RETIREMENT PLAN SOLUTIONS

Insight from Alliance Benefit Group, One of the Largest National Independent Retirement Plan Providers

Founded in 1992 • Administration of Over 20,000 Plans and 1.7 Million Plan Participants • $86 Billion in Assets Under Management • Plans in All 50 States

FALL 2019

Inside This Issue

MARKET VOLATILITY & PARTICIPANT BEHAVIOR

"It was the best of times, it was the worst of times." This opening line from Charles Dickens' *A Tale of Two Cities* could also apply to the heightened volatility experienced in the stock market as the result of the impact of the global trade war, Federal Reserve interest rate movements and a variety of other factors.

During times like these, it is easy for 401(k) participants, nervous about their long-term nest egg, to worry about the "right" decision when it comes to their 401(k).

- Should they get out of the stock market and go to cash?
- Should they stop contributing to their 401(k)?
- How can they preserve what they have saved to date?

Taking An Intentional Not Accidental Approach

Before they go down the path of letting emotion guide their decision-making, retirement plan participants can start by considering the following key questions to clarify their current situation, allow adjustments, if needed, and keep a long-term focus:

- Do I understand what I am invested in in terms of the style and goal of the strategy(s)?
  - » Is this investment approach in sync with my long-term goals?
- What is my tolerance for risk?
  - » How compatible are my retirement plan investment choices with this risk profile?
- Have I made investment choices that provide me with a well-diversified approach?
  - » Or am I too concentrated in one investment, for example, my company's stock?

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HOW AGE & INCOME IMPACT RETIREMENT PLAN PARTICIPATION

Recently, the Investment Company Institute (the leading global association of regulated funds in the U.S.) published a report, *ICI Research Perspective, Who Participates in Retirement Plans, 2016*, that provides a useful look at retirement plan participation in terms of age and income.

The key findings of this report, based on 2016 IRS data on taxpaying workers between the ages of 26 and 64 who were active participants in employer-sponsored retirement plans, provide useful insights into plan participation.

The following is a brief overview of the report's key findings.

Plan Participation By Age

Among taxpaying workers aged 26 to 64 in 2016, 64% (71.3 million) participated in an employer-sponsored retirement plan either directly (57%) or indirectly through a spouse (7%).

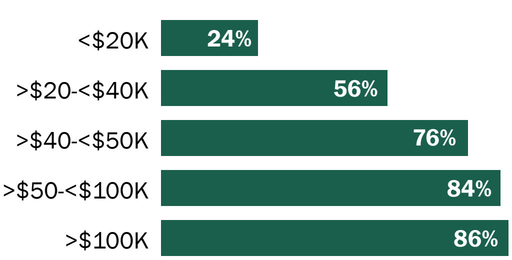
The participation rate increased with age. While younger workers reported that they save primarily for reasons other than retirement, such as a home purchase, family expenses or education, older, higher-earning workers reported saving primarily for retirement.

Contribution Rate By Taxpaying Workers
Ages 26-64

Plan Participation By Income

Income was also a driving factor in retirement plan participation with higher incomes enabling the opportunity for higher participation. For workers at lower income levels, meeting current income needs was the primary focus, and so less participation occurred.

Plan Participation By Income*



*Adjusted Gross Income

Consistent Contribution Percentage Among Older Workers

Another interesting finding of the report was that the percentage of salary contributed to their employer-sponsored retirement plan by workers in the 55-64 age group was consistent regardless of salary. As this age group is in the decade or so before retirement, greater focus is placed on contributing to an employer-sponsored retirement plan.

Contribution Rate By Old Workers*
Age 55-64

*Adjusted Gross Income

Key Takeaways

Having reviewed data from millions of taxpaying workers, the Investment Company Institute's report provided a number of key takeaways which, although not surprising, provide useful context.

- Overall participation in retirement plans increases as both age and income increases.
- Most workers who are likely to have the ability and desire to save for retirement do participate in an employer-sponsored retirement plan—either defined contribution, defined benefit, or both.
- Those who do not participate tend to be younger and/or have a lower income and focus on meeting current needs over the need to save for retirement.

While retirement readiness continues to be an important topic in the retirement planning industry, understanding who is currently participating in these plans can help inform initiatives to increase future participation. Your ABG representative is available to help you with any questions you may have.

THE GROWING APPETITE FOR SOCIALLY RESPONSIBLE & ESG INVESTING

Interest in socially responsible and ESG (environmental, social and corporate governance) investing continues to grow. In fact, $1 out of every $4 under professional investment management in the United States, over $12 trillion, is now invested in socially responsible investments.[1]

Given overall interest levels, the inclusion of socially responsible investments in retirement plans nationwide would seem to be the next logical step. However, there are a number of issues specific to the retirement planning arena to be considered.

Investing For Performance & Purpose

Many investors are now seeking to build wealth over time, while investing to promote environmental, social or corporate change. Studies show that women and millennial investors are looking to invest for long-term growth while at the same time promoting positive social change. In fact, according to investment research firm, Morningstar, over 75% of women and millennial investors are specifically interested in investing in companies that follow stringent guidelines in terms of environmental, social, and governance (ESG) factors. Climate change, weaponry and gender equality are some of the leading social issues investors focus on.

It's Not Just About Stocks

Now-a-days, socially responsible investing is no longer purely about investing in the stocks of socially responsible companies. Green bonds issued by companies to help fund socially responsible goals, such as transitioning operations to fossil free energy consumption, is a rapidly growing area, with over $167 billion in green bonds issued globally and available for investment.[2]

Incorporating Socially Responsible Investing Into Retirement Plans

Despite the growth of interest in socially responsible investing, a recent report by the Government Accountability Office[3] provides insight into some of the issues involved when it comes to the inclusion of socially responsible investing strategies in employer-sponsored retirement plans:

- **Data Disconnect:** Socially responsible investing data is not always disclosed by companies and ratings agencies, making it challenging to get a clear picture of how a company's socially responsible approach is impacting investment portfolios. When data is disclosed, it can be reported in a variety of ways making comparisons difficult for investment committees evaluating investment solutions on behalf of plan sponsors.

- **Mission Myth:** The myth of the underperformance of socially responsible investing—the idea that you may have to sacrifice performance for mission—still exists, despite studies that report that companies, from an efficiency, productivity, risk management and revenue generation perspective, have benefitted from taking a socially responsible approach. For example, a recent study by S&P Global Ratings reported that companies with a growing focus on ESG issues have achieved reduced costs, improved worker productivity, mitigated risk, and enjoyed greater revenue-generating opportunities.[4]
- **DOL Confusion:** Changes in the Department of Labor (DOL) guidance on ERISA governed retirement plans have also caused confusion over the years.
    - **2008 Guidance -** discouraged plans from considering environmental and social factors, indicating that participant investment in the socially responsible sector should be "rare."

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MARKET VOLATILITY & PARTICIPANT BEHAVIOR

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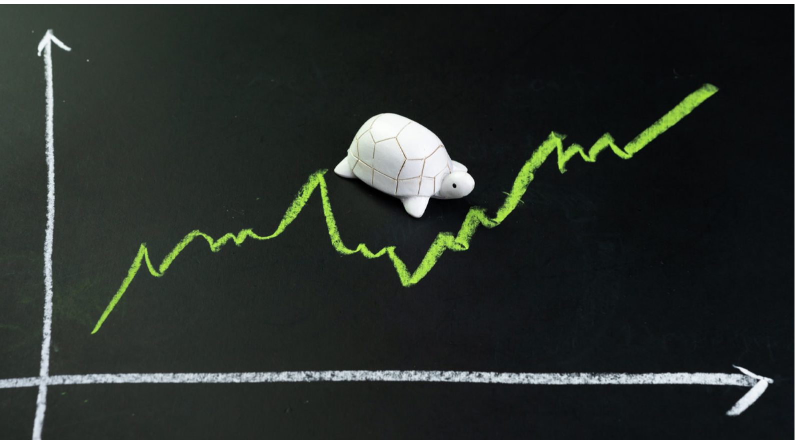
- What is my investment time horizon?
    - » Does the style, risk profile and goal of my investment choices within my 401(k) portfolio sync up with that timeline? Those approaching retirement age will have a different time perspective than participants just starting out with a much longer time horizon.

These questions highlight several important considerations. The more participants have made intentional decisions about how they are invested, the less they will be distracted by short-term market declines as they focus on the bigger, longer-term picture. Education about the investment choices within a 401(k) plan can help with these considerations, as can working with a financial advisor on an overall investment strategy.

Be In It To Win It

In addition, what participants may want to keep in mind is that a portfolio loss is only a loss if an investor sells out of an investment. In fact, stock market declines can be seen as buying opportunities. Dollar cost averaging into an investment at a lower price and buying more shares on sale as values dip has the potential to benefit an investor when the market rebounds.

Conversely, selling out of an investment during a market dip, means the loss is now realized in the portfolio and it may take some time for the investor to regain ground. When participants understand what they are investing in and why they are investing in it, this emotional reaction to market volatility is less likely to occur.



Slow & Steady Wins The Race

Interestingly, according to the Investment Company Institute's Senior Director of Retirement and Investor Research, Sarah Holden, when surveyed, 8 out of 10 401(k) plan participants, said that knowing that they are investing each paycheck makes them less worried about short-term fluctuations. More than half of these participants were invested in target date funds, wherein the allocation and asset allocation rebalancing is professionally managed by fund managers.

What Financial Crisis Panic?

In addition, the Investment Company Institute, the leading global association of regulated funds in the U.S., reported that 401(k) participants generally stayed the course through the financial crisis and economic recession. Having reviewed the account records of more than 22 million participants, the Investment Company Institute found that in 2008:

- Only 3.7% of participants stopped contributing.
- Only 14.4% changed the asset allocation.
- Only 12.4% changed their contribution investment mix.

This positive trend continues. An Investment Company Institute analysis of more than 30 million accounts in 2018 revealed that during market volatility:

- Only 1.4% of participants stopped contributing.
- Only 7.1% changed the asset allocation.
- Only 4% changed their contribution investment mix.

So, the great news is that while some participants may be on edge during times of market volatility, many now understand that, like much in life, the market will run in cycles. However, if you keep your overall goal in mind and construct a thoughtful, long-term plan, you can position yourself to weather any short-term market volatility.

ABG has a number of tools available for participants to help them determine their long-term retirement goals, factor in how long they have to invest and understand their tolerance for risk. Contact your local ABG representative to learn more.

ABG NEWS

The ABG Board of Managers is delighted to welcome three new members to its team. These members bring a diverse range of expertise and experience that can be leveraged in the support of ABG member firms and their plan sponsor clients.

The ABG Board of Managers is involved directly with the leaders of each independent ABG member firm and responsible for helping to chart ABG's future business path.

Please join us in welcoming the following new ABG Board of Managers members:

Craig Harrell, National DC Practice Leader at Nyhart - Craig has over 25 years of experience working with defined contribution (DC) retirement plans, with expertise in small to medium sized qualified retirement plans and extensive experience with recordkeeping services.

Patrick Hale, JD, MBA, QPA, President and CEO, The Retirement Plan Company - Patrick has over 18 years of experience in the retirement plan industry with specific emphasis on third-party administration and investment advisory firms.

Paul Neveu, CEBS, President of BPAS Plan Administration & Recordkeeping Services - Paul's expertise includes sales strategy, marketing administration, trust operations and plan consulting.

THE GROWING APPETITE FOR SOCIALLY RESPONSIBLE & ESG INVESTING

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- » **2015 Guidance -** noted that ERISA presents no legal barrier to fiduciaries integrating ESG factors into the investment process and that ESG considerations could be used as "tiebreakers" when comparing otherwise equal investments.
- » **2018 Guidance -** clarified that a qualified default investment alternative (QDIA) may still include ESG criteria, however, certain funds may require more scrutiny to be included in a retirement plan.

The Bottom Line

Ultimately, plan providers must hold ESG funds to the same standards as traditional funds when considering whether to add them to their lineups. As interest grows in this area and socially responsible and ESG data and reporting continues to develop, these socially responsible investment opportunities may become easier for retirement plans to evaluate and incorporate as part of their investment menu. Your ABG representative is available to help you with any questions you may have.

[1] *US SIF Foundation's 2018 Biennial Report on US Sustainable, Responsible and Impact Investing Trends*

[2] *Green Bonds: The State of the Market 2018 by the Climate Bonds Initiative.*

[3] *Retirement Plan Investing: Clearer Information on Consideration of Environmental, Social, and Governance Factors*

[4] *S&P Global Ratings: The ESG Advantage: Exploring Links To Corporate Financial Performance*

DID YOU KNOW?

- An estimated **56 million Americans** will be **at least 65 years old** by the year 2020, i.e., **1 out of every 6 Americans.** An estimated **73 million Americans** will be **at least 65 years old** by the year 2030, i.e., **1 out of every 5 Americans** (source: Census Bureau).
- **51% of the 2.25 million new jobs** created in the United States during the 12 months ending 7/31/19 were produced in just **6 states** — Texas (323,300 jobs), California (311,800), Florida (227,200), Washington (102,400), New York (95,500) and North Carolina (75,700) (source: Department of Labor).
- An average American worker has **increased his/her productivity** by **+97%** in the **last 35 years,** i.e., an average worker **can complete in 1 hour** as of 12/31/18 the **same amount of work** that it took him/her **2 hours to finish** as of 12/31/83 (source: Department of Labor).

TAX TALK

In this issue of Tax Talk, we update you on important upcoming compliance deadlines for defined contribution plans. We also take a quick look at exemptions from the 10% penalty tax for early distributions from IRAs and 401(k) plans.

Upcoming Compliance Deadlines

December 2019	
December 1	» Deadline for sending annual 401(k) safe harbor notice. » Deadline for sending annual automatic contribution arrangement notice. » Deadline for sending annual qualified default investment alternative (QDIA) notice.
December 15	» Extended deadline for distributing Summary Annual Report (SAR) to participants.
December 31	» Deadline for processing corrective distributions for failed prior year ADP/ACP test with 10% excise tax. » Deadline for correcting a failed prior year ADP/ACP test with qualified nonelective contributions (QNEC). » Deadline for amendment to convert existing 401(k) plan to safe harbor design for next plan year. » Deadline for amendment to remove safe harbor status for next plan year. » Deadline for amending plan for discretionary changes implemented during plan year. » Required Minimum Distributions due under IRC Section 401(a)(9).
January 2020	
January 31	» Deadline for sending Form 1099-R to participants who received distributions during the previous year.

Exemptions From The 10% Penalty Tax

Premature distributions from an IRA or 401(k) plan, those made before the individual reaches age 59 ½, are typically subject to a 10% penalty for early withdrawal per IRS regulations. However, as the following table details, there are several situations wherein the individual will not be subject to this 10% IRS penalty for early withdrawal. As we frequently receive questions about this issue, the overview below may be helpful for you if these situations arise. Your ABG representative is also available to assist you with any questions you may have.

Exemptions From The 10% Penalty		
	Qualified Plans (401(k), etc.)	**IRA, SEP, SIMPLE IRA* and SARSEP Plans**
Auto Enrollment: permissive withdrawals from a plan with auto enrollment features.	Yes	Yes for SIMPLE IRAs and SARSEPs
Corrective Distributions: corrective distributions (and associated earnings) of excess contributions, excess aggregate contributions and excess deferrals.	Yes	n/a
Death: after death of the participant/IRA owner.	Yes	Yes
Disability: total and permanent disability of the participant/IRA owner.	Yes	Yes
Domestic Relations: to an alternate payee under a Qualified Domestic Relations Order.	Yes	n/a
Education: qualified higher education expenses.	No	Yes
Equal Payments: series of substantially equal payments.	Yes	Yes
ESOP: dividend pass through from an ESOP.	Yes	n/a

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TAX TALK

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Exemptions From The 10% Penalty		
	Qualified Plans (401(k), etc.)	**IRA, SEP, SIMPLE IRA* and SARSEP Plans**
Homebuyers: qualified first-time homebuyers, up to $10,000.	No	Yes
Levy: because of an IRS levy of the plan.	Yes	Yes
Medical:		
» amount of unreimbursed medical expenses (>7.5% AGI; after 2012, 10% if under age 65).	Yes	Yes
» health insurance premiums paid while unemployed.	No	Yes
Military: certain distributions to qualified military reservists called to active duty.	Yes	Yes
Returned IRA Contributions:		
» if withdrawn by extended due date of return.	n/a	Yes
» earnings on these returned contributions.	n/a	No
Rollovers: in-plan Roth rollovers or eligible distributions contributed to another retirement plan or IRA within 60 days.	Yes	Yes
Separation From Service: the employee separates from service during or after the year the employee reaches age 55 (age 50 for public safety employees of a state, or political subdivision of a state, in a governmental defined benefit plan).	Yes	No
*SIMPLE IRA distributions incur a 25% additional tax instead of 10% if made within the first 2 years of participation.		

LEGISLATIVE HIGHLIGHTS

This quarterly legislative column provides timely defined contribution industry insights and updates for plan sponsors.

- **Setting Every Community Up for Retirement Enhancement Act (SECURE):** The House of Representatives passed the legislation in May; however, it has stalled in the Senate over concerns from several Republican senators regarding policy-related matters. The Act is likely to be folded into another piece of legislation before year's end.
- **401(k) Automatic Portability:** In late July, the Department of Labor announced the green light to expand its automatic portability program. This is expected to reduce plan leakage and quell the number of missing participants that result when retirement plan accounts are left behind at former employers and participants cannot be contacted.
- **Multiple Employer Plan (MEP) Rule:** More American workers will become eligible for multiple-employer retirement plans under a final rule by the Department of Labor, which takes effect on September 30th. The rule falls somewhat short of allowing "open" MEPs, a concept that would allow completely unrelated companies to participate in common retirement plans, potentially broadening access for millions of workers.
- **Retirement Security Preservation Act of 2019:** This bipartisan bill sponsored by Senators Rob Portman (R-OH) and Ben Cardin (D-MD) was introduced as a standalone bill to amend non-discrimination rules for frozen defined benefit plans to protect the benefits of older, longer-serving workers. It is also included in the SECURE Act.