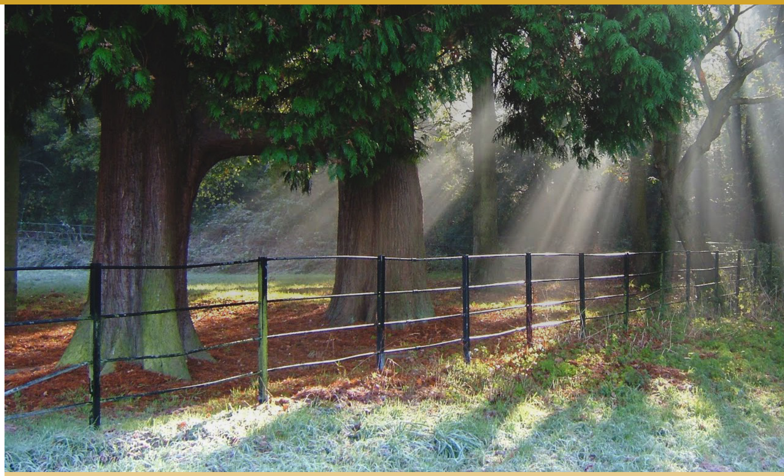
- Update the plan's ERISA fidelity bond coverage to reflect the plan's assets as of December 31 (calendar year plans). Remember that if the plan holds employer stock, bond coverage is higher than for non-stock plans.
- Issue a reminder memo or email to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans by which they are covered.
- Review and revise the roster of all plan fiduciaries and confirm each individual's responsibilities and duties to the plan in writing. Ensure than each fiduciary understands his or her obligations to the plan.

March

- Begin planning for the timely completion and submission of the plan's Form 5500 and, if required, a plan audit. (Calendar year plans) Consider, if appropriate, the Department of Labor's small plan audit waiver requirements.
- Review all outstanding participant plan loans to determine if there are any delinquent payments. Also, confirm that each loan's repayment period and the amount borrowed comply with legal limits.
- Check bulletin boards and display racks to make sure that posters and other plan materials are conspicuously posted and readily available to employees, and that information is complete and current.



Qualified Plan News



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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