



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 1.3 Million Plan Participants • Over \$70 Billion in Assets Under Management • Plans in All 50 States

SUMMER 2017

Inside This Issue

PG	TITLE
1	Women and the Retirement Gap
2	The Lifetime Income Disclosure Act – Simple Yet Complicated
3	Lower For Longer - When the Future No Longer Resembles the Past
4	Did You Know?
5	ABG News
6	Tax Talk

WOMEN AND THE RETIREMENT GAP

According to the Department of Labor, over 47 percent of the U.S. work force is comprised of women.¹ However, when it comes to retirement readiness, many of these 74 million female employees will face greater challenges than their male counterparts.

Making Do With Less

In fact, research by the National Institute on Retirement Security shows that across all age groups, women have considerably less income in retirement than men.²

- » For women age 65 and older, the income they have available to live on is typically 25 percent lower.
- » As men and women age, the gap widens to 44 percent by age 80.
- » As a result, women are 80 percent more likely than men to be impoverished at age 65 and older.



The Factors Behind This Retirement Gap?

A number of factors contribute to this stark retirement gap. They include increasing longevity, greater healthcare costs in retirement, the challenges of caregiving for children and/or parents, and the long-term consequences of the gender pay gap.

1. Longevity Requires Greater Resources

The Center for Retirement Research at Boston College anticipates that by 2020, the retirement period for women aged 65 could be an average of 22 years. While seemingly more a blessing than a burden, the higher costs of living longer needs to be factored into an overall retirement plan.

2. Higher Health Care Costs

Women's health care costs in retirement are expected to be substantially higher than men's. Average health care costs for a healthy 65-year-old woman living to 89 are approximately

(continued on page 4)

THE LIFETIME INCOME DISCLOSURE ACT – SIMPLE YET COMPLICATED

Will I have enough money to retire comfortably? How long will my money last? These are two important questions retirement plan participants may ask as they think about their retirement plan. However, providing simple answers is more complex than you may think. This is compounded by the fact that Americans are living longer in retirement and as a consequence, their money needs to last longer. The risk of Americans outliving their retirement savings, otherwise known as their longevity risk, has increased significantly in recent years.

The Proposed Lifetime Income Disclosure

The recent bipartisan proposal of the Lifetime Income Disclosure Act seeks to add a degree of clarity in answering these questions. The Act would require a retirement plan to show at least once a year, on quarterly statements, the monthly income a participant would receive from their 401(k) plan in retirement in the form of annuity payments.

This lifetime income disclosure needs to include two projections of the potential monthly income from a retirement account's balance if it were to be annuitized as either:

1. **A joint and survivor annuity** – which generates income for the participant and a surviving spouse.
2. **A single-life annuity** – without any benefits for a surviving spouse.

The Act also includes a provision to shield plan sponsors from legal liability should actual retirement income be lower than the amounts projected in the lifetime income disclosure. In addition, the proposed legislation directs the Department of Labor (DOL) to issue tables employers may use to calculate the required lifetime income disclosure, which are based on prescribed assumptions and include model disclosure from the DOL.

With Greater Understanding Comes Greater Savings?

The Lifetime Income Disclosure Act seeks to accomplish three important goals for retirement plan participants:

1. Help participants gain a better understanding of how much they have saved and what that actually means for their future in retirement.
2. Encourage participants to save more once they see how much their current retirement savings translates into future income.
3. Reduce the risk of retirees outliving their savings.

Yet, It's Not So Simple

At first glance this all seems a good idea. The more information for retirement plan participants the better, right? For some expert perspective on the matter, we spoke with Tom Totten, PhD, CEO and Actuary at Nyhart, one of the nation's leading independent actuary and employee benefits consulting firms.

Mr. Totten provided us with some historical perspective on the matter, which can be viewed in terms of three phases of retirement plan evolution:

1. In the days when pension plans were the primary retirement plan option for many employees, one common criticism was that the pension was often illustrated as being paid out in annuity form upon retirement and the employee could never fully grasp that concept of future value.
2. As a result of this potential participant confusion about future value, another type of retirement plan, a cash balance plan, was created that enabled the retirement plan participant to view a current account value.
3. In addition, the 401(k) plan was created, where again account values shown on participant statements are current account values, not the anticipation of some future value.

So now, with the Lifetime Income Disclosure Act, the retirement plan industry will be potentially reverting back to the provision of future values in the form of monthly annuity payments. However, the development is, if the Act passes and is implemented, retirement plan participants will now be able to see both a current 401(k) balance and also receive, at least annually, a monthly retirement income projection.



Thomas Totten, PhD, CEO and Actuary at Nyhart

(continued on page 5)

LOWER FOR LONGER - WHEN THE FUTURE NO LONGER RESEMBLES THE PAST

Total returns from both stocks and bonds in the United States and Western Europe 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.* In fact, what we may have witnessed over recent years is a total sea change in the performance of financial asset classes such as stocks and bonds compared to their historical results.

This new reality presents challenges for investors saving for retirement. In this article we take a look at why “lower for longer” may be the new norm and how important

it is for retirement plan participants to set realistic expectations when it comes to investing for retirement.

Historically Speaking ... How We Got To This Point

Let’s start by going back to the future... the 1980s. Global economic growth accelerated and was fueled by a number of factors including employment growth, the opening of the Chinese market and advances in automation which boosted productivity.

Meanwhile, in the U.S. and Western Europe, total returns on stocks and bonds were considerably higher than they had been historically. The McKinsey Global Institute report notes that:

- » Total returns for equities between 1985 and 2014 averaged 7.9 percent in both the U.S. and Western Europe. These were 1.4 and 3.0 percentage points, respectively, above the 100-year average.
- » Bond returns in the same period averaged 5.0 percent in the U.S., 3.3 percentage points above the 100-year average, and 5.9 percent in Europe, 4.2 percentage points above the average.

In the U.S., revenue growth from new markets, declining corporate taxes, and advances in automation and global supply chains sparked corporate earnings growth. In addition, inflation declined causing interest rates to fall, which led to an unprecedented 30-year bull market in bonds.

The Challenge Of Change

However, over time the global economic picture changed. Developed economies such as the U.S., Europe and Japan saw

increased competition from emerging market economies while new and innovative technology enabled small and medium sized businesses to benefit from the scale of platforms such as Amazon and Alibaba.

With the Financial Crisis of 2008, gross domestic product in developed economies struggled to reach 2% while developed economies were crippled by a number of challenges including:

- » Trillion dollar deficits.
- » An older demographic who saved more and spent less.
- » Persistently low inflation which limited companies’ abilities to grow markets and raise prices.

According to the McKinsey Global Institute, as a result of this slower-growth scenario, total returns from U.S. stocks over the next 20 years could average 4 to 5 percent while bond returns could be around 0 to 1 percent. Even in a higher-growth scenario returns may fall below the average of the past 30 years, by 1.4 to 2.4 percentage points for stocks and 3.0 to 4.0 percentage points for bonds.

Setting Realistic Expectations Is Key

The reality is that whether this “lower for longer” environment persists remains to be seen. None of us can predict the future. We can, however, consider various scenarios and plan accordingly. As Benjamin Franklin once wisely wrote “By failing to prepare, you are preparing to fail.”

For retirement plan participants, a long period of potentially lower returns combined with the potential for a longer life in retirement should be factored into their long-term retirement planning.

Participants may need to:

- » Save more for retirement - by increasing their contributions.
- » Plan to retire later - determining how much they will need will help them determine a retirement date that will work for them.
- » Reduce expenses during retirement - understanding and having a plan to manage the expenses they may incur is key.
- » Do all of the above.

As always, your local ABG representative is available to help you with any participant education or communication you may need to encourage greater retirement plan participation. At ABG we are committed to helping you increase retirement readiness for plan participants.

* McKinsey Global Institute, *Diminishing Returns: Why Investors May Need to Lower Their Expectations*, May 2016.



WOMEN AND THE RETIREMENT GAP

(continued from page 1)

\$235,000 compared to approximately \$200,000 for a 65-year-old man according to HealthView Services, a leading provider of retirement health care cost data to the retirement industry.³

3. The Caregiving Conundrum

Women provide about two-thirds of family caregiving, according to AARP. Caregiving for children, older parents or both, can often be a large part of the responsibilities female employees need to manage. The latest data from the Department of Labor is revealing. Now-a-days many women work and juggle child rearing responsibilities with the data showing that:

- » 70% of women with children under the age of 18 are employed.
- » 75% of these working women with children under 18 are working full-time.
- » 40% of these women are the primary breadwinners for their families.

If they are not working full-time, women may take time off to raise children or care for an aging relative, which results in fewer working years to contribute to a retirement plan and benefit from any employer matches to that plan.

Both time out of the workforce and lower lifetime earnings reduces the level of Social Security benefits in retirement. According to the Social Security Administration, women over age 65 received approximately \$13,000 in annual Social Security benefits, compared to approximately \$17,000 for men.

4. The Gender Pay Gap

Lastly, part of the answer for the retirement savings disparity also lies in the gender pay gap. According to the Bureau of Labor Statistics, women who were full-time workers had median weekly earnings that were 81 percent of male workers' earnings.* Lower overall earnings means less income to save for retirement, which is compounded by a lower level of Social Security benefits in retirement due to lower lifetime earnings.

Focusing On Women And Retirement

The data clearly points to the importance of women at every stage of their working life participating in an employer-sponsored plan. The reality is that women need to plan early and save continually in order to fund a longer life in retirement and avoid the risk of outliving their retirement funds.

Encouraging plan participation for new employees and those who may not yet be participating as well as providing participants with information on how to increase their biweekly contributions are just some of the ways to help to equip these employees to meet their future retirement needs.

The more women know about how much they may need to save to fund a comfortable retirement and the resources available to them from their employer-sponsored plan, the more control they can take over their financial future. Your local ABG representative is always available to help.

¹ Bureau of Labor Statistics, Department of Labor, data as of April 2016, published May 2017

² National Institute on Retirement Security, "Shortchanged in Retirement: Continuing Challenges to Women's Financial Future," March 2016

³ Health View Services, "The Higher Cost Of Living Longer," December, 2012

*Data as of 2015

DID YOU KNOW?

- 54% of 4,200 American workers surveyed would switch jobs for a better retirement plan (Source: Transamerica Center for Retirement Studies).
- Social Security benefits are taxed by just 13 U.S. states, i.e., 37 states do not count monthly Social Security benefits as taxable income at the state level (Source: Internal Revenue Service).
- Just 1 in every 8 adult workers (13%) has both a defined contribution 401(k) plan and a defined benefit pension plan. All 535 members of the House and the Senate (100%) have both a defined contribution 401(k) plan and a defined benefit pension plan (Source: Center for Retirement Research). ■

THE LIFETIME INCOME DISCLOSURE ACT – SIMPLE YET COMPLICATED

(continued from page 2)

The Potential Challenges

According to Mr. Totten, trying to give participants an estimate of what their 401(k) account balance can actually support in terms of monthly payments in retirement can be helpful. As he points out, having a retirement nest egg and not knowing how long it will last is difficult for anyone to manage. However, there are a number of potential challenges in implementing lifetime income disclosure that need to be considered:

- » **Making assumptions can be complicated:** Any time you do any of these types of lifetime income calculations there are a number of assumptions to be made about a variety of factors including the savings rate, investment returns, investment time horizon and longevity. These assumptions will be prescribed by the DOL and setting these parameters is a challenging undertaking. The question is how will these assumptions relate to the real world and the wide variety of participants in retirement plans? Calculations for a participant in their 30s will be markedly different from those provided to a participant in their 60s. As an actuary, Mr. Totten points out “Many of the assumptions made will be based on averages and I have yet to meet the average person.”
- » **The annuity marketplace may yield different results:** If upon retirement, the participant wants to purchase an annuity, the monthly payment reflected on their retirement plan statement may not reflect what they will actually receive from the annuity they are able to buy.
- » **Different providers may provide different projections:** If the participant’s retirement plan is moved from one employee benefits provider to another, those providers may do things differently, also leading to confusion for the participant.
- » **The issue of inflation:** Lastly, how does the retirement plan provider factor in other variables such as inflation after retirement in their lifetime income calculation?

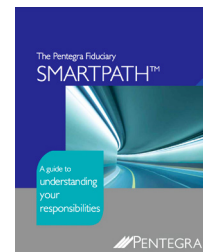
“The numbers can become meaningless pretty quickly and participants may not understand why,” Mr. Totten points out. “I don’t see any nirvana here that will change people’s lives in retirement,” he continues. “Maybe they will save more in retirement but I am still fairly skeptical that we are going to see big changes because we have now disclosed potential lifetime income projections.”

ABG will continue to keep you posted on any developments in the Lifetime Income Disclosure Act as it works its way through Congress. As always your local ABG representative is available to help you with any questions you may have.

ABG NEWS

Pentegra Introduces Fiduciary SmartPath™

ABG member Pentegra, a leading provider of retirement plan and fiduciary outsourcing solutions, has introduced the Pentegra Fiduciary SmartPath™, an exclusive report detailing best practices and strategies for business owners, plan sponsors and advisors to help navigate the shifting fiduciary landscape.



[Click to View](#)

Designed to help clarify fiduciary responsibilities and corresponding liabilities, this timely and comprehensive report offers recommendations and guidance for managing fiduciary duties.

Managed Accounts Pilot Program

Three ABG member firms, Sentinel Benefits, Alliance Benefit Group of Michigan, and Alliance Benefit Group-Rocky Mountain, have been selected by Fidelity Institutional to participate in a pilot program for a new managed account solution.

Fidelity’s® Portfolio Advisory Services at Work (PAS-W) enables these ABG members to offer a personalized managed account solution as a component of their suite of retirement plan offerings.

As the first independent record-keepers to use PAS-W, these ABG firms reflect the commitment of our ABG member firms to provide state-of the-art solutions and top-tier service to our plan sponsor clients and advisor partners.

TAX TALK

In this issue of Tax Talk, we update you on important upcoming compliance deadlines for defined contribution plans. We will also discuss the Summary Annual Report deadline and the potential penalties if participants' requests for copies are not met.

Compliance Deadlines

July 2017	
Deadline	Compliance Requirement Details
July 29	» Deadline for sending the Summary Material Modification (210 days after the end of the plan year in which the amendment was adopted).
July 31	» Deadline for filing Form 5500 (without extension). » Deadline for filing Form 5558 to request an automatic extension to file Form 5500. » Deadline for filing Form 5330 – Return of Excise Taxes Related to Employee Benefit Plans.
September 2017	
September 15	» Extended deadline for filing tax returns for partnerships and contribution deadline for deductibility.
September 30	» Deadline for distributing Summary Annual Report (SAR) to participants, provided deadline for Form 5500 was not extended.
October 2017	
October 15	» Deadline for adopting a retroactive amendment to correct IRC Section 410(b) coverage or IRC Section 401(a)(4) nondiscrimination failure for 2016.
October 16	» Extended deadline for filing Form 5500. » Extended deadline for individual and/or corporate tax returns and final contribution deadline for deductibility for these entities.

Distributing The Summary Annual Report

Once Form 5500 is filed, retirement plan administrators need to provide a summary of information, a Summary Annual Report (SAR), to all participants and beneficiaries of the retirement plan during the year for which the plan information is being reported.

The SAR, a summary of the retirement plan's financial status that summarizes the information in the plan's annual report, needs to include:

- » Administrative expenses incurred by the plan.
- » Amount of benefits paid to participants and beneficiaries.
- » Total value of plan assets.
- » A pension plan's compliance with the minimum funding standards.
- » Right to receive a copy of the full annual report, or any part of the annual report.

The SAR must be provided within nine months from the close of the plan year (no later than September 30 for calendar year plans); plus a two month extension if an extension was filed. Distribution can be paper or electronic, but must meet DOL distribution requirements and be provided in a manner reasonably calculated to ensure actual receipt of the report by the participant.

Although there are no specific penalties for failure to distribute a SAR, plan administrators may be liable for a penalty of up to \$110 per day for failure to respond to a participant's request for a SAR.

ABG Can Help

If you have questions about the Summary Annual Report deadline or any other compliance deadline outlined here, please contact your local ABG representative.