

Q1 2017

Qualified Plan News

March 2017 Capital Markets Review

Period Ending March 31, 2017						
Index	Qtr	Ytd	1 Yr Return	3 Yr Return	5 Yr Return	10 Yr Return
S&P 500	6.07%	6.07%	17.17%	10.37%	13.30%	7.51%
Russell 2000	2.47%	2.47%	26.22%	7.22%	12.35%	7.12%
Russell 3000 Value	2.99%	2.99%	19.97%	8.58%	13.08%	5.94%
Russell 3000 Growth	8.63%	8.63%	16.27%	10.90%	13.22%	9.04%
MSCI ACWI Ex U.S.	7.86%	7.86%	13.13%	0.56%	4.36%	1.35%
Barclays U.S. Aggregate Bond	0.82%	0.82%	0.44%	2.68%	2.34%	4.27%
3-Month U.S. Treasuries	0.12%	0.12%	0.34%	0.15%	0.11%	0.61%

The U.S. economy continued to move in a positive direction over the first quarter of 2017. The national unemployment rate was 4.8% in January and dropped to 4.5% by the end of March. Total nonfarm payroll employment went up 227,000 in January, 235,000 in February, and 98,000 in December, for a total increase of 560,000 over the course of the quarter. This reflects a larger increase in total nonfarm payroll than the fourth quarter of 2016, which had a total increase of 495,000.

After starting the year at 0.36%, the effective federal funds rate (the EFFR) more than doubled over the course of the quarter, ending March at 0.82%.

At the start of the year, the average 30-year fixed rate mortgage was 4.15%. By the end of the first quarter, it had risen to 4.20%.

It is unclear what to expect in the second quarter of 2017, which represents the first full quarter of the Trump Administration. Federal Reserve Chairwoman Janet Yellen has suggested that the U.S. economy is in a position to withstand additional rate hikes. Whether that happens, and how that impacts unemployment, stock markets, and the economy as a whole, is something to watch for.

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Don't Overlook the Need for an Investment Policy

Securing good investment management is one of the most important aspects of sponsoring a retirement plan for employees—and one of the most risky from the standpoint of legal liability. As plan fiduciaries, employers are responsible for setting an overall investment policy for their plan under the pension law (“ERISA”).

The Investment Policy Requirement

Every ERISA plan is subject to this requirement. (Almost all tax-qualified retirement plans are subject to ERISA.) The rule is fully applicable whether the plan uses an outside investment manager or employees self direct the investment of their plan accounts. Thus, even employers that sponsor self-directed plans designed to comply with ERISA Section 404(c) must have an investment policy and follow it.

The policy need not be written. However, because the investment of plan assets is critical to a plan's successful operation, many employers decide to commit their investment policies to writing in the form of an investment policy statement (IPS). A written statement demonstrates the employer's interest in meeting its fiduciary responsibilities to the plan's participants.

According to U.S. Department of Labor regulations, the formulation of an investment policy is itself a fiduciary act. Thus, in formulating a policy, it is important for employers to take into account factors such as the plan's funding policy and liquidity needs, as well as other issues related to the prudent investment of plan assets and diversification.

An investment policy statement defines investment guidelines for the plan. It provides general instructions concerning different types or categories of investment decisions and outlines how the plan sponsor is to set investment goals and make broad plan investment management decisions. A plan sponsor that carefully follows the IPS should have something to fall back on if employees someday challenge plan investment choices or performance.

The content of an IPS should be specific to the plan. However, several key elements are usually included.

Mission statement. This section is a broad statement of the employer's investment policy goals. It typically includes criteria for selecting the plan's investment manager(s) as well as guidelines for the plan's trustee, investment manager, and administrator.

Plan policies. This is a more detailed section describing the types of investments the plan may make, the objectives of those investment types, acceptable risk levels, and allocation guidelines.

2017 PLAN LIMITATIONS

The IRS has announced that there are no cost-of-living adjustments to the following key retirement plan limitations for 2017:

- Elective deferrals to 401(k), 403(b), and most 457 plans: \$18,000
- Catch-up contributions to 401(k), 403(b), and most 457 plans: \$6,000
- Annual additions to a defined contribution plan account: \$54,000
- SIMPLE plan deferrals: \$12,500
- SIMPLE plan catch-up contributions: \$3,000
- Maximum annual benefit from a defined benefit plan: \$215,000
- Annual compensation used to determine qualified plan benefits or contributions: \$270,000
- Compensation used to determine whether officers are key employees for top-heavy plan purposes: \$175,000
- Dollar limit used in the definition of highly compensated employee: \$120,000
- IRA contributions: \$5,500
- IRA catch-up contributions: \$1,000

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It also may include broad performance objectives for investment managers. However, even with a statement of investment policy in place, employers still need to carefully consider and document the choice of investment managers and maintain proper documentation of their activities.

Procedures for reviewing plan investments. This section of the IPS describes the procedures the sponsor will use to monitor the plan's investment performance. It might include a schedule outlining when investment choices, overall policy, and investment manager performance will be reviewed. Normally, this review would take place at least once a year, if not more frequently.

Proxy voting. Department of Labor regulations specify that a statement of proxy voting policy would be an important part of any broad statement of investment policy if plan assets consist of shares of corporate stock.

Provisions specific to employee-directed plans. If a plan allows participants to choose investments, the IPS may also describe how employees can control their plan account assets and the criteria that will be used to monitor, measure, and evaluate investment performance.

The statement of investment policy is an official plan document. The Department of Labor considers an IPS to be part of the documents and instruments governing the plan and requires all concerned plan fiduciaries to follow it.

Items a 401(k) Plan IPS Might Include

Most 401(k) plans allow employees to direct their own investments. A statement of investment policy for a self-directed plan might include the following:

- The range of investment alternatives the plan will offer. (Employers seeking liability protection under ERISA Section 404(c) generally must offer at least three diversified investment choices.)
- The ways employees can exercise control over the assets in their plan accounts. (A 404(c) plan generally must allow employees to give investment instructions at least quarterly, and also provide specific investment information.)
- Benchmarks and procedures that will be used for measuring and evaluating investment performance on a regular basis.



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Plan Sponsors Ask...

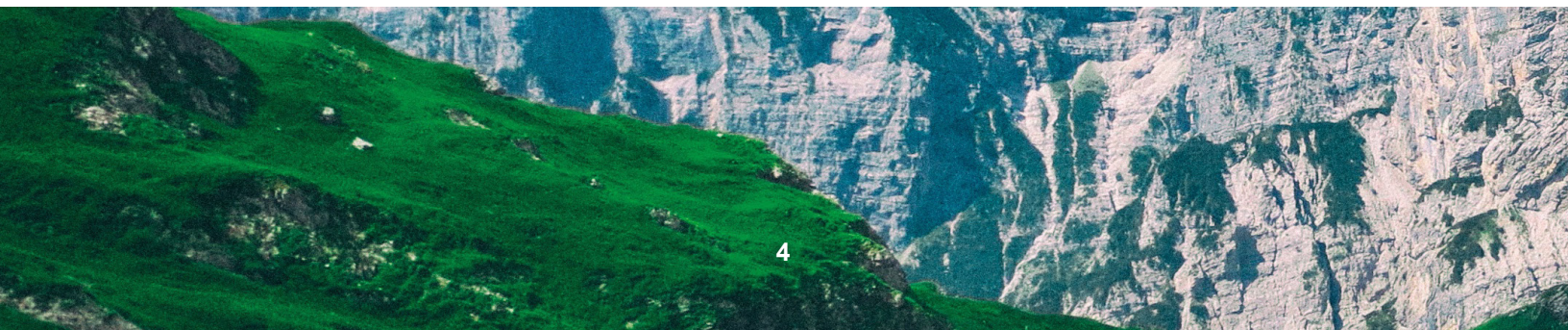
Question: How important is it to deliver targeted messages as we attempt to engage, communicate with and educate different participant demographics in our retirement plan?

Answer: In a word, very. Targeted communications and relevant tools, like mobile apps and online planners – preferred by 66% of Millennials and Baby Boomers, according to Willis Towers Watson – are critical devices to have in your retirement plan education arsenal. Each generation has different concerns, and so the guidance and messaging you deliver needs to be tailored to reflect them. For example, education is especially important for Boomers, many of whom are actively preparing to retire. In this group, one in four has saved less than \$5,000 for retirement, according to an Indexed Annuity Leadership Council (IALC) survey. Pensions aren't much help, either – an estimated 56 million Boomers aren't expected to receive any pension income, according to the Insured Retirement Institute (IRI), and future retirees will need more than \$400,000 to fill the gap.

For Millennials to accumulate enough for retirement, their savings rate needs to be at 22% starting now to accommodate for lower projected market returns. However, many are focused on paying off student loans, and an Allianz Life study shows 70% prefer to travel than to save. Educating this demographic about the importance of saving early, and illustrating for them how concepts like compounding make a significant difference over time, as well as showing them how today's savings translates to tomorrow's income, are key in convincing them to grow their nest egg along with planning trips to exotic locales.

What's more, Willis Towers Watson found that 59% of Millennials and 54% of Boomers valued tools to help them track retirement goals. These are just some examples of how tailoring key messaging and offering access to retirement planning tools can make all the difference in helping various generations get on track to more financially comfortable retirements.

Learn more at <http://tinyurl.com/allianzstudy> and <http://tinyurl.com/WillisTowersWatsonsurvey>.



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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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