PENTEGRA
Your AdvantEDGE

Third Quarter 2022

Inside This Issue

- **Good News to Share!**
- **Retroactive Cash Balance Plans - A Timely Tax-Friendly Solution**
- **Understanding the Scope of Responsibilities as a Retirement Plan Committee Member**
- **Retirement Savings Strategies in a Volatile Market**
- **Caution: Merging Bills Ahead!**
- **Did You Know?**
- **Check Out Our Upcoming Webinars and CE Courses**

Good News to Share!

As an institutional fiduciary, Pentegra strives to follow industry best practices and have worked hard to earn a trusted reputation. We are honored to announce the renewal of our certification with ASPPA-CEFEX, a dual certification from the American Society of Pension Professionals & Actuaries and the Centre for Fiduciary Excellence, LLC (CEFEX).

Our ASPPA-CEFEX certification means we understand the importance of process, therefore our clients can be confident that their account reconciliation and information are being properly organized, formalized, implemented and monitored. Additionally, our firm is being annually audited by an independent third party, which helps you fulfill your retirement plan obligations.
CEFEX is an independent global assessment and certification organization. Its mission is to promote and verify excellence by assessing and certifying conformity to high professional standards of conduct.

We want to share this with you to demonstrate our commitment to comprehensive and continuous improvement in our organization.

Our objective is to provide the best for our clients. Our ASPPA-CEFEX certification is yet another way to show that our clients come first and that we act in your best interest.

Thank you for your continued trust in us.

Retroactive Cash Balance Plans - A Timely Tax-Friendly Solution

Cash balance plans are defined benefit retirement plans that enable business owners to make meaningful tax-deductible contributions each year and accumulate significant retirement savings on a tax-deferred basis. Often suitable for small- to mid-sized business owners, a cash balance plan is designed to maximize tax deferrals to the owner and key staff and significantly accelerate the process of saving for retirement.

An Innovative, "Hybrid" Retirement Plan

A cash balance plan is employer-funded with the contribution/benefit formula clearly defined for participants. While the IRS technically identifies a cash balance plan as a defined benefit plan, it is generally viewed as a "hybrid" between a defined benefit plan and a defined contribution plan because a participant's benefit is stated in terms of a current account balance, like a Profit Sharing plan.

In a typical cash balance plan, the participant's account is credited each year with a "pay credit" (a percentage of compensation or a fixed dollar amount) and an "interest credit" (either a fixed rate or a variable rate linked to an index such as the one-year treasury bill rate). Cash balance plan assets are typically invested in a "pooled" trust account maintained in the plan's name and managed by the plan's investment advisor.

Enhanced Timing Flexibility

Effective 2020, the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 allows an employer to adopt a cash balance plan after the close of the taxable year but before the employer's tax return filing date (including extensions). The employer, therefore, has the flexibility to treat the plan as adopted in the prior tax year, which may be beneficial for tax purposes.

Other compelling advantages of cash balance plans include:

- **Robust Contribution Limits -** cash balance plans allow for higher contribution limits than defined contribution plans. The total annual contribution limit for cash balance plans in 2022 could be potentially greater than 100% of compensation depending on the plan design and the age of the participant versus $61,000 for defined contribution plans (including both employer and employee contributions in the defined contribution plans).
- **Tax Deductibility** - significant tax savings can be realized starting with the first year the plan is adopted. Cash balance plans have the same tax effect as a deduction that reduces ordinary income dollar for dollar. In fact, some

business owners may be able to reduce their adjusted gross income enough to qualify for the 20% qualified business income tax deduction.

- **Potential Start-Up Tax Credits** - eligible employers may be able to claim a tax credit of up to $5,000, for three years, for the costs of starting a plan.
- **Portability -** a cash balance plan account balance may be rolled over to an IRA or another qualified plan when a participant retires or changes jobs.

Cash Balance Plan Adoption

Small businesses continue driving cash balance plan growth. According to a recent study, 94% of cash balance plans are in place at firms with fewer than 100 employees. The needs of small business owners to catch up on delayed retirement savings and attract and retain top talent are key factors. Companies with consistent profit patterns and strong cash flow tend to be good candidates for these plans, as are partners or owners who desire to contribute more than $61,000 a year to their retirement accounts.

The Best Of Both Worlds

Business owners no longer need to make trade-offs between the advantages of defined benefit plans and defined contribution plans when choosing retirement plans. For most firms, a cash balance plan may complement an existing retirement plan, such as a 401(k) plan. The owner and key employees can take advantage of the higher savings potential of the cash balance pension plan while still contributing to a 401(k) plan, enabling them to boost their annual retirement savings.

Interested in a Cash Balance Plan? Contact your Pentegra Plan Consultant or the Pentegra Solutions Center at solutions@pentegra.com.

Understanding the Scope of Responsibilities as a Retirement Plan Committee Member

A retirement plan committee member may be a plan fiduciary and, consequently, held personally liable to the plan if he or she is granted or exercises discretion in the operation or administration of a retirement plan that is subject to the Employee Retirement Income Security Act of 1974 (ERISA).

According to the Department of Labor (DOL) Interpretive Bulletin 75-5[1], if the governing plan documents state that the plan committee controls and manages the operation and administration of the plan and specifies who shall constitute the plan committee (either by position or by naming individuals to the committee), then such individuals are named fiduciaries of the plan pursuant to ERISA §402(a)[2].

A number of court cases have found that a plan committee member may be a functional fiduciary of the plan because of his or her actions and subject to personal liability if he or she exercises discretion in the administration of the plan Gaunt v. CSX Transp., Inc., 759 F. Supp. 1313 (N.D. Ind. 1991) [3]. A plan committee member may consequently be held personally liable to the plan for losses resulting from fiduciary breaches.

Having a plan committee charter may help mitigate fiduciary liability for the committee members by carefully outlining the members' roles and responsibilities. Further, having an ERISA 3(16) Plan Administrator may also help to reduce fiduciary liability risk for a retirement plan committee. A 3(16) Plan Administrator assumes responsibility and liability for making sure that plan administrative tasks are done correctly and on time.

Plan sponsors and retirement committee members may not have—or want—the knowledge of how retirement plans work, yet in their role as fiduciaries, they are legally responsible for administering their plans. By engaging a 3(16) Plan Administrator, the plan sponsor can shift responsibility for these duties onto the 3(16) Plan Administrator and mitigate the risk that comes with running a retirement plan.

Article printed from Retirement Learning Center: https://retirementlc.com
URL to article:https://retirementlc.com/are-plan-committee-members-fiduciaries/URLs in this post: [1] Department of Labor (DOL) Interpretive Bulletin 75-5:
https://www.govinfo.gov/content/pkg/CFR-2007-title29-vol9/pdf/CFR-2007-title29-vol9-sec2509-75-5.pdf
[2] ERISA §402(a): https://www.govinfo.gov/content/pkg/COMPS-896/pdf/COMPS-896.pdf
[3] Gaunt v. CSX Transp., Inc., 759 F. Supp. 1313 (N.D. Ind. 1991):
https://law.justia.com/cases/federal/district-courts/FSupp/759/1313/1472919/

Retirement Savings Strategies in a Volatile Market

Peruse any survey on financial security, and among the top listed fears identified by poll takers—if not the top dread—is outliving their retirement savings. Recent market volatility has exacerbated that sentiment.

There are three ways to combat the fear of running out of money in retirement, by:

1. Understanding what your current accumulations look like as a stream of retirement income
2. Delaying the receipt of Social Security Administration (SSA) benefits
3. Being a relentless saver

The topic of how to generate retirement income has become pressing. Research by the American College of Financial Services shows that for workers nearing or at retirement, the most important attribute of a retirement savings plan was to … "Help me understand how much I can safely spend in retirement."

Asset Accumulation vs. Retirement Savings

How can you address a potential problem if you do not know what it looks like? How do you know if your current accumulations will or will not be enough to support you in retirement? Asset accumulation is not the same as retirement income. It is important to know the amount of secure retirement income that can be derived from your current retirement accumulations. That amount is then compared to your retirement income goals to determine whether a gap exists and, if so, how to bridge it. Financial advisors have a variety of tools at their disposal to assess your unique situation. Once you know the nature of the beast you are dealing with, only then can you to devise strategies to convert assets into income that will carry you through retirement.

Be a Relentless Saver

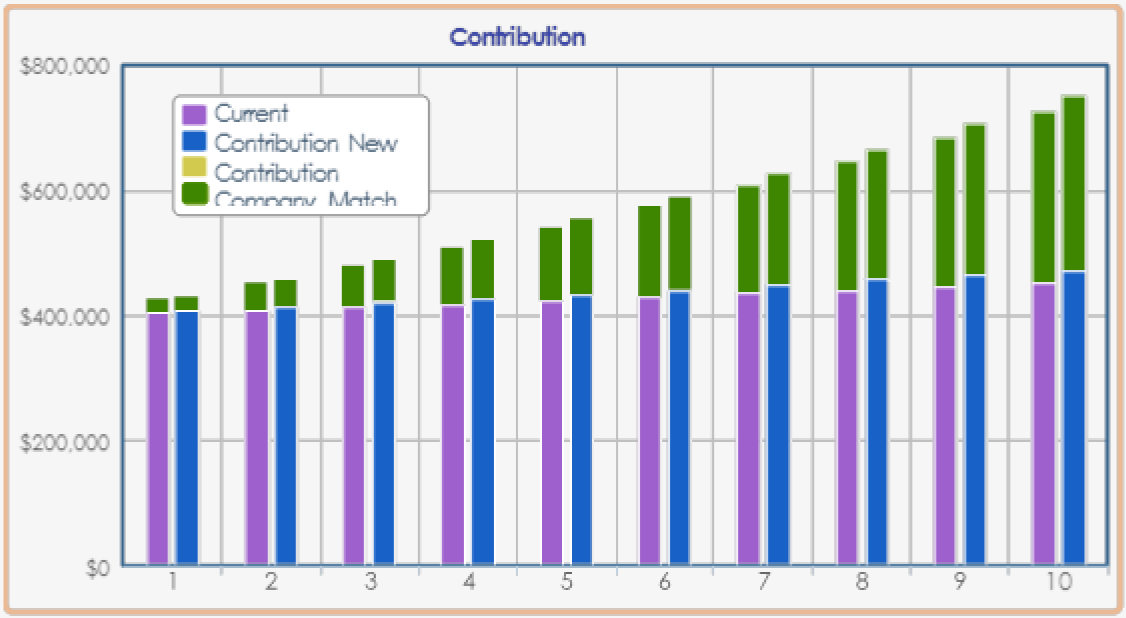
Beyond stuffing a piggy bank or mattress, being a relentless saver involves first identifying all saving opportunities at your disposal and taking advantage of them—especially those that have interest-earning potential and/or receive tax-favored treatment [e.g., IRAs, 401(k)s, health savings accounts (HSAs), etc.] Have you overlooked your ability to save in the following arrangements?

- Traditional IRAs—even if you cannot make tax deductible contributions up front, tax-deferred growth is possible and there is no contribution age limit anymore,
- Roth IRAs—even high-income earners can accumulate Roth IRA assets through conversions
- HSAs—offer a trifecta of tax benefits (i.e., tax deductible contributions, tax-deferred growth and tax-free withdrawals if used for qualified medical costs)
- 401(k)s or other "qualified" workplace retirement plans—which could include multiple contribution types, including those made by your employer
- Nonqualified deferred compensation arrangements—which allow you to contribute above the usual limits imposed on 401(k) plans.

Second, a relentless saver routinely increases his or her savings rate. Even a little boost can make a big difference. Consider the following simple example.

- Annual Salary: $90,000
- Annual salary increase: 3%
- Pay Period: Monthly
- Contribution Rate: 5%
- Increased Contribution Rate: 7%
- Years Invested: 10
- Initial Balance: $400,000
- Rate of Return: 5%

By increasing her contribution rate by just 2% (from 5% to 7%), this participant will have saved an additional $26,490 over 10 years. And over 20 years, the additional amount saved is just over $79,000.



Source: https://nb.fidelity.com/public/nb/401k/tools/calculators/contributioncalculator

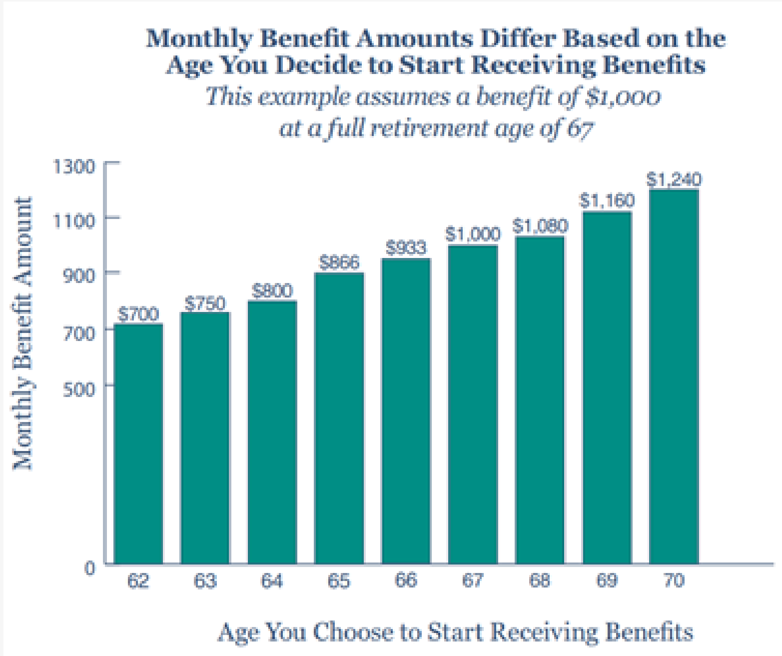
Even if you have been automatically enrolled in a 401(k) plan, you can increase your base contribution rate on your own and adjust periodic increases up to the maximum limits.

Social Security Benefits as Longevity Insurance

Turning now to SSA benefits, delaying the onset of your SSA benefits might make sense if you are afraid of outliving your retirement savings. Think of your Social Security benefits as a type of longevity insurance. You cannot outlive your SSA benefits and there are ways to maximize them. Of course, there are many considerations when determining when to start SSA benefits.

SSA benefits can start as early as age 62; however, the monthly benefit amount is reduced if you start taking them before your full retirement age (FRA—age 67 for those born in 1960 and later). For example, if you start getting benefits at age 62 the retirement benefit you will receive is reduced to 70 percent of the amount you would have received had you waited until FRA. So—consider waiting to start SSA benefits until at least FRA.

And—if you can wait to take SSA benefits even longer—up to age 70—you can increase your benefit amount yearly by earning delayed retirement credits (DRCs). For example, if you start receiving retirement benefits at age 70, you will get 132 percent of the monthly benefit you would have received at FRA.



https://www.ssa.gov/pubs/EN-05-10147.pdf

SSA benefits have built-in cost-of-living adjustments (COLAs). If fact, the 2022 COLA was one of the highest in 40 years at 5.9 percent. The 2023 COLA currently is estimated to be between nine and 10 percent.

In the end, do not let a fear of insufficient retirement income stop you in your tracks. There are concrete steps one can take to better assess the situation and formulate a plan to address any shortfall, starting with some simple acts you may have overlooked.

Caution: Merging Bills Ahead!

The House and Senate are closer to reaching common ground on retirement industry legislation the industry has named "SECURE 2.0". Congress is scrutinizing and synthesizing the latest iterations of the following three bills:

- Securing a Strong Retirement Act (SSRA)
- Retirement Improvement and Savings Enhancement to Supplement Healthy Investments for the Nest Egg (RISE & SHINE) Act
- Enhancing American Retirement Now (EARN) Act

Listen to Pentegra's latest PENTalk™ to gain a better understanding of what these legislative changes could mean for your bank and your clients.

Link: https://attendee.gotowebinar.com/recording/6999264947849277190

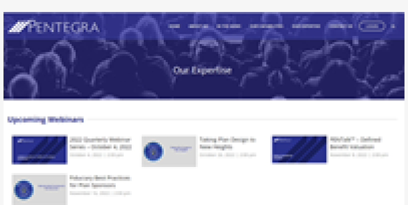
Did You Know?

1. The retirement rate of baby boomers has accelerated since the start of COVID-19, with almost 29 million boomers retiring in 2020, an increase of more than 3 million from 2019.*

2. 75 million baby boomers are expected to retire by 2030. One in four workers in the U.S. is a baby boomer, amounting to 41 million total employees. This trend of mass retirement will lead to an even wider workforce gap as companies race to fill positions left by retirees.*

3. Understanding employee psychology is critical to getting them to save for retirement. Researchers have explored a creative idea: explain to employees that they have an opportunity to save in a 401(k) or increase their 401(k) saving on a future date that represents a fresh start, such as a birthday or the first day of spring. In a 2021 study in the journal Organizational Behavior and Human Decision Processes, this "fresh start framing" increased the percentage of workers who agreed to contribute to their employer retirement plans and increased the share of pay contributed to the plans by over 25% compared to employees who were presented with other future dates.**

*According to Pew Research Center
**Center for Retirement Research at Boston College



Check Out Our Upcoming Webinars and CE Courses

https://www.pentegra.com/expertise/videos/

Follow Our Conversation