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The SECURE Act

The SECURE Act is the most significant retirement plan legislation in more than a decade. The legislation provides expanded savings opportunities and Improved access to retirement plans to improve retirement security, along with administrative relief for plan sponsors. We're here to help. Contact your Relationship management team to learn more about the SECURE Act.

Read our SECURE Act Overview.

Tactics To Help Employees Achieve Retirement Success

Behavioral finance strategies improve the odds

Applying behavioral finance principles may help employees overcome obstacles that often keep them from making rational financial decisions. Here are a few financial behaviors that could be sabotaging employee retirement savings, along with ideas from the International Foundation of Employee Benefit Plans (IFEBP) that may serve to counter them.

Loss Aversion

People tend to dislike loss more than they like gains. As an employer, you can capitalize on this tendency with the language you use to communicate about the plan. For example, "Would you rather pay yourself or the government?" or " Increase your retirement savings and cut your taxes," is much more effective than "Stop missing out on your retirement plan match." Although both communicate the same message, says the IFEBP, the former packs a more powerful punch.

Herd Mentality

We all like to be included, and that means we look to others to figure out our next move. As you communicate about your 401(k) plan, take advantage of this tendency by discussing what others are doing with regard to saving. For example, say something like, "80% of ABC employees contributed to their retirement plan last year." Or get even more specific about the group you're targeting with this message: "Nine out of every ten new hires say "yes" to saving 15% of their pay for retirement." The IFEBP says that breaking down the message to specific groups — such as new hires, people over age 50, or those working at a specific location — can be most effective.

Order for Advantage

Faced with a long list of choices, most people hone in on entries at the top. Unless the list is particularly long, they may recall only the last few items. When providing a list, consider the order in which you include entries. For example, if you present a list of investment funds available in the plan, the tendency may be to list the choices from least risky to most risky. As a result, you may find the majority of participants select very conservative investments or, if the list is long, very aggressive ones because they only remember the last few funds on the list. Instead, consider reserving the top of the list for investments that are likely to be appropriate for most participants, such as target date or balanced funds.

There are many more principles of behavioral finance that may help in your 401(k) plan communication efforts. Find out more about the IFEBP's suggestions at https://tinyurl.com/IFEBP-Beh-Fin.

Five Key Concerns for Retirement Plans in 2020

A blog by Rich Rausser, CPC, QPA, QKA

New years are often viewed as opportunities for new beginnings. And while that may be true, it is also the case that a new year can present new problems – or in some instances, the continuation of old problems.

When it comes to defined contribution (DC) plans like the 401(k), there are a number of challenges – and opportunities – for advisors, TPAs and recordkeepers to be aware of in 2020. Following are five of the most important ones.

Litigation. That is a word practically guaranteed to get one's attention, and for good reason. A report by the Center for Retirement Research (CRR) found that over 100 new 401(k) complaints were filed in 2016-17, the highest two-year total since 2008-09. The most common reasons for that increase, the CRR found, were inappropriate investment options; excessive fees; and "self-dealing," which usually refers to instances where a plan fiduciary acts in its own – rather than its participants' -- best interests when administering a plan.

"The 401(k) plans sponsored by over 40 financial firms – including most of the largest companies in this sector – have been associated with lawsuits alleging self-dealing," the report noted.

How much money is involved in these lawsuits? In one high-profile example, department store chain Nordstrom was accused of breaching its fiduciary duty after allegedly failing to consider low-cost options and disclose specific amounts charged to participants. The lawsuit claimed that, had the company acted properly, it could have it could have reduced plan expenses by $3.6 million per year.

Avoiding litigation is of course a high priority, and doing so when it comes to 401(k)s. The Employment Retirement Income Security Act of 1974 (ERISA) establishes standards of conduct for fiduciaries; much of the recent litigation would seem to indicate that plan providers are not sufficiently aware of what their obligations as fiduciaries are and thus fail to uphold the ERISA standards. As retirement plan providers and advisor-partners, it is incumbent upon our industry to remind plan sponsors of these responsibilities. In some cases, outsourcing these fiduciary responsibilities might be an even better solution.

Distraction. This can be a significant contributing factor to litigation. As a recent report by advisory, broking and solutions company Willis Towers Watson says, as defined contribution plans have continued to grow, the level of investment-related governance required to manage those plans has increased as well.

"The average committee member can dedicate only about 5 percent of his or her time to plan management issues," the firm wrote. "We believe that is not enough time for even the most basic review of a DC plan, its operations and its results."

Since the chances of an individual significantly increasing the time to deal with a DC plan (at the cost of time spent on other aspects of his or her business) seem slim, we recommend looking at outsourcing such duties to a reputable third-party administrator (TPA). In addition to providing plan document services, compliance testing and Form 5500 preparation, some TPAs go the extra mile to help you better serve your clients with additional value-added services and capabilities that could help mitigate fiduciary risk, provide plan design consulting services, and offer other ways that can ultimately help you grow your practice.

Longevity. While it is certainly an encouraging sign that the average life expectancy of Americans continues to rise – from 76.6 years in 2000 to 78.6 years in 2016 – many employees are not adjusting their anticipated retirement age. The CRR posits that, as retirees become more reliant on 401(k)/IRA lump sums, and as the full retirement age for Social Security rises, "monthly Social Security checks will provide less relative to preretirement income at any given claiming age." That means that future retirees as they age may find themselves with less reliable income at the same time that inflation continues to grow.

A possible solution here involves plan sponsors and participants seriously considering other decumulation tactics, including annuities and installment payments as well as ways of maximizing one's Social Security payouts. Again, prudent advisors are there not only to help plan participants with retirement fund accumulation, but also to explore the different methods and timings of how to translate those savings into retirement income.

In addition, the Retirement Enhancement and Savings Act (RESA), which failed to be brought up for a vote in the Senate last year, is expected to be reintroduced this year; in fact, the House Ways & Means Committee held a hearing on the bill on Feb. 6. The bill would expand multiple employer plans (MEPs) and alter some restrictions in an effort to make them easier to use, and would also offer increased financial incentives to small businesses to start new plans and additional incentives for auto-enrollment.

Another bill that was passed by the House but not the Senate last year, the Family Savings Act, is similar to RESA in some ways, but is not as broad; it incorporated 11 of RESA's 33 provisions. There has been no indication as to whether it could be revived this year.

In any event, closely following the changes – if any – that Congress passes this year is obviously of crucial importance. This applies to TPAs and recordkeepers as well: Keeping advisors abreast of what is happening in Washington, D.C. can help everyone to plan ahead, especially if or when it looks like relevant legislation is about to pass.

Redesign. As amply demonstrated already, there are many shifting sands beneath the retirement industry's feet. A "one size fits all" approach is no longer appropriate (if it ever was). If you have not looked at what your clients are offering their employees in this area – not just the type of plans, but what those plans actually contain – you are doing everyone a disservice … including yourself, if valued current and future employees start leaving for other companies with better plans.

Innovative plan designs that include student-debt repayments (as Abbott Laboratories famously did last year), health savings account contributions and others are now being examined by employers big and small, conservative and not-so-conservative. Think about re-evaluating your 401(k) plan design this year to determine if it is meeting the expectations and needs of your participants – and be prepared to act if it is not.

Many in the retirement services industry today are focused as perhaps never before on the changing regulatory landscape and overall plan administrative burdens; as a result, there is a strong desire to reduce workloads, fiduciary liability and risk. A smart plan design with automatic features—auto-enrollment and auto-escalation – can better meet the needs of plan participants and providers alike, and can help realize greater retirement readiness. Plans like Pentegra's SmartPath™ can be a key way to deliver successful outcomes for everyone.

About the Author

Richard W. Rausser has over 25 years of experience in the retirement benefits industry. He is Senior Vice President of Client Services at Pentegra, a leading provider of retirement plan, fiduciary outsourcing and institutional investment services to organizations nationwide. Rausser oversees consulting, product development, marketing and communication, BOLI and non-qualified business development and actuarial service practice groups at Pentegra. He is a frequent speaker on retirement benefit topics; a Certified Pension Consultant (CPC); a Qualified Pension Administrator (QPA); a Qualified 401(k) Administrator (QKA); and a member of the American Society of Pension Professionals and Actuaries (ASPPA). He holds an M.B.A. in Finance from Fairleigh Dickinson University and a B.A. in Economics and Business Administration from Ursinus College.

Pensions, Retirement and Markets: Five Questions for 2020

A blog by Frederic P. Slade, CFA

As we head into 2020, we share are five trends and topics which are expected to impact retirement plans, financial markets and savings next year.

1. Will the 2019 U.S. equity rally continue into 2020 or will "fundamentals" take hold?
After declining by -4.4% in 2018, the S&P 500 Index is on target to return about 30% in 2019, surpassing expectations and virtually all international stock market returns. This big turnaround has been fueled by four major factors: (a) general optimism regarding U.S. trade policy, including rollback of some tariffs imposed on Chinese goods; (b) the Federal Reserve's decision to cut its federal funds rate three times in 2019 after raising rates four times in 2018; (c) strong growth in U.S. consumer spending which has compensated for weaker business spending; and (d) continued buybacks of company stock which have supported price per share gains.

What are possible headwinds heading into 2020? Fundamentals, which include company earnings, economic growth and valuations, may play a more prominent role. First, there has been a significant slowdown in economic growth outside of the U.S., with pullbacks in manufacturing, and near recessionary indicators in Europe and elsewhere. While the U.S. has shown steady, albeit slowing growth, there may be further weakening in 2020, particularly if global growth continues to slow. Second, corporate earnings have been flat or declining on a year-over-year basis after double digit gains in 2017 and 2018. Though earnings are a key component of stock prices, the slowdown in corporate earnings didn't slow down momentum in the stock market during 2019. Will earnings have an adverse impact in 2020? Third, valuations for large cap stocks, such as Apple, Amazon and Google have been at record levels. At some point, these valuations should come back to more normal levels though it is hard to forecast when this will happen.

It is impossible to predict how the U.S. equity market will behave in 2020. Most analysts expect significant volatility in stock prices, particularly in an election year, with any gains in the vicinity of mid-single digits. In this environment, it continues to be important for investors to diversify their portfolios.

2. What will happen with U.S. interest rates?
In 2019, interest rates were a tale of two maturity ends of the U.S. Treasury yield curve. Yields on bonds with short maturities (1 year or less) fell due to three Federal Reserve (Fed) rate cuts during the year. Rates for bonds with longer maturities (10 years and longer) stabilized after falling significantly between June and September.

The fall in shorter rates has generally reduced returns for retirement-age savers. According to bankrate.com, average 1-year CD rates declined from a 2019 high of 1.39% in June to 1.24% in December. While defined benefit pension plans generally suffered declines in their funded ratios due to the fall in longer term interest rates, the recent stabilization in rates, along with the market rally, have helped stem the drop in their funded status.

As with any future event, it is unclear what will happen with interest rates in 2020. The Fed is currently signaling a hold on rates or at most one rate cut in 2020. They will have to balance a slowing U.S. economy and mild inflation, versus external risk factors such as tariffs, slowing global economies, Brexit, oil prices and geopolitical tensions.

3. Where are regulations around fiduciary standards headed?

In 2018, the move toward a uniform fiduciary standard for brokers and advisors was disrupted when the Department of Labor (DOL) fiduciary standard, also known officially as the "Conflict of Interest" rule, was repealed by a Federal court. Into this vacuum stepped several parties: (a) the Securities and Exchange Commission (SEC), which issued its proposed best-interest (BI) standards in April 2018. These would require broker-dealers to disclose conflicts of interest and to "exercise reasonable diligence, care, skill and prudence" to ensure they are selling products and carrying out transactions that are in a client's best interest[1]; (b) the DOL itself, which announced it would release new advice rules; and (c) various states, which have proposed their own fiduciary regulations.

After extensive comment, litigation and review, the SEC BI standards were approved in June 2019 and are expected to become effective June 30, 2020. The DOL is expected to re-propose their fiduciary rulemaking, though the timing is uncertain. And at the state level, New Jersey, New York, Connecticut and other states have introduced state-based fiduciary standards for advisors and brokers operating in their respective jurisdictions.

The regulatory environment around fiduciary standards remains unclear heading in 2020. However, the SEC BI standard- if enacted-while considered less strict than the DOL Conflict of Interest Rule, would strengthen protections versus older fiduciary standards.

4. How will the SECURE Act affect the retirement industry?

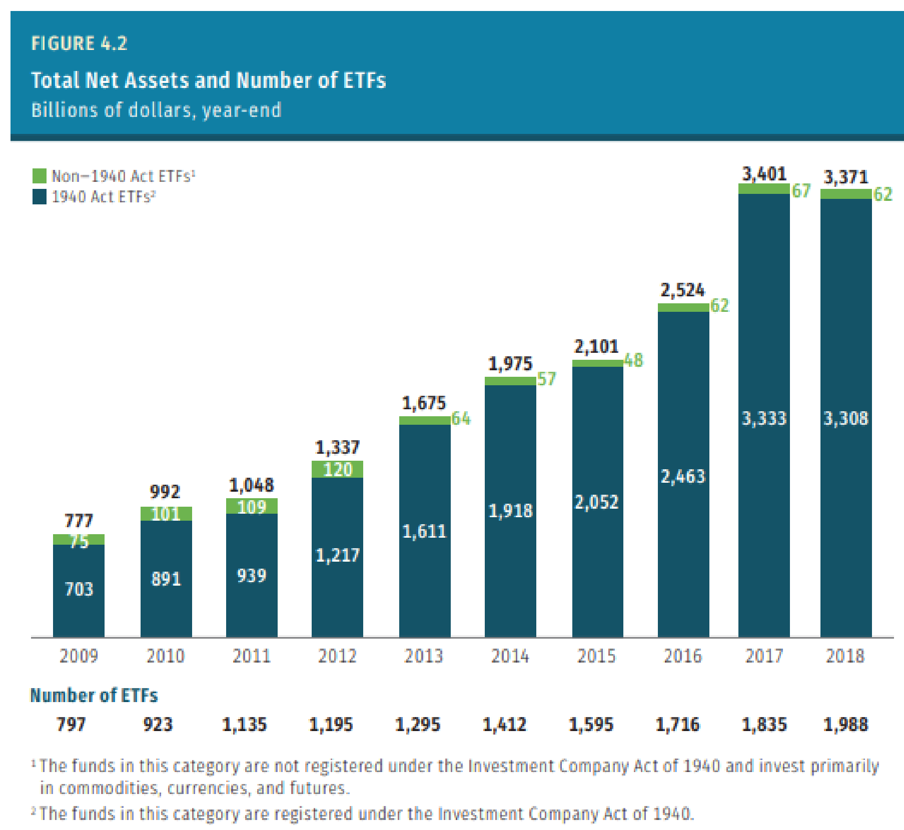
After months of remaining in limbo in the Senate, the U.S. Congress passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act in December 2019. While it may not significantly impact the overall retirement savings crisis in the U.S., the SECURE Act is considered the most significant pension legislation passed since the 2006 Pension Protection Act (PPA). The SECURE Act provisions include: increasing the age for Required Minimum Distributions (RMDs) from 70 ½ to 72; easing IRA contribution restrictions; expanding automatic enrollment and facilitating lifetime income disclosures and product offerings such as annuities. Perhaps the biggest impact is to ease regulations and increase incentives for employers to join together to create open Multiple Employer Plans (MEPs) and to expand retirement plan participation to part-time workers.

5. Will Exchange Traded Funds (ETFs) continue their rapid growth?

While ETF assets remain a relatively small fraction of the total of passive index funds and actively managed funds, there has continued to be an explosion in ETFs. ETFs have been a preferred vehicle for investment advisors to rebalance their clients' portfolios.

While ETF expense ratios are competitive with mutual fund index funds, there are differences between the two, including hidden ETF costs associated with bid-ask spreads and ETF premiums and discounts from net asset values.

Market trends suggest continued growth and demand for ETFs by investors and advisors in 2019 and 2020, despite some leveling off in 2018. The chart below shows U.S. ETF assets at $3.4 trillion at the end of 2018, an annualized growth rate of nearly 16% over a 10-year period.



Source: Investment Company Institute, *2019 Investment Company Factbook*.

1. Adam Bergman, "Impact On Self-Directed IRAs of SEC Fiduciary Rule Proposals", *Forbes,* April 20, 2018.

NOTE: Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or solicitation to buy or sell any securities. Past performance is not a guarantee of future results. This blog contains several forward-looking statements. As with any projection

or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. Actual results may vary materially from those expressed herein.

About Frederic Slade

Fred Slade has over 25 years of experience in the investment management and retirement services industries. He is Senior Director, Investments for Pentegra Retirement Services, a leading provider of retirement services to financial institutions and organizations nationwide, founded by the Federal Home Loan Bank System in 1943. Mr. Slade has managed over $1 billion in internal bond portfolios and provides analytics and strategy for Pentegra's Defined Benefit and Defined Contribution Plans. Mr. Slade holds a Ph.D. in Economics from the University of Pennsylvania and a CFA, and has presented at a number of seminars and conferences.

Look For Us At These Upcoming Events	
February 9 – 12 ABA Conference for Community Bankers Omni Orlando Resort at ChampionsGate Orlando, FL	March 5 NJBA Board & Management Summit Embassy Suites by Hilton Berkeley Heights, NJ
March 8-12 ICBA LIVE 2020 Gaylord Palms Resort Kissimmee, FL	

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