QUALIFIED PLAN NEWSLETTER

Second Quarter 2016

PLAN SPONSORS ASK...

QUESTION. Is choosing my plan's qualified default investment alternative (QDIA) a fiduciary responsibility? What options do most DC plan sponsors use?

ANSWER: Yes, selecting a QDIA is considered a fiduciary act, and without an approved QDIA deferral option, plan sponsors and fiduciaries are potentially liable for losses when participants defer money into a DC plan but don't actively direct their investments.

However, there are ways to limit your liability. Most plan sponsors use one of three QDIAs: target-date funds (TDFs), date-specific asset allocation funds chosen based on a participant's age, retirement date and life expectancy, where participants are defaulted into the most age-appropriate option; balanced funds, which provide a diversified portfolio based on the plan's demographic as a whole; and managed accounts, individual accounts handled by a professional investment manager. These QDIAs were established as safe harbors under ERISA and the Pension Protection Act of 2006 (PPA). So plan sponsors and fiduciaries are exempt from any liability due to investment losses in plans that comply with Department of Labor (DOL) regulations under PPA. According to the 2015 PLANSPONSOR Defined Contribution (DC) Survey, 61.70% of respondents chose active, indexed or customized TDFs as their plan's QDIA.

Learn more at:
http://tinyurl.com/3PSQDIAfaves

JUNE 2016 CAPITAL MARKETS REVIEW

	PERIOD ENDING JUNE 30, 2016					
INDEX	QTR	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
S&P 500	2.46%	3.84%	3.99%	11.66%	12.10%	7.42%
Russell 2000	3.79%	2.22%	–6.73%	7.09%	8.35%	6.20%
Russell 3000 Value	4.57%	6.29%	2.42%	9.58%	11.09%	6.05%
Russell 3000 Growth	0.80%	1.14%	1.88%	12.65%	12.04%	8.65%
MSCI ACWI Ex U.S.	–0.64%	–1.02%	–10.24%	1.16%	0.10%	1.87%
Barclays U.S. Aggregate Bond	2.21%	5.31%	6.00%	4.06%	3.76%	5.13%
3-Month U.S. Treasuries	0.06%	0.12%	0.14%	0.07%	0.06%	0.96%

The second quarter was anything but dull for the U.S. and Global stock markets. While the U.S. markets began the quarter in fairly quiet fashion, the end of the quarter finished with an uptick in volatility. Even with a spike in volatility, the U.S. indices still managed to finish the quarter higher overall, with the S&P 500 ending up by 2.46%, the NASDAQ ending down –0.23%, and the RUSSELL 2000 (U.S. Small Cap Stocks) ending higher by 3.79%.

The U.K.'s referendum vote to withdraw from the European Union, otherwise known as "Brexit," caused the quarter to end in a volatile fashion. As a result of the vote, U.S. and global markets were sent into a multi-day tailspin as investors tried to understand the magnitude of the vote for both the U.K. and global economies. The S&P 500 experienced a two day sell-off of 5.3%, while other global indices fell even further. Investors rushed toward the safe haven of treasuries, causing bond prices to rise and yields to fall to record levels. The benchmark 10-Year note traded down to a yield as low as 1.385% after starting the quarter at 1.76%. Although it appeared the quarter would end in a panic, the market staged an impressive rebound, with the S&P 500 bouncing higher on the last three trading days of the quarter.

In addition to anxieties about Brexit, the market has also continued to be impacted by the overall health of the economy, both domestically and globally, and how the Federal Reserve may handle decisions regarding monetary policy and any further rate increases. According to the Bureau of Economic Analysis, the third estimate of the first quarter 2016 gross domestic product grew at an annualized rate of 1.1%, compared to the second estimate, which had the annual rate of growth at 0.8%. It remains to be seen how the Fed may handle future rate increases with weaker than expected GDP and continued concerns relating to the Brexit vote.

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.

A Profit-sharing Feature Can Enhance the Attraction of Your Retirement Plan

The effect of profit sharing can be very positive on a company's competitiveness, profitability, and workers. Employer profit-sharing contributions to an existing 401(k) plan provide employees with a personal stake in the company's welfare. By making such contributions an employer can:

- Boost efficiency, because employees feel personally responsible for profits
- Avoid the losses and waste that discontent and carelessness can cause
- Help cut employee turnover through rewarding continued service
- Improve employees' job satisfaction
- Add more financial security for employees' retirement
- Emphasize management efficiency and encourage personal quality control
- Increase corporate profitability

Profit-sharing Essentials

A profit-sharing plan is a type of tax-qualified retirement plan that an employer establishes in order to allow employees to participate in company profits. The employer generally makes contributions to the participating employees' plan accounts from company profits using the method that the plan documents specify. The plan's trustee holds and invests any employer contributions until plan distributions are made.

A primary employer benefit of a profit-sharing plan is its flexibility. No contributions are required if there are no profits in a particular year. The plan may also be structured so that even when there are profits, the annual contribution depends on the employer's assessment of its ability to make the contribution. Moreover, a profit-sharing plan can permit higher plan contributions than just a 401(k) plan. The 2016 maximum total per-employee is $18,000 for a 401(k), plus a catch-up contribution of $6,000 if the employee is age 50 or older. But the total "annual additions" maximum, including profit sharing, is $53,000 per employee account or 100% of annual compensation, whichever is less, in 2016. The employer's maximum deduction for profit-sharing contributions is 25% of the compensation paid for the year to participating employees.

Relatively Simple to Add

Making the changes necessary to add profit-sharing contributions to an existing 401(k) plan isn't difficult. The major difference is that a combined plan would include all eligible employees, even those who don't participate in your present plan. It is possible that as a result of their participation in profit sharing, more of your employees will be aware of retirement planning and choose to make voluntary 401(k) contributions as well.

Dish on the DOL

In April 2016, the Department of Labor ("DOL") released the final version of its fiduciary rule, a culmination of efforts to replace the existing five-part "investment advice for a fee" fiduciary test that has been in place since 1975. The DOL proposed replacing this test back in 2010, and the April 2016 regulation is the product of numerous iterations and modifications. The final rule expands the definition of "advice" and consequently increases the number of financial advisors who must adhere to a fiduciary standard, requiring advisors to act in the "best interest" of the client. The general effective date for the fiduciary rule is April 10, 2017.

Under prior regulation, brokers deemed to be providing education-based services to clients were not considered to be providing "advice" and therefore were not subject to the fiduciary standard; instead, those brokers were subject to a "suitability" standard. Under a suitability standard, brokers were required to offer "suitable" products, but there was no requirement to offer the "best" product for the client. Beginning April 10, 2017, financial advisors providing services to retirement plans will face a new standard, as all advisors who make recommendations or give advice on 401(k) plans or IRAs must act as fiduciaries. Additionally, recommendations regarding a rollover or distribution from IRAs or a 401(k) plan are captured under the updated definition of "advice."

There are exemptions in the new rule, as well as areas of practice that are not affected by the upcoming changes. As April 2017 draws near, changes to the financial services industry and the retirement plan landscape, draw near as well.

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