



QUALIFIED PLAN NEWS

CAPITAL MARKETS REVIEW			PERIOD ENDING DECEMBER 31, 2020			
Index	Qtr	Ytd	1 Yr Return	3 Yr Return	5 Yr Return	10 Yr Return
S&P 500	12.15	18.40	18.40	14.18	15.22	13.88
Russell 2000	31.37	19.96	19.96	10.25	13.26	11.20
Russell 3000 Value	17.21	2.87	2.87	5.89	9.74	10.36
Russell 3000 Growth	12.41	38.26	38.26	22.50	20.67	16.93
MSCI ACWI Ex USA	17.01	10.65	10.65	4.88	8.93	4.92
Barclays Aggregate Bond	0.67	7.51	7.51	5.34	4.44	3.84
T-Bills	0.02	0.58	0.58	1.56	1.16	0.60

COMMENTARY

The U.S. equity market advanced 14.7% during the quarter, earning 20.9% for the full year. Investors showed optimism after multiple COVID-19 vaccines received FDA approval for distribution in the quarter. The market also reacted positively to the results of the November election. The U.S. equity market was further supported near the end of the quarter after the passage of a second stimulus bill. Growth stocks trailed value stocks in the quarter but were ahead by over 35% for the year.

All capitalization segments of the U.S. stock market posted strong returns in the 1-year period, with small-cap stocks outperforming mid- and large-cap stocks by 2.9% and 1.6%, respectively. Value stocks outperformed growth stocks by 4.8% in the quarter. Strong performance from the energy and financial sectors were the biggest contributors to the relative outperformance of the value segment during the quarter. These more economically sensitive sectors of the market outperformed in the

period as encouraging COVID-19 vaccine developments boosted investor optimism about the reopening of the global economy.

The consumer discretionary and technology sectors had the strongest returns in the 1-year period, as these sectors were better positioned for the changes brought on by the pandemic. The utility and consumer staples sectors produced the weakest returns during the quarter. Despite the strong rebound in the quarter, the energy sector produced the weakest return for the full year due primarily to decreasing demand resulting from mandated lockdowns and the shift to work from home.

Developed international equities rose 16% in the quarter, with small-cap stocks outperforming the broad market. An improving global economic outlook following favorable trial results from multiple COVID-19 vaccines and continued support from governments and central banks led to strong returns in most regions.

The U.S. dollar depreciated relative to most foreign currencies, leading to higher returns for U.S.-based investors relative to local returns, in aggregate. Developed market value stocks outperformed their growth counterparts by 6.1% during the quarter but trailed by nearly 21% for the year.

The U.S. fixed income market returned 0.7% in the quarter and 7.5% for the year. U.S. Treasuries declined 0.8% in the quarter as yields for longer-dated maturities rose, but still remain low. Investment-grade credits returned 2.8% in the quarter and were up 9.4% for the year.

Corporate bonds have continued to rebound from the sell-off in March with interest rate spreads between these bonds and comparable maturity Treasuries tightening to pre-pandemic levels. High-yield corporate bonds returned 6.5% in the quarter. Developed non-U.S. government bonds returned 4.6% and emerging market bonds gained 9.6% in the quarter, each aided by a weaker U.S. dollar.



Preliminary estimates from a subset of core real estate managers indicate a positive return for the quarter. Overall rent collections have steadily improved since the beginning of the second quarter. Industrial and multi-family properties have performed better than holdings within the office and retail segments of the market.

CONDUCTING A COMPLIANCE SELF-AUDIT

When it comes to operating a retirement plan, there are a lot of moving parts. A strong system of internal controls can help keep a plan operating smoothly and in compliance with the law.

The IRS describes internal controls as policies and procedures designed to detect and prevent errors in a retirement plan. They can help a plan sponsor avoid mistakes that could jeopardize the plan's tax-favored status. If an insignificant operational error is discovered, the sponsor may be able to correct it using the IRS's Self-Correction Program without contacting the IRS or paying any fees. However, the self-correction option is available only if the plan has established practices and procedures that are reasonably designed to promote and facilitate compliance with the law.

When the IRS selects a plan for audit, the agent conducting the audit begins by evaluating the effectiveness of the plan's internal controls. Whether the agent performs a focused or expanded audit is determined by the strength of the plan's internal controls.

Should a plan have procedures for reviewing the plan document? It should. A regular review of the plan document allows the sponsor to determine whether the plan needs updating. According to the IRS, during audits, employers often can't find documentation to prove that their plans were timely amended for current law. When this happens, the matter must be resolved using an audit closing agreement with the IRS. It is much less expensive to file for correction of a plan document failure using the IRS's Voluntary Correction Program, but this program is not available to plans under audit. Reviewing the plan document annually can reveal if any amendments are needed.

What internal controls should a plan have with respect to plan operations? The appropriate practices and procedures will depend on the organization sponsoring the plan, the plan type, and the plan's particular features. Knowing and following the terms of the plan is critical.

Two items the IRS recommends looking at are whether employee loans and distributions were made according to plan rules and whether eligible employees were included in the plan in a timely manner.

If a third-party administrator (TPA) performs annual testing for the plan, it's important to keep the lines of communication open regarding all employees eligible to make elective deferrals, including employees who terminated during the year. The plan sponsor should have procedures in place to ensure that the proper payroll information is provided and used in the testing calculations. Certain information regarding family relationships, officer status, and companies under common control may need to be provided to ensure that the testing can be completed properly.

The IRS lists several examples of internal control procedures on its website:

- Comparing salary deferral election forms with the actual amounts deducted from employees' paychecks
- Verifying the types of compensation used for allocations, deferrals, and testing
- Checking that plan service providers received accurate compensation and ownership records
- Monitoring annual contribution and compensation limits
- Confirming that years of service were accurately determined for purposes of eligibility and vesting
- Verifying marital status and spousal consent for plan distributions



- Ensuring that participants received required minimum distributions
- Having strong internal controls around employee eligibility, plan contributions, plan distributions, plan testing, and plan administration is key to avoiding costly penalties and potential plan disqualification; plan sponsors should consider the benefits of being proactive by conducting a compliance self-audit each year

FAQS ABOUT LOW-BALANCE ACCOUNTS

The cash-out rules may allow plans to remove low-balance accounts of former employees.

Workforce reductions over the past couple of years have left some employers with a lot of low-balance plan accounts owned by former employees. These accounts can be expensive to maintain and burdensome to administer. Here are answers to commonly asked questions about handling these small accounts.

Can we just distribute small accounts to the former employees?

Check your plan's provisions. Under federal law, plans can provide that, if a former employee has not made an affirmative election to receive a distribution of their account assets or to roll those assets over to an IRA or another employer's plan, the plan can distribute the account, as long as its balance doesn't exceed \$5,000. For accounts valued at \$1,000 or less, the plan can simply send the former employee a check for the balance. Distributions of more than \$1,000 must be directly transferred to an IRA set up for the former employee. Accounts valued at \$1,000 or less may also be rolled over for administrative convenience.

Should nonvested assets be included when determining whether a mandatory distribution can be made?

You only have to include the value of the former employee's nonforfeitable accrued benefit. If the employee was not fully vested in any portion of the account when they left your employ, you do not have to count the nonvested portion.



What about rollovers?

A plan may provide that any amounts a former employee rolled over from another employer's plan (and any earnings on those rolled-over assets) are to be disregarded in determining the employee's nonforfeitable accrued benefit. Thus, you may be able to cash out and roll over accounts greater than \$5,000. Note that rolled-over amounts are included in determining whether a former employee's accrued benefit is greater than \$1,000 for purposes of the automatic rollover requirement.

What requirements do we have to meet when rolling over a small account?

To fulfill your fiduciary duties as a plan sponsor, the following requirements must be met. Other fiduciary responsibilities apply.

- The rollover must be a direct transfer to an IRA set up in the former employee's name.
- The IRA provider must be a state or federally regulated financial institution, such as an FDIC-insured bank or savings association or an FCUA-insured credit union; an insurance company whose products are protected by a state guaranty association; or a mutual fund company.

- You must have a written agreement with the IRA provider that addresses appropriate account investments and fees.
- The IRA provider cannot charge higher fees than would be charged for a comparable rollover IRA.

Are there rules for investing the rollover IRA?

The investments chosen for the IRA must be designed to preserve principal and provide a reasonable rate of return and liquidity. Examples include money market mutual funds, interest-bearing savings accounts, certificates of deposit, and stable value products.

Do we have to provide disclosures?

Yes. Before you cash out an account, you must notify the former employee in writing, either separately or as part of a rollover notice, that, unless the employee makes an affirmative election to receive a distribution of account assets or rolls them over to another account, the distribution will be paid to an IRA. As long as you send the notice to the former employee's last known mailing address, the notice requirement generally will be considered satisfied. In addition, you must include a description of the plan's automatic rollover provisions for mandatory distributions in the plan's summary plan description (SPD) or summary of material modifications (SMM).

WEB RESOURCES FOR PLAN SPONSORS

Internal Revenue Service, Employee Plans

› irs.gov/ep

Department of Labor, Employee Benefits Security Administration

› dol.gov/ebsa

401(k) Help Center

› 401khelpcenter.com

BenefitsLink

› benefitslink.com

Plan Sponsor

› plansponsor.com

Plan Sponsor Council of America

› psca.org

Employee Benefits Institute of America

› ebia.com

Employee Benefit Research Institute

› 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.

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