

## H. C. FOSTER & COMPANY

*Retirement and Welfare Plan Actuaries*

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### Trends From a Recovering Economy – Winter 2020 and 2021

A robust business environment will emerge from pent up demand after the pandemic restrictions end and production killing regulations expire. Employers will rehire the more productive employees who work more efficiently. Surging monetary inflation will continue the decline in real wages from the 1970s. Some nonessential production not surviving the pandemic will shift to durable GDP. The following trends will affect pension plans:

- Corporate and personal tax rates of all types will skyrocket to reduce net, after-tax pension costs
- Higher interest rates will reduce both unfunded liabilities and excessive Lump Sum Distributions
- Working from home will continue with more small employers providing services independently
- Incorporated small businesses and sole proprietors will adopt bona fide pension plans
- Business owners and employees will build greater wealth through bona fide pension plans
- Investment sources hindered by the pandemic will intensify sales pressures

Owners and managers of all sized employers know for certain:

1. Employers must act ahead of business upturns to maximize profits.
2. Privately sponsored pension plans strengthen free enterprise and retain productive employees.
3. A \$15 minimum wage will promote automation and ration lower-paid training jobs.

History shows a more accommodating workforce will emerge from among workers furloughed during the pandemic, reminiscent of other post-economic downturns. Workers exhausting retirement account balances will welcome employer funded pension plans to regain their lost retirement savings, and may not be so eager to embrace investment self-direction, preferring professional investment management. Workers want bona fide pension benefits similar to Social Security life annuity benefits.

The surviving stronger employers will take advantage of the control available through self-administered, private pension plans. Private sector businesses can re-start their compensation programs with greater efficiency. Self-administration of benefit plans reduces administrative and investment management costs for explicit services with no hidden costs. Employers and employees realizing the disadvantages of savings account plans will welcome the efficiency of bona fide pension plans that benefit the older, longer-service employees who have contributed the most to building a business.

Work to implement a new self-administered, tax qualified retirement plan or redesign an existing plan for adoption during 2021 should begin early in 2021. Following are guidelines:

Arrange for annual actuarial, accounting, legal, and investment management services –

- As service needs emerge, solicit bids from providers for actuarial, accounting, and legal services
- Locate services providers who do not peddle life insurance products
- Costs for annual actuarial services for defined benefit plans ranges from \$1,500 and up
- The valuation fees should include charges for PBGG Premium certifications when required
- Charges for financial statement valuation reporting are unusually less than for minimum funding
- Costs for annual accounting and legal services are set by the accountant and the plan attorney
- The employer can perform most recordkeeping services for tax qualified retirement plans
- Accountant should provide independent asset accounting for tax qualified retirement plans
- The accountant can provide Form 5500 reporting other than the Schedule SB the actuary certifies

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Meet objectives under unlimited IRS permitted nondiscriminatory design options -

- Employers can better align each employee's compensation package with his commercial value
- See our Fall 2016 Newsletter, Efficient Compensation Design on our website for ideas
- New and rehired employees will be receptive to revised compensation programs
- Value alternative benefit formulas to achieve cost and specific employee benefitting objectives
- Adopt employer funded plans in lieu of State mandated plans the employees fund
- Avoid benefit provisions that enable "leakage" of retirement benefit values before retirement
- Apply Social Security integration to avoid over benefitting lower paid workers
- Apply a discretionary profit sharing plan as a Floor-offset Plan to reduce pension liabilities
- Avoid prototype plans that necessarily limit plan design options and may require annuity purchases
- Avoid a Lump Sum Distribution payment option that can severely erode plan assets in down markets
- Pay life annuity benefits directly from plan assets and avoid risk transfers
- Spread investment risk over life annuity payments from pension plan assets

Draft and adopt a plan document through legal counsel with actuary's assistance -

- Costs usually range from \$2,000 to \$3,000 for individually designed plan and trust documents
- A Form 5300 filing with IRS may be needed or advisable depending on the plan
- Charges for restatements and redesigns of existing plan documents depend on condition
- The Summary Plan Description (SPD) for an ERISA plan is part of the document preparation
- The actuary and accountant will provide administrative support, but not legal services

Communicate the plan to employees -

- Distribute SPDs to employees eligible to participate as required under ERISA
- Promote the value of all benefit coverages as part of employees' total compensation packages
- Distribute Benefit Statements annually showing all pension and welfare plan coverages
- Defined contribution plans may require quarterly disclosures of account values

Locate discount investment sources to maximize investment flexibility at least cost -

- Prepare a written Funding Policy as required under ERISA to document risk tolerance
- Transfer investment fiduciary responsibility to a professional investment manager
- Deposit each year's contribution before its due date
- The contribution due date is determined by the plan and employer's fiscal year sequence .

Charges for pension services depend less on the number of covered participants and more on the complexity of the plan and the quality of the asset and employee census data submitted each year for services. Fees may be less for public sector plans not requiring Schedule SB Actuarial Certifications, but other services billed separately are usually required.

Self-administration enables the employer as plan sponsor and plan administrator to retain direct control over all administrative and investment functions, and take advantage of all IRS regulatory options at the least cost. Control over investment management enables significantly greater long term investment returns that can far exceed explicit charges for administration and investment management.

Please e-mail any questions or comments.

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