Spring 2021 Volume 1, Issue 1

Mind Your Business

The Rather & Kittrell Retirement Plan Advisory Newsletter

What's Your Story?

Retirement takes many forms depending on the individual, and it's no different for the RK team. Some individuals are a few years from that ultimate goal while others are merely months into the beginning of their careers. No matter the team member, retirement planning – for businesses, non-profits, families, and individuals – is our livelihood.

Personally, I didn't grow up talking about finances and money. Other than the bi-weekly bank trips with my parents to deposit their paychecks, withdraw needed cash for the next couple weeks and most importantly get free popcorn and Super Bubble gum. I opened my first checking account at some point in my early teens but still wasn't all that aware of what a retirement plan was, specifically the 401(k) my mom had or the self-employed IRA plan for my dad. I would, however, quickly learn.

Growing up in a small town had many advantages, and for me it was that my maternal grandparents also lived there. Both were retired after many years of hard work – most likely harder work than I can imagine. Years of hard work taught them both the value of a dollar. It also taught them the value of value and utility stock investments.

Around the time I was able to legally drive is when my mom and her two sisters made the difficult decision to take away both grandparents' car keys. With that, I became the weekly bank chauffer for my grandfather. An excuse to still get that popcorn and bubble gum!

I say this to outline the beginning of my interest in investing and retirement planning. Each week, my grandfather and I would drive to the bank, go inside (of course, because the coffee club had moved from Hardee's to the bank by that time of day), and deposit the dividend checks he received that week. At that time I had no clue how someone could not work but still get paid. Albeit the check amounts weren't significant, a very big light bulb turned on in that 16 year old's mind. From that point on, I picked the minds of mentors about investments. I researched online what I could (dial-up internet was painfully slow) and pursued Finance and Accounting degrees in college. I also interned at a local firm, that's still there, and ultimately began a career in Knoxville focusing a majority of efforts into the retirement plan arena.

Fast forward 17 years since that Friday at the bank, much has changed in my life, the world, and especially stock markets. Though my grandfather has since passed, we still have original stock certificates and other financial documents dating back more than 60 years. They have no value now that the shares are held electronically across a variety of beneficiaries, but I always enjoy remembering the chain-effect a Friday afternoon at First State Bank in Union City, TN had on my life.

Learning (and continuing to learn) employer-sponsored retirement plans allows me to literally learn something new every day. Working with employers across the country allows us to be retirement plan advisers and grow that plan for the benefit of owners, executives, and teams. As outlined in Skee's words later in this newsletter there are many ways to customize a retirement plan to benefit the company, owners, and all participants.

What's your story? We'd enjoy hearing it. RK is fortunate to work with retirement plans across the country. If we work with yours, please know we're grateful and continuously striving to keep that plan a benefit for all. If we don't work together, we'd be excited to learn about you and how we may help. RK is here to help and will be honored to help you.

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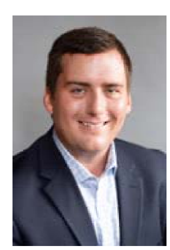

Quick Quotes

- A person who never made a mistake never tried anything new. – Albert Einstein
- When you combine extreme focus and great team, magic happens. – Sam Altman
- The most powerful element in advertising is the truth. –Wiliam Bernbach
- Action is the foundational key to all success. –Pablo Picasso

By The Numbers

34%

Of all age groups have taken money from their retirement account due to the economic effects of COVID-19. Millennials have needed to do so the most.

67% say the impact of the pandemic on the economy has prompted them to protect their retirement plan savings.

Source: 2020 Allianz Q4 Quarterly Market Perceptions Study

Straight Away or Better to Defer?

Sometimes it is good to answer questions straight away. Sometimes it is better to defer.

As a plan sponsor or business owner, answering investment questions from employees such as "What should I do about the 401k?" is something you should stay away from. Send those questions to the plan adviser.

One topic you might want to have a continually growing grasp of is social security. Many employees seek advice or have questions about their personal situations, and knowing how this tool works can help the employee by giving them some key data points.

As it stands today, most workers in America will rely on social security as their primary means of income after they retire. In 2020, the average recipient received $1,530 per month gross of taxes. That may seem like a good number to receive monthly for not having to work (roughly $18,000 gross per year) but the large majority of recipients received less. The low end is closer to $900 per month (or $10,800 per year). Unfortunately, the lowest end numbers are much more common compared to the more sparsely received high end of roughly $3,011 per month for maximum benefit recipients.

Employees can get up to date estimates of their benefit projections by logging into www.ssa.gov and retrieving their annual statement. The information there is helpful on many levels.

Ages for receiving social security benefits generally range from 62 to the age that Social Security Administration (SSA) calls the full retirement age (FRA). Approximately two-thirds of Americans will activate their benefits before they reach full retirement age. Activating earlier than FRA can leave as much as 30% of the benefit on the table. A study by a subsidiary of Capital One, United Income, Inc. indicates that activating social security prematurely, before FRA, may cost American households $68,000 on average in lost income.

Each case is different, and not all of the common rules of thumb are for everyone. Some people are driven by their thoughts in that area and can be demonstrated by "It is my money and I am going to get it before its gone" or "Social security is going broke so I better get it while I can." These attitudes are neither necessarily right nor wrong, but may or may not be in the best interest of the opinion holder. Ironically, the sentiment of not participating in the 401k and receiving social security as soon as eligible usually goes hand-in-hand.

As an employer, there are many reasons to help employees, but still allow them to make their own decisions about their private lives. After all, that's what makes America great, our ability to choose for ourselves. One educational tool which may be of greater value to your employees is a better understanding of how social security can work along with their 401k benefit in their retirement years. Contact your adviser and schedule time for your employees on social security or other topics like plan features, household finances, or plan investments. The next time you meet with your adviser ask them about educational tools and how to include them to improve your employees' outcomes.

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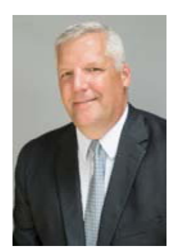

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One of our primary roles, as your plan adviser, is to help you provide employees with a high-quality and easy-to-use retirement plan benefit. Employer-sponsored retirement plans are increasingly becoming a key employee benefit and necessary to attract, retain, and motivate staff. Advances in technology are increasingly allowing small businesses to provide tools to their plan participants previously only available to larger corporations with mega-sized retirement plans. In this article, we want to share two popular automated features that have statistically improved outcomes for retirement savers and provided a much easier experience to get started.

The parameters of how your plan works are completely customizable, allowing you to tailor your plan and participant experience to the needs of your company and its employees. By taking proactive and intentional steps within your plan's design, you can set your employees up for success with little to no effort on their part. Two separate, but equally valuable, features within your plan design are automatic enrollment and automatic escalation. Automatic enrollment allows employees to automatically enter the plan at a set contribution rate once they become eligible with no action required on their part. When coupled with a Qualified Default Investment Alternative, or QDIA, your employees will have taken the first step toward a successful retirement outcome without having to fill out forms or make any difficult decisions on the front end. Automatic escalation also statistically improves participant outcomes by gradually increasing their contribution rate by a set amount, such as 1%, per year. Contributions may escalate up to a certain contribution percentage you set or up to the maximum IRS contribution limit.

These automated features have demonstrated improved participant outcomes by taking advantage of the propensity to procrastinate and put off difficult decisions. Over 60% of retirement plans offer automatic enrollment while automatic escalation has been adopted by less than 50% of plans. As for improving plan statistics, auto enrollment increases average participation by nearly 10 percentage points from around 67% to 77%! Auto escalation further improves plan statistics by guiding the saving of participants closer to 10-15% of their income needed to one day replace their paycheck. In plans with no auto escalation, only one of five participants save more than 10% of their income. Plans with auto escalation push that number to one in three participants. Our team has experienced similar results by implementing these strategies with our plan sponsors, and the employees have appreciated the additional guidance and ease of use automation provides.

Have you taken a good look at your plan's design lately? Would it benefit your employees to consider adding automated features to improve their retirement outcome?

We believe more and more plan sponsors will adopt automated features for their participants going forward, and the resulting participant statistics will likely continue to improve. These concepts are an easy way to improve your plan today, and Rather & Kittrell is here to help you start the conversation. Let's help drive better outcomes and provide an excellent experience for your participants.

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2021 Contribution and Benefit Limits for 401(k) and other qualified plans

401(k), 457, and 403(b) max annual electrve deferral limit: $19,500

401(k), 457, and 403(b) plan catch-up contribution limit: $6,500

Defined contribution plan annual limit: Lesser of $58,000 and 100% of compensation.

SIMPLE maximum annual elective deferral limit: $3,000

Traditional IRA contribution limit: Lesser of $6,000 and 100% of compensation

Traditional IRA catch-up contribution limit for individuals 50 or over: $1,000

Defined benefit plan annual limit under IRS Section 415: $230,000

Annual allowable compensation limit for deduction, benefit, and contribution purposes: $290,000

Highly compensated employee: $130,000

Key employee:/top-heavy plan: $185,000

Social Security Wage Base: $142,800

For full details on limits, visit the IRS website. Annual contribution rates are based on the IRS 2021 limitations and are subject to change.

How Can Rather & Kittrell Help your Company?

Here are a few questions to consider as you develop and grow your company's retirement plan

Are my employees and I paying too much for our retirement plan?

One of the first questions that you will be asked during a Department of Labor visit is, "Do you know your plan costs?" You have an obligation as a plan sponsor to know what your plan expenses are, specifically, the expenses paid by the participants of the plan.

The basic components of retirement plan expenses include:

- Investment Costs
- Administration Costs
- Trustee Fees
- Advisor Compensation

The least expensive plan does not always equate to the best plan for your employees. However, it is imperative for you to understand whether the costs the plan is paying are reasonable in relation to the services you and your employees are receiving.

Is there a better service model available for employees and myself?

Plan communication is vital; not only as a legal obligation, but also in emphasizing to your employees how valuable a benefit the retirement plan can be to them. Equally important is consistent communication to the plan committee regarding plan management and performance.

The most effective communication tool for your retirement plan is a qualified advisor specializing in retirement plan operation and personal financial planning. Access to a competent advisor can be one of the most powerful tools in operating a successful retirement plan.

Are there better investment options available for my plan?

The investments inside your retirement plan are not required to always produce positive returns. However, ERISA law clearly states that a prudent process must be in place for the selection, monitoring, and replacement of investment options within a retirement plan.

A documented, repeatable, and defendable investment process not only assists you in your fiduciary obligations, but will also give your employees the opportunity for a more successful retirement.

I know I have liability as a plan sponsor. What can I do about that?

A retirement plan fiduciary may be identified in the plan document. However, an individual may be considered a fiduciary whether explicitly named as one or not.

Anytime you are considered a decision maker on a retirement plan, such as the plan administrator, a retirement plan committee member, or a trustee, then you may be personally liable for your company's retirement plan investments. If you find yourself making decisions regarding your company's retirement plan, then it is likely you are considered a fiduciary. If so, you are obligated to make decisions that benefit your employees and their beneficiaries.

Clearly defining who is and is not a fiduciary is the first step to helping you understand and identify fiduciary responsibility.

Contact us for a no-cost review and analysis of your plan at info@rkcapital.com or call us at 865-218-8400 to talk right now.

RATHER & KITTRELL
Private Wealth & Retirement Plan Advisory

Like any company, yours relies on attracting, motivating, and keeping the best people.

A big part of that hinges on your retirement plan. It's not something you can afford to take lightly.

RK manages retirement plans for some of the region's most visible businesses, names you'll recognize.

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