

Q2 2018

Qualified Plan News

June 2018 Capital Markets Review

Period Ending June 30, 2018						
Index	Qtr	Ytd	1 Yr Return	3 Yr Return	5 Yr Return	10 Yr Return
S&P 500	3.43	2.65	14.37	11.93	13.42	10.17
Russell 3000 Value	1.71	-1.16	7.25	8.48	10.40	8.60
Russell 3000 Growth	5.87	7.44	22.47	14.63	16.14	11.78
Russell 2000	7.75	7.66	17.57	10.96	12.46	10.60
MSCI ACWI Ex U.S.	-2.61	-3.77	7.28	5.07	5.99	2.54
Barclays U.S. Aggregate Bond	-0.16	-1.62	-0.40	1.72	2.27	3.72
3-Month U.S. Treasuries	0.44	0.79	1.33	0.64	0.39	0.31

Capital Markets Overview

The U.S. equity market returned 3.9% in the quarter, as favorable economic data and steady inflation helped lead stocks higher. Strong earnings, increased business investment, and lower corporate taxes were supportive for stocks, although the increased volatility experienced in the first quarter carried over due to continued concerns regarding a potential global trade war. Steel and aluminum tariffs levied against Europe, Canada, and Mexico resulted in retaliatory tariffs on U.S. exports, while China threatened its own tariffs on U.S. goods in response to proposed tariffs by the U.S. government based on contentions regarding the transfer of intellectual property rights.

All capitalization segments of the market posted positive results in the quarter and year-to-date period, with small-cap stocks outperforming the mid- and large-cap segments of the market in both periods.

Small-cap stocks tend to generate a larger-portion of their revenue domestically, so they are more insulated from effects of a trade war. Growth stocks continued to outperform Value stocks in the quarter. The more traditional value oriented sectors, with the exception of Energy, remained weak in the period and are down on a year-to-date basis. The best performing sector in the quarter was the Energy sector as strong demand and the termination of the Iran nuclear deal sent oil prices to their highest level since 2014.

International equities returned -2.6% in the quarter. Due to increased protectionism fears and the stronger U.S. dollar, most developed regions experienced negative equity returns despite continued global economic growth and favorable corporate earnings. Emerging Markets overall posted a -8.0% return in the quarter as many of these economies are disproportionately affected by trade disruptions and the stronger U.S. dollar. Oil prices hit multi-year highs

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due to the U.S. withdrawal from the Iran nuclear deal as well as unplanned supply disruptions from several large producing nations.

The investment-grade U.S. fixed income market declined 0.2% in the quarter. The Federal Reserve raised interest rates in June, increasing the target short-term range to 1.75%–2.00%. U.S. Government issues experienced a modestly positive return of 0.1%, as rates generally rose during the quarter. The 10-year Treasury yield increased 0.11%, ending at 2.85%. TIPS increased 0.8%, outperforming nominal Treasuries in the quarter. Investment-grade credits (i.e., non-Government) decreased 0.9% on fears of a potential trade war, while high yield corporates returned 1.0%. Municipal bonds advanced 0.9%. Developed Non-U.S. government bonds declined by 5.0% in the quarter due to a stronger U.S. dollar and increasing worries of a global economic slowdown stemming from a potential trade war. Emerging market bonds posted negative returns during the quarter.

Financial Wellness Reaching Majority Status

Your firm is likely among the majority that not only want to help employees with their non-retirement financial matters but are offering tools to make it happen. That statement can be made with some degree of confidence, because 59% of employers recently asked said they are very likely, with another 33% moderately likely, to focus on overall financial wellbeing among employees. That's a very strong showing of more than 90%. Helping employees take

charge of their financial lives isn't a new idea, of course. But it seems to be gaining more popularity each year; 60% of organizations say they believe financial wellness has increased in importance within their organizations in the last 2 years.

Even more startling, the percentage of employers who offer workers a tool to help them with at least one aspect of financial wellness is expected to reach 84% by the end of 2017—up from 58% at the beginning of the year.

Popular Services, Tools and Education

Most popular among current offerings are services, tools or educational campaigns that address the basics of financial markets/simple investing, offered by 43% of employers responding to the Aon Hewitt survey.¹ Other popular items were health care education and planning (37%), financial planning (35%), and budgeting (34%).

Among companies that don't currently offer these services, tools, or educational campaigns, many say they are very likely to do so in the future. Among the topics of interest:

- Basics of financial markets/simple investing, 42%
- Health care education and planning, 38%
- Financial planning, 37%
- Budgeting, 36%.

Why They Invest in Financial Wellness

Primarily, employers responding to the survey said they believe creating or expanding their financial

1. 2017 Hot Topics in Retirement and Financial Wellbeing, Aon Hewitt

PLAN SPONSORS ASK...

Question. We are looking for better ways to reach our employees with messaging about our 401(k) plan. Of course, we want to help them understand why they should join and save more. Is social media effective for this?

Answer. It is effective for a variety of uses related to 401(k) plans. Corporate Insight (workplaceexchange.corporateinsight.com), which provides competitive intelligence and user experience research for financial services, has a few suggestions. For example, try varying the media depending on the message. For general information and building dialogue, they suggest Facebook; for succinct video, a YouTube channel can be effective; and for concise announcements, they prefer Twitter. Communications that include links to articles and resources can give readers more information if they want it, without boring those who don't. One of Corporate Insight's key ideas: Dive right in. And whatever you do, don't create social media pages that will remain dormant—stagnant pages give a negative perception.

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wellbeing program is the right thing to do, at 84%. Other reasons include increasing employee engagement (78%), and improving their retirement statistics (60%) like improved adequacy, decreased leakage and higher participation rates.

As the worker population ages, organizations will see more and more near-retirees. 75% of responding organizations expect an uptick in this group over the next three years, and are they ramping up their communications accordingly. Among the actions respondents have already taken to help employees successfully retire are:

- Providing retirement planning education to retirees, 19%
- Increasing the level of automation, service, and/or web access, 15%
- Providing help with Medicare planning, 15%
- Providing help with Social Security planning, 15%.

Many more employers said they are very likely to take these actions. Among those that have not already done so, 49% of organizations said they are very likely to provide retirement planning education to retirees, 37% said the same about increasing the level of automation, service, and/or web access, and 50% said they are very likely to increase communication about the retirement process.

Learn more by reading the full survey, here: <http://tinyurl.com/AonHotTopics2017>

Sharing Retirement Plan Information Electronically

Distributing information about your retirement plan electronically can be quick and cost effective. However, to comply with federal regulations, you must take care how you distribute the information. The method you choose must be reasonably calculated to ensure actual receipt of the material and to prevent individuals other than the intended recipient from receiving or gaining access to it.

Types of Information

Basically, you can electronically distribute almost any plan information, including:

- Summary plan description (SPD), summary of material modifications (SMM), summary annual report (SAR)
- Benefit statements
- Section 404(c) investment information
- Plan loan information
- Qualified domestic relations order (QDRO) notifications

In addition, participants can give certain consents electronically.

Format

Acceptable electronic media include Internet and intranet websites, email, computer disks, CD-ROMs, and DVDs. To ensure the actual receipt of the information, you can use return-receipt or notice of undelivered email feature, or conduct periodic reviews or surveys to confirm receipt. Safeguards such as personal identification numbers (PINs) can help protect the confidentiality of personal information. Avoid providing access at a company kiosk or other common access point where someone else could potentially view the information. Bear in mind that kiosks are not an exclusively permissible method for distributing information.

The electronically delivered documents do not have to look exactly like the paper documents. But be sure to prepare and furnish them in a manner consistent with the style, format, and content requirements applicable to the particular document. Include a notice that informs the recipient of the importance of the document (for example, "The attached document describes changes in benefits offered by your plan") and of the right to request and receive a paper version. The notice can be part of the electronic transmission or it can be a paper notice distributed concurrently.

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Access and Consent

The type of electronic access a participant routinely has generally determines whether you need to secure the recipient's affirmative consent to provide plan documents and information electronically. Generally, if the employee has effective access to electronic media at work as part of his or her regular duties, you don't need prior consent. However, you will have to provide paper documents if the participant or beneficiary requests them.

For employees who do not have routine electronic access at work, beneficiaries, and other nonemployee recipients, you must obtain their affirmative consent to receive documents electronically. The consent must contain a clear and conspicuous statement informing the person of the types of documents to be disclosed, the right to withhold or withdraw consent and how to do so, the right to request paper documents, and the hardware and software requirements for accessing and retaining the documents.

Generally, for disclosures using the Internet or other electronic communication network, the consent must reasonably demonstrate that the person has the ability to access the information. You also must communicate changes in hardware or software that could affect access and offer recipients the right to withdraw consent after such changes. And they must consent to receiving documents in the new way.

Plan Sponsor Quarterly Calendar

Consult your plan's counsel or tax advisor regarding these and other items that may apply to your plan.

July

- Conduct a review of second quarter payroll and plan deposit dates to ensure compliance with the Department of Labor's rules regarding timely deposit of participant contributions and loan repayments.

- Verify that employees who became eligible for the plan between April 1 and June 30 received and returned an enrollment form. Follow up for forms that were not returned.
- Ensure that the plan's Form 5500 is submitted by July 31, unless an extension of time to file applies. (Calendar year plans)

August

- Begin preparing for the distribution of the plan's Summary Annual Report to participants and beneficiaries by September 30, unless a Form 5500 extension of time to file applies. (Calendar year plans)
- Submit employee census and payroll data to the plan's recordkeeper for mid-year compliance testing. (Calendar year plans)
- Confirm that participants who terminated employment between January 1 and June 30 elected a distribution option for their plan account balance and returned their election form. Contact those whose forms were not received.

September

- Begin preparing the applicable safe harbor notices to employees, and plan for distribution of the notices between October 2 and December 2. (Calendar year plans)
- Distribute the plan's Summary Annual Report by September 30 to participants and beneficiaries, unless an extension of time to file Form 5500 applies. (Calendar year plans)
- Send a reminder memo or e-mail to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans.

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Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans
www.irs.gov/ep

Department of Labor, Employee Benefits
 Security Administration
www.dol.gov/ebsa

401(k) Help Center
www.401khelpcenter.com

BenefitsLink
www.benefitslink.com

Plan Sponsor
www.plansponsor.com

Plan Sponsor Council of America
www.pasca.org

Employee Benefits Institute of America
www.ebia.com

Employee Benefit Research Institute
www.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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CONTACT INFORMATION

To learn more, please contact:

**Eagle Rock Wealth
 Management, Inc.**
 (888) 813-8625
www.eaglerockwealth.com