ONEAMERICA®

MCCREADY AND KEENE, INC.

1099-R Process

January 29, 2014

McCready and Keene prepares 1099-R's for several of our defined contribution clients and a few defined benefit clients. If you have requested this service, the process we follow is:

1. In January, you reviewed and approved the spreadsheet of distributions for 2013.
2. We prepared the 1099-R's and will send them to participants by January 31, 2014, unless you have requested that we send them to you for distribution to participants.
3. If taxes are withheld and Form 945 is required, we will complete Form 945 and send it to you for signature and filing. We will let you know the filing date applicable to you (January 31 if withheld taxes have not been paid or were paid late and February 10 if withheld taxes were paid in a timely manner.)
4. We will file your copy of the 1099-Rs with the IRS (filing deadline is March 31, 2014).
5. We will send you copies via M-Safe for your files.

If you have questions, please contact your McCready and Keene representative.

Congress Increases PBGC Premiums For Defined Benefit Plans Again!

A defined benefit plan pays annual premiums to the Pension Benefit Guaranty Corporation ("PBGC"). There are two types of premiums: 1) a per participant flat rate premium paid by all single-employer plans covered by the PBGC and 2) a variable rate premium paid by plans that do not have enough assets to pay all vested benefits. You may recall that MAP-21 increased the PBGC flat-rate premium from $35 per participant for 2012, to $42 for 2013, to $49 for 2014, and indexed for inflation after 2014. The variable rate premium of $9 per $1,000 of unfunded vested benefits in 2013 was increased by MAP-21 to $14 in 2014 and $19 in 2015 (with a per participant cap of $400 per participant adjusted for inflation).

On December 26, 2013, President Obama signed into law the Bipartisan Budget Act of 2013. In an effort to address the PBGC's $36 billion unfunded liability, the Budget Act increases both the flat rate and the variable rate premiums. The flat rate increases to $57 per participant for 2015 and to $64 for 2016, and indexed to the growth in wages thereafter. The Budget Act increases the variable rate to $14 per $1,000 of underfunded vested benefits in 2014, $24 in 2015, and $29 in 2016 (with a per participant cap of $500 for plan years beginning after 2015). The amount of underfunded vested benefits is determined using the rules under the Pension Protection Act of 2006 (not MAP-21).

Let's look at an example. Assume a plan has 200 participants and $1 million in unfunded vested benefits (based on the funding rules under the Pension Protection Act of 2006). Assuming everything else stays the same, the total PBGC premiums would increase from $17,400 in 2013 to $41,800 in 2016 - a 140% increase!

Please contact your McCready and Keene actuary to discuss possible ways to reduce the effect of this increase.

Year-End Testing For Defined Contribution Plans

Every year plan sponsors of qualified defined contribution plans and 403(b) plans must make sure their plans satisfy certain compliance requirements. (Some of the tests do not apply to governmental or church plans.) McCready and Keene performs the year-end tests for its clients. This year, the year-end testing report will have a different look. The report layout is different than prior years, but the basic content is the same. Your McCready and Keene representative will be in touch with you to provide more information about the changes.

As has been the case in the past, the report will provide results for the tests and information on steps needed to correct any testing failures.

Description of the Tests.

Coverage Testing. The percentage of non-highly compensated employees benefiting under the plan must be at least 70% of the percentage of highly compensated employees who benefit under the plan. If a plan does not pass this test, it must pass the more complex average benefits test.

Year-End Testing for Defined Contributions Plans continued -

Section 415 Limit. Employer contributions, employee post-tax and pre-tax contributions, and forfeitures reallocated to a participant during a limitation year that begins in 2013 are limited to the lesser of $51,000 or 100% of the participant's compensation.

Annual Deferral Limit. For the 2013 calendar year, a participant's deferral contributions to a 401(k) plan, 403(b) plan, or Section 457 plan could generally not exceed $17,500. (However, the deferral limit for 457(b) plans is more complicated because it also includes the portion of employer contributions that become vested during the year.) A single $17,500 limit applies to deferral contributions made to any combination of 401(k) plans or 403(b) plans in which an individual participates. A separate $17,500 limit applies to Section 457 plans. In other words, an individual could contribute $17,500 to a combination of 401(k) plans and/or 403(b) plans and an additional $17,500 to a Section 457 plan. If an individual participates in more than one plan, he must monitor his compliance with the deferral limit.

A 401(k), 403(b) or governmental Section 457 plan may be written to allow participants age 50 or older in 2013 to contribute an additional $5,500 of "catch-up" deferrals during the 2013 calendar year. Additional catch-ups (for example 15-year catch-up or last 3-year catch up) are available under some 403(b) programs and Section 457 plans.

Actual Deferral Percentage Test ("ADP Test"). A 401(k) plan must perform an ADP Test as of the last day of each plan year to confirm that the highly compensated employees do not contribute disproportionately more to the plan than the non-highly compensated employees. The other alternative to an ADP Test is for the plan to qualify as a safe-harbor plan by making a certain level of employer contribution to the participants.

A 403(b) plan must comply with the universal availability requirement for elective deferral contributions.

Actual Contribution Percentage (ACP Test). Plans, including 403(b) plans, which accept employee post-tax contributions or employer matching contributions must perform an Actual Contribution Percentage Test ("ACP Test") as of the last day of each plan year to confirm that the highly compensated employees do not disproportionately benefit from such contributions. A safe harbor plan may also avoid an ACP Test.

Correction for Failed Tests. (Failure to correct in a timely manner could result in plan disqualification.)

Coverage Testing. Additional participants would have to be brought into the plan.

Section 415 Limit. The correction steps are as follows:

Any unmatched employee's after-tax contributions (adjusted for earnings) are distributed to the participant.

Any unmatched employee's elective deferrals (adjusted for earnings) are distributed to the participant.

Any matched employee after-tax contributions (adjusted for earnings) or elective deferrals (adjusted for earnings) are distributed to the participant, with the excess apportioned first to after-tax employee contribution and the associated match and then to elective deferrals and the associated match.

The associated match (adjusted for earnings) is removed from the participant(s) accounts. If the amounts removed would have been allocated to other participants under the terms of the plan, they are reallocated. If not, they are placed in an unallocated account to be used to reduce employer contributions. With the exception of deferrals, no employer contributions can be made until the amount in the unallocated account is used. Any remaining excess is corrected by following the same procedure for nonelective employer contributions (adjusted for earnings).

Annual Deferral Limit. Excess deferrals made in 2013 must be distributed to the participant with related earnings by April 15, 2014. If the correction is made timely, the excess elective deferral contributions are included in the participant's income in the year contributed. Any earnings are included in the participant's income in the year distributed. If the correction is made after April 15, 2014, the excess elective deferral contributions are included in income for both the year contributed and the year distributed, and earnings are included in the participant's income in the year distributed.

ADP Test and ACP Test. In general, plans must correct all 2013 plan year contributions in excess of the ADP or ACP limits within a year after the end of the 2013 plan year. That means, for calendar year plans, corrections need to be made by December 31, 2014. Correction steps are as follows:

The ADP excess contributions must be reclassified as catch-up deferrals to the extent a participant who is age 50 or older has not reached the maximum catch-up limit for 2013. This step can eliminate or reduce the amount of excess that needs to be corrected. (This process is complicated if the plan has a non-calendar year plan year.)

If there is remaining excess, it can be distributed to participants or the employer may make an additional contribution to some or all of the non-highly compensated employees if the plan permits these types of contributions.

If correction is made by distributing the excess (and related earnings) to participants and the distribution is made within 2-1/2 months after the end of the 2013 plan year, there is no excise tax payable to the IRS. If the corrective distributions are made after the 2-1/2 month window, a 10% excise tax is payable to the IRS. Corrective distributions (and related earnings) are taxable to the participant in the year distributed. (There are special rules regarding the 10% excise tax for plans that qualify as eligible automatic contribution arrangements (EACAs).)

If you have any questions, please contact your McCready and Keene representative.

Higher Interest Rates Offer Strategies For Defined Benefit Plan Sponsors

There are two possible strategies that sponsors of defined benefit plans may want to consider to reduce plan costs and risks. The first is to offer a lump sum window to terminated vested participants. The second is to use institutional annuity products to reduce and/or eliminate pension risks, known as "pension risk transfer."

The attraction of both strategies is that they allow a plan sponsor to settle some plan liabilities rather than waiting until there are sufficient assets in the plan to settle all liabilities. In addition to eliminating the volatility of the pension obligation for a certain group of participants, these strategies can also eliminate the administrative cost and Pension Benefit Guaranty Corporation premiums for the targeted group.

How do they work? The lump sum window offers terminated participants an opportunity to elect a lump sum within a 30 or 60 day window. Once the window closes, the lump sum payout will no longer be available. This strategy requires that the plan be 80% funded after the window is exercised, an amendment to the plan, and notification to participants.

Pension risk transfer includes "buy-out" transactions where the liabilities are transferred to the books of an insurance company and "buy-in" transactions where an employer purchases annuities as assets of the pension plan. This strategy also requires that the plan be 80% funded after the pension risk transfer is exercised and perhaps an amendment to the plan. Unlike the lump sum window, the pension risk transfer does not require an election by the participant.

The cost of both strategies is very dependent on interest rates. The increase in interest rates during 2013 makes both strategies more attractive than in prior years.

The lump sum window is dependent on what is known as the 417(e) rate. The lower the rate is, the higher the lump sum value. Typically, the 417(e) rates are determined two months before the beginning of the plan year. Most calendar year plans use the November 417(e) rates. The following chart provides a helpful comparison:

417(e) INTEREST RATES		
Segment	November 2012	November 2013
Segment 1	0.97%	1.19%
Segment 2	3.50%	4.53%
Segment 3	4.60%	5.66%

The substantial increase in interest rates dramatically decreases lump sum values as indicated in this chart, which assumes the IRS 2014 417(e) mortality:

ESTIMATED LUMP SUM VALUE of $100 MONTHLY BENEFIT DEFERRED TO 65		
Age	November 2012 Rates	November 2013 Rates
40	$4,598	$3,265
45	$5,779	$4,315
50	$7,782	$6,146
55	$10,096	$8,383
60	$12,840	$11,183
65	$16,574	$15,254

Pension risk transfer is dependent on annuity purchase rates in effect on the date of purchase. The lower the rate is, the higher the annuity purchase price. As of January 1, 2013, a typical immediate rate was 3.00% and a deferred rate was 3.25%. As of January 1, 2014, a typical immediate rate was 3.70% and a deferred rate was 3.95%.

The following chart provides a useful comparison using the IRS 2014 417(e) mortality:

ESTIMATED ANNUITY COST of $100 MONTHLY BENEFIT PAYABLE AT 65		
Age	January 2013 Rate	January 2014 Rate
40	$7,205	$5,698
45	$8,485	$6,941
50	$10,006	$8,466
55	$11,829	$10,352
60	$14,096	$12,760
65	$17,481	$16,351

If you would like to discuss whether a lump sum window or pension risk transfer could benefit your plan, please contact your McCready and Keene actuary.

Reportable Events for Defined Benefit Plans

Most defined benefit plans are subject to the rules of the Pension Benefit Guaranty Corporation ("PBGC"). However, a defined benefit plan sponsored by a professional service employer that has always had less than 25 active participants, a church, or a governmental entity is not covered by the PBGC. For plans that are covered, the PBGC has identified certain corporate events and certain retirement plan events as "reportable events." However, for some events, the waiver provisions are so broad that no reporting is required. For simplification, this article only lists the events that may have to be reported. In general, the reporting must occur no later than 30 days after the event.

1. ***Active Participant Reduction*** - the number of active participants is reduced to 80% of the number of active participants at the beginning of the plan year or to 75% of the number of active participants at the beginning of the previous plan year. Notice is waived if the plan has fewer than 100 participants at the beginning of either the current or the previous plan year. Notice is also waived if certain funding requirements are satisfied.
2. ***Failure to Make Required Minimum Funding Payments*** – required contributions (including quarterly, annual, and payments required as a condition for a funding waiver) are not made. Notice is waived if the required payment is made by the 30th day after its due date. Filing of Form 200 is required if all unpaid contributions exceed $1 million. Form 200 is due no later than 10 days after the due date of the required payment. If Form 200 is filed, a separate notice to the PBGC is not required. If the plan has fewer than 25 participants and the failure to make one or more required quarterly contributions is not the result of financial inability, then notice is waived. If the plan has 25 or more but fewer than 100 participants and the failure to make one or more required quarterly contributions is not the result of financial inability, then a simplified notice as provided in PBGC Technical Update 13-1 will suffice.
3. ***Change in contributing sponsor or controlled group*** – if there is a transaction that will result in one or more entities ceasing to be members of the Plan's controlled group. Notice is waived if the entities ceasing to be members of the controlled group represent less than a 10% interest of the group, the entity ceasing to exist is a foreign entity, or the plan satisfies certain funding requirements..
4. ***Liquidation of Contributing Sponsor or Controlled Group Member*** – Notice is waived if the entities ceasing to be members of the controlled group represent less than a 10% interest of the group, the entity ceasing to exist is a foreign entity, or the plan satisfies certain funding requirements.
5. ***Extraordinary Dividend or Stock Redemption*** – if the amount of a dividend or stock redemption is a large portion of the company's adjusted net income or assets. Notice is waived if the entities ceasing to be members of the controlled group represent less than a 5% interest of the group, the entity ceasing to exist is a foreign entity, or the plan satisfies certain funding requirements.
6. ***Transfer of Benefit Liabilities*** – if the Plan transfers 3% or more of the Plan's total benefit liabilities to a company outside the controlled group or to a plan maintained by a company outside the controlled group. Notice is waived if the plans satisfy the rules for plan mergers or for fully funded plans.
7. ***Application for Minimum Funding Waiver***.
8. ***Loan Default*** – there is a default under a loan agreement by a member of the controlled group if the loan has an outstanding balance of $10 million or more. Notice is waived if the plan satisfies certain funding requirements.
9. ***Bankruptcy or Similar Settlement*** – if any member of the Plan's controlled group commences a bankruptcy case, an insolvency proceeding, or a settlement with creditors.

The PBGC has issued proposed regulations which add two new additional reportable events:

1. ***Funding Status*** - if the adjusted funding target attainment percentage is less than 60% or presumed to be less than 60%.
2. ***Transfer to Retiree Health Account*** – if $10 million or more of excess assets are transferred to fund retiree health benefits.

The proposed regulations also base waivers on the financial soundness of the company or the plan. The purpose of reporting such events is to provide an early alert to the PBGC that plans could be in financial distress. The proposed regulations will become effective when they are finalized. The PBGC is hoping for an effective date in 2014. To date, they have not been finalized. We will keep you posted.

Annual Reminder for Defined Benefit Plans

- You need to provide participants who attain normal retirement age and continue to work with a Suspension of Benefits Notice. If you need another copy of the Notice, please contact your McCready and Keene representative.
- Keep current addresses for your terminated participants who have a vested benefit. In the Fall, our Benefits Area will send each defined benefit client a listing of terminated participants who are not yet in pay status and who will attain normal retirement age in 2015. The next step will be for you to send our Benefits Area a request to commence the participant's benefit, along with his or her current address and marital information (marital status and if applicable, spouse's name, date of birth, and social security number).
- As soon as someone who has attained normal retirement age tells you he or she wants to retire, provide the participant with a Joint and Survivor Notice. Providing the Joint and Survivor Notice before the Benefit Application arrives could prevent you from having to make retroactive payments for a participant who does not provide adequate notice of retirement.

Important News for Church Plans

Church plans enjoy a special status under the Employee Retirement Income Security Act of 1974 (ERISA). They are statutorily exempt from all ERISA requirements, such as strict participation rules, minimum vesting schedules, minimum funding rules, government reporting (Form 5500), strict fiduciary rules, and, for defined benefit pension plans, PBGC premiums. As a result, church plans are less expensive from an administrative standpoint, and sponsors generally take great pains to maintain that church plan status.

From a participant's standpoint, a participant generally wants his or her plan to be governed by ERISA. With the demise of several large church defined benefit plans and insufficient assets to pay all benefits, church plan participants have begun fighting back. And now they've scored a significant victory. On December 12, 2013, the U.S. District Court for Northern District of California ruled in Rollins v. Dignity Health that a defined benefit pension plan sponsored by a large tax-exempt health care system was not a "church plan." The court found that while a church-affiliated entity (such as a committee) may maintain an ERISA-exempt church plan, only plans established directly by a church or convention of churches qualify as church plans under ERISA. See the U.S. District Court Ruling for additional information.

This case conflicts with many IRS private letter rulings on the subject, so it will likely be appealed to the 9th Circuit. In the meantime, if your organization sponsors a church plan, you should consult your legal counsel for assistance. Please remember that McCready and Keene is not a law firm and cannot determine whether your plan is in fact a church plan for purposes of the exemption under ERISA.

If you have questions or would like additional information about the items presented in this newsletter, please call your McCready and Keene representative.

Visit us on the web: www.mcak.com