PYRASTAR PENSION GROUP

PyraStar Pension Group, Inc.

Monthly Newsletter

Our newsletter will keep you informed of the latest in compliance as well as ongoing changes in the industry.

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Summer 2015 Newsletter

UPCOMING DEADLINES & OTHER IMPORTANT ALERTS

It's time to adopt Restated Pre-approved DC Plans

Employers using pre-approved defined contribution plan documents must adopt plan documents restated for the 2010 Cumulative List by April 30, 2016 (Announcement 2014-16). Preapproved documents must be restated every six years based on and IRS mandated cycle.

As your plan is being restated this is a good time to review your current plan document to be sure that the plan's goals and objectives are being met. You should ask "What are we trying to accomplish with our retirement plan?" With those thoughts in mind we can make recommendations on plan design.

Some of the plan designs issues you might consider are:

Quote of the Month

"There are basically two types of people. People who accomplish things, and those who claim to have accomplished things. The first group is less crowded."

- Mark Twain

PyraStar on the Move:

Team Pyrastar attended the New South Chapter ESOP Lunch & Learn on June 25, 2015 at Avion Solutions, Inc. in Huntsville, AL. Topics included *"Value Drivers and Sharing Financial Information with your Employee*

• Should your plan become a safe harbor plan?

• Change your cash-out limit to $5,000 to avoid having small balances in your plan. Once your participant count exceeds 100 (or 120 if you fall under the 80-120 rule) you will be subject to the expense of an annual audit.

• Revision of the Joint and Survivor annuity option.

• Change to the discretionary Profit Sharing allocation formula. Your employee base may have changed since you originally set up your allocation formula and you may find that it isn't producing a favorable outcome or being allocated as you originally intended.

If you need your plan restated, feel free to contact our Plan Document Maintenance department at 770-645-6331 x10 or email **team@pyrastarpensiongroup.com**.

Retirement Reform

The U.S. Senate Committee on Finance’s bipartisan working group has issued a report in support of recommendations for reform related to retirement savings.

• The working group recommends that the Committee on Finance consider proposals that allow employers to join open multiple employer plans (MEPs). The MEPs allow businesses to share administrative and other responsibilities associated with providing retirement plans to their employees. Current law has some limitations such as requiring participating employers to share a common interest or "Nexus". The proposal would expand Open MEPs.

• Increase the value of tax credits

- Current law provides a tax credit of up to $500 per year for three years for startup costs related to qualified small employer retirement plans.
- Proposals from both Legislators and President Obama suggests an an increase

Owners" as well as Roundtable discussions on several topics pertaining to the role you play in your company and your ESOP. The participants even joined in for a game of ESOP Jeopardy.

NCEO The National Center for Employee Ownership

The ESOP Symposium, Ownership Solutions for Established ESOPs
October 6-7, 2015 - Atlanta, GA

You will be able to register for either or both days of this seminar and move freely between the sessions:

Program

9:00 AM	**Welcome and Introduction** Corey Rosen, National Center for Employee Ownership
9:15 AM	**Projecting ESOP Repurchase Obligation** Tina M. DiCroce, ESOP Economics, Inc.
10:00 AM	**Break**
10:15 AM	**Leadership Succession** Carl Sheeler, Berkeley Research Group, LLC
11:00 AM	**Table Talks - Roundtable Discussion Groups**

to the existing credit.

- Legislators proposed increasing the credit from $500 to $5,000. President Obama proposed tripling the existing credit ($500 x 3 years) to $4,500 ($1,500 x 3 years).
- The President also proposes a $3,000 credit for any employer with 100 or fewer employees who offers an automatic individual retirement account.
- Small employers that already offer a plan and add auto-enrollment would get an additional $1,500 tax credit.

• Expand the Safe Harbor for automatic enrollment plans

- Currently employers can match up to 6% of pay. The proposal is for a match of up to 10% of pay.
- For small employers with 100 or fewer employees the proposal is for a new tax credit equal to the increased match to offset the cost of the additional match.

• S-Corporation ESOPS

- Both the U.S. House and Senate are considering legislation to further encourage S Corporation employee stock ownership plans (S ESOPs), in part by ensuring that Small Business Administration (SBA) certified small businesses do not lose their status by becoming employee owned.

Many Americans have no retirement savings- Federal Reserve survey

May 27 (Reuters) - Many Americans are not financially prepared for retirement, with almost a third of working adults without savings or a pension, according to a Federal Reserve (Fed) survey published on Wednesday.

The **Fed's 2014 Survey of Household Economics and Decision** making found that about 38 percent of the more than 5,800 respondents have either no intention to retire or plan to keep working for as long as possible.

11:30 AM	**Sustainable Distribution Policies** **Carla Neal Klingler, Pyrastar Pension Group, Inc.**
12:15 PM	**Luncheon with the Experts**
1:15 PM	**Keeping a Mature Plan Effective** Lynn Archer, Principal Financial Group
2:00 PM	**Legal Requirements for Boards of ESOP Companies** Steven Greenapple, Steiker, Greenapple & Croscut, P.C.
2:45 PM	**Break**
3:00 PM	**The Mature ESOP: An In-Depth Case Study** TBA
3:45 PM	**Table Talks - Roundtable Discussion Groups**
4:15 PM	**Adjourn**

Go to www.NCEO.com for more information on this Forum.

SAVE THE DATES!

New South Chapter of the ESOP Association meeting – coming in August 2015 to a Florida ESOP company

"Thirty-one percent of non-retirees have no retirement savings or pension, including nearly a quarter of those older than 45," the Fed said.

"Even among individuals who are saving, fewer than half of adults with self-directed retirement savings are mostly or very confident in their ability to make the right investment decisions when managing their retirement savings."

The survey, which was conducted in October and November last year on behalf of the Fed board, also found that among lower-income respondents, whose household income is less than $40,000 per year, 55 percent plan to keep working as long as possible or never plan to retire.

It found a modest improvement in individuals' perceptions of financial well-being compared to 2013, though their optimism about future financial prospects increased significantly. Sixty-five percent of respondents viewed their families to be either "doing okay" or "living comfortably" financially, a 3 percentage points increase from the 2013 survey.

Twenty-nine percent expected their income to rise this year, up from 21 percent in the 2013 survey.

Still, the finances of many families are shaky. Only 53 percent of respondents said they could cover a hypothetical emergency expense costing $400 without selling something or borrowing money.

"Thirty-one percent of respondents report going without some form of medical care in the past year because they could not afford it," the Fed said.

Economists Say 401(k) Plan Loan Policy Shapes Borrowing

May 5, 2015 **|** By Jane Meacham

Decades into reviewing the pluses and minuses of 401(k) defined contribution retirement plans, most employer plan sponsors have chosen to

ESOP Marketplace – South Bend, Notre Dame – September 16, 2015 – Carla Klingler will be a featured speaker.

New South Chapter of the ESOP Association Annual meeting – Oct 22, 2015 hosted by TVS&A in Atlanta

ESOP Association Annual Conference – Las Vegas – Nov 12-13, 2015

Community Service

Team PyraStar will be participating in the 2nd Annual **Rocket Shot 5k Run** on Saturday, August 15th to benefit **The Jamie McHenry Memorial Foundation**.

The Foundation is dedicated to honoring and celebrating Jamie's life by raising funds to provide support to the high school and youth Lacrosse programs in our community.

The McHenrys are personal friends and local professional colleagues in our industry so it is a special honor to participate in this community effort with them. For more information on the 5k race and the Foundation you can go to offer plan loans, which on the one hand give participants early partial access to their retirement funds but also threaten to erode those savings. A new paper suggests that a plan's loan policy can shape participant borrowing, which may give sponsors a greater sense of control as a 401(k) lender.

The April paper (available with registration) from the National Bureau of Economic Research, "Borrowing from the Future:
401(k) Plan Loans and Loan Defaults," posits that when a plan allows participants to take out multiple loans, they are more likely to borrow in the first place — and more likely to default. The NBER researchers said no previous study has explored how employer loan policy affects participant behavior and resulting defaults.

The paper looks at who borrows with plan loans and why, and who defaults on those loans.

It also found that serial borrowers' individual loan amounts shrank, similar to what the researchers call the "buffer-stock approach to credit" that's been noted among credit card users, but that plan borrowing probability is twice as high with a multiple-loan policy.

Avoid 'Endorsement Effect'

Ninety percent of active contributors to 401(k) plans in the United States have access to plan loans, according to the study. Of that group, about one-fifth had a loan at any given time, an often-cited statistic that's held steady for several years. Almost 40 percent have held a plan loan over a five-year period.

Participants with access to a multiple-loan feature in their plans borrowed greater amounts in aggregate, which the researchers warn could be seen as an "endorsement effect" that the NBER researchers said plan sponsors might want to avoid.

"[G]given the ability to borrow multiple times, workers seem more willing to take the first loan when they retain slack capacity for future consumption shocks," the paper said.

<u>www.liveforjamie.com/events-programs/2015-rocket-shot-5k/</u>

In addition, the study said the probability of plan borrowing nearly doubles when plans permit multiple loans. The aggregate amount borrowed rises by 16 percent, "suggesting that employees perceive that easier loans are actually an encouragement to borrow."

For context, the study cited prior research that estimated aggregate premature withdrawals (or so-called account leakage) of all types from both 401(k)s and individual retirement accounts amount to 30 percent to 45 percent of annual total contributions. As such, these sizable outflows relative to inflows "raise the important question of how these liquidity features may influence future retirement security," the NBER study noted.

With that many participants involved, plan sponsors face concerns about defaults. The study estimated an aggregate effect of loan defaults valued at about $6 billion a year — an amount it called higher than others' previous estimates that relied on incomplete data, though it is still "much smaller than retirement plan leakage due to account cash-outs on job termination." A 2009 U.S. Government Accountability Office report based on 2006 data said $74 billion was lost that year to cash outs upon leaving a job.

In reality, employer plan sponsors' worst loan default problems may lie with former employees.

The study offered several insights on loan default patterns, most strikingly that 86 percent of participants with an outstanding loan balance when they terminate employment don't repay it. Nine of 10 loans are repaid to plan sponsors, but the high default rate among terminated workers likely reflects that they may simply be surprised by an unanticipated job change and its effect on an outstanding 401(k) loan, the NBER paper said.

"This article was originally published in the **SmartHR Manager blog**. SmartHR Manager is a gateway to **Thompson Information Service**'s HR and Benefits publications.”