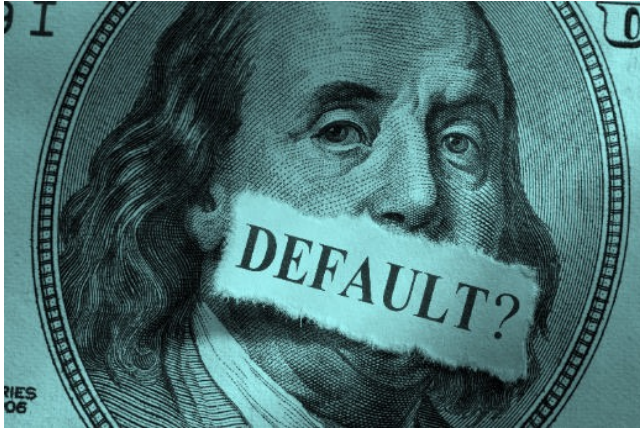


# The Retirement Times

## When Does a Participant Loan Become a Deemed Distribution?



A recent IRS Issue Snapshot (link below) affirms that a participant loan is a legally enforceable agreement and terms of the loan agreement must comply with Internal Revenue Code (IRC Section 72(p)(2) and Treasury Regulation Section 1.72(p)-1). The terms of the loan agreement must be explicit in writing or deliverable electronically.

A loan in default is considered to be a deemed distribution. But plans may offer a cure period during the quarter following the quarter in which the missed loan repayment occurred.

A deemed distribution can occur at the date the loan is made if:

- participant loans exceed the maximum dollar amount of \$50,000
- payment schedules do not comport with time or payment amortization requirements, or
- the loan agreement is either not legally enforceable or does not exist.

If any of the above requirements are not met, the loan would be determined to be in default and will be considered a deemed distribution.

A deemed distribution is accompanied by immediate tax consequences to the participant.

The complete IRS Issue Snapshot is at [www.irs.gov/retirement-plans/deemed-distributions-participant-loans](http://www.irs.gov/retirement-plans/deemed-distributions-participant-loans).

## Financial Wellness Needs a Long and Short Game to Work for Both Participants and Organizations

In the retirement plan industry, all too often we tend to conflate financial wellness with retirement readiness — whether that means confidence in obtaining retirement goals or being on track to reach post-employment financial targets. However, that limited view may fail to paint a complete picture for many participants.

For example, the New York Life Wealth Watch survey, released in July, highlights generational differences with respect to near- and long-term financial concerns and points to areas of disconnect among respondents' financial self-assessments. Millennials (45%) report more confidence than both Gen X (35%) and Gen Z (33%) that their retirement savings will last the rest of their lives and express greater confidence than Gen Xers in their ability to retire when they want.



At the same time, Millennials indicate lower levels of confidence in their post-pandemic finances, with nearly one-third predicting that resuming pre-pandemic spending would have a negative impact on their household budget. Additionally, only 41% report feeling confident about their ability to make a down payment on a home. While emerging COVID-19 variants call into question the timing of “post-pandemic” assessments in general, these findings highlight the need for broad-based financial wellness assessments and programming nonetheless.

Near-term financial concerns are likely contributors to employee stress and can weigh on productivity. In fact, 42% of full-time employees find it difficult to meet monthly household expenses, according to PwC's 2021 Employee Financial Wellness Survey. Student loans, housing expenses, food costs, and health insurance rates contribute to employee insecurity, and more employees

have considered filing for bankruptcy protection than ever before in the survey's decade-long history. If organizations fail to address worker financial wellness, PwC says, the additional psychological stress will likely continue to impact productivity and employee well-being.

Ideally, financial wellness should comprise a comprehensive and wholistic approach that's easy for companies to implement, provides targeted interventions — and taps both long- and short-term financial concerns. Moreover, your financial wellness program should offer proactive employee engagement with online education, group content and individual sessions. This is critical because it can be difficult for participants to focus on achieving long-term financial objectives when they have more immediate unmet needs and concerns such as being unprepared for financial emergencies or managing crippling levels of personal debt.

With pandemic uncertainties lingering a year and a half into the global crisis, financial wellness has become more important than ever. Retirement-focused education and programming is necessary, but not sufficient to meet all participants' and employers' needs in an increasingly complex world. Be sure your financial wellness program can help your employees and organization plan and prepare for today and tomorrow.

#### Sources

<https://www.newyorklife.com/newsroom/2021/wealth-watch-covid-financial-confidence>

<https://www.pwc.com/us/en/services/consulting/workforce-of-the-future/library/employee-financial-wellness-survey.html>

## The Auditors Are Coming — Are You Ready?



No one wants to be caught flat-footed when the auditors come calling. And with a new standard issued by the American Institute of Certified Public Accountants (AICPA), both the auditors and plan sponsors will be subject to new responsibilities.

The AICPA's Statement on Auditing Standards (SAS) No. 136, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, raises the bar on benefit plan audits. Issued in 2019, the standard was originally scheduled to go into effect in 2020 but was delayed due to the pandemic. It is now effective for audits of ERISA plan financial statements for periods ending on or after Dec. 15, 2021.

SAS 136 impacts all ERISA plan audit phases and makes significant changes to the content of audit reports in an effort to promote greater transparency. But in addition to the impact on accounting professionals who conduct the audit, the new standard introduces new requirements for plan sponsors. For

example, when receiving a "limited scope audit" — a term the new standard replaces with "ERISA Section 103(a)(3)(C) audit" — auditors will no longer issue a disclaimer of opinion and will instead provide an audit report. But before the auditor can accept the audit, the plan sponsor must indicate in writing that he or she permits the engagement and that it will meet ERISA requirements.

Plan sponsors are also now required to acknowledge responsibility for administering the plan in the audit engagement letter. What's more, at the end of the audit, they need to acknowledge additional responsibilities such as maintaining a copy of the plan document, ensuring transactions conform to the plan's provisions, and maintaining sufficient participant records to determine benefits due to them.

Further changes in the standard come from new provisions regarding completion of Form 5500. Before the audit engagement, plan sponsors will need to provide the auditor with a substantially completed copy of the form, as well as its schedules. The auditor will then compare the form against the financial statements to determine if there are any material discrepancies and indicate whether either the form or the statements require any corrections.

Compliance with SAS 136 will result in a much more thorough audit, and a more revealing report on the organization's compliance with ERISA requirements. With that in mind, plan sponsors should note the potential for additional exposure to legal risk. According to ERISA expert Timothy Verrall in a recent PlanSponsor.com article, the audit report, which may disclose noncompliance issues, is attached to Form 5500 and then becomes publicly available.

"Anyone can look at it," Verrall says in the article. "One way lawsuits get started is people doing searches on Form 5500 data filings. This could potentially provide a new source of ammunition to plaintiffs' lawyers."

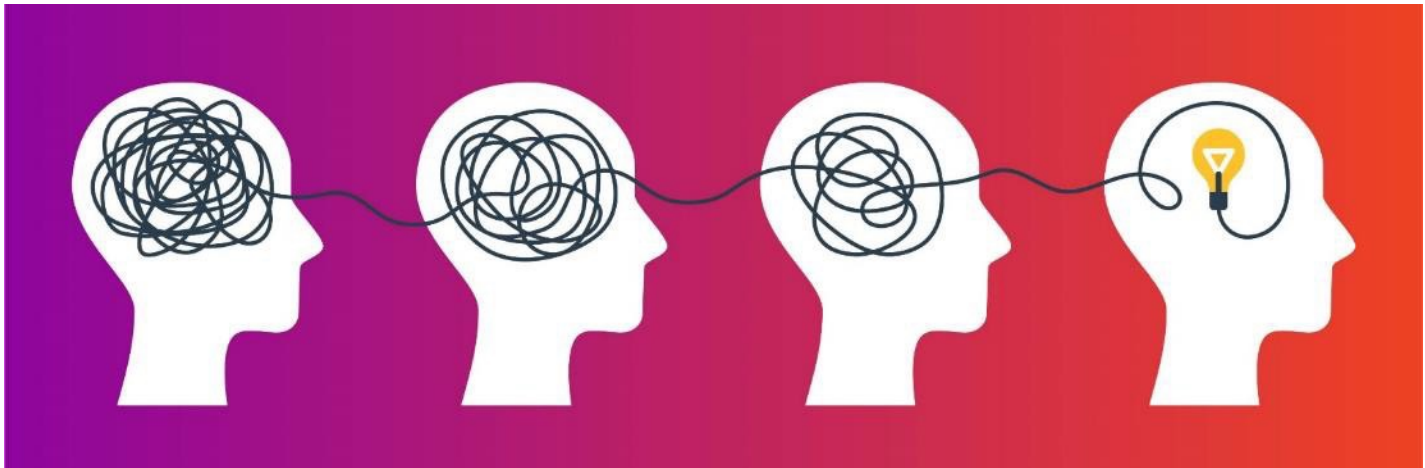
“That said, from a pragmatic perspective most issues reported in annual auditors reports are of a limited, and even individual, nature,” says Joel Shapiro, SVP ERISA of NFP “and they are often immediately remedied, thereby leaving little real ‘meat on the bone’ for class action plaintiffs attorneys as the result.”

With so much change being introduced, sponsors will want to ensure they’re adequately prepared to meet the new requirements and thoroughly understand their responsibilities. That way, when the auditors come knocking, you won’t be caught unawares. To see the full AICPA revision, download SAS 136 from the institute’s website (PDF).

Sources <https://www.plansponsor.com/in-depth/new-financial-audit-rule-increases-requirements-plan-sponsors/>  
<https://www.eisneramper.com/employee-benefit-plan-audit-standards-sas-136-0621/>  
<https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/new-audit-standard-affects-employee-benefits-plan-sponsors.aspx> <https://us.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/sas-136.pdf>

## Participant Corner

### Ten Things to Know About Your Employer’s Retirement Plan



#### 1. What it is?

Your employer’s retirement plan is a defined contribution plan designed to help you finance your retirement. Federal and sometimes state taxes on your contributions and investment earnings are deferred until you receive a distribution from the plan (typically at retirement).

#### 2. Why do they call it a 401(k)?

The 401(k) plan was born over 40 years ago, under Section 401(k) of the Internal Revenue Code, hence, 401(k).

#### 3. You decide

You decide how much to contribute and how to allocate your investments. This gives you the advantages of easy diversification – a well balanced mix of investment choices, and dollar-cost averaging by making regular investments over time.

#### 4. It’s easy

You contribute your pre-tax dollars and lower your taxable income by making automatic payroll deductions. It’s a simple method of disciplined saving!

#### 5. Know your limits

In 2022 you can save up to \$20,500 of your pre-tax dollars. If you are age 50 or older, you can save an additional \$6,500.



# Participant Corner

## 6. Incentives

It's tax-deferred to contribute to your retirement plan! Also, many employers will match some of your contributions. This is FREE money and a great incentive to contribute to your plan. Does your company offer early retirement incentives (ERI)? Check with your Human Resources department!

## 7. Vesting

Should your employer make a matching contribution; vesting refers to the percent of your employer contributions that you have the right to take with you when you leave the company.

## 8. Borrowing

Some plans allow you to borrow a percentage of your account value. Keep in mind that you have to make regular payments plus interest on the loan.

## 9. Early withdrawals

You may be able to take a distribution before you retire, for instance for certain emergencies (hardships). Understand that it may have a 10% early penalty in terms of Federal and/or state income taxes. While this may be good for emergency situations, your retirement plan is a retirement savings fund, not meant to be a rainy-day fund!

## 10. Leaving the company

When you leave your job, you can rollover your retirement plan savings to either an individual retirement account or a new employer's retirement plan. This way, you stay on track for your retirement savings goals, without having to start over each time you change jobs.

**For more information regarding your retirement plan, please contact your financial professional, Kevin Donahue AIF®, CRPC® at [kevin@risensonfinancial.com](mailto:kevin@risensonfinancial.com) or call 813.512.2746.**

Using diversification as part of your investment strategy neither assures nor guarantees better performance and cannot protect against loss of principal due to changing market conditions.

Dollar cost averaging does not assure a profit and does not protect against a loss in declining markets. This strategy involves continuous investing; you should consider your financial ability to continue purchases no matter how prices fluctuate.

Prior to rolling over, consider your other options. You may also be able to leave money in your current plan, withdraw cash or roll over the assets to your new employer's plan if one is available and rollovers are permitted. Compare the differences in investment options, services, fees and expenses, withdrawal options, required minimum distributions, other plan features, and tax treatment. Speak with your advisor regarding your situation.

This material was created by a third party to provide accurate and reliable information on the subjects covered but should not be regarded as a complete analysis of these subjects. It is not intended to provide specific legal, tax or other professional advice. The services of an appropriate professional should be sought regarding your individual situation.

To remove yourself from this list, or to add a colleague, please email us at [kevin@risensonfinancial.com](mailto:kevin@risensonfinancial.com) or call 813-512-2746

## Our Mission

Risen Son Financial strives to help employers reduce the cost of their retirement plans and the liability of their responsibilities by naming ourselves as fiduciaries to the plan and participants. We believe this builds the foundation to help employees reach their ideal financial future, through one-on-one education, risk analysis, and financial planning.

## Why Us?

Based in Land O' Lakes, Florida, Risen Son Financial serves as retirement plan partners and investment fiduciaries for large and small businesses across the nation. Fulfilling the duties of good faith and trust, clients choose us knowing we will go above and beyond. As an Independent Financial Advisor, Risen Son Financial represents clients to the marketplace without any bias or conflicts of interest. We're accountable to you and your best interests. Risen Son Financial serves as a named fiduciary for both the plan and participants. As your Plan Fiduciary, we evaluate plan design, mitigate risks, conduct reviews, and offer solutions helping to improve performance. As Participant Counselors, we also serve as fiduciaries providing customizable advice and resources for the participants.

## Our Process

At Risen Son Financial, our first step is to review the current cost and value being received by the plan. We can do this by reviewing the 404(a)(5) (participant fees) and 408(b)(2) (plan fees) disclosures that plans are required to distribute and receive from vendors. If these are not readily available, we can also review fund lineups and statements.

### We meticulously review the retirement plan, including these 4 costs:

- 1. Recordkeepers** – Receive funds from the employer and employee paycheck. Their main responsibility is to keep record of the contributions a participant receives and investment gains. Additionally, recordkeepers do the buying and selling of investments that the participant chooses, while also providing a website and quarterly statements.
- 2. Administrators** – Make sure the plan meets the requirements set forth in the IRS code. They handle, testing, compliance, vesting, eligibility, loans, and withdrawals. Many times, administrators are "bundled" with the recordkeeper.
- 3. Investments** – Contributions are deposited into investments. They have their normal expense ratio; however, these often come loaded with internal fees like 12b-1, sub-TA, concession and wrap. This is called "indirect compensation" or "revenue sharing." Often, an investment company will pay the recordkeeper a fee to be included in the investment lineup.
- 4. Advisors or Brokers** – There is a difference. As a named fiduciary to the plan and participants, Advisors give advice, recommendations, and/or have discretionary control of investments, along with being the quarterback of the plan. This includes benchmarking all fees paid to vendors and shopping plan costs to keep fees reasonable. Advisors are held to the best interest standard. In contrast, Brokers are held to the suitability standard. Brokers can't give advice nor can they name themselves as a fiduciary to the plan. Brokers sell a product as a representative of a larger entity.

Once all fees are known, we benchmark those fees and services being received to the open market. We then use this benchmarking to get the cost of the plan reduced. We accomplish this by either going to the current provider to have them reduce the cost or moving the plan to a platform that will, along with providing for the needs of the plan. Being completely independent we can work with all providers which allows us to provide bias-free advice.



#### About Kevin Donahue, CRPC®, AIF®

Kevin Donahue is the owner of Risen Son Financial. After serving four years in the United States Navy, he graduated from Florida State University in 2004 earning a bachelor's in Computer Science and a minor in Mathematics. Seeing firsthand, the impact of retirement saving and planning with his own parents, Kevin entered the financial services business to pursue his passion of helping clients meet and exceed their financial goals and visions. Kevin has passed and currently holds the Series 65 license along with obtaining Chartered Retirement Planning Counselor (CRPC) designation from the College for Financial Planning. This designation encompasses pre-and post-retirement needs, wealth management, estate planning, and the entire retirement planning process. Additionally, he holds the Accredited Investment Fiduciary (AIF), which empowers investment professionals with the fiduciary knowledge and tools they need to serve each client's best interests.

Kevin resides in Land O' Lakes with his twin boys Andrew and Noah.