BCG Retirement News Roundup

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Boomershine Consulting Group (BCG) provides this monthly news roundup of highlighted significant articles from the retirement industry – for clients and friends. Retirement plan news has become increasingly pertinent for many audiences these days, including:

- Retirement Plan Sponsors – addressing both private and public sector issues
- Employers – dealing with complicated decision making for their plans
- Employees – educating the Boomer generation that is nearing retirement
- Industry Practitioners - helping to understand and resolve today's significant challenges

We review numerous industry news services daily and will include a collection of timely and significant articles each month concerning compliance, actuarial plan costs (including assumption debates), plan design change issues and benefit trends, as well as other related topics. If you would like to discuss any of these issues, please contact us.

Inside This Issue

Public Sector/Government Plans

Largest public sector pension obligations likely for teachers, SOA mortality study finds

The largest public pension obligations are likely to be for teachers, according to a comprehensive look at mortality tables for public sector pension plans released Tuesday by the Society of Actuaries.

It is the first time SOA has looked at public sector mortality separate from the private sector.

SOA found the largest pension obligations likely to be for teachers than other job categories, when comparing the same benefit amount. Teachers have the longest age-65 life expectancy, and more deferred-to-62 annuity values, compared to public safety and general employee categories.

The SOA tables also suggest a correlation between higher income and lower mortality.

Women reaching age 65 had life expectancies of 90.03 for teachers, 88.8 for general employees and 87.68 for public safety personnel. Men reaching age 65 had life expectancies of 87.7 for teachers, 85.49 for general employees, and 85.27 for public safety personnel.

Dale Hall, SOA's managing director of research, cautioned plan actuaries and other officials to interpret the mortality tables based on each individual job category. "There is no single mortality table covering aggregate public retirement plan mortality across all professions studied, due to the varying mortality patterns from each job category," he said in a statement.

Implementing the new public pension mortality tables will vary by job category and other demographics in each pension plan, and mortality tables are just one of many assumptions used to calculate pension funding, the SOA said. Further, plan sponsors will have to figure out how to best incorporate mortality improvement into their plan valuations.

The study was based on about 46 million life-years of exposure and 580 thousand deaths from 35 public pension systems representing 78 plans. Contributors were asked to identify plan members as teachers, public safety personnel or general employees.

The mortality experience data covers calendar years 2008-2013, and the SOA said the mortality rates should be considered one-year mortality probabilities as of July 1, 2010.

Do Pension Cuts for Current Employees Increase Separation?

This study examines whether pension cuts affecting current public employees encourage mid-career teachers and civil servants to separate from their employers. The analysis takes advantage of a 2005 reform to the Employees' Retirement System of Rhode Island (ERSRI) that dramatically reduced the generosity of benefits for current workers. Importantly, the cuts applied only to ERSRI members who had not vested by June 30, 2005. Vested ERSRI members and municipal government employees in Rhode Island were unaffected. This sharp difference in benefit generosity permits a triple-differences research design in which non-vested ERSRI members are compared, before and after the reform, to vested members and to all members of the Municipal Employees' Retirement System of Rhode Island. The results show that the pension cut caused a 2.4-percentage-point increase in the rate of separation, implying an elasticity of labor supply with respect to pension benefits of around 0.25. Rhode Island teachers were significantly less responsive to the benefit cut than other occupations, in line with an existing literature on teacher labor supply, suggesting that the results from that literature may not generalize to the broader workforce.

Vallejo no longer bankrupt but budget gap grows

Vallejo was the first of three cities that did not cut their largest debt, pensions, while in bankruptcy. Now eight years after emerging from bankruptcy, the old port city has a new forecast showing its continuing budget problem is bigger than expected.
After a decade of bare-bones budgets and voter approval of a permanent 3/4-cent sales tax increase, the city is still short staffed, with deteriorating streets and perhaps some lingering shadow from post-bankruptcy publicity about rising crime rates.

But Vallejo also is located in a part of the booming San Francisco Bay area ranked last year as one of the 10 hottest real estate areas in the nation. And there are promising plans for further development of the waterfront and the former Mare Island Naval Shipyard.

Since filing for bankruptcy in May 2008, a chastened city council has managed forecasts of five-year budget deficits, while preparing for the next downturn by building a $4.6 million surplus and a $21 million reserve at the end of the fiscal year last June.

"This council has seen the impact of bankruptcy, and it was not pretty for the city of

Vallejo," said Mayor Bob Sampayan. "I can speak for all of us. We have all vowed that will never happen again."

The mayor made the remark last month after the city council received a new budget forecast from a national consulting firm with many California clients, Management Partners, which helped lead Stockton and San Bernardino out of bankruptcy.

A deep look at revenue and spending data found that Vallejo's general fund of $107 million this fiscal year, up from $85.8 million when bankruptcy was filed, is on a path to have a deficit of $28 million in 2027 and $90 million in 2037.

"These outcomes wouldn't happen because you would take corrective action to reverse it," Robert Leland of Management Partners told the council. (See forecast here on video of Dec. 18 council meeting)

The mayor, a CalPERS retiree who said the soaring pension costs are "scary," was concerned after a first glance that the new forecast assumed the city would not hire more staff, meaning the projected shortfall could be larger.

"We are so down on employees that we don't have a choice as to whether or not we should or should not hire," Sampayan said. "The bottom line is we need to hire." Increases in staff over the last eight years averaged 14 a year, said the new forecast. But from its peak, staff also is down 14 percent or 68 full-time equivalents. The high was 497 in 2001, the bottom 317 in 2010, and the current number is 429.

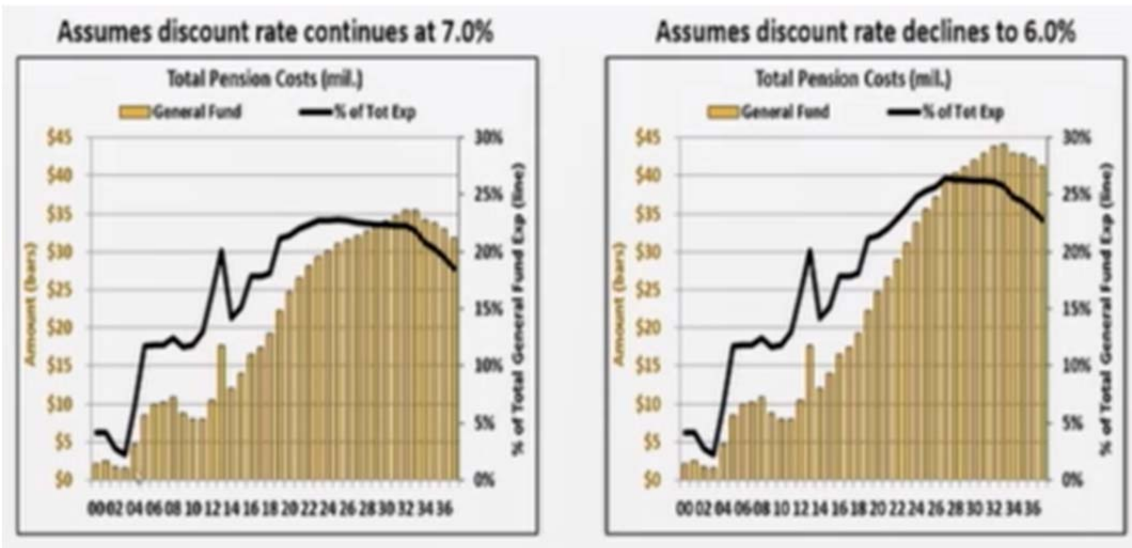
One of the most expensive positions, sworn police officer, is currently at 122, down from 146 in fiscal 2007-08. In the current budget, the average police salary is $118,946 with an additional $81,146 pension payment. With all costs (see chart at bottom) the total is $291,152.

Vallejo has taken two steps to reduce pension costs. An extra $6.5 million payment was made to CalPERS in fiscal 2013-14. Two years ago a $1 million payment was made to a new trust that sets aside money to help pay future pension costs.

And yet, Vallejo's police and firefighter pension rate is among the top two dozen listed by CalPERS. It was 28.1 percent of pay in 2008, more than doubled to 68 percent of pay this fiscal year, increases to 78 percent in July, and in 2024 is an estimated 90 percent of pay.

Vallejo general fund spending on pensions was similar to the 11 percent average among

California cities last fiscal year found by a Bartel actuaries study. But Vallejo spending is projected to reach 20 percent by 2024, more than the Bartel average of 16 percent.
A trust to set aside money to pay for the retiree health care promised Vallejo employees was launched in fiscal year 2013-14 with a $10 million contribution. The city has been making annual payments since then.



The new forecast suggests CalPERS is under pressure to reduce its 7 percent discount rate, an investment earnings forecast used to offset future debt projections. Lowering the discount rate would raise pension costs for Vallejo and other cities.

Since the CalPERS discount rate was 8.75 percent in 1992, it's been on a downward trend along with investment returns. Wilshire consultants estimated two years ago that CalPERS investments are likely to average 6.2 percent during the next decade. To reduce losses, CalPERS is shifting to less risky investments with lower returns.

"So everything is kind of pushing them in the direction of under 7 percent," Leland told the council.

The forecast lists some changes that could reduce the budget problem: higher job vacancy rate, weaker or delayed recessions, higher CalPERS investment returns, tax increases, and stronger real estate development.

Some changes that could increase the budget problem: CalPERS investment losses and a lower discount rate, weaker tax revenue, deeper recessions, added staff, cost-of-living adjustments above 2 percent of pay, higher construction costs, and earthquakes or fire.

Only two options tested improved the forecast baseline projection: a 1/2 percent increase in revenue projections over 20 years, and a 1 percent cost-of-living adjustment over 20 years.

Greg Nyhoff, Vallejo city manager since last January, told the council he has used the forecast model in other cities. It's "interactive" and shows how a change in one part of the budget affects projections.

"I tell people, where does Vallejo stand today?" he told the council. "It's in a very stable condition. It's not in a fast-rising position to hire lots of new employees and huge service increases. But it's very stable, and I credit you for that."

Ron Millard, Vallejo finance director, told the city council he thinks the bigger budget problem can be managed. In fiscal 2013-14, the budget was balanced but deficits were forecast for the next five years.

"Well, it's been five years and we have had surpluses each of those years," he said.
As an example of what can be done now, Millard estimated that eliminating the city subsidy for the marina, golf course and parks could save $2.5 million to $4 million a year, a cut in costs that would continue in following years.

Millard said the worst of the projected annual deficits in the future — $11 million or $15 million if the CalPERS discount rate drops to 6 percent — are roughly 10 percent of current city revenue.

"A 10 percent budget issue is way the heck better than a 20 to 30 percent budget cut issue, which is what we were looking at during bankruptcy," he said.

One of the needs for more spending is that Vallejo streets score 53 on the pavement condition index, well below the Bay Area average of 67. The forecast said an additional $3.2 million a year is needed to halt deterioration and much more for improvement.

After Vallejo emerged from bankruptcy in November 2011, the council was said to have considered cutting pensions but decided not to because CalPERS threatened a costly legal battle.

Stockton and San Bernardino, which filed bankruptcy in the summer of 2012, said pensions were not cut because they are needed to be competitive in the job market, particularly for police.

A pending state Supreme Court decision (Cal Fire Local 2281 v. CalPERS) might allow cost-cutting cuts in pensions outside of bankruptcy. Now previous court decisions known as the “California Rule” mainly limit pension cuts to new hires.

Pension Buyout Participation Rate Higher Than Expected, Early Numbers Show

A program designed to curb Illinois’ pension debt is now underway. Early numbers show more Illinois state employees than expected are choosing to take a pension buyout from the state.

Public employees hired before 2011--and who have worked for at least eight years--get an annual three percent boost when they collect their pensions. That adds to what the retirees bring in, but also the cost of Illinois’ pension debt.

So, state lawmakers introduced the option as part of last year’s budget. State retirees can now choose to swap the three percent annual adjustment on their pensions for a lump sum payment--70 percent of what they would have gotten.

They also get to keep their base pension and 1.5 percent adjustment each year.
Tim Blair is the Executive Secretary for Illinois’ State Employees Retirement System. He says the deal isn’t a panacea.

“I don’t think that any type of program is going to be a quick fix for what we’re dealing with," he said. "But I think it is a nice step in the right direction.”

Since it launched in December, at least 200 new retirees took the deal, more than expected. Blair says their buyouts have ranged between $80 and $100,000.

The program is designed to save the state about $380 million per year.

Neighboring Missouri introduced a similar program for their state employees in 2017. Blair says about 22 percent of retirees there took the buyout, which formed the basis of savings estimates for buyouts in Illinois, which are more generous by comparison. Missouri offers a 60 percent match while Illinois is offering 70 percent.

Blair himself says the ground on which Illinois pensions stands is shaky.

"I'm very optimistic that we'll always have what we need to pay our retirees, but just from my standpoint, the future is uncertain. We're all day to day."

Illinois has among the largest unfunded pension liability in the country.

State and Local Government Trends to Watch in 2019

Recent research efforts by the Center for State and Local Government Excellence (SLGE) reveal key issues facing state and local government leaders in 2019, as well as strategies being used to manage public employee benefit programs, attract and retain a talented workforce, and provide financial security to public sector employees.

- The role of retirement benefit programs as workforce management tools will need to be more fully understood during benefit reform conversations. Recent research has found that changes to benefits have hampered governments' ability to attract new employees.
- Recruitment and retention of qualified personnel will continue to be a challenge for state and local governments. The 2018 SLGE / IPMA-HR / NASPE workforce survey found police, engineering, IT, emergency dispatch, accounting, and skilled trade positions as being particularly difficult to fill.
- State and local governments will continue to follow their innovative peers in restructuring their HR policies and processes, employee engagement efforts, use of technology, and external communications to develop their Workforce of the Future.
- With tight budgets and expanded service responsibilities, interest in government staff sharing across jurisdictional boundaries is likely to grow. A rigorous implementation protocol can help ensure effective consideration of key factors and stakeholders.
- Against the backdrop of reforms that have reduced benefits for many public sector workers, more public employers are going to consider innovative approaches to helping their employees save, such as automatic enrollment.
- The need to fill essential positions, along with the preference of some retired public workers to work again, will require governments to identify post-retirement employment policies that account for both workforce management flexibility and retirement system actuarial soundness.
- To make informed decisions about the management and sustainability of public pensions, it will continue to be important that generalizations are not made about the status of all retirement systems. When data from the Public Plans Database is analyzed, it is clear that plans across the US do not have the same fiscal positions, do not face the same challenges, and do not have the same funding histories, as described here.

Private Sector

House Democrats Unveil Social Security Expansion Bill With Unprecedented Support

Rep. John Larson believes his plan to increase benefits will pass the House.

In less than a decade, mainstream Democrats in Congress have gone from entertaining Social Security cuts to almost universally endorsing the program's expansion.

With Democrats in charge of the House for the first time since this tidal shift upended party orthodoxy, senior members of Congress are setting the stage for the legislative chamber to increase Social Security benefits, bringing a onetime liberal pipe dream a step closer to law.

Democratic Reps. John Larson (Conn.), Conor Lamb (Pa.) and Jahana Hayes (Conn.) are introducing the Social Security 2100 Act on Wednesday, legislation that would expand Social Security benefits across the board and prolong the program's solvency for the next 75 years and beyond. The legislation finances a more generous benefit and cost-of-living adjustment formula, a reduction in income taxes on benefits and the closure of Social Security's long-term funding gap by lifting the cap on income subject to payroll taxes and raising those tax rates.

The bill is being rolled out on the 137th birthday of President Franklin D. Roosevelt, who established Social Security as part of his New Deal in 1935.

The bill already has the support of more than 200 House Democrats, including House Ways and Means Committee Chairman Richard Neal (D), who relied on Social Security payments to help pay for college after his father died.

That puts the bill just shy of the 218-vote mark it would need to pass the House.
Larson introduced identical legislation during the last Congress, when GOP rule ensured it was dead on arrival. As incoming chairman of the Ways and Means subcommittee on Social Security, he is now equipped to shepherd its passage.

"We've been in the wilderness since 2010. This is a great opportunity," Larson said.
Larson expressed confidence that the legislation would pass on the House floor after going through the standard legislative process, complete with hearings that shed light on the issue of retirement security.

"It's a tribute to the grassroots effort that's gone into this," he said, singling out the contributions of Social Security Works and the National Committee to Preserve Social Security and Medicare.

In the Senate, Sens. Richard Blumenthal (D-Conn.) and Chris Van Hollen (D-Md.) have sponsored a companion bill, but Republican control almost certainly precludes it from consideration. The legislation's passage in the House is nonetheless an opportunity for Democrats to showcase what they would deliver if they had unified control of the federal government.

The legislation raises benefits by creating a minimum payment that's 25 percent greater than the federal poverty level as well as modestly adjusting the benefit formula so that more of a person's pre-retirement income will be replaced. Larson estimates that the new benefit formula would increase the average payout by 2 percent. His legislation would not change the age at which a retiree can collect benefits.

The legislation also replaces the consumer price index, used to calculate the annual cost-of-living adjustment (COLA), with an index that better reflects seniors' expenses, particularly the higher costs of health care. The Social Security Administration's chief actuary projects that the bill's Consumer Price Index for the Elderly (CPI-E) would, on average, increase the COLA by about 0.2 percent.

To finance the ambitious legislation, Larson would subject earnings of $400,000 or more to the Social Security payroll tax.

Currently, Americans pay Social Security taxes only on the first $132,900 that they earn based on a cap that rises with average wage growth. The new legislation would leave income between $132,900 and $400,000 untaxed. Over time, the present-day cap would rise to $400,000, at which point all earnings would be subject to the tax.

Larson's legislation would also raise the payroll tax by 1.2 percentage points on both employees and employers, phasing in the change over 24 years.

At the same time, the bill cuts income taxes on Social Security benefits for those who receive them by raising the income threshold at which they would be taxed. Under the legislation, 12 million beneficiaries — out of nearly 63 million total — would receive a tax cut, according to Larson.

Still, the bill's payroll tax increase is likely to be the biggest political challenge for Larson and other Democrats trying to advance the bill.

To try to preempt that line of attack, Larson is fond of brandishing a Starbucks cup at every event promoting the bill. He calculates that for a worker making $50,000 a year, the tax hike amounts to just 50 cents a week — or one $4.50 cup of Starbucks every nine weeks.

Larson, who represents Hartford, known as the nation's insurance capital, also wants Americans to view payroll taxes as an insurance premium rather than a tax, noting that its official name is FICA, or the Federal Insurance Contribution Act tax.

It helps Larson's case that his allies hail from ideologically diverse branches of the party. The co-chairs of the House's Expand Social Security Caucus that Larson started in September include Reps. Debbie Dingell (Mich.) and Raúl Grijalva (Ariz.), members of the Congressional Progressive Caucus; Rep. Terri Sewell (D-Ala.), a member of the business-friendly New Democrat Coalition; and Lamb, who does not belong to any ideologically driven bloc.

Lamb, perhaps more than anyone, attests to the low political risk of backing higher Social Security taxes to pay for solvency and benefit expansion. He endorsed the policy during his March special election win in a southwest Pennsylvania district where Donald Trump won by more than 19 percentage points in 2016.

"People are OK taking a little bit of the burden on themselves as long as they understand we're dedicating the money to Social Security," he said.

Lamb referred to his co-sponsorship of the bill as the fulfillment of a campaign promise and said he wants whoever the Democratic presidential nominee is to endorse the legislation. Because Social Security is statutorily prohibited from borrowing to pay benefits, it faces a funding shortfall as more baby boomers retire in the coming years.

Social Security is projected to have enough revenue to pay out full benefits until 2034, according to the program's nonpartisan actuaries. After that, absent legislation tweaking the program's finances, it will only be able to pay out about three-quarters of promised benefits. Conservatives tend to favor closing Social Security's funding gap through benefit cuts; progressives prefer plans that raise more revenue for the program.

But Larson's bill represents the culmination of efforts by left-leaning groups to look at Social Security as an essential vehicle for retirement security in a time of stagnant wages, depleted home equity and volatile 401(k) plans.

The average monthly Social Security benefit is just under $1,250. Without it, 22 million more Americans would live in poverty.

Larson holds out some hope that President Donald Trump, who promised to protect Social Security from cuts as a candidate, might strike a deal to close Social Security's funding gap with House Speaker Nancy Pelosi (D-Calif.). The Connecticut congressman compared the unlikely duo to President Ronald Reagan's partnership with House Speaker Tip O'Neill (D-Mass.) in 1983, the last time Congress passed legislation reforming Social Security.

"Nancy Pelosi may be exactly the person to drive this across the goal line with the person down on Pennsylvania Avenue," Larson said.

4th Quarter Fallout: Mistakes 401k Participant Might Make After Reading Their Latest Statement

That markets might be having a typically January, but 401k savers could be trapped in the past. The fourth quarter of 2018 witnessed a market downturn of the likes we haven't seen in some time. When plan participants open they're year-end statements, they may experience sticker shock. How they react to that may spell the difference between a comfortable retirement and an anxious one.

The 4th quarter devastated the markets. All the major indices lost in excess of double digits in only three months. The average mutual fund category fared no better, and in some cases much worse (the Morningstar Small Growth average dropped 21.44% – and that was just the average fund!). When employees see their losses, they may decide to "fix" the "problem." This could be the worst mistake they can make regarding their retirement. Let's look at those perceived problems and offer the more appropriate fix.

Problem: Can't Handle Short-Term Downside Returns; Fix: Don't Open Those Statements

We're going to see variations on this them throughout this article. People generally aren't dispassionate when it comes to their investments. It's really only a bunch of numbers. There's nothing emotional about numbers. But people are human, and humans aren't machines. They have emotions. And sometimes those emotions lead to harmful decisions, like "going from stocks to cash," says Charlie Epstein, Founder and CEO, Epstein Financial Services and The 401k Coach in East Longmeadow, Massachusetts. He suggests people who can't handle the volatility simply "stop listening to and watching the news! Go about your daily business."

"Going ostrich" worked following the 2008/2009 market debacle. It turned out the people who decided not to open their statements recovered faster than the people who did open their statements and decided to switch to “safe investments.” This was due to the phenomenon known as “myopic loss aversion.” It’s not volatility (which includes the ups as well as the downs) which depresses people. It’s just the losses. “The shortsightedness of plan participants is a greater risk than short-term market volatility,” says Matt Fleck, Vice President at Axia Advisory in Indianapolis, Indiana. “Participants need to turn off the news and remind themselves that volatility is a not a four-letter word. The recent selloff is a normal and healthy part of any market cycle and any changes to your investment allocation should have been made before the volatility appeared.”

Problem: Assuming Action is Necessary; Fix: Do Nothing

OK, so there are those who think they have to open their statements. If that’s the case, then they’ll have to control the urge to “do something.” The best way for them to understand they should do nothing requires the fully understand the course they have laid out. Sure, sometimes you need a course correction, but more often you don’t. “When talking to plan participants,” says Jamie Hopkins, Director of Retirement Research at Carson Group in Omaha, Nebraska, “make sure they understand why they are invested the way they are invested and that investments are long-term strategies. Short-term volatility should not cause you to overreact and explaining the overall goals and strategy can be a great way for an adviser to add value to a client.”

Passions routinely lead to bad decisions. Retirement savers must control their passions. They must possess the discipline to sit quietly when everything in their heart (not their brain) tells them they must act. “The single worst decision someone who is saving and investing for retirement can make in a period of sustained market volatility is to make emotional decisions with their investments and savings,” says Lloyd A. Sacks, Managing Director, Sacks & Associates Wealth Management, Bridgewater, New Jersey. “It is generally very easy to get scared out of a position, and emotions can override rational reasoning, common sense, and the logic that we used to make the investment decisions in the first place. I am always reminded of what Darcy Howe, a VP with Merrill Lynch, once famously stated about investing: ‘I’ve always felt that investing is like a bar of soap. The more you handle it, the smaller it gets.’”

Problem: Assuming the Wrong Action is Necessary; Fix: Learning the Right Action

The fact is, professional investors are always prepared to make moves, no matter what the market happens to be delivering. That means there are correct moves to make when the market is going up, and correct moves to make when the market is going down. It's just that, most employees don't have the time to learn those correct moves. Without education, they allow their natural behavior to control their decision-making process, and that generally doesn't result in the right move. "The wrong move to make would be going super conservative and moving everything into stable value/money market type investments," says Justin Goldstein, Director & Principal of Plan Advisory Services at Bronfman Rothschild Plan Advisors in Madison, Wisconsin.

The trouble is this "wrong" move can feel right immediately after making it. It doesn't take long, however, for buyer's remorse to set in. "While that may shield them a bit on the way down, participants that do this are typically very bad about putting their money back to work into equities and end up missing out on the upswing as the market corrects," says Goldstein. "This leads to underperformance over time. The same is true for plans that used to have the stable value or money market fund as the default fund in their plan. Participants typically think that a default position is recommended, so they never change it, and again end up sitting in cash for long periods of time missing out on market growth. A good way to prevent this is to attend whatever type of employee education your company offers to plan participants, or to reach out to the plan's advisor or recordkeeper for their thoughts on how to best position their dollars."

Problem: Stocks are Losing Money; Fix: Stocks are On Sale

Here's where education can really help. It actually makes use of a behavioral finance technique known as "framing." This refers to changing the perspective on how you look at things. This is the same marvel that allows different people to see the same data and come up with two totally contradictory explanations for it. Think of it as an optical illusion. The same picture contains two different images. What's the crazy things about optical illusions? You'll insist the picture contains only one image. That is, until someone shows you the other image – then you can't get that second image out of you might.

That's the nature of the fix here. And it's all based on our old friend dollar cost averaging. It all starts with taking on that same familiar foe we've seen earlier. "Don't let emotions drive the investment decision," says Scott K. Laue, a Financial Advisor at Savant Capital Management, Rockford, Illinois. "It's challenging to remove the noise from the equation and ask yourself what, if anything has fundamentally changed. Remember with systematic payroll contributions if the markets are down a participant buys more shares with the same dollar contribution amount and if the market is up that day they buy less. This dollar cost averaging strategy tends to give a great chance for success over time."

Reframing occurs when you liken the drop in the markets to a rare sale at your favorite retailers. This requires plan participants to embrace where they are in terms of being the consumer. "One of the main points retirement plan investors who are not very close to retirement must realize is that they are buyers, not sellers," says Patrick M. Foley, co-author of the book Winning at Retirement and Senior Vice President with Baird in Blue Bell, Pennsylvania. "They won't become sellers until retirement. Downside volatility means stocks are on sale, and that's a good thing for buyers. The theoretical ideal for someone buying into a retirement plan is for the market to be absolutely abysmal for the entire time they are working and saving, and then for it to rise steadily after they retire. If you can get someone to view it from that perspective, volatility becomes much less of a concern."

Problem: Reacting; Fix: Proacting

Again, emotions drive you to zig when you should zag. To do this right, retirement savers need to be trained to look for times to zig when the rest of the world is zagging. Again, we're overcoming the emotional need to do act in ways that aren't in the best interests of obtaining a comfortable retirement. "The wrong move is to overreact to shifting investor sentiment and to sell into weakness," says Andrew Kenney, Chief Investment Officer for Delaware Life in Waltham, Massachusetts. "Volatility creates opportunity, particularly for those with the right liability structure, to re-enter certain sectors at more attractive valuations."

One way to achieve this is by setting a regular time to revisit the investment make-up to insure your target allocations are maintained. "The wrong move is to make reactionary allocation changes," says Mark Painter, founder of EverGuide Financial Group in Berkeley Heights, New Jersey. "The natural reaction is to add risk when things are going up and reduce risk when things are going down. While this may feel good at the time, it can be detrimental to long term returns which are helped with buy low and sell high. Periodic rebalancing regardless of market conditions will help smooth out and generate better returns over time."

Problem: Thinking you can "Do-It-Yourself"; Fix: Go On Autopilot

Of course, if we're talking about maintaining the allocation in a disciplined manner, the best was to accomplish this is for retirement savers to admit they can't do it themselves. Why? Because they can't keep their heads in the market 24/7. In most cases, they can't control their behavior, and will common traps like "selling assets after they fell in price," says Davey Quinn, SVP of Investment Management at United Income in Washington, D.C. "The behavior gap measures the return that investors actually experience vs. the returns if they made no transactions, and this gap is almost always negative meaning investors are their own worst enemies. The best way to prevent the behavior gap is to select an investment option that is automatically managed for you and aligns with your risk appetite, then limit how often you look at statements." Does this last part ring a bell?

Obviously, the way we see people doing this now is through their default investment options, usually a target date fund. TDFs help keep employees from taking actions that can destroy their retirement. "The most frequent decision that retirement savers make, perhaps incorrectly, is to react to recent market performance and make changes after the fact," says Joe Arena, Chief Investment Officer at Quartz Partners Investment Management in Troy, New York. "Using options such as TDFs can help investors avoid this mistake, although TDF investors should periodically review any changes their provider may have made to the TDF's methodology to determine whether it remains suitable for their individual preferences."

When it comes to investment, nothing can guarantee future results. But we do have a volume of studies that appear to indicate how to avoid making decisions that leave one exposed to the worst potential outcomes. And those decisions are most likely to occur after 401k plan participants open their 4th quarter 2018 statements.

Roth 401(k)s Are an Essential Employee Benefit

Employee retirement readiness is at the forefront of plan sponsor concerns. As a result, many plan sponsors are adding the option for Roth 401(k) contributions of their plan. Roth 401(k)s were first introduced in 2006, and while the adoption rate by employers was initially slow, it has since skyrocketed. As many as 70% of 401(k) plans now offer Roth 401(k) options, alongside the traditional 401(k). While the Roth 401(k) option is not for everyone, plan sponsors should consider providing this option to give employees additional retirement savings options. Having this feature as part of the employee benefits package will make your 401(k) plan more attractive and will allow your organization to remain competitive to attract and retain top talent. We have outlined important points to keep in mind if you're considering adding a Roth 401(k) option to your plan.

What is a Roth 401(k)

The Roth 401(k) serves as a 401(k)-Roth IRA hybrid. Like the traditional 401(k), it can only be offered by employers, but like a Roth IRA, the contributions are after-tax dollars so participants will not face additional taxes on those savings or any investment earnings upon withdrawal during retirement, provided a couple of conditions are met as described below. A Roth 401(k) feature is not a completely separate retirement plan. It is a different type of contribution to an existing plan, and employees can contribute to both or just one of these options.

Roth 401(k) holders can start taking tax-free distributions, provided that the Roth account has been open for more than five years and the participant is 59 ½ years old, or on the account of death or disability. All of the profits generated within the account are 100 percent tax-free. As a result, participants benefit immensely when they make contributions over a long period and enjoy strong returns.

Roth 401(k) Rules and Important Points

- Roth 401(k) contribution limits are capped at $19,000. Those 50 years old or over can contribute up to $25,000.
- Not Exempt from Required Minimum Distributions (RMDs). Distributions must begin at 70 ½, unless still working. While Roth IRAs are exempt from the IRS RMD rules, the Roth 401(k) is not. Roth 401(k) owners can avoid this requirement if they roll their Roth 401(k) into a Roth IRA before turning 70 ½ years old.
- There is no income limitation to participate. Unlike the Roth IRA, the Roth 401(k) has no income limit. Many of your employees may not be eligible to contribute to a Roth IRA because their income is over the IRS imposed limit. Offering a Roth 401(k) provides them with a post-tax contribution option.
- Roth 401(k) contributions and earning must be tracked separately. While adding the Roth 401(k) option is not a large cost since it's just an added feature, due to the plan administration involved, your recordkeeper may charge an additional fee for Roth accounts.
- Employer matches are taxed at withdrawal. Employers can choose to match contributions on a participant's Roth 401(k). However, the employer contributions are kept in a separate account that will be taxed at withdrawal since they are made on a pre-tax basis.
- In-plan Roth rollovers. In-plan conversions from a traditional 401(k) account to a Roth 401(k) is permitted, though participants must pay tax on the converted dollars.

However, it's important to educate participants considering this transaction to proceed with caution because unlike the Roth IRA, they will not be able to return funds to their initial 401(k) plan.

Impact of Offering a Roth 401(k) Option

Offering a Roth 401(k) option increases your organization's competitiveness in the employment market. Many high-income individuals and millennials looking forward to income growth want the Roth 401(k) option anticipating higher tax rates closer to retirement. Adding this option to your plan allows participants to save into two accounts with different tax benefits.

Plan sponsors should be aware that most participants won't realize the benefits of Roth 401(k) on their own. Like any investment option, sponsors should educate participants about how the feature works, how it impacts their saving and planning, and how to decide between a Roth 401(k) and a traditional 401(k).

Advance Informational Copies of 2018 Form 5500 Annual Return/Report

The U.S. Department of Labor's Employee Benefits Security Administration (EBSA), the Internal Revenue Service (IRS), and the Pension Benefit Guaranty Corporation (PBGC) released advance informational copies of the 2018 Form 5500 annual return/report and related instructions.

Here are some of the changes that the instructions highlight:

Principal Business Activity Codes. Principal Business Activity Codes have been updated to reflect updates to the North American Industry Classification System (NAICS). For Line 2d, a plan administrator would enter the six-digit Principal Business Activity Code that best describes the nature of the plan sponsor's business from the list of codes on pages 78-80 of the Form 5500 Instructions.

Administrative Penalties. The instructions have been updated to reflect that the new maximum penalty for a plan administrator who fails or refuses to file a complete or accurate Form 5500 report has been increased to up to $2,140 a day for penalties assessed after January 2, 2018, whose associated violations occurred after November 2, 2015.

Because the Federal Civil Penalties Inflation Adjustment Improvements Act of 2015 requires the penalty amount to be adjusted annually after the Form 5500 and its schedules, attachments, and instructions are published for filing, be sure to check for any possible required inflation adjustments of the maximum penalty amount that are published in the Federal Register after the instructions have been posted.

Form 5500-Participant Count. The instructions for Lines 5 and 6 have been enhanced to make clearer that welfare plans complete only Line 5 and elements 6a(1), 6a(2), 6b, 6c, and 6d in Line 6.

Be aware that the advance copies of the 2018 Form 5500 are for informational purposes only and cannot be used to file a 2018 Form 5500 annual return/report.

ERISA imposes the Form 5500 reporting obligation on the plan administrator. Form 5500 is normally due on the last day of the seventh month after the close of the plan year. For example, a plan administrator would file Form 5500 by July 31, 2019, for a 2018 calendar year plan.

Deferred Income Annuities Enhance Retirement Readiness

Transfer of longevity risk benefits longest-living Americans most, rising interest rates could increase benefits across age groups

The Employee Benefit Research Institute (EBRI), a private, nonpartisan, nonprofit research group, has found that Deferred Income Annuities can provide an effective hedge against outliving retirement savings.

Many Baby Boomers and Gen Xers face the grim prospect of outliving their retirement nest eggs, yet only a small percentage of defined contribution (DC) and individual retirement account (IRA) balances are annuitized — and a significant percentage of defined benefit (DB) accruals are taken as lump-sum distributions when the option is available.

Some believe that cost is an issue: Deferred Income Annuities (DIAs) are designed to reduce the probability of outliving savings by providing monthly benefits in the later stages of retirement. Because of their delayed payments, DIAs could be offered for a small fraction of the cost for a similar monthly benefit through an annuity that starts payments immediately at retirement. This reduced cost could at least partially mitigate retirees' reluctance to give up control over a large portion of their DC and/or IRA balances at retirement age.

EBRI's study, "Deferred Income Annuity Purchases: Optimal Levels for Retirement Income Adequacy," explores how the probability of a "successful" retirement, measured by the EBRI Retirement Readiness Rating (RRR), varies with the percentage of the 401(k) balance that is used to purchase a DIA. Results are provided for all households with a 401(k) balance and analyzed by simulated age of death. The results are also examined by age-specific wage quartiles.

"At current annuity rates, EBRI finds purchasing a DIA at age 65, deferring 20 years with no death benefits, results in an overall improvement in retirement readiness for all ages of death combined, when DIA purchases were up to 20 percent of the 401(k) balance," said Jack VanDerhei, Ph.D., Director of Research, Employee Benefit Research Institute, and author of the report. "However, there is an overall decrease in retirement readiness for DIA purchases starting at 25 percent — due in part to the interaction with long-term care costs."

The study finds an overall improvement in retirement readiness when DIA purchases equal to 5, 10, and 15 percent of the 401(k) balance, and a pre-commencement death benefit, are added to the DIA. When the results are broken out by age at simulated death, there is an overall decrease in retirement readiness for those dying before benefits begin, as well as for those dying soon after benefits begin.

Investors living beyond age 89 will experience a significant increase in retirement readiness, with the larger the percentage of 401(k) balances being used to purchase a DIA, resulting in a larger percentage increase in retirement readiness.