

Market Update & Impacts on Manufacturers' Retirement Plans



August 18, 2021





Amy Reynalt, MBA

Manager, Manufacturing Solutions Group

Amy is a Manager of HBK's Manufacturing Solutions Group and is located in the Youngstown, Ohio office. She joined HBK in 2019 after spending more than 13 years in the manufacturing industry.

Amy helps manufacturing companies navigate their strategic and financial matters. She works closely with clients to support them with managerial tasks including budgeting, cost accounting, process documentation, and strategic planning, and acts as a virtual CFO for clients undergoing transition in their accounting departments. Amy's work is focused on helping her clients plan, execute and meet their short- and long-term goals. In addition, Amy is a member of the firm's COVID-19 Response Team, specializing in relief options, including the Economic Injury Disaster Loan and Paycheck Protection Program.

Amy is a member of the Strategic Planning Committee for the Youngstown Business Incubator.

Rod Diaz, CRPS®, AIFA®

Retirement Plan Manager

Rod Diaz serves as Manager of the Retirement Plan Services Unit for HBKS® Wealth Advisors. Prior to that Rod served as Manager of Retirement Plan Services for McKinley Carter Wealth Services.

Early in his career, Rod was an Investment Banking Analyst for Parker/Hunter and later as their Syndicate Manager. He worked on taking public several Pittsburgh area companies including Carnegie Group, Matthews International, Industrial Scientific, Tollgrade, Lifecor, Piercing Pagoda, Aqua Penn, and Alpha Net Solutions.

Later on, Rod was a Financial Advisor and founding member of a Wealth Management team within Parker/Hunter. There he built a Corporate and Executive Service group to facilitate stock option exercise programs, employee stock purchase plans and retirement plans. In 14 years this group went from managing five retirement plans to sixty plans. His team ultimately managed \$400 million in personal wealth and \$100 million in retirement plans.

Rod holds a bachelors degree in Architecture from the University of Notre Dame and an MBA from Carnegie Mellon University. He has also successfully completed the Chartered Retirement Plans Specialist Designation Program (CRPS) and is an Accredited Investment Fiduciary Advisor (AIFA).

Brian Sommers, CFA

Principal, Chief Investment Officer

HBKS® Principal and Chief Investment Officer Brian Sommers oversees the firm's investment management processes for HBKS® investment advisory representatives. He chairs the firm's Investment Policy Committee and is instrumental in the identification, evaluation and recommendation of the investments that make up the firm's client portfolios. He brings HBKS® clients the expertise of more than 20 years managing a wide range of portfolios for both high net worth individuals and institutional clients.

Prior to joining HBKS® in 2014, Mr. Sommers ran the outsourced CIO service for Fusion Investment Group, where he developed the asset allocation strategies and performed manager due-diligence for three wealth management firms. He also managed Fusion's Equity Enhanced Income product. He has managed an impressive array of investments, including Taft-Hartley plans and endowments, and plans for foundations, corporations, individuals and public entities. He has held positions in investment consulting and client service for both institutional and high net worth clients.

Mr. Sommers holds an MBA from the University of Pittsburgh's Katz Graduate School of Business, has earned the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute and CFA Society of Pittsburgh.

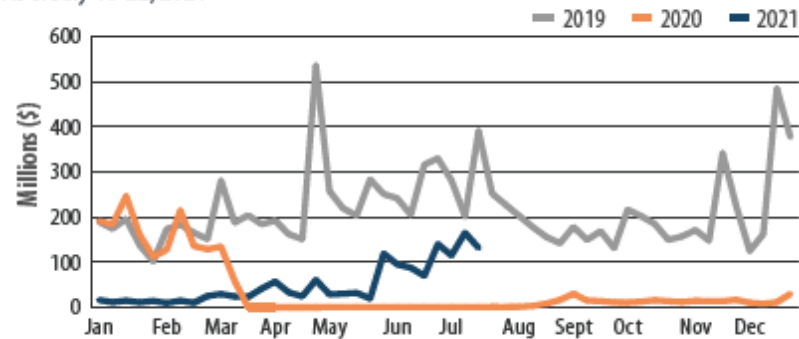
Market Update



Activity is Returning in the Service Sector

BOX OFFICE RECEIPTS

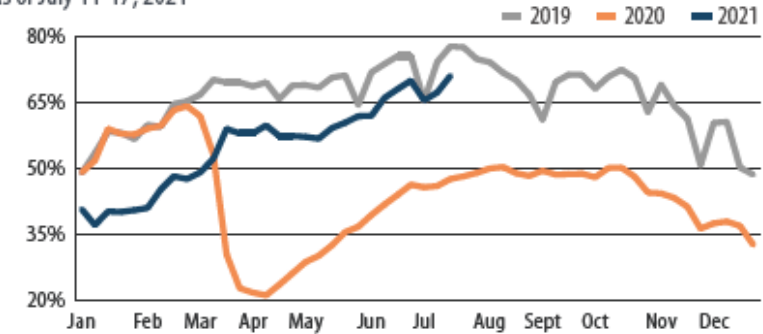
As of July 16-22, 2021



Sources: Box Office Mojo, First Trust Advisors

HOTEL OCCUPANCY

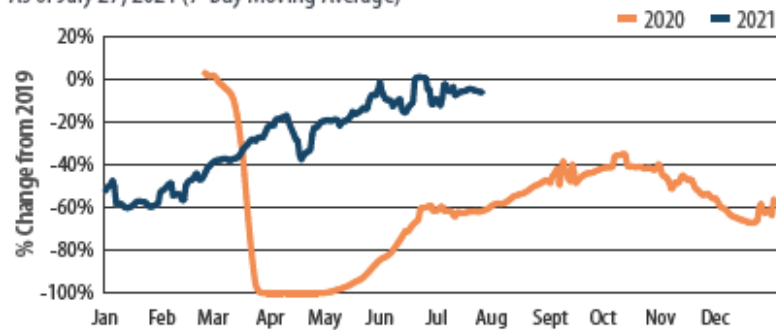
As of July 11-17, 2021



Sources: Hotel News Now, First Trust Advisors

OPENTABLE STATE OF THE RESTAURANT INDUSTRY

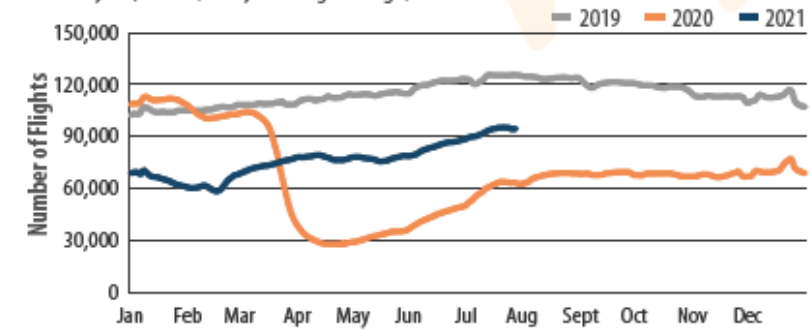
As of July 27, 2021 (7-Day Moving Average)



Sources: Open Table, First Trust Advisors

GLOBAL COMMERCIAL FLIGHTS

As of July 28, 2021 (7-Day Moving Average)



Sources: Flight Radar 24, First Trust Advisors

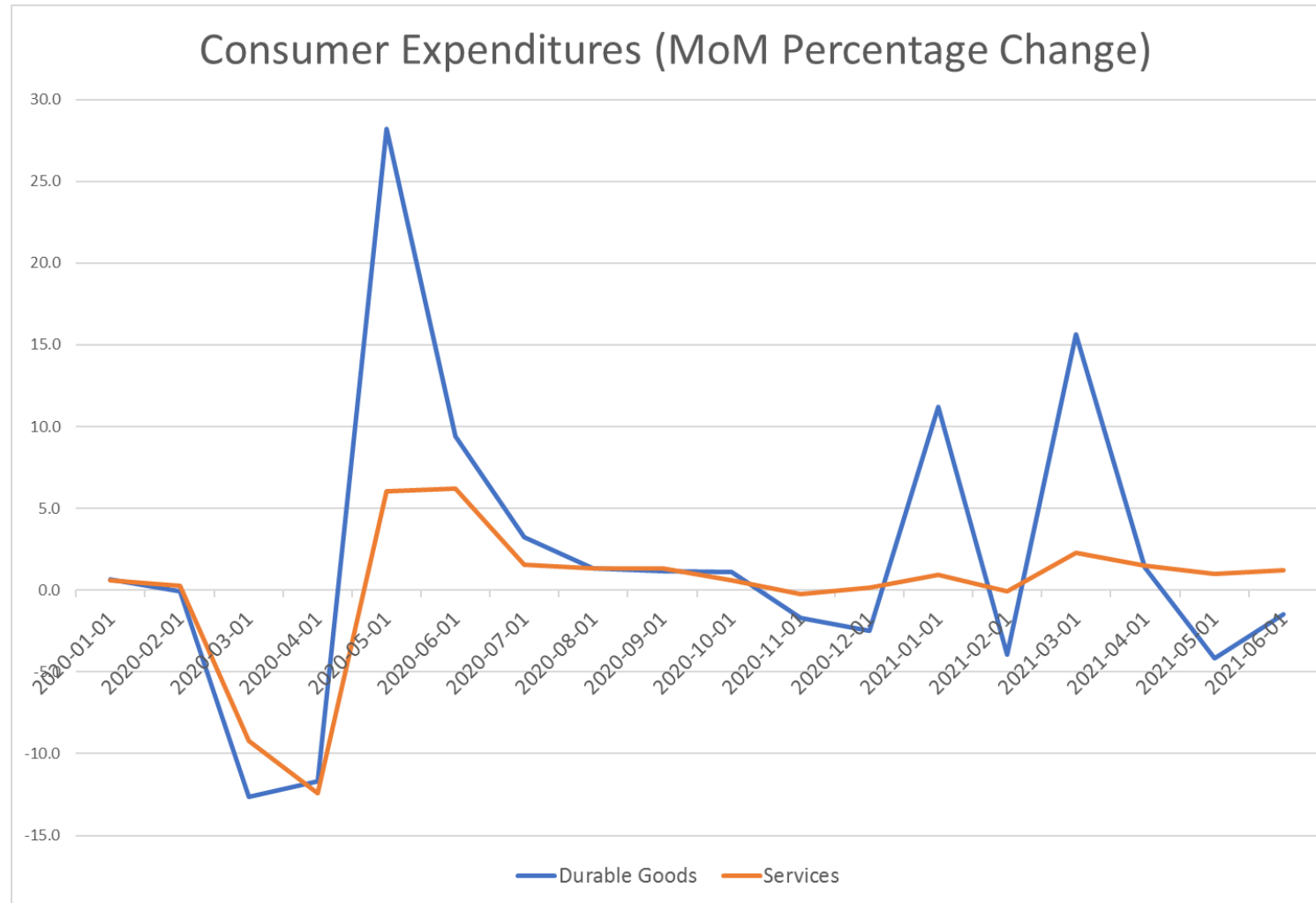
Obstacles to Recovery Remain ... Peak Growth?

Manufacturing at a Glance
July 2021

Index	Series Index Jul	Series Index Jun	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
Manufacturing PMI®	59.5	60.6	-1.1	Growing	Slower	14
New Orders	64.9	66.0	-1.1	Growing	Slower	14
Production	58.4	60.8	-2.4	Growing	Slower	14
Employment	52.9	49.9	+3.0	Growing	From Contracting	1
Supplier Deliveries	72.5	75.1	-2.6	Slowing	Slower	65
Inventories	48.9	51.1	-2.2	Contracting	From Growing	1
Customers' Inventories	25.0	30.8	-5.8	Too Low	Faster	58
Prices	85.7	92.1	-6.4	Increasing	Slower	14
Backlog of Orders	65.0	64.5	+0.5	Growing	Faster	13
New Export Orders	55.7	56.2	-0.5	Growing	Slower	13
Imports	53.7	61.0	-7.3	Growing	Slower	13
OVERALL ECONOMY				Growing	Slower	14
Manufacturing Sector				Growing	Slower	14

Manufacturing ISM® *Report On Business*® data is seasonally adjusted for the New Orders, Production, Employment and Inventories indexes
*Number of months moving in current direction.

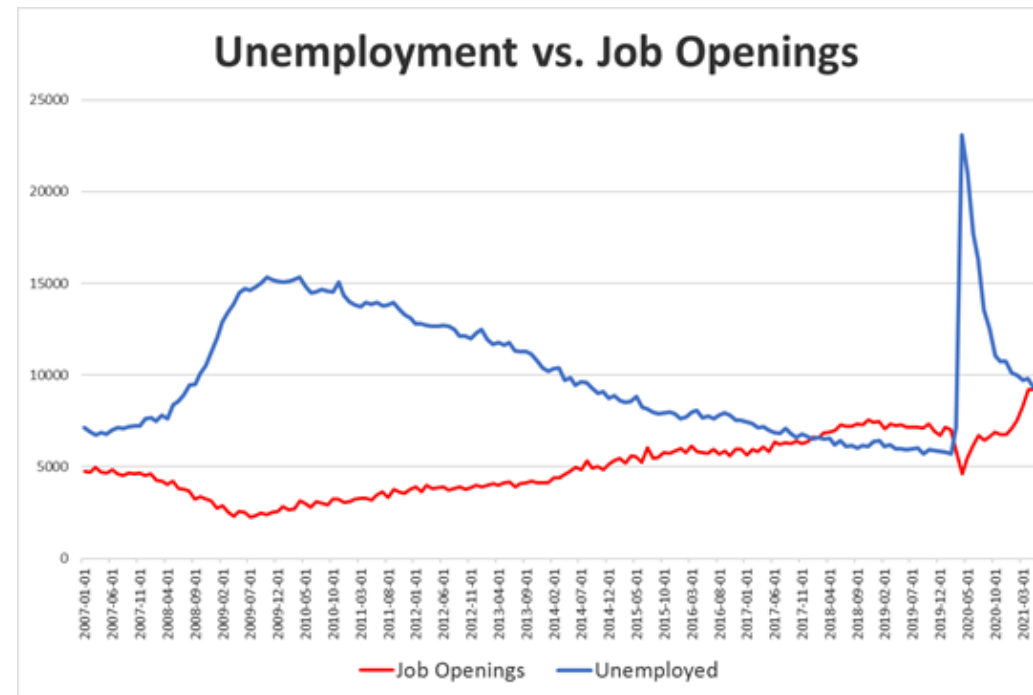
Big Ticket Purchases are Slipping While Spending on Services Improves



Source: Factset

Unusual Situation in Labor Market

- We have an unusual situation where there is a worker shortage in some sectors at the same time there are many job openings in other sectors



Source: Factset

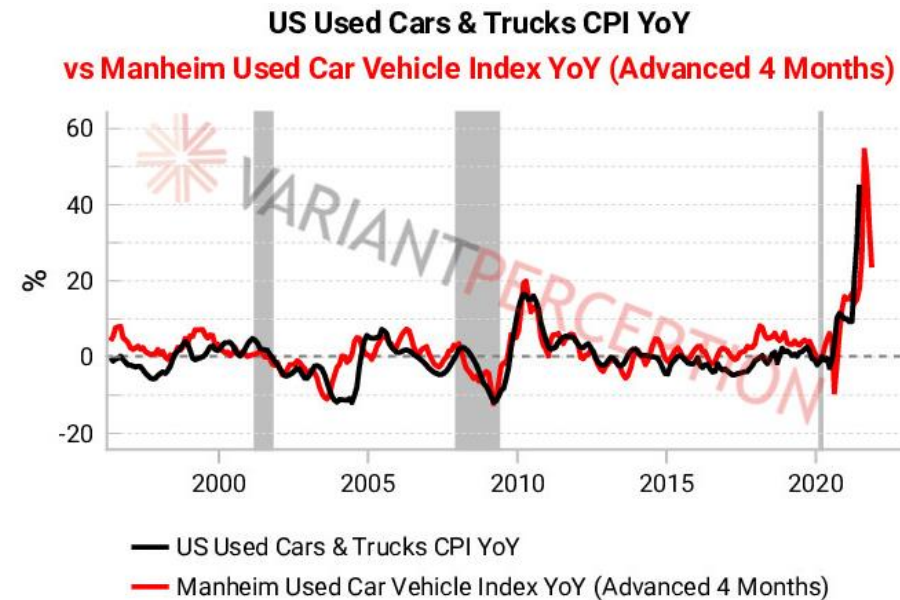
Restarting Business Activity is Creating Inflationary Pressures

- Supply Chain Disruptions
- Higher Raw Material Costs
- Shipping constraints
- Tight labor market

Prices in Key Categories Are Already Falling



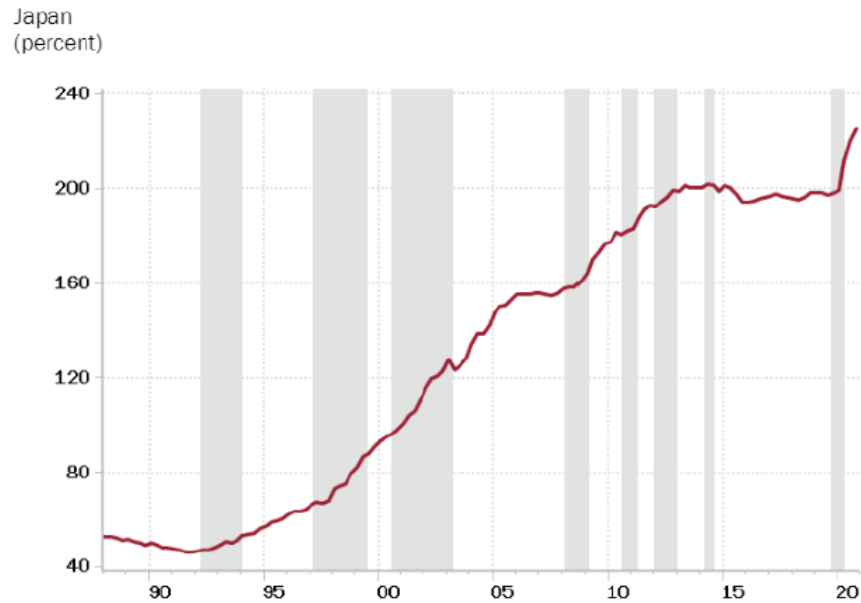
Source: FactSet



Source: Variant Perception Research

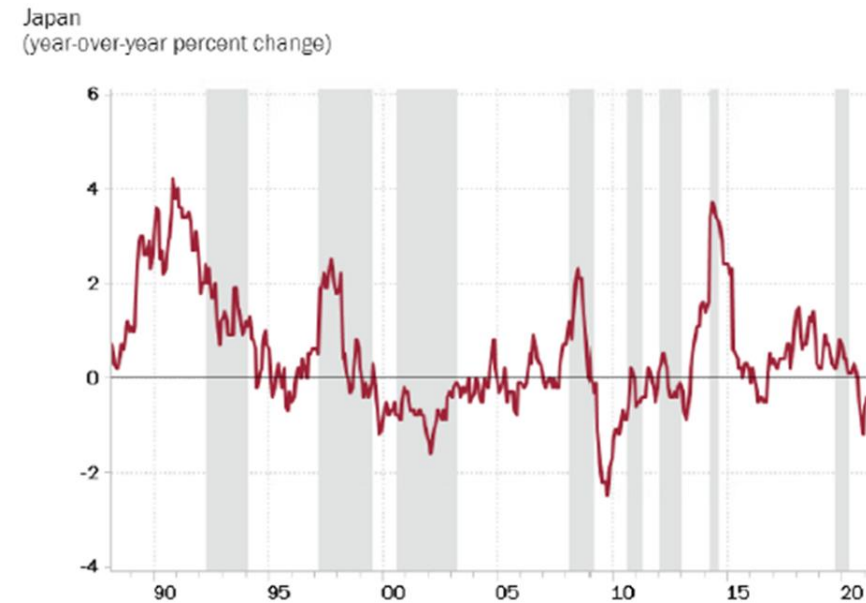
Japan Has Been Spending Billion on Infrastructure For Decades, Yet Inflation Has Remained Modest

Federal Government Debt as a Share of Total GDP



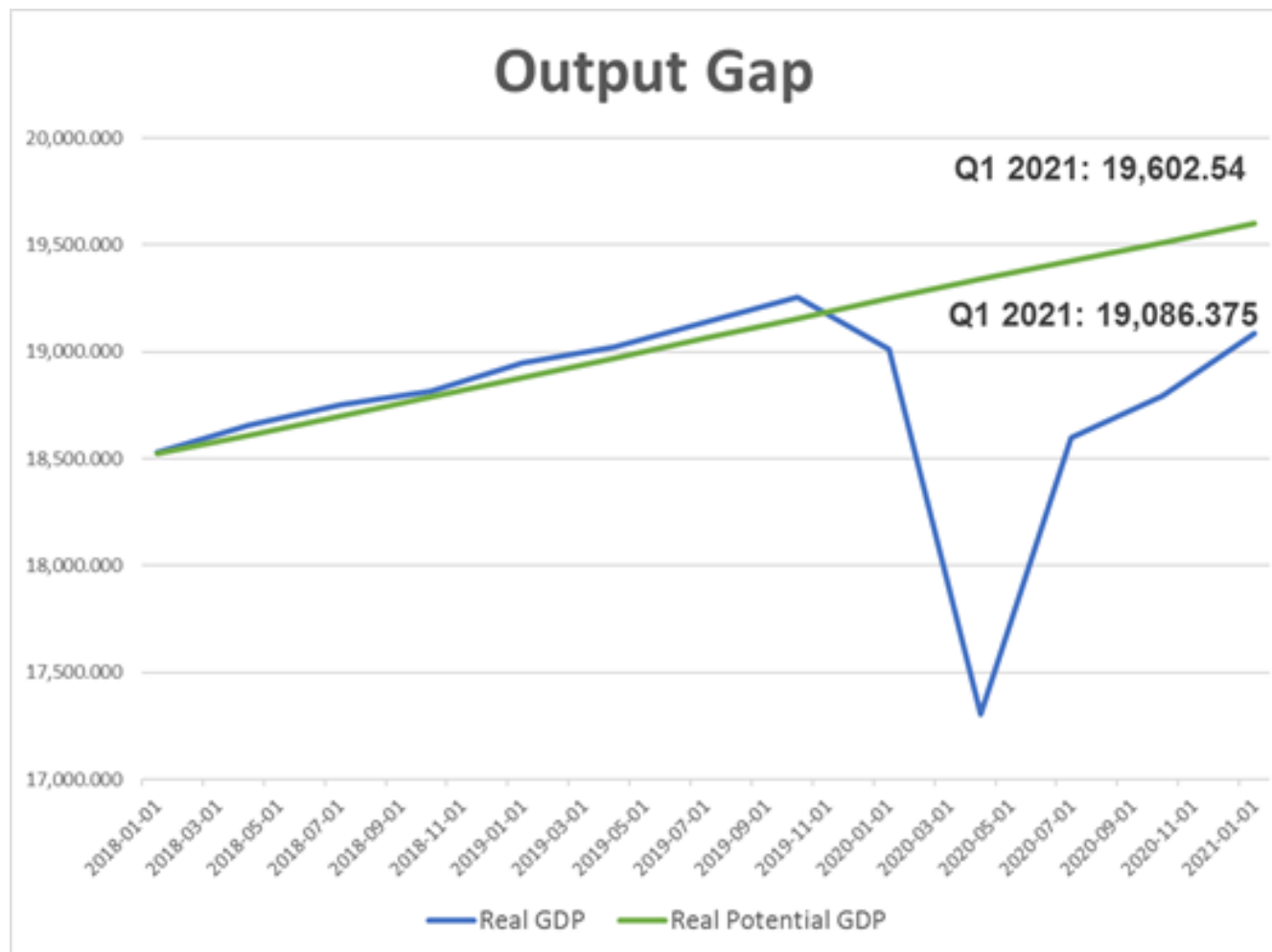
Source: Rosenberg Research

Consumer Price Index (CPI)



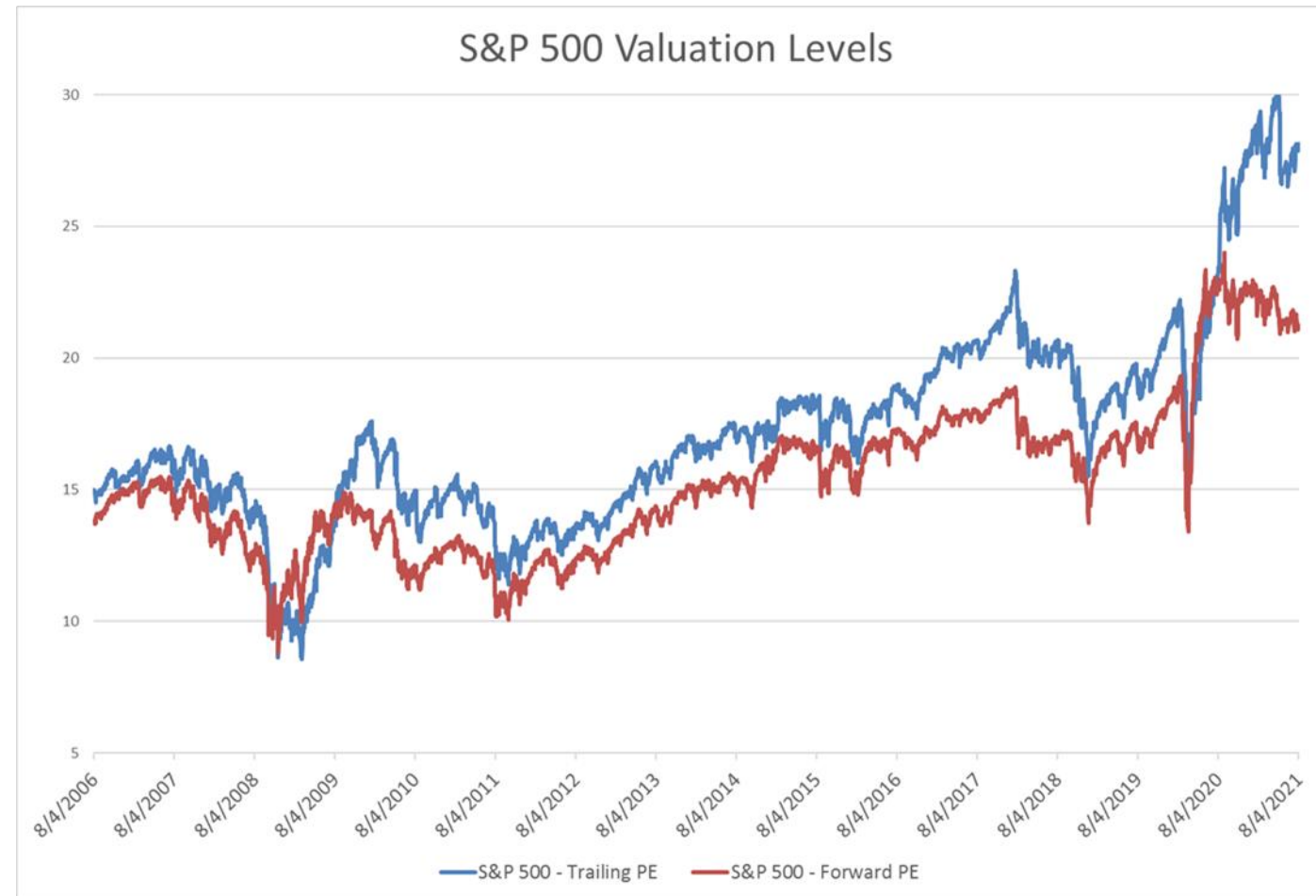
Source: Rosenberg Research

Real GDP is Still 2.6% Below Potential GDP



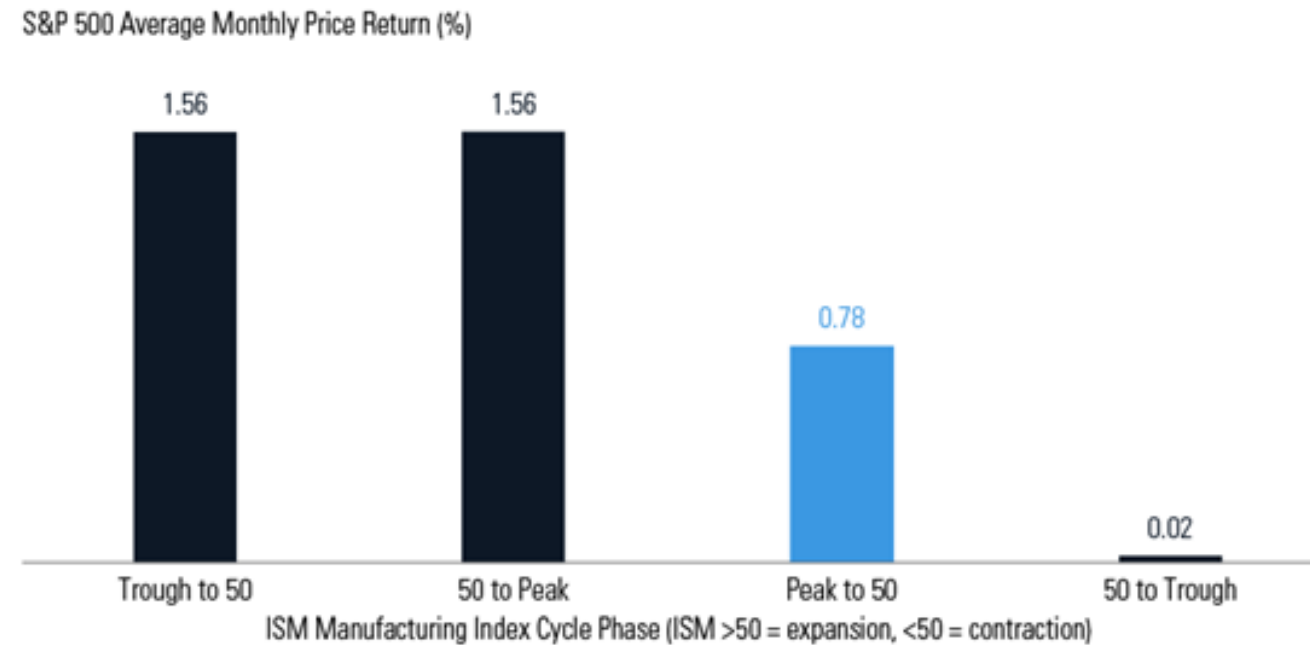
Source: Factset

With Valuations Stretched, Returns May Be Less than expected Going Forward



Source: Factset

Stocks May Move Higher, But at a Slower Pace



Source: Goldman Sachs Asset Management. As of August 5, 2021.

Best Practices for Plan Sponsors



#1 - CONSIDER OPEN ARCHITECTURE PLATFORMS

When selecting your recordkeeping solution, strongly consider open architecture recordkeeping platforms

- Ideally, the platform should be both open and revenue neutral meaning:
 - When building a list of designated investment alternatives, you should ideally be able to choose from most publicly traded mutual funds and ETFs
 - Where appropriate, no-load and institutionally priced funds should be available
 - Any revenue-sharing paid by a fund complex should be paid back to the plan and available for the plan sponsor to use to offset other fees
- Consider avoiding packaged platforms built by product providers
 - Avoid any solution that might appear to be “pay-to-play” – solutions where fund complexes are paying to have their products available on the recordkeeper’s investment menu

#2 - EXAMINE PLAN FEES

Retirement plan sponsors are obligated to make sure fees are reasonable under ERISA

- For qualified retirement plans, monitoring fees is not simply a best practice – the law compels you to ensure certain fees are reasonable
 - Regulators are particularly concerned about fees that are passed on to participants
- Fees impact performance and, ultimately, a participant's retirement
- Documenting a process for determining the reasonableness of a plan's fees can be challenging
- Best practice – periodic fee benchmarking studies

#3 - MONITORING INVESTMENT OPTIONS

Retirement plan sponsors also must have a process in place for reviewing investment options in their plan

- Retirement plan sponsors should be able to demonstrate procedural prudence has been used to select and monitor the plan's investment options
- One best practice is to define this prudent process in an investment policy statement and then monitor investments relative to these defined benchmarks
 - Doing so consistently and regularly is very important
 - Documenting this process is critical

#3 - MONITORING INVESTMENT OPTIONS

Sample Investment Option Due Diligence



#4 - TRACK TIMELINESS OF PARTICIPANT DEFERRALS

Retirement plan sponsors for defined contribution plans are under pressure to deposit employee salary deferrals in the 401(k) trust as soon as possible

- There is a misconception, based on a Department of Labor safe harbor rule, that retirement plan sponsors have 15 days to make their 401(k) deposits
- Unfortunately, this is no longer the case
 - Example – if a Department of Labor investigator reviews payroll records, and you demonstrate an ability to make a deposit within three days, then, that is your new standard
 - If deposits are late, you may be responsible for lost earnings on the late contributions

DOL ENFORCEMENT ACTIONS

The Department of Labor's Employee Benefits Security Administration (EBSA) is responsible for ensuring the integrity of the private employee benefit plan system in the United States. Their authority extends to nearly 722,000 retirement plans representing 154 million workers and their dependents with approximately \$10.7 trillion in plan assets.

- Some plans are selected for random investigations whereas other investigations are triggered by employee/participant complaints

Total Monetary Recoveries (Historical)				
Total Recoveries	FY 2020	FY 2019	FY 2018	FY 2017
\$8.4B	\$3.124B	\$2.57B	\$1.6B	\$1.1B

#5 - REVIEW PLAN DESIGN PERIODICALLY

Plan sponsors should challenge their service providers to periodically review their design and make sure the plan is meeting the sponsor's objectives

- Consider opportunities to allow participants better use of the plan and maximize contributions.
- Also, by reviewing plan provisions, you may be able to allocate more dollars to reward top-performing participants.
 - Often, you can allocate proportionally more profit sharing to participants who are older than the group average age. (age-weighted profit-sharing allocation)
 - You may also be able to allocate more profit-sharing contributions to certain participants using a combination of age, compensation and employment classification. (cross-tested or new comparability)

#6 – EXPLORE ADVANCED DESIGN SOLUTIONS

Retirement plan sponsors may also benefit from pairing their 401(k) retirement plan with a cash balance retirement plan

- Generally, a cash balance retirement plan is a type of plan where an employer credits the participant account with a set percentage of his or her compensation plus a credit for earnings
- The percentage of the participant's compensation and the interest credited are guaranteed by the employer
- Account balances must be trued up annually by the employer, regardless of market performance
- Reporting is done annually to participants on an individual account basis
- These types of plans can be very beneficial for participants who are older and more highly compensated

#6 – EXPLORE ADVANCED DESIGN SOLUTIONS

Sample Retirement Plan Design

Name	Date of Birth	Date of Hire	Estimated Compensation	Cash Balance Allocation	Cash Balance %	3% Safe Harbor/ Profit Sharing Allocation	SH/PS %	Owner 401(k) Deferrals	Non-Owner 401(k) Deferrals	Employer-Paid Total	Employer-Paid as % of Total
HCEs:											
Partner 1	08/09/1962	01/01/2000	280,000.00	212,800.00	76.00%	37,000.00	13.21%	25,000.00		274,800.00	58.48%
Partner 2	02/20/1979	09/10/2012	280,000.00	-	0.00%	37,000.00	13.21%	19,000.00		56,000.00	11.92%
Staff 1	05/08/1964	02/27/2003	134,693.85	-	0.00%	4,040.82	3.00%	-	19,000.00	4,040.82	0.86%
Staff 3 (Spouse, Partner 1)	05/22/1980	11/25/2015	90,000.04	6,750.00	7.50%	8,800.00	9.78%	19,000.00		34,550.00	7.35%
Staff 22 (Spouse, Partner 2)	09/22/1979	11/01/2016	21,000.00	-	0.00%	630.00	3.00%	19,000.00		19,630.00	4.18%
NHCEs:											
Staff 2	02/22/1964	03/05/2000	93,933.48	1,878.67	2.00%	6,387.48	6.80%		-	8,266.15	1.76%
Staff 4	12/05/1960	12/01/1997	80,500.00	1,610.00	2.00%	5,474.00	6.80%		-	7,084.00	1.51%
Staff 5	04/20/1954	01/26/2004	74,830.92	1,496.62	2.00%	5,088.50	6.80%		-	6,585.12	1.40%
Staff 6	11/19/1959	07/01/1996	74,480.41	1,489.61	2.00%	5,064.67	6.80%		-	6,554.28	1.39%
Staff 7	07/06/1982	10/03/2016	65,706.34	1,314.13	2.00%	4,468.03	6.80%		-	5,782.16	1.23%
Staff 8	04/20/1989	08/07/2007	63,800.34	1,276.01	2.00%	4,338.42	6.80%		-	5,614.43	1.19%
Staff 9	06/18/1986	05/31/2017	60,000.00	1,200.00	2.00%	4,080.00	6.80%		-	5,280.00	1.12%
Staff 10	12/14/1981	01/23/2008	59,057.69	1,181.15	2.00%	4,015.92	6.80%		-	5,197.07	1.11%
Staff 11	10/27/1964	01/16/2008	50,521.55	1,010.43	2.00%	3,435.47	6.80%		-	4,445.90	0.95%
Staff 12	12/07/1966	08/21/2006	46,728.44	934.57	2.00%	3,177.53	6.80%		-	4,112.10	0.88%
Staff 13	09/20/1961	09/01/2003	45,634.48	912.69	2.00%	3,103.14	6.80%		-	4,015.83	0.85%
Staff 14	10/25/1968	02/11/2006	44,054.01	881.08	2.00%	2,995.67	6.80%		-	3,876.75	0.82%
Staff 15	12/10/1986	01/17/2011	42,797.62	855.95	2.00%	2,910.24	6.80%		-	3,766.19	0.80%
Staff 16	11/22/1964	01/16/2008	34,595.61	691.91	2.00%	2,352.50	6.80%		-	3,044.41	0.65%
Staff 17	09/11/1977	04/25/2016	24,987.42	499.75	2.00%	1,699.14	6.80%		-	2,198.89	0.47%
Staff 18	02/14/1992	02/01/2017	21,577.50	431.55	2.00%	1,467.27	6.80%		-	1,898.82	0.40%
Staff 19	02/27/1995	05/11/2015	18,467.80	369.36	2.00%	1,255.81	6.80%		-	1,625.17	0.35%
Staff 20	06/27/1995	06/30/2016	11,432.79	228.66	2.00%	777.43	6.80%		-	1,006.09	0.21%
Staff 21	06/24/1973	10/16/2017	6,396.77	127.94	2.00%	434.98	6.80%		-	562.92	0.12%
Total			1,725,197.06	237,940.08		149,997.02		82,000.00	19,000.00	469,937.10	100.00%

This proposal is for illustrative purposes only. Contributions should not be made based on these proposed numbers.

Total for Owners	384,980.00	81.92%
Total for Staff	84,957.10	18.08%

Tax Savings of Total Contributions (Estimated 40% Tax Rate)	187,975
Amount to Staff	84,957
Estimated Net Savings Remaining for Owners	103,018

Total for HCEs	389,020.82	82.78%
Total for NHCEs	80,916.28	17.22%

#7 - CONSIDER OUTSOURCING FIDUCIARY LIABILITY

Retirement plan sponsors should consider requesting that various service providers acknowledge their fiduciary responsibility in writing

- For example, your investment advisor/consultant may be willing to act as a nondiscretionary investment advisor to the plan under ERISA section 3(21).
- Some advisors are willing to assume *all* responsibility and liability associated with the investment decisions for the plan as a discretionary investment manager under ERISA section 3(38).
- Further, some third-party administrative firms are willing to provide fiduciary advice for their services – these are covered under ERISA section 3(16) and are typically marketed as 3(16) administrative services.

#8 – CONFIRM ADEQUATE ERISA BOND

ERISA generally requires that every fiduciary of an employee benefit plan who handles funds or other property be bonded. The purpose of the bond is to protect employee benefit plans for risk of loss due to fraud or dishonesty on the part of persons who handle plan funds or other property.

- Generally, each person must be bonded in an amount equal to at least 10% of the amount of funds he or she handled in the preceding year.
- The bond amount cannot, however, be less than \$1,000, and the DOL cannot require a plan official to be bonded for more than \$500,000, or \$1,000,000 for plans that hold employer securities.

#9 – CONSIDER VOLUNTARILY COMPLYING WITH 404(C)

Consider voluntarily complying with regulation 404(c). If the ERISA qualified retirement plan satisfies this regulation, fiduciaries will not be liable for any claim brought about by poor investment decisions made by the participant.

- Example – a participant ignores principles of proper diversification and invests all of their assets in an emerging markets fund. The fund loses half of its value in one year. If the plan does not comply with 404(c), the participant is not responsible for that decision, the plan fiduciaries are.
- This applies to participant directed plans only – such as 401(k)s, 403(b)s, etc.
- Again, compliance with this regulation is voluntary, you do not have to attempt to comply

#10 – USE A QDIA (Qualified Default Investment Alternative)

A QDIA is used when participants haven't made an active investment election. When money is contributed to the plan, it is automatically invested in the QDIA that was selected by the plan fiduciary. The participant can then leave the money in this default investment or transfer to other plan investments.

- The concept of the QDIA was first introduced through the Pension Protection Act of 2006.
- When a 401(k) plan has a QDIA that meets the Department of Labor's rules, then the plan fiduciary is not liable for the QDIA's investment performance.
- Without a QDIA, the plan fiduciary is liable for investment losses when participants don't actively direct their plan investments.

About HBKS Wealth Advisors



ABOUT HBKS® WEALTH ADVISORS

- An independent, personal financial planning and investment advisory firm with offices in Pennsylvania, Ohio, New York and Florida
- Families, corporate and institutional clients rely on us to supervise their assets. HBKS® Wealth Advisors currently has over \$5.5 billion of assets under management
- HBKS® Wealth Advisors is part of the HBK CPAs & Consultants family of service firms and organizations
 - HBK CPAs & Consultants, one of the top 100 accounting firms in the nation, was founded in 1949

ABOUT HBKS® WEALTH ADVISORS

Dedicated Staffing in the Retirement Plan Services Area

- HBKS Wealth Advisors' dedicated group of professionals have worked exclusively with the firm's qualified retirement plan clients for 20 years
- Having specially trained staff in the pension area allows our team to be very responsive to the unique needs of our corporate clients sponsoring qualified retirement plans

Need More Information?

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