
Volume XIII | Number IV | April 2015

## 2016 Budget Proposals Support Retirement Goals

On February 2, 2015, President Barack Obama released the Fiscal Year 2016 Budget of the U.S. Government that reflects a focus on raising overall government revenues. The prospective increase in revenue would create a range of new tax benefit programs, many of which would affect retirement savings for as many as 30 million Americans. According to the White House, as many as 78 million working Americans do not have a retirement savings plan at work and less than 10% of workers without workplace retirement plans contribute to an outside savings vehicle. The Obama administration believes, according to the budget, "The Nation needs to do more to help families save and give them better choices to reach a secure retirement."[1] The budget laid out six key proposals that may affect retirement savings.

Key Retirement Proposals

1. The first proposal is to make as many as one million more part-time workers (who have worked for the employer for three years at 500 hours per year) eligible to contribute to the company retirement plan without requiring plan sponsors to add matching contributions, if applicable, to the newly eligible part-time workers.

2. In an effort to stop potential federal law conflicts that could hamper state efforts to boost retirement savings, the President wants to allocate $6.5 million to the Department of Labor to allow a limited number of states to implement state-based automatic enrollment IRAs or 401(k)-type programs. The budget also includes a request for a 10.9% increase in the Department of Labor's budget, bringing the total to $13.9 billion.

3. To lift the ban on auto enrollment for Department of Defense personnel and military service members. This would allow each branch to decide to automatically enroll certain groups of members based on the branches' judgment. Those members would have the option of opting out at any point.

4. For workers that do not have access to employer-based retirement plans, the budget proposed to enroll those workers in IRAs through payroll deposit contributions, with an option to opt out. The goal is to build a system into the tax code that makes automatic, payroll-deduction IRAs that could give 30 million more workers access to retirement plans, according to an estimate by the Office of Management and Budget.

5. The fifth proposal would expand the small business tax credit for companies to set up a 401(k), auto-IRA or other workplace retirement plan; as well as an additional credit for small businesses that already offer plans and then enact an automatic enrollment policy.

6. The budget proposal would also close a number of tax loopholes in the individual tax code. It would prohibit contributions to and accumulations of additional benefits in tax-preferred retirement plans and IRAs once balances are above $3.4 million, enough to provide an annual income of $210,000 in retirement.

Other retirement related goals in the budget include: strengthening penalties against employers who jeopardize workers' health, safety, wages and retirement security. As well as strengthening Social Security and services for people with disabilities and reforming and simplifying tax incentives that help families afford child care, pay for college and save for retirement.

## Timing is Everything

"35% of Americans over 65 rely completely on Social Security." – U.S. Census Bureau (July 2014)

Approximately 96 percent of American workers are covered by Social Security, and many more, including non-working spouses, are eligible for payments. In addition, around 40 percent of the average retiree's income in the United States comes from Social Security.

Thus, for most individuals, deciding when to take Social Security benefits will have a major impact on their ability to live comfortably in retirement.

**Do participants have a choice?**

A clear and accurate understanding of a participant's financial situation, both now and in the future, is essential. That understanding can be gained through a thorough review of circumstances and goals.

A participant should evaluate whether their core needs and lifestyle spending require collecting monthly Social Security payments as soon as they reach retirement or if the participant can afford to wait until age 70, the point at which benefits are maximized.

More than two-thirds of eligible Americans take their benefits early—after they reach 62, but before they reach full retirement age—often because they simply don't have a choice: They need the money. However, if a participant does have a choice, not collecting Social Security benefits—even after reaching full retirement age—may make sense.

| Timing Social Security distributions | | |
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| If benefits do not need to be taken early, a participant can:<br>• Wait until reaching full retirement age before tapping into Social Security; or<br>• Defer Social Security benefits until reaching age 70, when an individual must begin taking them. | | |
| **Age 62** | **Full Retirement Age*** | **Age 70** |
| Payments begin earlier, but amount received is lower | Payments increase by approximately 6% to 8% per year until full retirement age | Maximum benefit received; payments continue to increase by 6% to 8% annually until age 70, but do not increase after age 70 |

*To determine the age at which a participant is qualified for full retirement benefits, visit the Social Security Administration site at ssa.gov.

If health or age is such that a participant is likely to die before their spouse, the participant may want to delay taking benefits as long as possible to increase his or her survivor benefits. In today's world, those benefits can be an important part of the survivor's retirement assets, given that couples aged 65 have an 85 percent chance of at least one of them living past 85.[1]

Even if a participant delays taking benefits past their full retirement age, their spouse can still take his or her spousal benefits anytime after age 62. During a participant's lifetime, their spouse is entitled to one-half of the participant's benefit if it would be greater than what he or she would receive from his or her own earnings.

[1] Please note, changes in tax laws may occur at any time and could have a substantial impact upon each person's situation. Tax or legal matters should be discussed with the appropriate professional. **Source:** Society of Actuaries.

This article was originally published in Eagle Asset Management's retirement brochure, Timing is everything. When to take Social Security. Minor edits were made for compatibility

## Content & Frequency of Retirement Plan Committee Meetings

We often receive questions regarding the content and timing of retirement plan committee meetings. Most committees wonder, “How frequently should we meet?” For most, quarterly meetings are sufficient. Plans with minimal activity may be satisfied with one annual meeting, so long as meetings occur with adequate frequency to handle items critical to properly manage the plan.

The purpose of retirement plan committees is to oversee investment and administrative issues. Committees should be formalized via a written document (i.e., Committee Charter) which identifies the members and establishes specific roles and responsibilities. During the course of each plan year the following items should be considered by the committee:

1. Review and monitor the plan’s investments pursuant to procedures contained in the Investment Policy Statement, including selection and replacement when appropriate.

2. Review plan expenses. The committee should understand and determine reasonableness of plan expenses. Recent litigation in this area has reinforced the primacy of this issue for fiduciaries. A complete fee analysis and benchmarking of providers should occur every three to five years.

3. Review plan services available and those currently being provided. This is a key component going hand in hand with the expense review. Quantity and quality of services provided should certainly be among the factors considered in addressing the appropriateness of expenses. Also, the breadth and scope of services are constantly expanding and the committee should be aware of those services which may produce a value-added impact on their plan.

4. Consider emerging trends, legislation, and external/internal factors which may impact the plan. Examples include the significant implications of recent litigation, Roth 401(k), asset allocation accounts (lifetime/lifecycle), automatic enrollment/escalation, etc.

5. Review plan demographics. Are plan provisions understood and being administered properly? How do these provisions compare to industry norms or “best practices” guidelines? Do plan fiduciaries understand and practice their roles and responsibilities accordingly?

6. Review participant demographics. Are participants in position to achieve a financially successful retirement experience? Specific items for fiduciary review are participation rates, average deferral rates, appropriate asset allocation/diversification and average account balances.

7. Review participant communication/education programs. Fiduciaries are required to ensure all participants have sufficient information to make informed investment decisions. Is there evidence this is currently the case? If not, what would be appropriate courses of action?

Be sure to pursue the above issues, and any others, with the appropriate degree of procedural prudence as required of ERISA fiduciaries. Investigate the issues, take the appropriate action, and document the entire process. Contact your plan consultant for assistance with any of the areas identified above.

## Are You Ready for an Audit?

Several events can trigger a DOL or IRS audit, such as employee complaints or self-reporting under the annual submission of the Form 5500. Often times an audit is a random event, which is why you should always be prepared. Listed below are several key items typically requested in an initial letter sent by the IRS or the DOL in connection with a retirement plan audit. These items should be readily accessible by the plan administrator at all times the plan is in operation.

• Plan document and all amendments

• Summary plan description

• Investment policy statement

• Copy of the most recent determination letter

• Copies of Forms 5500 and all schedules

• Plan’s correspondence files (including meeting minutes)

• Plan’s investment analyses

• ADP and ACP testing results

• Most recent account statements for participants and beneficiaries

• Contribution summary reports (i.e., evidence of receipt of these monies by the plan's trust)

• Loan application, amortization/repayment schedule (for all loans)

If you have questions about preparing for an audit, or need plan design review assistance, please contact your plan consultant.

## Communication Corner: When should I take Social Security benefits?

This month’s employee memo explores the different factors participants should consider when deciding when to begin taking Social Security benefits.

Call or email Lee Pierce if you have questions or need assistance, 901-271-3720, or lee@piercefinancial.org.