CCP | CLEARWATER CAPITAL PARTNERS

Plan Sponsor *Quarterly*

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Your quarterly newsletter contains timely information that is helpful for plan sponsors and includes our feature, "fiduciary focus", with content specifically designed to highlight current regulatory topics facing plan sponsors. I hope you find this information helpful!

2018 Strategy Symposiums

Clearwater Capital Partners would like to cordially invite you to be our guest at our 2018 Strategy Symposium.

Following a particularly turbulent political year, many questions for investors have emerged. This is a time when many Americans have found renewed hope, while others have great doubt.

Please join us for a lively discussion of the path forward. The senior partners of Clearwater Capital Partners will present an update of our firm's Outlook 2018 and set forth a wide-ranging framework for sound decision-making in these tumultuous times.

Dates
May 1st – Geneva – The Herrington - Breakfast
May 2nd - Boulder Ridge Country Club- Breakfast
May 3rd – Chicago – The Peninsula Hotel - Lunch
May 8th - Hoffman Estates – Stonegate Center - Breakfast
May 9th – Inverness Country Club- Breakfast
May 10th – Elgin Country Club– Breakfast

Please visit our website at www.ccpwealth.com to register for any of our symposium sessions.

Clearwater Capital Partners Adds Risk Management Group

We are excited to announce that we have recently added two additional members to our team! The father and son team of David and Kevin Veatch have joined us to expand our service offerings to our clients. Their focus on risk management and insurance allows us to help you;

Protect Yourself – Family protection, long-term care and supplemental saving to you retirement plan savings

Protect Your Business – Key Employee Protection, Buy-Sell plans

Protect Your Employees – Executive Incentive Plans, Employee Benefit Plans (life, disability, vision, dental, etc.)

David and Kevin have over 40 years of combined risk management experience and have proven to be valuable team members in their short time at Clearwater Capital Partners.

Let me introduce you to them to you and together we can help you understand your risk management needs.

401(k) Auto Rebalancing

Employer-sponsored retirement accounts like the 401(k) are the most common way that American workers are saving for retirement. To encourage employees to sign up and contribute for those plans, employers take several steps, such as including low-cost index funds and matching employee contributions. However, there is one feature that is often included in employer-sponsored plans, particularly in 401(k)s, and ignored by many account holders: automatic rebalancing of funds.

Why is Auto Rebalancing Important?

Over time, the difference in performance between funds in your 401(k) account can cause your asset allocation to look very different from your original plan. For example, a participant with a 50% stocks / 50% bonds allocation at the start of 1995 would have had a 71% stocks / 29% bonds allocation five years later if left unattended due to strong stock market performance during that period. As a result, the participant's account would have more risk (more stocks) than he or she originally intended. Plus, the participant would be five years closer to retirement and probably should be considering less risk (fewer stocks), not more, in his or her 401(k) account. Instead, had the participant periodically rebalanced the account during that period the risk would have been greatly reduced.

When should you Auto Rebalance?

There are two general approaches to when you should rebalance your 401(k) account. One is to rebalance on a regular time schedule, such as quarterly, semi-annually, or annually. Simply decide how frequently you want to rebalance and remember your next rebalance date. For example, you can rebalance annually when you receive your year-end 401(k) statement.

The other approach is to rebalance when the allocation is a certain number of percentage points away from its target. For example, the participant with a 50% stocks / 50% bonds target allocation might rebalance when stocks are more than 55%, or less than 45%. This method is more difficult because you need to closely monitor fund balances in your account and market conditions may require you to rebalance quite frequently. The approach you decide to use is not important, as long as you diligently follow it.

How do you Rebalance?

The best way to keep your 401(k) account on track is to make sure your contributions are invested according to your asset allocation target. Then, when you rebalance periodically you should only have to make modest adjustments. Most Record-keepers have an automatic rebalancing feature. This can be as simple as a checking a box on your participant website. If the record-keeper doesn't offer this option, simply sell enough of the funds that are above their target and buy enough of the funds that are below their target, until all funds match their target allocation. This means you will be selling some of your recent winners and buying more of your recent losers—but that's okay—because in asset allocation, today's winners may be tomorrow's losers and vice versa. Also, remember to rebalance within asset classes (value and growth stocks; large-, mid-, and small-cap stocks; and domestic and international stocks) —as well as between asset classes (stocks, bonds, and money market). This will help you better manage risk.

Rebalancing is an important investment management tool available to 401(k) plan participants to help ensure that they have enough retirement assets. But, like any other tool, proper use is the key to effectiveness. Fortunately, rebalancing is an easy tool to use. Simply determine when and how you plan to rebalance and remember to do it!

Is 401(k) Payroll Integration Necessary?

It's not uncommon for us to see companies who have adopted the 401(k) plan their payroll provider offers simply for a perceived ease of integration with their payroll. Often they later realize that their employees are paying elevated fees through the commissions that are included in the costs of the investment options. Additionally, many of the companies who are interviewing 401(k) advisors ask us about payroll integration. It's a common topic. So, is payroll integration absolutely necessary? Probably not. However, depending on the size of your company, payroll staff, and the complexity of the payroll system you are using, some level of payroll integration can be incredibly beneficial for you. We've outlined some important things to consider below when analyzing the benefits of 401(k) payroll integration.

Different Levels of Integration

There are various levels of integrations that can be built between a 401(k) provider and your payroll company. Here is brief summary of the most common integration offerings:

No Integration: A plan with no payroll integration requires you to manually enter 401(k) amounts for employees each pay period on the 401(k) website, or to manually create a report every payroll that you submit to your 401(k) record-keeper. In some cases, you might also be manually transferring funds from your company bank account to your custodian. This can be a significant amount of work on a recurring basis and it would likely benefit you to work with your provider to receive a more integrated service or look for a similarly priced or lower-cost plan that provides some level of integration.

File Templates, Uploads, & Mapping: This is the first level of integration and can greatly minimize the majority of work required on a per-payroll basis. Typically, the 401(k) provider will provide you with a file template that you can upload every payroll. Instead of entering the data each time, you can simply copy the previous file, make any needed changes, and send it to your record-keeper. This should only take a few minutes. Usually this initiates the transfer of funds. In some cases, you may already have a report in your payroll software that you can just export and send when you process your payroll. Some providers, can often use that canned report and map the necessary fields to the recordkeeping system or help you create a custom report that works seamlessly if your payroll system allows for it.

180° Integration: 180° integration is when data flows automatically one way from your payroll software to your 401(k) plan record-keeper. The data does not however flow from your record-keeper to your payroll software. This type of integration eliminates the majority of hassle for your company as your payroll provider or software pushes the monthly 401(k) files for you.

360° Integration: 360° integration is when data flows automatically both ways between the 401(k) provider (record-keeper) and your payroll software. When you process your payroll, your 401(k) transactions push to your 401(k) provider automatically which usually initiates the transfer of funds – just like with 180° But 360° integration goes one step further. When an employee logs onto the 401(k) site to change their contribution %, that change is pushed from the 401(k) provider straight into your payroll system. This level of integration is a really nice feature if you have a very large number of employees who might be changing contribution %s often. However, these changes are usually infrequent and you or your employees may be paying significant dollars for this level of integration somewhere in your plan.

401(k) payroll integration can be incredibly beneficial but should never be the primary factor in selecting your 401(k) provider. Your primary obligation as a plan sponsor is to act in the "sole" interest of your employees and your plan decisions should reflect that. If you have some sort of payroll integration, make sure you understand what you're paying for it. If you're looking for payroll integration, reach out to your 401(k) provider and see what level of integration they can provide for you in conjunction with your payroll provider. If they don't offer any integrated options at all, give us a call. We can help.

Fiduciary Focus

What Are the Biggest Problems with 401(k) Loans?

Most workplace retirement plans allow participants to take a loan against their retirement plan balance — but administering the option carries risks for plan fiduciaries. Here are what the IRS has identified as the most common plan loan failures.

A plan loan is a taxable distribution unless the loan satisfies the exception under Internal Revenue Code Section 72(p)(2) which sets limits on the amount of a nontaxable loan and the repayment of the loan. Participants may receive a nontaxable loan of up to 50% of their vested account balance not to exceed $50,000 (a minimum loan up to $10,000 can be made that exceeds the 50% rule as long as the excess is secured with additional collateral). The participant loan, by its terms, must be repaid within five years (unless it is for the purchase of a primary residence), and principal and interest must be paid in substantially level payments at least quarterly.

With those conditions in mind, the IRS says that the most common plan failures regarding loans are:

- loans that exceed the maximum dollar amount;
- loans with payment schedules that don't comply with the time or payment limits; and
- defaulted loans due to failure to make required payments.

Any of these will cause the loan (or portion thereof) to become a "deemed" distribution for tax purposes. In those cases, the participant is taxed as if a distribution were received, but the treatment of the loan as a distribution does not excuse the participant from the obligation to repay the loan. From the standpoint of the plan fiduciary, a failure to repay the loan may result in additional tax consequences and, in some cases, a prohibited transaction.

If the plan contains language that reflects the loan limits under Section 72(p)(2), the violations discussed will also cause a plan to become disqualified, resulting in adverse tax consequences to the employer and employees under the plan; however, employers may get relief from these adverse consequences through the Employee Plans Compliance Resolution System (EPCRS) by correcting the failures. The Voluntary Correction Program (VCP) can be used to correct these mistakes.

While loans can be a valuable tool for plan participants, they carry increased risk for plan fiduciaries and must be monitored closely.

Clearwater Capital Partners is an independent fiduciary advisor serving plan sponsors and plan participants of defined contribution and defined benefit plans. We offer an independent 3rd party voice, bringing transparency with no proprietary solutions.

Focusing on the fiduciary standard of care, we partner with plan sponsors to offer intelligent plan design, best in class fund menus, and effective and engaging participant education.

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