Q3 2018

LIFT RETIREMENT

NEWS AND INFORMATION
FOR EMPLOYERS

A GUIDE FOR EMPLOYERS DEALING WITH MISSING PARTICIPANTS

THE FINANCIAL MARATHON

HEALTH SAVINGS ACCOUNTS: FEATURES YOUR EMPLOYEES MAY THANK YOU FOR

PROCESS DESIGN
CAPITAL MANAGEMENT

Jim Garber CFA, AIF & Sean Balog, CMT, AIF

Process Design Capital Managment, LLC.

1430 E Missouri Avenue, Suite B220
Phoenix, AZ 85014

Sean@processdesigncapital.com

(480) 386-0491

www.processdesigncapital.com

Employers, did you lose something, or maybe someone? Take a look at our guide with insights on how to deal with missing 401(k) participants!

#401k #fiduciaryduties #missingparticipants #ERISA

A GUIDE FOR EMPLOYERS DEALING WITH MISSING PARTICIPANTS

Locating missing plan participants can be a headache for any employer, but simply ignoring them is not an effective solution. Regulatory agencies in previous years have published guidance on this topic relating to missing “retired” employees. With the increase in the number of “pre-retired” missing plan participants, governmental bodies are now taking additional measures to provide solid guidance and solutions to help streamline this arduous process for plan sponsors.

Plan sponsors must understand why locating missing plan participants is important. First, ERISA requires that plan fiduciaries (e.g., plan sponsors, employers) have a duty of prudence and loyalty to all plan participants and beneficiaries—regardless whether the participant is actively contributing. In 2014, the U.S. Department of Labor (DOL) published Field Assistance Bulletin 2014-01 (FAB), which explained that these duties require plan fiduciaries of terminated defined contribution plans to make a reasonable effort to locate missing plan participants. Therefore, failure to make any efforts in locating missing plan participants is viewed as a breach of fiduciary responsibility.

Second, per Internal Revenue Code 401(a)(9), the entire plan could lose its tax-qualified status if a participant fails to take his/her required minimum distribution (RMD) (usually at age 70 ½). This scenario could likely happen: a retiree, who has money left in the plan, subsequently becomes “missing”, and the employer is unable to locate and deliver information on the retiree’s upcoming RMD.

EXISTING GUIDANCE

While the 2014 FAB published DOL guidance, it only addresses locating missing participants for a terminated defined contribution plan (e.g., 401(k), profit sharing, money purchase pension). Despite this narrow application, one could opine that plan fiduciaries follow the same requirements as an on-going, active defined contribution plan.

- The FAB lists minimum search actions to take when locating a missing participant:
- Send plan notices using certified mail to the participant’s last known address to confirm correct address
- Check other employer records or benefit plans for alternate addresses

- Contact the designated plan beneficiary or employee's emergency contacts via phone or certified mail to see if they can assist with tracking down the participant
- Use no-cost Internet tools, such as search engines, social media sites and online public record databases
- Timothy Hauser, acting director of the DOL's Employee Benefits Security Administration, at the August 24, 2017 ERISA Advisory Council in Washington, D.C. offered two additional no-cost search options:
- Place a phone call using the cell phone number on file, and
- Contact co-workers to see if they have current contact information

These are the minimum, no-cost search actions that the DOL expects of plan sponsors. If still unsuccessful locating a missing participant, after considering the size of a participant's account balance and the cost of further search effort plan sponsors might consider using additional options that will incur fees, such as using commercial locator services or credit agencies.

Once all these options have been exhausted, the 2014 FAB allows plan sponsors to transfer a missing participant's account balance to a rollover IRA in the name of the participant. The challenge here is finding a financial institution that will establish an IRA in the participant's name, without the participant's affirmative consent or signature.

NEW RELIEF, GUIDANCE AND RESOURCES

Regulators and lawmakers have recognized that more relief, guidance and resources are needed to help plan sponsors manage missing participants:

The **Pension Benefit Guarantee Corporation (PBGC)**, an agency that helps ensure solvency of retirement plan benefits accrued in a defined benefit plan, has expanded a program initially designed to only help missing participants of a terminated defined benefit plan. Plan sponsors who terminate a 401(k) or other defined contribution plan effective on or after January 1, 2018, may now transfer missing participant account balances to the PBGC instead of to an IRA. The PBGC maintains a central repository for these funds and will pay out benefits to participants once they have been located.[1]

The **Internal Revenue Service (IRS)** has provided its own kind of relief. IRS memorandums from August 2017[2] and March 2018[3] confirm that an RMD failure from a missing participant will not occur if the plan sponsor has engaged in the various search options similar to those prescribed by DOL.

The **U.S. Senate** has introduced the *Retirement Savings Lost and Found Act of 2018*, which would provide fiduciary relief and RMD safe harbor in regard to missing participants provided the plan sponsor adheres to a specific number of search options, borrowed from DOL's list and records of missing participant account balances in a newly-established national lost and found retirement account database.[4]

WHAT TO DO NOW?

Until DOL provides formal guidance for locating and handling missing plan participants for an active, on-going plan, plan fiduciaries should consider utilizing the various search options outlined in the 2014 FAB. But merely performing these various search inquiries may not be enough. To protect oneself from a plan auditor inquiry, all search actions performed to locate a missing individual should be recorded along with supplemental documentation, such as returned, undeliverable certified mail, or printouts from an electronic database.

From a best fiduciary practice perspective, plan sponsors may wish to create missing plan participant procedures for the plan administrator to follow. This should help ensure a consistent process for locating every missing participant. The procedures should also list any final recourse of transferring participant's account balance from plan to an IRA or central repository for unclaimed monies.

[1] PBGC Expands Missing Participants Program to Terminated 401(k) and Other PlansPension Benefit Guarantee Corp. December 21, 2017

[2] MEMORANDUM FOR EMPLOYEE PLANS (EP) EXAMINATIONS EMPLOYEES: Missing Participants and Beneficiaries and Required Minimum DistributionsInternal Revenue Service. October 19, 2017

[3] MEMORANDUM FOR EMPLOYEE PLANS (EP) EXAMINATIONS EMPLOYEE: Missing Participants and Beneficiaries and Required Minimum Distributions – 403(b) Plans Internal Revenue Service. February 23, 2018

[4] Retirement Savings Lost and Found Act of 2018

Reaching retirement is not a sprint, but a marathon. This long-term goal takes preparation and persistence. How are you helping your employees get ready to reach the finish line?

#financialmarathon
#financialgoals
#employerduties
#employeebenefits

THE FINANCIAL MARATHON

A MARATHON FOR EVERYONE

Recently, I went to cheer on a friend running in her first marathon. The excitement of watching thousands of people accomplish such an amazing goal was an experience like no other. I waited at the last bend before the finish line so I'd have a good vantage point for cheering my friend on. What I did not expect was the wave of emotion that washed over the faces of each runner as they saw the finish line for the first time. There were people from all walks of life, from young athletes trying to beat previous race times to cancer survivors celebrating their health by completing an exhausting 26.2-mile race. No matter their reason for running, they all had obstacles to overcome in order to make it across that finish line.

TRAINING FOR THE FINANCIAL MARATHON

For many people, their ultimate financial goal is to reach a comfortable retirement with enough energy in reserve to enjoy it. Like running a marathon, this is a long-term goal that takes preparation and persistence.

As the plan sponsor of your company's retirement plan, you play a crucial role in helping your employees reach toward their long-term financial goals. Imagine yourself as a trainer: you are there to build a training regimen to help your employees work toward their goal and keep them motivated along the way.

SETTING ATTAINABLE GOALS

A good trainer will assess their athlete's health and ability before committing to a race. It is important to align goals and position your employees for success. If they're not yet ready to run a marathon, that's fine; they may need to start with a 5K or 10K instead.

If retirement is not your employees' most pressing financial concern, consider offering financial counselling, wellness programs, or plan design options that address whichever issues are causing the most stress, such as:

- emergency savings
- student loans
- credit card debt
- healthcare costs

If **emergency savings** is a common concern, your employees are not alone! Many have little to no money in savings: 45% report having less than $25,000 saved, and 26% report having less than $1,000.[1]

The Federal Reserve reported $1.4 trillion in **student loan debt** at the end of 2017.[2] This is a huge concern for younger employees! Eight out of ten Millennials that carry student loan(s) say that debt has a moderate or significant impact on their ability to meet their other financial goals.[3]

Three out of five employees consistently carry balances on their **credit cards**, and 40% of those folks are finding it extremely difficult to make their minimum payments on time each month.[3] This kind of debt is extremely common for Millennials and Gen Xers.

Healthcare is one of the largest expenses in retirement. A vast majority of workers (81%) haven't even tried to calculate how much money they would need to cover healthcare costs in retirement.[4] As it turns out, the average couple will need a staggering $280,000 for medical expenses in retirement, excluding long-term care.[5]

ANTICIPATE OBSTACLES

Talk to any marathon runner and they can tell you all about the walls they might hit during a race. For some, that wall might be a soul-crushing hill; for others, it's the 13.1 split; still others may even experience injuries that make them question whether they can push themselves to reach the finish line.

Even if your employees do save for retirement, hitting obstacles can force them to take out loans from their 401(k) plans. 44% of employees think it's likely they'll need to take money out of their retirement plans to pay medical bills, credit cards, education expenses, or unexpected costs.[3]

401(k) loans can be a difficult obstacle to overcome. You may consider tightening loan provisions to deter employees from using their nest egg as a rainy-day fund.

THE REAL TRICK

Athletes and trainers alike will be happy to offer tips and tricks to make finishing the marathon easier, from Vaseline on your feet to fancy supplements, but at the end of the day, the only way you can finish the race is if you start running in the first place.

As a plan sponsor, make sure that the 401(k) enrollment process is simple and designed in the best interests of your employees. At our firm, we are dedicated to helping our clients pursue their financial goals and can help you build a plan that will help to keep your employees on track to reach toward the finish line of their retirement.

1 Helman, Ruth. "2018 EBRI/Greenwald Retirement Confidence Survey" April 2018.
2 US Federal Reserve. "Consumer Credit- G.19." April 6, 2018.
3 PricewaterhouseCoopers LLP. "Employee Financial Wellness Survey" (2018): PWC. May 2018.
4 Helman, Ruth. "2018 EBRI/Greenwald Retirement Confidence Survey" April 2018.
5 Fidelity Viewpoints " How to plan for rising health care costs." April 18, 2018.

HEALTH SAVINGS ACCOUNTS: FEATURES YOUR EMPLOYEES MAY THANK YOU FOR

Health benefits in the workplace? Why don't you give your employees another account they can benefit from?

#

#HSA
#HealthSavingsAccount
#CompanyBenefits
#TaxSavings
#EmployerTaxSavings

For the majority of future retirees, medical expenses pose significant risk to any retirement plan, and they are only projected to rise. Medical cost estimates for couples throughout their full retirement, assuming both partners are 65, has increased $15,000 from 2016 to 2017, bringing total projections to $280,000, after Medicare coverage.[1] Even for professionals with 401(k) balance projections at their target retirement age over $1 million dollars, this figure is daunting. At the same time, employers seek cost-effective strategies to enhance their benefits offerings.

While the ever-coveted employer 401(k) match may seem like the most direct way for employers to help mitigate this financial burden for future retirees, the humble Heath Savings Account (HSA) may be a feasible, cost-effective strategy. The HSA was originally intended as a savings vehicle for those using High Deductible Health plans to cover their medical costs; the "triple tax advantage" afforded by these accounts allows employees to contribute pre-tax money that can grow tax-free and be withdrawn tax-free to pay for qualified medical expenses.

Account holders can gain additional benefits by using HSA funds to pay for long-term care insurance, which has its own set of tax benefits. Additionally, since there is no requirement that employees must reimburse themselves from their HSA accounts within a certain time frame, contributing to HSAs and saving the receipts, while still paying for medical expenses using post-tax dollars, yields maximum retirement growth potential from what the *Wall Street Journal* reports as "the most tax-preferred account available."[2]

[1] Fidelity Viewpoints "How to plan for rising health care costs." April 18, 2018.
[2] Wall Street Journal. "HSAs Offer Benefits Over 401(k)s." January 30, 2016.

FEATURES EMPLOYEES CAN BENEFIT FROM:

- Triple tax advantage – the money is contributed, invested, and withdrawn tax-free for qualified medical expenses, although some states do tax these accounts[3]
- FICA tax exemption for employee and employer contributions[4]
- Contributions roll over year after year, unlike flexible spending accounts
- The account follows the employee from job-to-job
- No maximum age to start withdrawing, unlike 401(k) accounts
- Additional $1000 "catch up" contributions after age 55
- After age 65, the HSA acts like a traditional tax-deferred account for non-qualified expenses, so there are no penalties if the money is needed in retirement for something else; only taxes will be owed.
- The list of qualified expenses is comprehensive and includes services not covered by Medicare, especially long-term care, a key risk to any retirement plan.[1]
- Account balances can be inherited by a spouse tax-free.

WHO CAN TAKE ADVANTAGE?

While any employee can enroll in a high-deductible health plan (HDHP) and open an HSA, this strategy will be most appreciated by high-earning employees who can afford to max out the yearly contribution limits and pay for their medical expenses out-of-pocket, especially those still young and/or healthy enough to incur relatively negligible medical costs over the course of many years and bulk up their account balance. Since account-holders can opt to delay the reimbursement of their qualified medical expenses indefinitely, it is possible to keep the receipts, invest the account, let it to grow, then withdraw up to the total of the qualified medical expense receipts, and use it for anything, all tax-free.[5] The rest can still be used tax-free for qualified medical expenses in retirement.

MAXIMIZING THE BENEFITS

For employees to truly maximize the long-term possible benefits from these plans, employers should verify that their HSA options are through administrators who include an investment offering to allow compound interest and market growth over time. Employers looking to further enhance can even contribute directly to the accounts as part of the employees' compensation package. It's also important to make sure that the out-of-pocket maximum expenses on the HDHPs offered to employees do not exceed the maximum contribution limits for HSA accounts ($3,450 for individuals and $6,900 for families in 2018);[2] otherwise employees' hard-earned HSA balances are at-risk of being easily wiped out by a badly-timed medical expense.

HOW EMPLOYERS BENEFIT

HDHPs are usually cheaper for employers because the higher deductible and out-of-pocket maximum limits reduce the risk borne by the insurance company, which results in lower premiums. This is especially attractive for large firms who can access lower group rates for essentially buying in bulk, and/or make contributions towards the plan premiums, wholly or in part. It is thus not surprising that many employers now offer some version of an HDHP with $0 premiums for the individual employee. The employer group can save money on premiums, while also offering "free" health insurance to employees.

The best part is that since 43% of employers were already offering these types of plans as of 2018,[3] all that may be necessary for employers to enhance their benefit offerings is to have Human Resources get the word out to employees. Additional marketing materials upon new-hire benefit eligibility and benefits seminars (with a follow-up email summary) in advance of open enrollment could be all that's required to highlight the potential of the HSA as a significant Financial Wellness Benefit and help employees get more out of their DC plan.

3 Investopedia. "How to Use your Health Savings Account (HSA) for Retirement." Jan 19, 2018.

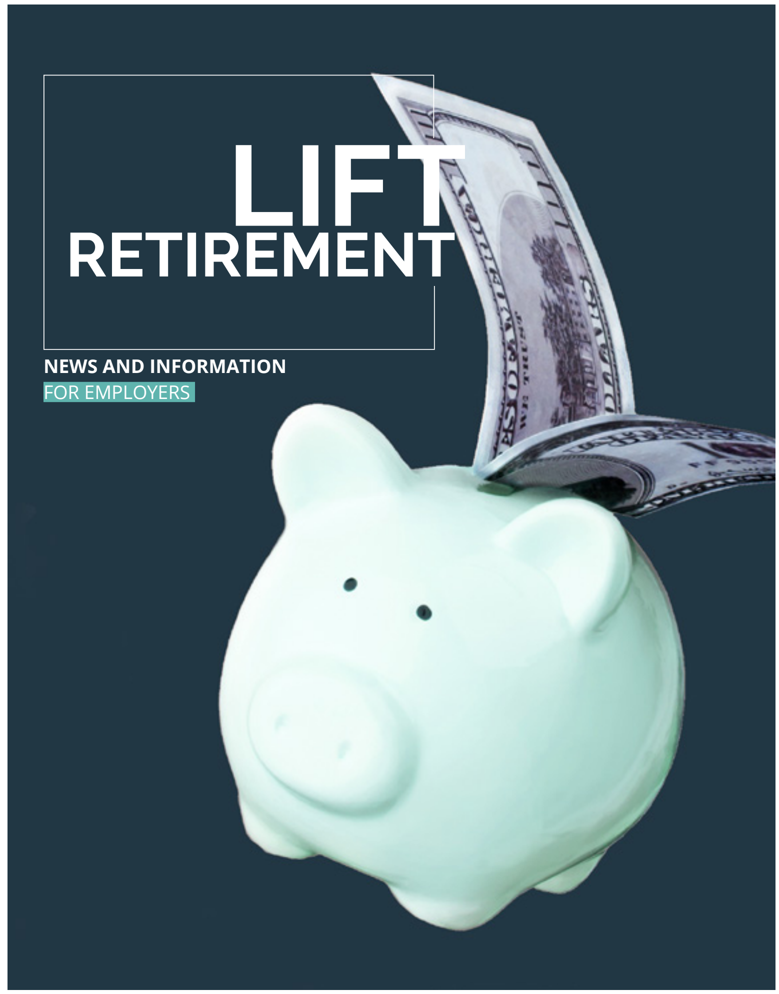
4 Investopedia. "High Income Benefits from a Health Savings Account." Jun 11, 2015.

5 U.S. News- Money. "How to Use a Health Savings Account for Retirement," Sept 10, 2015.

Process Design Capital Management

We are the premier 401k plan specialist in Arizona, providing state of the art plan design, management and employee education to assure maximum employee participation and satisfaction. We believe all employees should have the opportunity to secure a financially sound retirement and we manage the plan solely for the participants so they may achieve their goals.

PROCESS DESIGN
CAPITAL MANAGEMENT



Jim Garber CFA, AIF & Sean Balog, CMT, AIF

Process Design Capital Managment, LLC.

1430 E Missouri Avenue, Suite B220
Phoenix, AZ 85014

Sean@processdesigncapital.com

(480) 386-0491

www.processdesigncapital.com

Process Design Capital Management, LLC. does not provide legal or tax advice.

This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements and you should consult your attorney or tax advisor for guidance on your specific situation.