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NEW YEAR BRINGS OPPORTUNITIES AND POTENTIAL PITFALLS

As we enter the New Year, the only constant has been change. We have a new tax bill, new limits and changes to fiduciary rules. These new rules will provide opportunity for those who understand them and pitfalls for those who don't.

TAX REFORM ACT (H.R. 1): The Trump and Republican law, signed on December 22, 2017, has left the retirement rules the same. One commentator said our industry dodged most of the bullets that were proposed. For the 401(k) and defined benefit plans, the rules have stayed the same, while the deductions for contributions and pass-through issues did advance to the final version.

The change to the tax treatment of pass-through entities creates a greater financial incentive for some service businesses to sponsor a retirement plan. The tax incentive maybe reduced for others, although the numerous other benefits of sponsoring a plan remain the same. Those benefits include asset protection, the ability to attract and retain top talent, plus the deductibility of employee contributions and plan related expenses. We encourage all employers to consult with their CPAs to determine how this new law impacts their 2018 tax liability.

This is good news for small businesses that have retirement plans or have thought of setting them up. We are still able to design plans to benefit the owners based on age and compensation, and as the economy grows, these new plan designs will lead the way.

One change did advance into the new law. Plan loan rules now allow for a terminated employee to make a contribution of the outstanding loan balance to an IRA by the time they file their tax return to avoid the taxable event. Under old rules it was the 60 day rollover rule.

NEW LIMITS: The new limits for 2018 allow for great contributions as the COLA (cost-of-living adjustment) takes effect. For a table on 2018, click here.

LAWSUITS CONTINUE: We continue to see litigations and expect it to continue as lawyers go for low hanging fruit of "Breach of Fiduciary Duty". For many years, investment providers and bundled products have offered subpar service and inflated fees. Those chickens are coming home to roost as settlements and awards are paying off. Click here for more information on the litigation issues.

FIDUCIARY RULE DELAYED: The final fiduciary rule has been delayed until July 1, 2019. This rule would have created a state court right to claim breach of contract for those financial planners who work with retirement plans. While many in the industry signed the BICE contract (Best-Interest Contract Exemption) in anticipation of the rule, some did not or stopped working in the industry. I think it will be business as usual for those who work with these plans; however they will focus on the fiduciary issues and make sure they are giving fair prices and good service. Always remember to at least annually REVIEW, BENCHMARK AND DOCUMENT your fiduciary process.

In addition, now is a great time to communicate and educate participants on their investment and plan options. Maybe a rebalance of portfolios is in order given the growth of last year. Every good advisor takes the time to educate participants at least annually.

In conclusion: **As the economy improves**, small businesses will continue to grow and hire. These new successful businesses will need retirement plans. Keep your eyes open for SEPs that need to be 401(k) plans. It is best to start new 401(k) plans at the beginning of the year. In addition, a successful employer may need to add a defined benefit plan to an existing 401(k) to get a greater deduction and save more for their retirement. We are seeing an increase of cash balance plans and believe this will continue into the New Year. Make sure you get a proper proposal for your client. Have questions or need help? Contact us here.