

HICKS NOTES

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By Tom Hicks, Attorney At Law

2022 YEAR IN REVIEW

As 2022 comes to a close, we can review the issues and opportunities the year has presented. While I believe 2022 will be remembered for volatility and inflation, the business fundamentals of value and expertise remain intact.

PEPs and MEPS: Pooled Employer Plans and Multiple Employer Plans don't appear to be a factor in creating new business. While these plans tout simplicity and cost savings to small business owners, in my opinion, these plans are not the best for most clients and advisors. The value added in the small plan market comes from plan design, investment choices and the individualized service and planning. The market has spoken and I don't see PEPs and MEPS as a competitive alternative for most California employers.

Payroll Companies: We continue to see employers bombarded by payroll companies soliciting their 401(k) business. This means we need to stay diligent in our service and value added features. The two clients we lost to payroll companies have returned to us. The new clients we have taken on have had multiple plan design and administrative issues. Best advice and best way to get business, ask if a Payroll Company is their TPA and show them the real value you can bring. For more on this issue, click [here](#).

Plans can be set up after the Year End: Many advisors still don't know that retirement plans can be added up to the time a client files their tax returns, plus extensions. This has altered our December crunch time for Defined Benefit Plans (DB) to throughout the year. When we are running proposals, we need to know which tax year we are looking at. Is it for 2022 or 2023? A savvy financial planner will contact professional clients and see how their year is going. CPAs already know the company's net-profit and know that a DB Plan is a great tax saving tool. For owner-only DB information, [click here](#).

Further, while we can set up 401(k) profit sharing plans using the client's extended tax filing deadlines, salary deferrals cannot be made to plans set up after the yearend. This means while technically not a deadline, to help our business owners, new 401(k) plans should be set up before December 31st to take full advantage of this plan design.

This is a good time to prospect for both 2022 and 2023 employee benefit 401(k) plans.

CalSavers: Some employers may only be using the CalSavers Retirement Savings Program and should take full advantage of a well-designed 401(k) plan. By starting a 401(k) effective January 1, 2023, we are giving participants all year to fund their deferrals. For a proposal comparing CalSavers to 401(k) plans, complete our proposal request form that can be found [here](#) and return to Debbie Rath at drath@nhhicks.com.

Market Volatility: As we have dealt with in the past, market volatility brings issues that need particular attention. Defined Benefit funding can be effected by either large gains or losses in any given year. Generally, our actuaries are assuming an annual return of 5 percent. Large losses can increase your required contribution. Large gains reduce future funding and deductible contributions. Staying proactive on DB plan assets is necessary during times of volatility. For more on this issue, click [here](#).

Further, participant distributions from pooled accounts can be problematic as gains and losses can occur quickly. Beware of participants with large balances taking distributions. An interim valuation may have to be performed so account balances are revalued.

In addition, Required Minimum Distributions (RMD) could be affected by losses and gains. RMDs always require particular attention because a client may have IRAs or other tax free accounts that financial professionals may not know about. Always assume any RMD calculation is for that account ONLY. Others may be required and can be overlooked.

Annual Meetings: Good financial professionals will meet at least annually with their retirement plan clients and participants. Ask how their year went? Any number of issues can open a dialogue for new plans or plan design changes. For items to cover in these meetings, refer to this [checklist](#).

For 401(k) clients, an annual fiduciary meeting will protect everyone involved. Simply stated, you need to review, benchmark the investments for fees and returns, and document this meeting. [Click here](#) for more on fiduciary issues. In addition, participant education meetings are just standard practice and should be held at this time of the year. New participants must be enrolled.

Watch for administrator fee offsets against third party payments. Every TPA should be instituting this policy, or your clients are paying too much. See our policy [here](#).

Given inflation, we are seeing everything cost more. This goes for fees too. We are trying our best to keep fees competitive but have decided to raise our fees by a few hundred dollars. I'm sure everyone else is too. For a list of our fees, click [here](#).

Business Consolidation: We are seeing big companies buying out small pension administration firms as these originals business are being aged out. We are hearing increasing complaints that service has dropped because of these purchases. The boutique firms have traditionally given the best services due to the personal relationships built over the years. These "corporate" players have high turnover, and less communication as clients are passed along an assembly line. Their "marketing" departments have slick salespeople who are more interested in growth than doing excellent work. I believe this trend will continue as the barriers for new firms continue to increase.

Make sure you know what kind of administrator you are recommending to your clients. Bigger is not necessarily better. Boutique can be less expensive and give better service. Check out our administrative staff [here](#).

Finally, we are excited about the prospects of a new year. Clearly 2022 will be remembered for volatility and inflation, but the basics have not changed. Be proactive, bring value and expertise, and you will prosper. We are here to help.