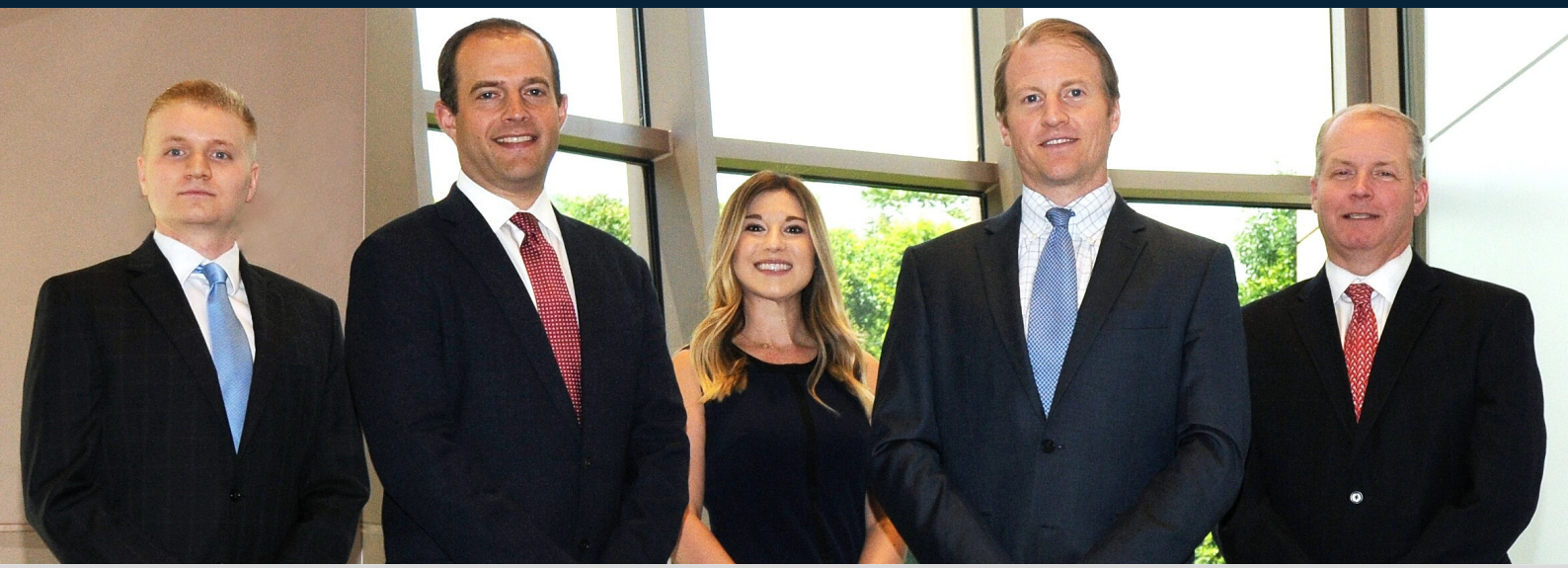
December 2020

Retirement Newsletter

An outreach containing important topics impacting our clients



To Plan Sponsors,

We hope this outreach finds you well! Attached you will find our monthly Plan Sponsor Newsletter, Participant Newsletter and 2021 Compliance Calendar.

Our Plan Sponsor Newsletter highlights post-election investment commentary, cyber security issues for plan sponsors and annual retirement plan notices. The Participant Newsletter discusses "The 10% Savings Goal" for retirement.

2020 has been a year of change, pivoting and evolution. On behalf of the entire SFP Wealth team, we wish you all health, happiness, safety and a strong 2021.

Best,

The SFP Wealth Retirement Plan Team

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Retirement Times

December 2020

Post-Election Investment Commentary

Stock markets abhor uncertainty. Currently, investment prognosticators are interpreting the election results to create a relatively “stagnant” legislative environment. This opinion is based primarily on the Senate remaining in Republican control with the presidency Democratic. The anticipated stagnation connotes a more predictable investment environment. Clearly, the stock market has recently responded overwhelmingly positive (as of 11/10/20), to the reduced potential of increased taxation along with the greater likelihood of additional COVID-19 aid and economic stimulus.

This leaves some investors with an instinctual response to grow their equity exposure. However, the biggest risk investors face at this time is changing their investment course and getting it wrong. It remains important to keep focus on the long-term horizon, which no one can predict with much accuracy. The potential future variables that can impact markets are limitless. The impact of the pandemic and potential ensuing lockdowns is clearly one significant unknown.

What is a prudent investor to do? Assuming you are appropriately diversified, remaining so may be your best response.

Those initiating portfolio changes now based on campaign rhetoric should consider that the proposed policy changes may not materialize in current proposed form. If some do, it is difficult to assess which policies may be implemented and how they may affect the markets both US and internationally.

Long-term investing success is a function of innovation, economic growth, interest rates, productivity, and factors we may not currently foresee. Maintaining an appropriately diversified, low cost investment strategy which is properly funded, may not be exciting or pacifying today, but it most likely will provide financial success in the long term.

Cyber Security Issues for Plan Sponsors

The Department of Labor is working on a guidance package addressing cybersecurity issues as they relate to plan sponsors and third-party providers.

Tim Hauser, Deputy Assistant Secretary for DOL's Employee Benefit Security Administration (EBSA) has indicated that we should expect more focus in the department's investigations of the adequacy of various cybersecurity programs to confirm that service providers plan sponsors hire are practicing effective cybersecurity practices.

Mr. Hauser also indicated that the forthcoming guidance would be informal, and not a formal notice and comment.

Plan Sponsor Considerations

The DOL expects there to be questions asked when hiring a TPA or record-keeper.

- What practices and policies do the service provider have to ensure their systems are secure?
- Does the service provider have regular third-party audits by an independent entity?
- How does the third party validate their systems cybersecurity?
- Is there any history of cybersecurity incidents? If so, what is their track record?
- What did they learn from any prior incidents, and how have they improved their defensive processes?
- Do they indemnify their clients in event of security systems breaches that result in losses?
- Do they have insurance policies to make you whole and cover breaches, or do they have all sorts of waivers and exculpatory clauses in their contracts?

In the event a security breach is identified, and an offender has achieved access to confidential information, the plan sponsor should produce a documented response, including notifying law enforcement, the FBI, the plan and their participants.

Once an official final guidance package is made available, we will share that information with you.

Annual Retirement Plan Notices

It is that time when plan sponsors need to send annual notices to participants. The 401(k) safe harbor, qualified default investment alternative ("QDIA"), and automatic enrollment notices must all be sent to plan participants between 30-90 days before the beginning of the plan year (i.e., no later than December 2nd for calendar year end plans), and may be combined into a single document.

401(k) Safe Harbor

Plan sponsors of safe harbor **matching contribution plans** can retain the flexibility to reduce future contributions by issuing "maybe not" language in their annual 401(k) safe harbor notice.

Prior to this year, safe harbor **non-elective contribution plans** had to be in place as of the first day of the plan year and were subject to the safe harbor notice requirements. Effective beginning January 1, 2020, not only can a 401(k) plan be converted into a safe harbor non-elective plan at any time during the plan year or even during the following plan year, but the **notice requirement has been eliminated**. Generally, safe harbor plans can make a mid-year reduction or suspension of a safe harbor contribution, but only if the employer is either (1) operating at an economic loss, or (2) had already provided a "maybe not notice". As a result of the economic downturn created by COVID-19, the IRS issued temporary relief from this limitation on suspensions.

QDIA

If your plan contains a QDIA, you must provide an annual notice to all participants who were defaulted or may be defaulted into the QDIA in order to retain this fiduciary protection. Many plan sponsors send the notice to all plan participants.

Automatic Enrollment

If your plan contains an automatic enrollment feature, you must send an annual notice describing the automatic enrollment to all participants who have been or will be automatically enrolled and haven't made an affirmative election to change their deferral percentage.

For more information regarding your retirement plan, please contact a financial professional at SFP Wealth:

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This memo was contributed by Transamerica.

This example is hypothetical and does not represent the performance of any fund. Regular investing does not guarantee a profit or protect against a loss in a declining market. Past performance does not guarantee future results. Initial tax savings on contributions and earnings are deferred until distribution. You should evaluate your ability to continue saving in the event of a prolonged market decline, unexpected expenses, or an unforeseeable emergency.

This material was created 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 mpace@sfpwealth.com

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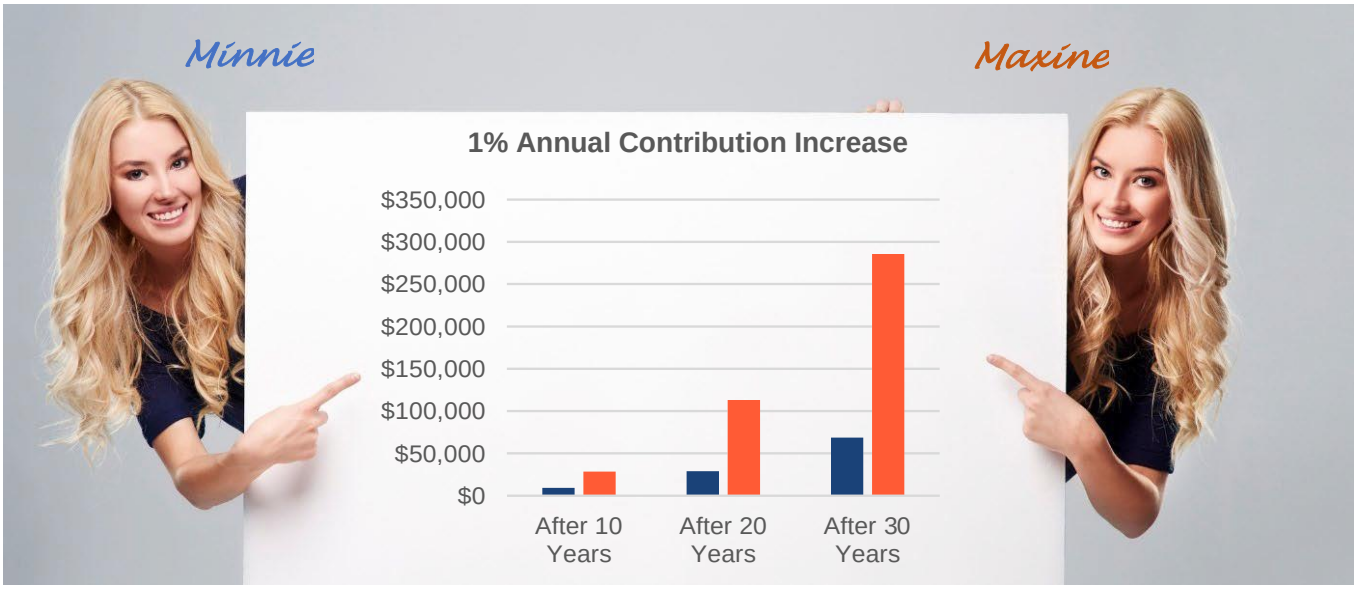
The 10% Savings Goal

Most people need to save more — often a lot more — to build a nest egg that can meet their needs. Many financial experts recommend putting away 10 to 15 percent of your pay for retirement. There's a relatively painless way to reach that goal.

Take small steps

- Begin by contributing enough to receive your employer's matching contribution
- Consider gradually raising your contribution amount to 10 percent or higher
- Raise your plan contributions once a year by an amount that's easy to handle, on a date that's easy to remember—say, 2 percent on your birthday. Thanks to the power of compounding (the earnings on your earnings), even small, regular increases in your plan contributions can make a big difference over time.



A little more can mean a lot

Let's look at Minnie and Maxine. These hypothetical twin sisters do almost everything together. Both work for the same company, earn the same salary ($30,000 a year), and start participating in the same retirement plan at age 35. In fact, just about the only difference is their savings approach:

Minnie contributes 2 percent of her pay each year. Her salary rises 3 percent a year (and her contributions along with it), and her investments earn 6 percent a year on average. So, after 30 years of diligent saving, Minnie will reach retirement with a nest egg worth $68,461.

Maxine gets the same pay raises, saves just as diligently, and has the same investments as her sister—except for one thing: She starts contributing 2 percent, but raises her rate by 1 percent each year on her birthday until she reaches 10 percent. She will keep saving that 10 percent for the next 22 years, until she retires by Minnie's side.

Maxine tells Minnie that she's never really noticed a difference in take-home pay as her savings rate rises. Instead, she looks forward to having $285,725 in her retirement fund by age 65.

Think ahead and act now. To increase your deferral percentage, contact your HR department today.

For more information regarding your retirement plan , please contact a financial professional at SFP Wealth:

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This memo was contributed by Transamerica.

Vanguard®

Compliance calendar for defined contribution plans

Vanguard Strategic Retirement Consulting annual reference for recurring compliance and notice requirements*

January

January 31*

Deadline for sending Form 1099-R to participants who received distributions during previous year.

February

February 28*

Deadline for filing Form 1099-R on paper, if eligible, with IRS to report distributions made in previous year. Deadline for electronic filing is March 31.

March

March 15

Deadline for processing corrective distributions for failed actual deferral percentage (ADP)/actual contribution percentage (ACP) test without 10% excise tax.

Note: A special deadline may apply to plans that satisfy the requirements of an eligible automatic contribution arrangement (EACA). See "June."

Deadline for filing partnership and S-corporation tax returns and contribution deadline for deductibility (without extension) for calendar-year partnerships and S-corporations.

Deadline for requesting automatic extension (to September 15) for partnership and S-corporation tax returns.

March 31

Deadline for electronic filing of Form 1099-R with IRS to report distributions made in previous year.

April

April 1

Required beginning date for certain participants attaining age 72 or retiring after age 72 in prior year [Deadline for taking first required minimum distribution (RMD) under Internal Revenue Code (IRC) Section 401(a)(9)].**

April 15

Deadline for processing corrective distributions for IRC Section 402(g) excess deferrals.

Deadline for filing individual and C-corporation tax returns and contribution deadline for deductibility (without extension) for calendar-year self-employed individuals and C-corporations.

Deadline for requesting automatic extension (to October 15) for individual and C-corporation tax returns.

May

June

June 30

Deadline for processing corrective distributions for failed ADP/ACP test from certain plans with EACAs without 10% excise tax.

July

July 29

Deadline for sending Summary of Material Modification (SMM) (210 days after end of plan year in which the amendment was adopted).

July 31

Deadline for filing Form 5500 (without extension).

Deadline for filing Form 5558 to request automatic extension of time to file Form 5500 (to October 15).

Deadline for filing Form 5330 to report and pay excise taxes on prohibited transactions and excess 401(k) plan contributions that occurred in prior year.

August

September

September 15

Extended deadline for filing partnership and S-corporation tax returns and final contribution deadline for deductibility for calendar-year partnerships and S-corporations.

September 30

Deadline for distributing Summary Annual Report (SAR) to participants, unless deadline for Form 5500 was extended, then two months after due date for Form 5500 (December 15).

October

October 15

Deadline for adopting a retroactive amendment to correct an IRC Section 410(b) coverage or IRC Section 401(a)(4) nondiscrimination failure.

Extended deadline for filing Form 5500.

Extended deadline for individual and C-corporation tax returns and final contribution deadline for deductibility.

November

December

December 1

Deadline for sending annual 401(k) and 401(m) safe harbor notice for plans that satisfy the safe harbor requirements using a matching contribution, or those plans using a nonelective contribution but also have an additional matching contribution.

Deadline for sending annual qualified default investment alternative (QDIA) notice.

Deadline for sending annual automatic contribution arrangement (ACA) notice.

Deadline for amendment to convert existing 401(k) plan to safe harbor nonelective design for current year, provided certain requirements are met (3% nonelective contribution).

For administrative ease, the notices above may be combined.

December 15

Extended deadline for distributing SAR to participants.

December 31

Deadline for processing corrective distributions for failed ADP/ACP test with 10% excise tax.

Deadline for correcting a failed ADP/ACP test with qualified nonelective contributions (QNECs) if the plan uses current-year testing.

Final deadline to convert existing 401(k) plan to safe harbor nonelective design for current plan year, provided certain requirements are met (4% nonelective contribution). Amendment needed by the close of the following plan year.

Deadline for amendment for certain plans to remove safe harbor status for next plan year.

Deadline for amending plan for discretionary changes implemented during plan year (certain exceptions apply, e.g., adding salary deferrals, cutting back accrued benefits).

RMDs due under IRC Section 401(a)(9).

Reminder: Required fee disclosures

Plan sponsor/Service provider

- Initial disclosure: Required within a reasonable period before the contract is entered into or renewed.
- Annual disclosure: Required following changes in investment information.
- Additional disclosures: Required no later than 60 days after the effective date of the change for changes in compensation or services provided.

Participant

- Initial disclosure: Required on or before the date when participants can first direct investments.
- Annual disclosure: Required to be updated and distributed at least annually.
- Additional disclosures: Required at least 30 days, but no more than 90 days, prior to certain plan changes

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* The deadlines in this calendar are for plans with calendar-year plan years and do not take leap years into consideration. This chart is intended to provide plan sponsors with a list of notable deadlines and is not a substitute for consultation with ERISA counsel and in no way represents legal advice. Historically, when the date falls on a Saturday, Sunday, or legal holiday, the IRS has not extended the deadline for return of excess amounts and RMDs but has extended for deductible contributions, as well as returns/reports. Some deadlines may be extended for certain individuals affected by a natural disaster.

** The CARES Act provides a waiver of RMDs for defined contribution plans and IRAs for 2020.

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