



RETIREMENT PLAN SOLUTIONS

Insight from Alliance Benefit Group,
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Retirement Plan Providers



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SUMMER 2018

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MILLENNIALS & RETIREMENT: BIGGEST GENERATION, BIGGEST RETIREMENT CRISIS?

According to a recent study by the National Institute on Retirement Security, 66% of Millennials (defined as individuals born between 1982-2000) have nothing saved for retirement.* In fact, now the largest generation in U.S. history and numbering over 83 million strong, Millennials are potentially facing a retirement crisis.

It Was The Best Of Times, It Was The Worst Of Times

Many Millennials entered the workplace during a time of high unemployment, stagnant wages and high student loan debt compounded by the Great Recession. In addition, competing expenses such as rent, student loans and other bills often means there is not much left over for retirement savings. However, it does not mean that Millennials are not thinking about retirement. According to the National Institute on Retirement Security study:

- Nearly half of Millennials surveyed were concerned that they will not be able to retire when they want to.
- Two-thirds are concerned about outliving their retirement savings.

Waning Social Security, Greater Longevity & Slower Growth

Millennials should be concerned about their retirement. The first of their cohort will reach age 62 in 2043 when Social Security is projected to cover only 77% of its scheduled benefits. Many Millennials have seen their parents worrying about retirement, particularly those who may have lost retirement savings during the Great Recession due to job loss, market volatility and other factors. As a result, there is an awareness among this younger generation of the importance of planning for whatever the future brings.

Greater longevity, while a blessing, also offers challenges. Many Millennials will live longer than the generations before them. In fact, over half of Millennials are expected to live beyond the age of 89. This increased longevity coupled with decreased Social Security benefits means that Millennials are a generation

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RETIREMENT OVERCONFIDENCE?

According to the 2018 Employee Benefit Research Institute (EBRI) Retirement Confidence Survey, 64% percent of workers surveyed said they are very or somewhat confident about their financial prospects in retirement.

This 28th annual EBRI survey, the longest running survey of its kind, captures the expectations and experiences of over 2,000 Americans aged 25 and older. The survey includes both workers and retirees and is roughly split between the two groups.

However, what appears to be a strong story of retirement confidence may be considered more a story of overconfidence when you take a closer look at the underlying survey results. As the EBRI survey reveals, as we think about retirement readiness, greater clarity around the following four questions is key:

1. How much is needed to retire comfortably?
2. What about healthcare costs?
3. When do workers actually retire versus when they expect to retire?
4. How much have workers saved for retirement?

How Much Is Needed In Retirement?

For many workers, how much they will need in retirement to meet expenses remains unclear. EBRI found that only half of workers surveyed had calculated how much they would need to save to live comfortably in retirement or determined the sources of income (including retirement plans and social security) they would use to meet expenses.

What About Healthcare Costs?

Only 19% of workers surveyed had estimated their healthcare expenses in retirement, though workers aged 55 or older (28%)

were more likely to have calculated how much they would need to cover healthcare expenses. However, planning for these costs is key when you consider that 44% of retirees reported to EBRI that their healthcare costs were higher than they had anticipated.

What Is The Typical Retirement Age?

Workers reported a median expected retirement age of 65 in the EBRI survey, while the actual median age reported by retirees surveyed was 62. In addition, only one in 10 workers planned to retire before age 60. However, the survey also revealed that 35% of retirees retired earlier due to unexpected health issues or job layoffs.

What Have Workers Actually Saved?

According to the EBRI survey, 43% of workers 55 and older have less than \$100,000 in savings and investments, and just 38% have \$250,000 or more. However, despite these low numbers, more than half of workers surveyed expect to rely heavily on workplace retirement plans as a prime source for retirement income.

ABG And Retirement Education

As with anything in life, the better you plan, the better prepared you are. The insights the EBRI survey provides reinforces the need for education around retirement that gets into the nuts and bolts of:

- Determining how much is needed.
- Factoring in healthcare costs.
- Being realistic about a potential retirement date.

Your local ABG representative is available as a resource to help coordinate any participant education you may need.



CYBERSECURITY: WHAT EVERY PLAN SPONSOR NEEDS TO KNOW

The security behind 401(k) accounts is robust. At least that is what most Plan Sponsors would like to count on. Paul Martini, CEO of iboss, a cybersecurity provider, likened account providers' security to Fort Knox. "Hackers would likely avoid Fort Knox, but they might stake out the wayward employee who checks his email on the free Wi-Fi at Starbucks," Martinisays.*

Nevertheless, hackers are seemingly having some success benefitting from soft points of entry in that "Fort Knox" - perhaps in combination with a lack of discipline by consumer users of digital information. According to a January 2018 report by the ITRC (Identity Theft Resource Center, a not-for-profit consumer advocate and research organization well-regarded and sourced by both the U.S. Department of Justice and the Federal Trade Commission on matters of cybersecurity), total known security breaches in all organizations in the U.S. in 2017 numbered 1,579 - exposing 178,955,069 records.**

Vigilance Is Key When Securing Data

Cybersecurity remains a dangerous problem that 401(k) plan sponsors must attend to. Benefit plans are information-rich sources of data and the liability to firms involved can be crippling to balance sheets and reputations. Data can be considered an asset of retirement plans, therefore there is a fiduciary duty to protect data through cybersecurity measures. Whether participant lawsuits against sponsors are brought through ERISA or under state privacy laws, plan advisors may likely also be named and found liable if the right security measures are not in place.



Top Cybersecurity Tips For Plan Sponsors

Although it may seem increasingly difficult in today's cyber-vulnerable world to secure data, the following four cybersecurity tips may help:

1. Review and strengthen protocols for mailing address changes by participants (for example, institute a 30-day lock on online loan, hardship withdrawal and distribution requests after an address change).
2. Limit who within the sponsor organization has access to personal participant information and further restrict it if possible.
3. Provide adequate participant education around how to maintain information security:
 - » How to identify and avoid phishing emails.
 - » The dangers of accessing accounts on public computers or Wi-Fi networks.
 - » How changing passwords every 3-6 months and not utilizing the same passwords on other sites can help to secure an account.
 - » The dangers of clicking on links in emails from unknown or suspicious sources (the most common technique criminals use to gain access to sensitive data).
4. Consider cybersecurity insurance. This can protect plan sponsors even if the breach is with a third party.

Evaluating Provider Risk

As part of their fiduciary duty to clients, plan sponsors should also carefully review controls and cybersecurity measures of any third-party relationships including:

- Internal Controls: including physical access to assets and facilities, tightening of access to client information by employees, effective use of complex passwords, firewalls and antivirus software deployment, and ongoing vulnerability scans.

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that needs to plan for retirement as early as possible by saving as much as possible. Many financial advisors are now recommending Millennials set aside as much as 15%-22% of their gross income to save for a comfortable retirement.

How Much Is Enough?

In a 2018 survey long-term care provider Aperion Care reported that 34% of Millennials believe that they only need \$200,000 or less to retire comfortably, while only 25% think that they will need more than one million dollars.** The amount actually needed in retirement will depend on each individual's situation, but will more than likely be well over \$1 million if they plan to retire at or about age 65.

However, even if Millennials are saving at a healthy rate from a retirement investment

perspective, total returns from both stocks and bonds in the United States are likely to be substantially lower over the next 20 years than they were over the past 30 years according to a recent McKinsey Global Institute report.*** This new, lower return reality presents challenges for Millennial retirement investors who may need to save even more as a result.



A Millennial Snap Shot

So, what is actually going on with Millennials and retirement plan participation? The results from the National Institute on Retirement Security study reveal the following findings:

- Although two-thirds (66%) of Millennials work for an employer that offers a retirement plan, only slightly over one-third (34.3%) of Millennials participate in their employer's plan.
- The following reasons were cited as why a Millennial could not or decided not to participate in an employer-sponsored retirement plan:
 - » 24% are part-time or lack the hours necessary to participate.
 - » 16% have not worked for an employer long enough.
 - » 9.3% cite budget constraints.
 - » 8.0% didn't think about contributing.
 - » 4.8% didn't want to tie up the money.
 - » 2.2% were not planning on staying with the employer.
- The average employee retirement savings rate for those Millennials participating in a retirement plan is 5% of salary.

Auto Enrollment May Help

Given that two-thirds of working Millennials have nothing saved for retirement, automatically enrolling Millennials into an employer-sponsored plan could potentially improve that generation's savings rate. Auto enrollment can make a significant difference in retirement plan participation for Millennials, as a 2017 Vanguard study revealed.

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The study showed that:

- 56% of Millennials participated in an employer-sponsored plan with voluntary enrollment.
- 92% participated in an employer-sponsored plan due to auto enrollment.

Consider ABG Your Millennial Resource

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, *Millennials and Retirement: Already Falling Short*

** Aperion Care, *Millennials and Aging*

*** McKinsey Global Institute, *Diminishing Returns: Why Investors May Need to Lower Their Expectations*

CYBERSECURITY: WHAT EVERY PLAN SPONSOR NEEDS TO KNOW

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- **External Controls:** including periodic security reviews of cloud providers and automatic encryption of all data-in-transit to and from each firm with which data is shared.
- **Event Response Plans:** ensuring that there are efficient mechanisms in place to deliver a timely response, as well as critical communications related to any detected cybersecurity threat or incident.

Every day, cybersecurity grows more complicated as hackers evolve and refine ways to criminally acquire private information. As always, your local ABG representative stands ready to assist and support you with any questions you may have.

* *Bankrate.com. Is Your 401(k) Account Safe From Hacking?*

** *Identity Theft Resource Center, 2017 Breach Report*

ABG NEWS



SPECTRUM
PENSION CONSULTANTS

ABG member firm Spectrum Pension has received the 2018 FIS Impact Award. This award is presented to organizations that use FIS technology or services in innovative ways for the betterment of their customers, resulting in tangible business improvements. FIS is a global leader in financial services technology.

In addition to the award, FIS also donated \$10,000 to a charity of Spectrum's choice. Spectrum's CEO, Petros Koumantaros, and CFO, Yannis Koumantaros, chose to donate to the American Cancer Society and the Pano Koumantaros Cancer Research Fund in honor of their father and Spectrum's founder, Pano Koumantaros.

DID YOU KNOW?

- A 65-year old couple retiring in 2018 will need an estimated **\$280,000** (present value amount stated in 2018 dollars) to pay **out-of-pocket healthcare costs** during the couple's retirement years. The \$280,000 figure assumes the couple **qualifies for Medicare** but does not require **nursing home care**. This annual forecast has risen **from \$225,000** in 2008 (source: Fidelity).
- The **top 3 states** for retirement in 2018 are **Florida, Colorado** and **South Dakota**. This subjective evaluation was based upon 41 metrics that assessed affordability, healthcare, quality of life, crime, weather and the state's tax environment (source: WalletHub).
- Only **36% of workers** surveyed anticipate that their monthly Social Security benefit "will be a **major source of income**" during retirement. However, **67% of retirees** surveyed have determined that their monthly Social Security benefit "is a **major source of income**" during retirement (source: Employee Benefit Research Institute 2018 Retirement Confidence Survey).

TAX TALK

In this issue of Tax Talk, we update you on important upcoming compliance deadlines for defined contribution plans and provide a quick primer on filing Form 5500.

Upcoming Compliance Deadlines

July 2018	
Deadline	Compliance Requirement Details
July 29	» Deadline for sending Summary of Material Modification (SMM).
July 31	» Deadline for filing Form 5500 (without extension).
	» Deadline for filing Form 5558 to request automatic extension of time to file Form 5500.
	» Deadline for filing Form 5330 - Return of Excise Taxes Related To Employee Benefit Plans.
September 2018	
September 15	» Deadline for distributing Summary Annual Report (SAR) to participants provided the deadline for Form 5500 was not extended.
October 2018	
October 15	» Deadline for adopting a retroactive amendment to correct an IRC Section 410(b) coverage or IRC Section 401(a)(4) nondiscrimination failure for 2017.
	» Extended deadline for filing Form 5500.

Filing Form 5500

Form 5500 is used to file an employee benefit plan's annual information with the Department of Labor and may be filed electronically using the EFAST2 system at efast.dol.gov. This annual filing also satisfies the IRS' annual filing requirement. The form typically includes specific information about a retirement plan, including its name, effective date, plan sponsor and plan administrator information, the number of participants, how the plan is funded, and any specific characteristics of the plan - for example, if it provides matching contributions.

The deadline for filing the form is no later than the last day of the calendar month following the seventh calendar month following the end of the plan year. This means July 31, assuming it falls on a business day, for calendar year plans. However, a Form 5558 can be filed for an extension to October 15th.

The additional schedules required to be filed with Form 5500 will depend on the type of filer the plan is, but can include the following:

- » Financial Information schedule - outlining assets and liabilities.
- » Insurance Information - for each insurance contract used.
- » Service Provider Information - outlines the service providers the plan utilized.
- » Retirement Plan Information - contains information specific to retirement benefits including distributions, funding and nondiscrimination requirements.
- » Financial Transactions - including loans, fixed income obligations and leases in default or uncollectible, as well as nonexempt transactions.
- » Accountant's Report - each large plan must also attach an independent auditor's report to the Form 5500.

The DOL penalty for late filing of Form 5500 is up to \$1,100 per day, with no maximum. The IRS penalty for late filing of Form 5500 is \$25 per day, up to a maximum of \$15,000.

ABG Is Your Resource

For any questions about any of these compliance deadlines or Form 5500, please contact your local ABG representative.