Retirement in the Private Sector - The Problem and the Solutions

By: Terence L. Horan, CLU, ChFC, President, CEO, Registered Representative

Terry Horan, President and CEO of HORAN, leads an energetic and focused team of professionals to deliver the most current and comprehensive health care and wealth management services.

Recently, the Center for Retirement Research of Boston College published a paper entitled, “The Pension Coverage Problem in the Private Sector”. The article explained only 42% of private sector workers are covered by any type of employer-provided retirement plan. This leads information leads us to the conclusion that a substantial percentage of workers who retire will be entirely dependent on Social Security. For low income earners the figure is 75%.

This problem is exacerbated by the fact that a common retirement age for low-wage workers is 62 and, at that age, Social Security only replaces 40% of pre-retirement earnings minus premiums for Medicare.

The study suggests that because the work force is mobile, workers move in and out of employer retirement plans. As a result, their 401(k) accumulations will be a lot lower than a comparable employee with a lifetime of steady earnings. A person with earnings of $65,000 at retirement who at age 30 began contributing a steady 6% with an employer match of 3% should accumulate about $363,000. As quoted in the Federal Reserve’s Survey of Consumer Finances paper, the typical household approaching retirement had 401(k)/IRA balances of only $120,000 in 2010, far short of the projected amount needed for retirement.

The constant interruption of retirement plan contributions because of job changes, withdrawals of small balances and inadequate contributions during young age are just some of the many reasons for a lack of retirement readiness.

Solving this issue should be a national priority. Otherwise, retirement seems very bleak for a substantial part of the population. Auto-enrollment into employer plans is a step in the right direction and is only one of many strategies to combat this problem.

Senator Tom Harkin recently proposed legislation that would create a mandated, privately managed defined contribution plan. This plan would be in place for all workers whose employer does not provide an employer-sponsored plan that meets a minimum standard.

Continued on page 2
Payments out of the plan would be in the form of an annuity so that retirees would not have to worry about outliving their savings.

The best form of retirement planning is education and discipline. According to MetLife’s ninth annual study of employee benefit trends, 52% of all employees say they are interested in financial education and guidance and 58% of employees are prepared to pay 100% of the cost for financial benefits, if necessary.

Employers are a vital link. Employers need to provide opportunities for employees to learn about adequate retirement savings and then make it easy for them to contribute, invest wisely and provide intelligent options for retirement distribution.


By: Michael D. Napier, CFP®, Director of Financial Planning, Registered Representative

Mike Napier helps clients by crafting detailed financial plans. As a Certified Financial Planner (CFP®) and a Fiduciary, his focus is to assist individuals and families with all aspects of their financial future.

Now that the Affordable Care Act (“ACA”) has been validated, a lot more people in the United States will have health insurance. The Supreme Court’s validation of the majority of the ACA also means big changes to the tax code. Beginning next year (2013), certain investment income will be subject to an additional 3.8% surtax, enacted as part of the Health Care and Education Reconciliation Act of 2010.

Here is how the Medicare Surtax works. For an individual, the 3.8% surtax is imposed on the lesser of:
(i) “Net Investment Income” or
(ii) The excess of “Modified Adjusted Gross Income” over the following threshold amount:
- Married filing jointly: $250,000
- Single, Head of Household: $200,000
- Married filing separately: $125,000

If your Modified Adjusted Gross Income is less than or equal to the threshold above, then no 3.8% surtax applies. Modified Adjusted Gross Income is adjusted gross income increased by the net amount of foreign-sourced income that was exempt for regular tax purposes under Section 911(a)(1).

What is “Net Investment Income”? Net Investment Income consists of three categories of gross income:
- Category #1: Gross income from interest, dividends, annuities, royalties and rents.
- Category #2: Gross income from 1) a passive activity, i.e. rental income 2) a trade or business of trading in financial instruments or commodities.
- Category #3: Net gain “to the extent taken into account in computing taxable income.” This would include capital gains.

Example #1: Allen, single, has $100,000 of salary and $50,000 of net investment income.
Result: The 3.8% surtax would not apply because Modified Adjusted Gross Income is less than $200,000

Example #2: Kathy, single, has $225,000 of Net Investment Income and no other income.
Result: The 3.8% surtax would apply to $25,000 of income (excess of $225,000 Modified Adjusted Gross Income over the $200,000 threshold amount).

Example #3: Bob and Sally, married filing jointly, have $300,000 of salaries and no other income.
Result: The surtax would not apply (no investment income).

Example #4: Joe and Shirley, married filing jointly, have $400,000 of salaries and $50,000 of Net Investment Income.
Result: The 3.8% surtax would apply to $50,000 of Net Investment Income (lesser of rule).

Other Considerations:
- The surtax liability is determined on income BEFORE any tax deductions (Schedule A) are considered. As a consequence, a client with a lot of deductions could be in the lowest tax bracket and yet have investment income that is subject to the surtax.
- The 3.8% surtax does not apply to distributions from Roth IRAs, but Roth conversion income will count toward Modified Adjusted Gross Income. Thus, if a client is considering a Roth conversion, it may make sense to do it in 2012.
- Outside of the 3.8% surtax, don’t forget about planning for the new 0.9% additional Medicare payroll tax for incomes over $200,000 ($250,000 if married).

Ideas to minimize exposure to the surtax:
1. Sell investment gains in 2012: The current maximum long-term capital gain rate is 15%; it is scheduled to increase to 20% in 2013. The 3.8% surtax will make the 2013 maximum rate imposed on capital gain 23.8% (20% long term gain rate plus 3.8% surtax).

2. Invest in Annuities or Life Insurance: Income from tax deferred vehicles (tax-deferred nonqualified annuities, life insurance, nonqualified deferred compensation plans) are not included in investment income; these products should become more favorable.

3. Invest in Tax Exempt Bonds: The income of most tax exempt bonds is not used in calculating Modified Adjusted Gross Income. The after-tax yields of taxable bonds will be affected by the 3.8% surtax. It may make sense to invest in tax exempt bonds over after-tax bonds depending on the after-tax yields of both.

4. Harvest Capital Loss: Taking capital losses is a common annual year-end tax planning idea that could now be even more important. Remember, you can offset your capital gains with your capital losses which may reduce your Net Investment Income.

5. Recognize Above the Line Deductions: The following deductions are allowed before determining your Modified Adjusted Gross Income and therefore could reduce the income exposed to the 3.8% surtax:
- Deductible contributions to a Health Savings Account (HSA)
- Deductible contributions to self-employed retirement accounts
- Deductible contributions to a traditional IRA
Fee Disclosure Will Help Plan Sponsors Make Better and More Informed Decisions

By David Lohre, AIF®
Vice President, Investment & Retirement Plan Consultant

David Lohre serves as a counselor to client companies that sponsor retirement plans by monitoring their investments, fees and providers.

Fee disclosure has been coming for several years with many deadlines come and gone, postponed by the Department of Labor several times. The postponement seems to have come to an end and the deadlines now are being met. Plan sponsors received notices from plan providers, advisors and TPAs on July 1. These notices detail information regarding overall costs of the plans and should be no surprise to most. However, many companies have not reviewed their fee structure in many years, and this provides a great exercise to document and review the plan.

There are an estimated 483,000 individual retirement account plans, covering 72 million participants that account for roughly $3 trillion in assets, according to the Labor Department. Clarity and transparency could not be more important, not only for plan sponsors but participants as well, considering this high number.

These fee disclosure rules are intended to ensure the plan sponsor is aware of all fees to better assess the reasonableness of the 401(k) plan fees. The format is intended to standardize this disclosure for better comparison. The two main fees are investment management fees and administrative fees. Plans [401(k)s] are complex and have many legal, operational and administrative burdens. The fees that are charged help provide this valued benefit to the employee population. The Labor Department stresses reasonable fees rather than the lowest fees, but many companies are not equipped to then take this information and assess their own fees in the marketplace.

HORAN’s Investment & Retirement Plan Consulting Group is an independent advisor focused on company retirement plans concentrated on plan design, fiduciary support, investment management monitoring and employee education. Part of our focus is examining our clients’ side to help evaluate their plan and one key area is overall plan cost. One of the essential assessments we perform for our clients is a benchmarking study to evaluate the current fee structure against the world of options, and provide documentation about the reasonableness of our clients’ fees so they remain competitive over time.

Deloitte/Investment Company Institute released a study in November 2011 of companies’ 401(k) plans with all asset levels, employee bases, etc., finding the range of expense ratios paid by plans were between 0.28 to 1.38 percent. There are many factors that go into this, but the conclusion is that smaller plans have to spread more of the fixed costs of the plan over a smaller balance and generally pay at the higher range of expense ratios. As the plan grows, the costs are reduced with some of the mega plans getting the lower quartile of expenses, as you might expect. Where you fall on that curve is hard to judge without performing periodic benchmarking.

Litigation over the past 10 years has increased and the judgments are setting precedents that are being picked up by attorneys who are bringing suit against smaller and smaller plans. Fee disclosure is providing more information that plan sponsors and participants will have as a backdrop for making decisions and serve also as a backdrop for potential suits. It is more important than ever that plan sponsors are taking steps to evaluate and document their provider fees for their own protection.

The second fee disclosure is to participants and will take two forms. A disclosure was required to be distributed to participants by August 31, 2012 and is required to be sent on an annual basis hereafter. The second form will be in updated participant statements. Participants have had access to plan fees in one form or another but participants have not had this information summed up in a comprehensive document. A survey by AARP found 71 percent of those polled believed they did not pay fees on their 401(k)s. With this said, communication is of great importance to let participants know fees have always existed and to help them understand the breakdown of the fees. The difference in this particular fee disclosure is the standardization provides not only the expense ratio but also the dollar amount charged. This is accomplished by providing the fee per $1,000 a participant is charged.

While fee disclosure is not entirely new, this exercise provides more standardization for both the plan sponsor and participant to understand their fees, and to make better and more informed decisions moving forward.

New Medicare Plan Designs for 2013

Chris Mihin, CBC, Account Executive

The Medicare Annual Election Period is rapidly approaching. New plan designs for the 2013 plan year are being revealed by insurance companies in October. The opportunity to make changes to your plan is from October 15 to December 7, 2012 for the January 1, 2013 effective date. We will be holding three seminars at HORAN Corporate Headquarters to give you the opportunity to understand the changes to Medicare for 2013, as well as determine what Medicare plan fits your health situation. The dates for the three Medicare seminars are:

- General Medicare Overview: Wednesday, October 24, 2012- 8:00 a.m. to 9:30 a.m.
- AARP Medicare Advantage Review: Wednesday, November 7, 2012- 11:00 a.m. to 1:00 p.m.
- Anthem Medicare Advantage Review: Thursday, November 15, 2012- 6:30 p.m. to 8:30 p.m.

You can register for the seminars by visiting our website horanassoc.com and going to the Education tab or by contacting Chris Mihin at 513.794.2960 or chrism@horanassoc.com.

If you are unable to attend a seminar, a member of HORAN’s Medicare team will be able to answer your questions via telephone or at a one-on-one meeting.
Health Care Reform Upcoming Provisions

By Shelly Hodges-Konys, Benefits Consultant

Shelly Hodges-Konys, Benefits Consultant, specializes in large group and self-funded health plan communication, education and compliance, working with clients to develop and define long term benefits strategies within their organizations. Her 14 years of experience in benefits consulting enables Shelly to develop customized implementation and communication processes which promote greater employee/employer understanding.

Health Care Reform is probably one of the most discussed topics in our business. The Patient Protection and Affordable Care Act profoundly is changing employee benefits. Our goal is to ensure our clients understand the provisions impacting their plans, the steps they need to take and the best time to address these changes. The following is a brief timeline of upcoming provisions we are discussing with our clients.

2013

• **Comparative Effectiveness Research Fee** of $1 Per Member Per Year (PMPY) for plan years ending after October 1, 2012 with an increase to $2 PMPY on October 1, 2013. Affected policies or plans generally include any accident or health insurance policy. Fees paid by self-insured plan sponsors generally apply to plans by an employer or employee organization that provides health or accident coverage not provided through an insurance policy.

• **Additional FICA withholding** on employee’s share of wages > $200,000 filing single and >$250,000 filing married.

• **FSA maximum contribution** becomes $2,500 on the first day of the plan year.

• **Notice of Exchanges** sent about availability of exchanges. Model notices are expected if exchange contact details are not available yet.

• **W-2 Reporting** for employers issuing more than 250 W-2s in the previous year.

2014

• **Exchanges/Small Business Health Options Program (SHOP)** offering metal level coverage (Bronze 60%, Silver 70%, Gold 80%, Platinum 90%) based on plan value for individuals and small employers.

• **Automated Enrollment** for large groups of 200 employees or more begins. Employers decide whether open enrollment, new hires and on demand services will be a manual or electronic process.

• **Employer Play or Pay begins.** Employers must offer employees affordable Minimum Essential Coverage or pay a penalty.

• **Begins 1st day of plan year:**
  - Elimination of Annual Dollar Limits on Essential Benefits
  - Elimination of Pre-Ex Limits for adults
  - Waiting period cannot exceed 90 days
  - No discrimination based on health status
  - Limits on cost-sharing and deductibles
  - Mandated coverage of clinical trials
  - Wellness incentives
  - Essential Health Benefits apply

2018

• **Excise tax** on high cost health insurance plans exceeding $10,200 single and $27,500 family (aka Cadillac tax).

HORAN Introduces New Health Care Reform Impact Analysis Modeling Tool

Many of our clients considered large employers (those with over 50 full-time employees including full-time equivalents) under the law are concerned about the employer shared responsibility provisions and the exposure their organization may have to penalties and increasing enrollment in 2014.

HORAN currently is working with clients to help navigate through the potential impact of health care reform using an actuarial tool that models different plan scenarios. The outcomes we model include offering a plan at the minimum allowable benefit (60% actuarial value), terminating the plan, and maintaining the current benefits. HORAN recognizes each client faces a unique set of circumstances that could affect how they offer health coverage for their employees.

Our understanding of health reform legislation and the flexibility in our model to examine multiple plan scenarios, allows us to assist companies in developing the best possible strategy for their business moving forward. As the landscape continues to shift due to the Health Care Reform legislation, HORAN proactively will guide our clients to the best possible solution for their situation.

We can provide answers to your questions:

• What will it cost to continue our current plan in 2014?

• What will it cost to terminate our current plan in 2014?

• What does a minimum value plan look like?

For more information on the HORAN Health Care Reform Impact Analysis, please contact Shelly Hodges-Konys at 513.745.0707 or ShellyH@horanassoc.com.
Act Now to Protect Your Assets from Potential 2013 Tax Changes

By Greg Hoernschemeyer, Vice President and Registered Representative

Greg Hoernschemeyer, Vice President and Registered Representative, specializes in coordinating estate and business succession plans as well as executive benefits. Greg utilizes HORAN’s relationship and leverage with major carriers to provide strategic solutions for employers challenged to recruit, retain and reward key employees.

The current federal gift and estate tax exemption could expire through the sunset provision on December 31, 2012. This is the time for you to consider ways to protect your wealth before legislation changes. You want to make the most of the assets you pass along to your children and grandchildren. That’s why it’s important to know how to protect your legacy and prepare for important potential changes in the federal estate and gift tax laws.

Today, through the lifetime gift tax exemption, you can transfer a significant amount of wealth income-tax-free:

- $5.12 million ($10.24 million if married)
- Any amount in excess of your exemptions subject to a 35% gift or estate tax.

Remember, these generous exemptions are scheduled to expire on December 31, 2012, through a “sunset provision.”

Unless Congress Acts

The gift and estate tax exemption will drop from $5.12 million to $1 million. The gift and estate tax will increase from a top rate of 35% up to 55%.*

| Gift now (Gift $5 million) | $0 | $5 million |
| Do nothing (Retain $5 million) | $2,045,000 | $2,955,000 |

Think About Your Family’s Future

You have financial goals for your life, and you want to conserve and distribute wealth to meet those goals effectively. In short, you want proper estate planning, a goal-oriented plan that keeps taxes to a minimum to provide the greatest possible financial security for you and your beneficiaries. HORAN can help you maximize the planning opportunities still available to proactively manage your wealth, and to learn what can be done to avoid or reduce some of the burden of these increased taxes.

Don’t Underestimate Your Net Worth

Chances are, estate tax laws and the value of your estate assets will continue to change. The impact of the potential 2013 tax changes are not just an area of concern for the “ultra-affluent.” If the gift and estate tax exemption drops to $1 million many more people will be impacted. Take a minute and add up the value of your investments, corporate retirement savings plan, insurance policies and home value. As your investments and real estate holdings potentially appreciate over time, will your children or grandchildren adversely be affected by the estate’s large tax bill? You can take steps today to protect them tomorrow.

It's Time to Get Ready

Before the sun goes down on these potential tax advantages, make plans for your family’s future. A HORAN advisor is available to talk with you about a life insurance strategy that could help you:

- Protect growing estate assets
- Pass along more to children and grandchildren
- Accumulate tax-deferred wealth
- Potentially maintain access to assets for you and your spouse

Contact Terence L. Horan, CLU, ChFC, President and CEO, or Gregory L. Hoernschemeyer, CLU, Senior Vice President, at 513.745.0707 to learn how thoughtful planning can significantly increase benefits and reduce costs when transferring wealth to heirs. The remaining months in 2012 are a great time to accelerate planning and maximize the current tax landscape.


+Does not include surviving spouse, given the unlimited marital deduction.

Two HORAN Employees Awarded with Top Professional Honors

Nick Reilly Receives LEGACY Next Generation Leader Award

Nicholas (Nick) Reilly, Portfolio Manager and Principal at HORAN Capital Advisors, was selected as a winner in The 2012 Third Annual Next Generation Leader Awards (NGLA) on July 19, 2012. This program salutes and applauds the Northern Kentucky/Cincinnati region’s young professionals ages 21 to 40 for significant accomplishments in their chosen professional field, as well as their commitment and contribution to the community, demonstrated leadership and overall impact on our region.

The NGLA Awards were given out in 10 distinct categories at a reception and dinner at the Madison Event Center in Covington, Kentucky. Nick was named the winner in the Business and Financial Services category.

Karen Mueller Selected as ATHENA® Award Finalist

Karen Mueller, Executive Vice President at HORAN, is a finalist for the Cincy Magazine’s 2012 ATHENA® Awards. The award, named for the Greek Goddess of wisdom and courage, highlights women in the Greater Cincinnati community who embody these two characteristics. The women selected as finalists for the award have attained professional excellence, helped their communities through service and acted as role models and mentors by giving their guidance to other women in the area.

A panel of judges will select the winner of the ATHENA® Award at an event held at The Cintas Center at Xavier University on Wednesday, October 24, 2012. The program is in its seventh year and is a branch of ATHENA International, an organization with the mission to support and recognize women around the world.
Please join us in welcoming our new corporate clients!

Robbins Sports Surfaces
Diversified Ophthalmics, Inc.
Bush Brothers & Company
Skilcraft, LLC
Dayton Ballet
Wright State University
Healthwarehouse.com
Tipco Punch Inc.
Richmond Power & Light

Visit our website for other newsletter issues and to view our seminar calendar.
www.horanassoc.com