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RETIREMENT PLAN SOLUTIONS

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

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WINTER 2020

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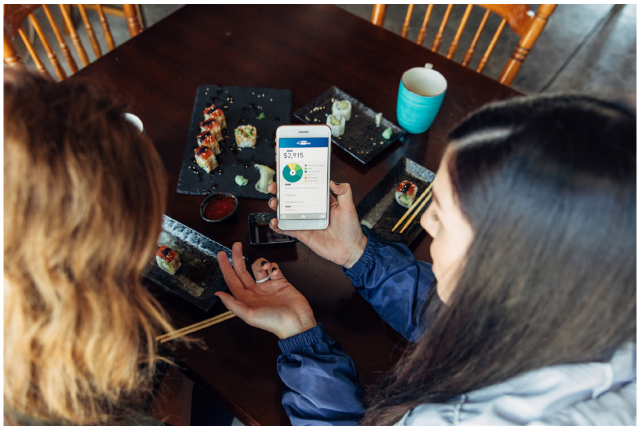
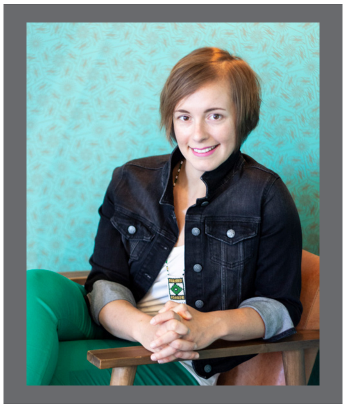
INCREASING PLAN PARTICIPATION AMONG MILLENNIALS



Millennials (defined as individuals born between 1982-2000) are now the largest generation in the American workforce. One in three workers is a millennial, according to U.S. Census Bureau data. Although two-thirds work for an employer that offers a retirement plan, only one-third of millennials participate in those plans.*

As a millennial herself, Erica Bonser, Director of Marketing at Alliance Benefit Group Rocky Mountain, offers an interesting perspective on engaging millennials with retirement plans. The problem, she points out, is not with the plan design and benefits. Rather, the issue may be with the language that is being used to communicate those benefits.

"It's not a plan problem, it's the language we use and how we interact with millennials that's the issue. We can't market to them the same way we market to Baby Boomers or Gen X and expect the same outcomes," she says.



Erica Bonser,
Director of Marketing,
Alliance Benefit Group Rocky Mountain

Understanding the Millennial Perspective

She notes that it's helpful to take a step back and meet millennials where they are, in order to understand how best to communicate the benefits of saving for retirement. Erica cites a number of reasons she believes millennials are not thinking about and planning for retirement.

- **They don't believe they are going to be able to retire.** Many millennials see their parents working longer than age 65. Often struggling with student loan debt and trying to earn a living, they believe that, if their parents can't retire at 65, how can they ever hope to retire? According to the National Institute on Retirement Security, 79% of millennial workers expect that people in their generation will have a much harder time achieving financial security in retirement compared with their parents' generation.

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ELECTION 2020 - RETIREMENT ISSUES UP FOR DEBATE

In Washington, the retirement debate is taking shape around several important topics as we get closer to the 2020 Presidential Election. Although some discussions are further along than others, we don't anticipate any major initiatives moving forward before November. However, the following two topics are sure to be discussed by the presidential candidates in the coming months.

1. Addressing The Social Security Shortfall

The future of Social Security is uncertain. The $2.9 trillion reserve is expected to be depleted by 2035 as Baby Boomers retire in ever greater numbers and are not replaced by revenue-generating younger workers.

Beginning in 2020, Social Security will spend more than it collects and chip away at the reserve. Debate about solutions revolves around increasing revenue by raising payroll tax rates and reducing lifetime payouts by increasing the eligibility age. For example:

- » Democrats have put forward the Social Security 2100 Act that proposes various benefit increases, a reduction in taxation on benefits for middle-income taxpayers and a gradual increase in payroll taxes.
- » The current administration's attempt to reduce the pressure on Social Security through economic stimulation and increased payroll taxes has borne fruit in the short-term, but may not be sustainable and is spurring more Republican discussion of a longer-term reduction of benefits.

Either route may be difficult to sell to the public because each proposal causes pain for some constituency.

2. Implementing Fiduciary Standards

The debate regarding fiduciary standards for servicing retirement investors continues despite the demise of the DOL's Fiduciary rule in 2017. The Security and Exchange Commission's (SEC) Regulation Best Interest requires broker-dealers to act in their clients' best interests and provide additional transparency regarding fees and conflicts.

Critics argue that the regulation does not go far enough, and, in response, states are beginning to create their own fiduciary standards. The newly appointed Secretary of Labor, Eugene Scalia, who was a challenger of the DOL's rule while representing the U.S. Chamber of Commerce, has stated that he would not accede to the SEC regarding fiduciary standards and wishes to work with the agency to strike a balance.

Both of these issues will be complex topics for discussion as presidential candidates move forward through election year. We will update you on any potential developments that may impact retirement plans from a plan sponsor or plan participant perspective. As always, your local ABG representative is available to help you with any questions you may have.

HIGHLIGHTS OF THE SECURE ACT

Highlights Of The SECURE Act

On December 20, 2019, Congress passed a groundbreaking retirement reform bill known as the SECURE Act that introduced a number of significant changes for retirement plans. Below is a summary of some of the highlights of this new legislation:

- **72 is the new RMD.** Owners of IRAs and qualified plan accounts who turn 70½ after December 31, 2019, will not be required to start taking Requirement Minimum Distributions (RMDs) from their retirement accounts until age 72, instead of age 70½. However, anyone who turned age 70½ in 2019 is governed by the old rule and needs to withdraw RMDs by April 1, 2020.
- **No More Stretch IRAs.** Under the new law, if a retirement account owner dies after December 31, 2019, the designated beneficiary must withdraw all assets from the account within 10 years instead of over the beneficiary's lifetime. Exceptions apply, however, for spouses, minor children, the disabled and chronically ill, as well as beneficiaries not more than 10 years younger than the owner. They can still use their life expectancies when computing RMDs, and a surviving spouse may roll over an IRA to his or her own IRA.
- **Age Cap on IRA Contributions Eliminated.** The SECURE Act removes the age cap for traditional IRA contributions, which had been 70½. Effective in 2020, this change would allow older workers to contribute their earned income to a traditional IRA, just as they currently can do with a Roth IRA.
- **Automatic Enrollment Tax Credit Created.** The Act introduces a new tax credit of up to $500 per year for three years that will help employers cover startup costs for new retirement plans that include automatic enrollment or convert existing retirement plans to automatic enrollment.
- **Employer Startup Retirement Plan Tax Credit Increased.** The SECURE Act increases the tax credit to offset small business retirement plan startup costs from $500 per year up to $5,000 per year for three years.
- **Introduces Pooled Employer Plans.** Unrelated employers may now participate in pooled employer plans (PEPs). This provides the potential for reduced administrative costs and duties for participating employers, particularly small businesses.
- **Long-Term, Part-Time Employee Participation.** Employers are now required to include long-term, part-time employees in defined contribution plans if they have 500 annual hours of service for three consecutive years and are age 21 or older (exceptions to this are made for collective bargaining plans). These participants can be excluded from safe harbor contributions, nondiscrimination and top-heavy requirements.

If you have any questions about this new legislation, please contact your local ABG representative.

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- **They expect to live much longer.** As an active, health-focused generation, many millennials expect to live longer, even into their 90s or 100s. They also expect to work longer. Retirement seems so far away and is not an immediate event to plan for when they have other immediate budgetary concerns.
- **They don't necessarily trust the system.** This generation has seen parents lose jobs and retirement assets during the financial crisis and have grown up during a time of global disruption and rapid technological change. According to Deloitte's 2019 Global Millennial Survey, many millennials distrust traditional societal institutions and are not particularly happy with their financial situations, jobs, government and business leaders, social media, or the way their data is used.
- **The burden of student loans.** Saddled by the burden of student loan debt, many millennials are struggling to make their monthly loan payments, let alone think about saving for the future. Above and beyond student loan debt, there are other financial considerations, for example: If my car breaks down can I fix it? When can I buy a house? Retirement is not top of mind.

Life Events May Spark Action

However, significant life events, such as marriage or having a child, may spur a millennial to action. This often happens much later in life when they are in their late 20s or in their 30s. It's at that time, when they may be starting to build a family and thinking more about the future, that an increased desire to plan for financial security may take hold.

The Millennial Voice Counts

It's also important to consider that how millennials choose to spend their hard earned money is often tightly aligned with their values and their perception of a brand's values. They let their wallets do the talking and support companies that align with their values and will not hesitate to end relationships when they disagree with a company's business practices. This values-based approach is why millennials have a growing interest in socially responsible investing and are consumers of sustainable products.

Encouraging Millennial Engagement

Effectively communicating with millennials means connecting with their values, understanding their situation and focusing on what matters to them. Consider stressing the importance of saving for retirement now so that:

- They can build wealth over time and financially support the causes they are committed to, and so make an impact on the world.
- They have the lifestyle flexibility to do whatever they want when they enter the next stage of their life, whether it's traveling the world or starting a new business, or both.

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INCREASING PLAN PARTICIPATION AMONG MILLENNIALS

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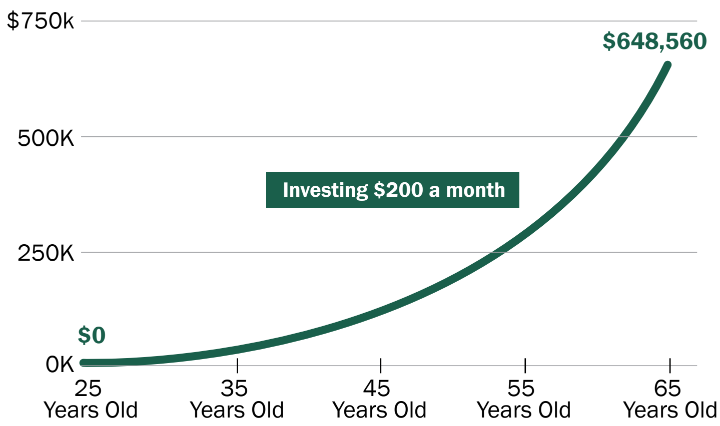
By starting to save early in their careers, millennials have the advantage of time and the power of compounding. Whatever they can contribute has the potential to build significant wealth over time.

For example, a 25-year-old who invests $200 a month in their retirement plan until the age of 65 with an annualized rate of return of just 8% will have an account balance of approximately $648,000 at age 65. This is even if they never increase their contributions. Just by starting with whatever they can afford in their 20s, they can build a solid foundation for a comfortable retirement.

The Power Of Starting Early



Source: calulator.net investment calculator

Communicating with millennials in ways that work for them is also key. Mobile apps, short educational videos, less financial jargon and more life- and goal-related language is the way to start. The first of the millennial cohort will reach age 62 in 2043 when Social Security payments are projected to cover only 77% of its scheduled benefits. Therefore, presenting the benefits of regular retirement savings now can position these participants for financial success and lifestyle flexibility as they age.

We Are Here To Help

If you are looking to increase retirement plan education and participant rates for the Millennials and any other demographic in your company, ABG can help. Just contact your local ABG representative.

**National Institute on Retirement Security, February 2018*

ABG NEWS

Retirement Plan Limits App Ready For 2020

ABG Retirement Plan Services, a leading retirement plan service provider headquartered in Peoria, Illinois, has updated its innovative plan contribution limits app for 2020. This free app, available for Apple iPhone, iPad and Android devices, provides financial advisors immediate access to plan information including information on:

- Contribution limits information for defined contribution plans, defined benefit plans, IRAs, and health savings accounts
- A calendar that shows plan compliance deadlines

ABG Retirement Plan Services recognizes the need for financial advisors to keep track of up-to-date plan contribution limits and the timing of compliance with retirement rules and regulations. "As we move forward in 2020, Advisers will be well-equipped to access plan information quickly via our plan contribution limits app," says John Blossom, CEO of ABG Retirement Plan Services. The updated ABG Plan Limits app is now available for free in Apple's App Store and the Google Play Store.

DID YOU KNOW?

- 46% of working Americans surveyed expect to remain in the workforce beyond age 65. Of the 46% of Americans continuing to work after age 65, 47% of them (i.e., 47% of the 46% or 22% of all working Americans surveyed) will continue to work only because they haven't accumulated sufficient assets to retire (source: Northwestern Mutual 2019 Planning & Progress Study).
- The life expectancy at birth of an American baby in 1970, i.e., 50 years ago, was 70.8 years. The life expectancy at birth of an American baby today is 78.6 years. Thus, life expectancy in the United States has increased 7.8 years over the last half century, i.e., American life expectancy at birth is increasing at the rate of 1 ½ years every decade (source: Center for Disease Control).
- When President Franklin D. Roosevelt proposed the Social Security retirement program in 1935, FDR's financial people projected that total Social Security expenditures would reach $1.3 billion in 1980 or 45 years into the future.The actual Social Security outlays in 1980 were $149 billion. Thus, the analysts' 1935 estimate represented less than 1% of actual 1980 Social Security expenditures (source: Social Security).

TAX TALK

In this issue of Tax Talk, we update you on important upcoming compliance deadlines for defined contribution plans and provide a few quick thoughts on useful reminders for plan participants as we start the new year.

Upcoming Compliance Deadlines

January 2020		
January 31	»	Deadline for sending Form 1099-R to participants who received distributions during the previous year.
February 2020		
February 28	»	Deadline for filing Form 1099-R with IRS to report distributions made in previous year, if not filed electronically.
March 2020		
March 15	»	Deadline for processing corrective distributions for failed actual deferral percentage (ADP)/ actual contribution percentage (ACP) test without 10% excise tax for plans without an Eligible Automatic Contribution Arrangement (EACA).
March 31	»	Deadline for electronic filing of Form 1099-R to report distributions made in previous year.
April 2020		
April 1	»	Deadline for taking first required minimum distribution for participants attaining age 70½ or retiring after age 70½ in 2019.*
April 15	»	Deadline for processing corrective distributions for IRC Section 402(g) excesses.

It's A New Year! Remind Participants To:

» **Update their beneficiaries -** when it comes to beneficiary designations, many participants may "set it and forget it," assuming plan custodians and administrators are responsible for beneficiary information and updates. Others mistakenly believe that they are taken care of by having a will or estate plan. Costly mistakes and potential heartache for loved ones can be avoided with this simple but important reminder.

» **Increase their contribution rate -** increasing this percentage at the beginning of each year, with the goal of ultimately saving at least 10% of their salary annually, is a worthwhile strategy for participants to adopt on their road to a comfortable retirement.

**Per the new SECURE Act, owners of IRAs and qualified plan accounts who turn 70½ after December 31, 2019, will not be required to start taking Requirement Minimum Distributions (RMDs) from their retirement accounts until age 72, instead of age 70½.*

LEGISLATIVE HIGHLIGHTS

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

SEC Regulation Best Interest (Reg BI)

Reg BI, which the SEC passed in June, requires broker-dealers to act in their clients' best interest when making investment recommendations. More broadly, Reg BI seeks to provide additional transparency and clarity for retail investors. Often these practices can include loads, 12b-1 fees, commissions and revenue-sharing arrangements. Firms must comply with the new regulation by June 30, 2020.

Default Electronic Disclosure by Employee Pension Benefit Plans under ERISA

Late last year the Department of Labor (DOL) released a proposed rule that seeks to modernize the disclosure rules for ERISA-covered retirement plans. If finalized, the proposed rule could lead to a dramatic shift for retirement plans and service providers from paper formats to electronic formats, which could lead to greater participant engagement and reduced mailing costs. The DOL will finalize the new regulations most likely around mid-year 2020.