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# Plan Sponsor **OUTLOOK**

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A Resource on Current Retirement Topics

Third Quarter 2017

## EBRI Survey: Confidence Levels Highest Among Retirees, Workers with Retirement Plans

Things seem to be looking up for American retirees these days. Two groups are most likely to feel confident about their retirement readiness: retirees, who report feeling more secure in their ability to live comfortably in their retirement years, and workers with a retirement plan, whether it's a defined contribution (DC) or defined benefit (DB) plan, or an individual retirement account (IRA).

In fact, 79% of retirees say they feel very or somewhat confident that they have enough savings to live well in their retirement years. One-third (32%) of those feel very confident.

Additionally, workers who have a retirement plan, whether through their employer or otherwise, are more likely to feel confident about having enough money to sustain them throughout their post-working years. Typically, they have saved more, taken more action to prepare for retirement, and feel less stressed overall about their retirement readiness than those without access to a retirement plan. It goes to show that having a vehicle for savings is a much stronger catalyst for retirement preparation — a boon for plan sponsors who are helping employees to make the most of their retirement benefits.

These are just some of the key findings from the 2017 Retirement Confidence Survey from the Employee Benefit Research Institute (EBRI). Now in its 27th wave, the RCS is the longest-running survey of its kind in America, according to EBRI.



### Financial Wellness Can Help Boost Peace of Mind

Underscoring the importance of holistic financial wellness programs in the workplace — a trend that's catching on with many employers — roughly half of workers EBRI surveyed say that programs focused on retirement planning (53%), financial planning (49%), or healthcare planning (47%) would help increase their productivity at work. About 30% of workers report worrying about their personal finances while on the job, and more than half say they believe they would be more productive at work if they didn't have these concerns.

As such, implementing a comprehensive financial wellness program that simplifies key concepts like budgeting, long- and short-term savings goals, and investing, and that keeps employees on track toward those goals can go

a long way toward creating greater peace of mind and a happier, more productive workforce.

### Matching Motivates Saving

Employer matching contributions and automatic payroll deductions are two great ways to motivate employees to save for retirement. EBRI found that 73% of workers not currently saving say they would be more likely to do so if their employer offered a match. Further, two-thirds of non-savers say they would be incentivized to set aside money for retirement via automatic payroll deductions of 3% to 6% of salary, if they had the option to stop or change them.

*Read the entire EBRI Survey at <http://tinyurl.com/2017EBRIRCS>.*



# How Student Loans Impact Retirement Savings and Income

Two recent studies examined the impact of student loans on retirement savings and income for Americans in two very different life stages: early savers and individuals in or approaching retirement.

## 30-Somethings Save for Retirement Despite Student Loans

A study from the Center for Retirement Research at Boston College on participation in an employer-sponsored retirement plan and retirement assets as of age 30 did not find a statistically significant correlation between retirement plan participation and student loan debt. Although student loan debt negatively impacts workers' overall financial wellbeing, preliminary results show they do not actually reduce their retirement savings much to compensate. Moreover, workers with large loan balances were actually more likely to accept a retirement plan if offered.

Further, the study found limited evidence that those with bachelor's degrees have less retirement savings at age 30; in fact, the size of their student loan debts was unrelated to their retirement account balances. The murky connection between student loan balances and retirement savings may indicate that the loans' negative impacts



are felt in other ways, i.e., reduced spending/consumption, or other decreases in net worth such as credit card debt.

Finally, the study's authors noted that it is worth watching future cohorts to determine if a stronger correlation exists between student loan debt and retirement asset levels, particularly as individuals who accumulated additional debt move "toward financial and economic maturity."

## Student Loan Debt Saps Retirees' Income

A report from the Government Accountability Office found that student loan debt continues to plague Americans into retirement, in particular, impacting their income.

The biggest issue for those in or approaching retirement — and anyone who defaults on federal student loans — is their Social Security benefits may be garnished to help recover the debt.

According to the Government Accountability Office, Treasury

Offset Program generated nearly 50% of defaulted student loan debt collections, including Social Security offsets, in fiscal year 2015. In fact, Social Security offsets rose from 36,000 to 173,000 in fiscal years 2002 through 2015.

Social Security offsets amounted to 15% of the benefit payment for around 44% of student loan debtors 50 and older — the maximum amount that can be withheld. One-third of older borrowers paid off their loans or received relief due to total and permanent disability (TPD) discharge, available only to those with a disability that's not expected to improve. Most had held their loans for decades.

Both studies show that student loan debt could have a meaningful impact on the financial wellbeing of both early savers and retirees, and it's important to monitor the effects, regardless of age or stage of life.

Find the full studies at <http://tinyurl.com/30somethingsavers> and <http://tinyurl.com/GAIOloanstudy>.



## Plan Sponsors Ask...

**Q:** We offer target date funds<sup>1</sup> as the qualified default investment alternative (QDIA) in our defined contribution (DC) plan. Does it matter which ones we offer? Aren't all target date funds the same?

**A:** Fundamentally, all target date funds are designed to allocate participants' assets based on their age and years to retirement, and deliver returns to help them create adequate retirement income. There are many options available, which is good for plan sponsors and investors, because it means lower fees and more choices. But they aren't all created equal.

So how do you know you're offering quality target date funds in your plan? One key element to evaluate is relative performance. In other words, how are your target date funds performing when measured against peers or industry benchmarks, for example, and why are they under- or outperforming? According to Mercer's 4Q2016 target date fund survey, some factors influencing performance include glidepath, asset allocation strategies, how an individual provider determines those strategies and alpha — or the excess returns relative to benchmark performance — from active management.

If all that makes your head spin, consider consulting with an investment advisor or professional who can help you determine if your target date funds are performing as they should, or if it's time to shop around. As mentioned above, there are plenty to choose from.

**Q:** Is it important to do periodic reviews of the conservative options in our investment lineup, and if so, when should we evaluate those offerings?

**A:** Good question. It's always a good idea to review your investment lineup regularly to make sure the options are performing in line with your expectations and investment policy statement, and that you're fulfilling your fiduciary obligations to participants.

Recent observations from Rocaton Investment Advisors say there's no time like the present to undertake a review of your plan's conservative, or capital preservation, options. Some participants may over-allocate toward conservative choices, thus sacrificing better returns, in exchange for a better night's sleep. But investing too conservatively brings a different kind of risk, so plan sponsors are wise to educate participants about investment allocation in general — and to ensure they are offering quality investment options at all risk levels.

Another reason to review your plan's conservative investment options is new money market reforms that took effect in October 2016, involving liquidity fees and redemption issues that may impact participants. Further, considering that a best

practice is periodic review of the plan's investment structure, many DC plan sponsors are streamlining their investment menus and considering alternative options, in light of new regulations. The low interest rate environment, the evolving stable value landscape, and increasingly high profile fiduciary litigation are other factors prompting plan sponsors to re-evaluate their capital preservation options.

*View more insights at <http://tinyurl.com/Rocatoninsights>.*

**Q:** We're hearing that many DC plans are adding a retirement income component using something called a "hybrid QDIA." What is it, and why should we pay attention?

**A:** You heard right. Industry watchers say the evolution of QDIAs and retirement income solutions are two key DC industry trends to keep an eye on in 2017.

A hybrid QDIA contains both a target date fund solution and a managed account, and a participant's assets are automatically switched from the former to the latter at an age pre-selected by the plan sponsor.

Such a solution addresses an important gap in plan design when it comes to retirement income. Recent research from Cerulli found that 37% of DC plan sponsors prefer terminated or separated employees leave their assets in the plan and draw income from it. However, 90% of plans aren't designed to accommodate systematic or ad hoc withdrawals — a benefit desired by participants age 60 and older.

So a hybrid QDIA enables participants to draw income directly from their DC plan assets. Less than half of DC plan sponsors currently have a retirement income option, and their primary offerings are target date funds and managed accounts, Cerulli found. Thus, a hybrid QDIA solution could be a natural addition. Further, Cerulli noted that managed accounts are generally better suited than target date funds for older investors because they typically have larger balances and more complex financial situations, which necessitates the need for more personalized advice.

*The full study is available by subscription at <http://tinyurl.com/CerulliEdgeUSRetirement>.*



<sup>1</sup> Please note the principal value invested in these funds is not guaranteed at any time, including at the specified target date.

# Plan Sponsor's Quarterly Calendar

## October

- Audit third quarter payroll and plan deposit dates to ensure compliance with the Department of Labor's rules regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between July 1 and September 30 received and returned an enrollment form. Follow up for forms that were not returned.
- For calendar year safe harbor plans, issue the required notice to employees during October or November (within 30 to 90 days of the beginning of the plan year to which the safe harbor is to apply). Also, within the same period, distribute the appropriate notice if the plan features an EACA (Eligible Automatic Contribution Arrangement), QACA (Qualified Automatic Contribution Arrangement) and/or QDIA (Qualified Default Investment Alternative).

## November

- Prepare to issue a payroll stuffer or other announcement to employees to publicize the plan's advantages and benefits, and any plan changes becoming effective in January.
- Conduct a campaign to encourage participants to review and, if necessary, update their mailing addresses to ensure their receipt of Form 1099-R to be mailed in January for reportable plan transactions in 2017.
- Check current editions of enrollment materials, fund prospectuses and other plan information that is available to employees to ensure that they are up to date.

## December

- Prepare to send year-end payroll and updated census data to the plan's recordkeeper in January for year-end compliance testing (calendar year plans).
- Verify that participants who terminated during the second half of the year selected a distribution option for their account balance and returned the necessary form.
- Review plan operations to determine if any ERISA or tax-qualification violations occurred during the year and if using an IRS or DOL self-correction program would be appropriate.

*Consult your plan's counsel or tax advisor regarding these and other items that may apply to your plan.*

## Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans	<a href="http://www.irs.gov/ep">www.irs.gov/ep</a>
Department of Labor, Employee Benefits Security Administration	<a href="http://www.dol.gov/ebsa">www.dol.gov/ebsa</a>
401(k) Help Center	<a href="http://www.401khelpcenter.com">www.401khelpcenter.com</a>
BenefitsLink	<a href="http://www.benefitslink.com">www.benefitslink.com</a>
PLANSponsor Magazine	<a href="http://www.plansponsor.com">www.plansponsor.com</a>
Plan Sponsor Council of America	<a href="http://www.pasca.org">www.pasca.org</a>
Employee Benefits Institute of America	<a href="http://www.ebia.com">www.ebia.com</a>
Employee Benefit Research Institute	<a href="http://www.ebri.org">www.ebri.org</a>

## Pension Plan Limitations for 2017

401(k) Maximum Participant Deferral.....	<b>\$18,000*</b>
<i>*\$24,000 for those age 50 or older, if the plan permits</i>	
Defined Contribution Maximum Annual Addition .....	\$54,000
Highly Compensated Employee Threshold.....	\$120,000
Annual Compensation Limit.....	\$270,000



### Todd Jones, MBA, CFP®, AIF®

121 Boone Ridge Rd  
Suite 1002  
Johnson City, TN 37615  
(423) 232-5017 Office  
(423) 220-9697 Cell  
todd.jones@ipl.com  
www.mcb.com

