

Pittsburgh CEBS Benefits Day Retirement Update



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CEBS – Retirement Update

**“The most important investment you can make is in yourself”
- Warren Buffet**

Discussion Topics:

- **Regulatory Update**
 - **SECURE Act**
 - **RESA Act**
- **Financial Stress and the Impact on Retirement Savings**
- **Big Data – Bringing Healthcare and Retirement Benefits Closer Together**
- **Open discussion**

Retirement legislation is picking up steam in Congress

Several retirement proposals introduced in the 115th Congress are resurfacing in the 116th

- **Richard Neal (D-MA) became the chairman of the House Ways and Means Committee**
 - Retirement is a top priority for him
 - Has championed retirement legislation in the past
- **Congress is holding retirement-focused hearings**
- **Setting Every Community Up for Retirement Enhancement (SECURE) Act**
 - Unanimously passed the House Ways and Means Committee on April 2
- **Retirement Enhancement and Savings Act (RESA)**
 - Passed the Senate Finance Committee unanimously in 2016 but was not taken up by the full Congress
 - Reintroduced on April 1
- **SECURE and RESA enjoy wide bipartisan support**

Source: House Ways and Means Committee; Senate Finance Committee

SECURE and RESA

Key provisions

■ Multiple employer plans (MEPs)

- Authorize open MEPs by allowing unrelated employers to participate in a “pooled employer plan”
- Fix the “one-bad-apple” rule
- Effective beginning in 2021 (SECURE); 2023 (RESA)

■ Promoting lifetime income in defined contribution plans

- Provide a fiduciary safe harbor for plan sponsors that select insurance companies to provide lifetime income
- Permit participants to transfer lifetime income investments to another plan or IRA if the plan sponsor eliminates the investment as an option under the plan
- Require participant statements to include a disclosure of the monthly amount a participant could receive as a single or joint life annuity, based on current balance

■ 401(k) nondiscrimination safe harbor

- Increase the 10% cap on automatic escalation of participant contribution rates in safe harbor 401(k)s to 15%
 - RESA would eliminate the cap altogether
- Give plan sponsors more time to elect safe harbor status if they make nonelective rather than matching contributions

Source: House Ways and Means Committee; Senate Finance Committee

SECURE and RESA

Key provisions

- **Tax credits for small employers (100 or fewer employees) to encourage plans**
 - Increase the plan start-up credit to a maximum of \$5,000 per year for the first three years
 - Create a new tax credit of up to \$500 per year for the first three years for plans with automatic enrollment
- **Repeal the maximum age (currently 70-1/2) for traditional IRA contributions**
- **Accelerate required minimum distributions to non-spouse beneficiaries, with exceptions**
 - SECURE would require beneficiaries to withdraw the balance in the decedent's account within 10 years
 - RESA would require beneficiaries to withdraw within 5 years, but only with respect to a beneficiary's inherited balance in excess of \$400,000
- **Provisions in SECURE but not in RESA**
 - Allow long-term part time employees to participate in 401(k)s
 - Would apply to employees who work at least 500 hours in 3 consecutive years
 - Raise the starting age for required minimum distributions from 70-1/2 to 72
 - Permit penalty-free withdrawals of up to \$5,000 from retirement accounts for expenses related to the birth or adoption of a child

Source: House Ways and Means Committee; Senate Finance Committee

Other bipartisan retirement bills

Key provisions

■ Retirement Security Act

- Includes many of the provisions in RESA including the changes to MEPs
- Would create “Secure Deferral Arrangements”—A new automatic enrollment/automatic escalation safe harbor

■ Increasing Access to a Secure Retirement Act

- Like RESA, would provide a lifetime income safe harbor

■ Retirement Security and Savings Act

- Would permit 403(b) plans to invest in collective investment trusts
- Would permit employers to make matching contributions to 401(k) and 403(b) plans for employees who are repaying student loans

Source: S. 321; H.R. 1439; S. 3781 115th Congress

House seeks examination of DOL's enforcement practices

- **March 18 letter from Committee on Education and Labor to the Government Accountability Office**
- **Last time GAO examined the DOL's Employee Benefits Security Administration (EBSA) led to a 2007 report**
 - Many changes since then including the 408(b)(2) service provider fee disclosure rules
- **Asks GAO to look at many areas, including**
 - EBSA's targeting practices
 - The effectiveness of EBSA's voluntary compliance programs
 - Changes in the law or regulations that could make EBSA more effective in protecting the health and retirement benefits of American workers

In fiscal year 2018, EBSA recovered more than \$1.6 billion on behalf of plans, primarily through enforcement actions. 65% of EBSA's investigations led to monetary results or other corrective action.

Source: House of Representatives Committee on Education and Labor; EBSA website



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DC plan lawsuits: 150+ cases since 2006

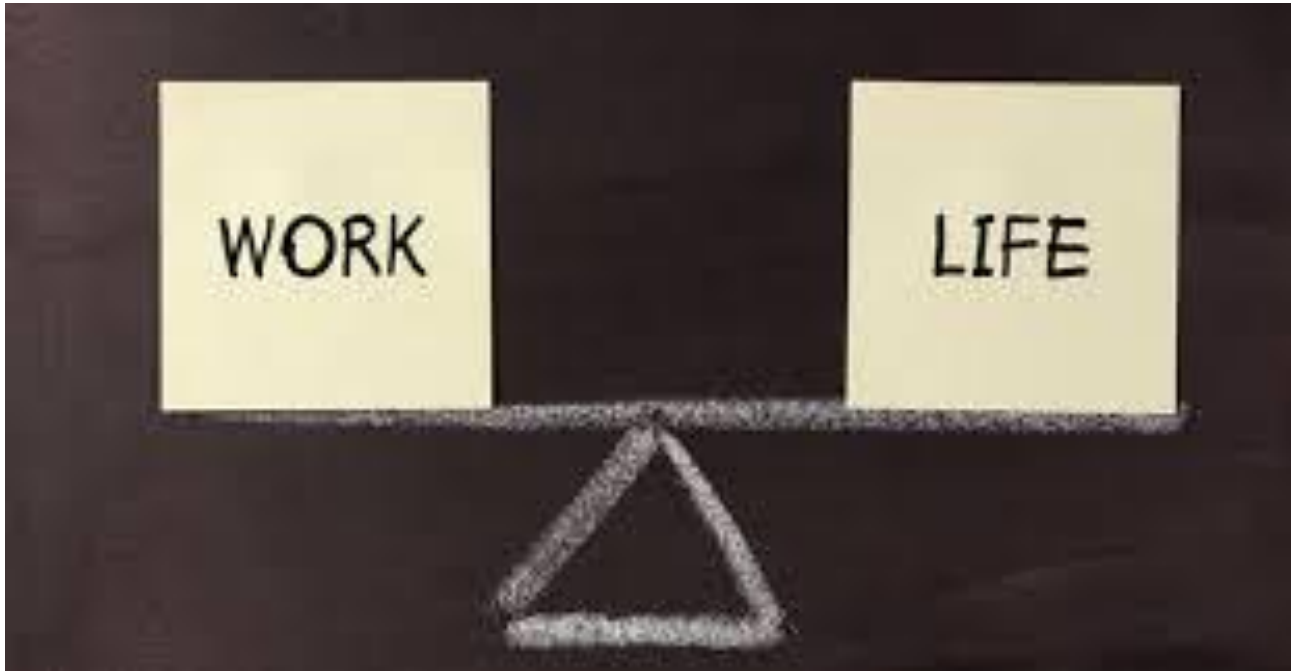
- Large plan sponsor fiduciaries
- Plan service providers
- Financial institution plan sponsors
- Large universities with 403(b) plans
- More lawsuits likely
 - More plaintiff law firms are entering the business
 - Smaller plans are being targeted
 - Law firms are finding new categories of defendants to sue and raising creative new claims

Defendants have paid more than \$500 million to settle

About \$120 million in 2018 alone

Source: J.P. Morgan Asset Management

Financial Wellness



Financial Wellness

The Problem

DID YOU KNOW?

46
percent

of workers spend 3 hours or more during the workweek dealing with or thinking about financial issues.

That equates to \$5,000 per year in productivity loss.

Source: PwC's 2016 Employee Financial Wellness Survey



Financially stressed employees are absent on average for 3.5 days annually.

Source: Willis Towers Watson 2015 Global Benefits Attitudes Survey

3.5
DAYS

20%

of employees have had to resign due to financial stress.

Source: Mercer LLC, Inside Employees' Minds



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Financial Wellness

Employees Are Worried

TOP FINANCIAL CONCERNS

41% Not being able to retire when I want to

59% Not being able to meet monthly expenses

57% Not having enough emergency savings for unexpected expenses

Source: PwC's 2017 Employee Financial Wellness Survey



Stress Is Universal

Millennials 57%

Gen X 59%

Baby Boomers 41%

By generation: The majority of Millennial and Gen X employees are stressed about their finances.

Why Employers Take Action

REASONS FOR CREATING OR EXPANDING WELLNESS PROGRAMS

85% It's the right thing to do

80% Increase employee engagement

58% Improve retirement statistics

44% Decrease employee time spent addressing financial issues

33% Employees are asking for programs

26% Decrease medical costs

Source: AON Hewitt 2016 Hot Topics in Retirement and Financial Well-Being



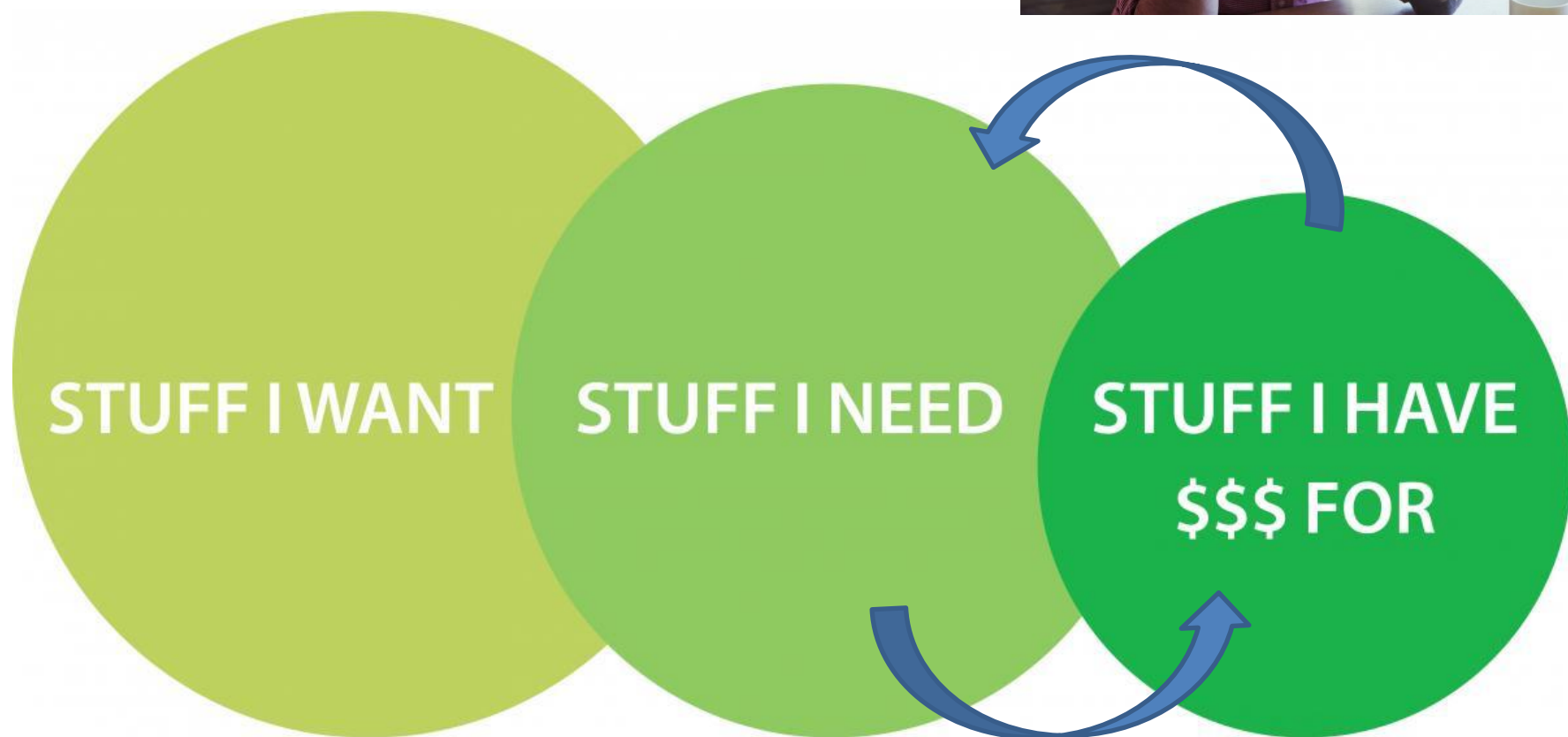
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Benefit decisions can cause financial stress



- Healthcare
- Dental
- Vision
- Voluntary Life
- AD&D
- Short/Long Term Disability
- Other Voluntary Benefits
 - Cyber/Legal
 - Pet
 - Parking
 - Dependent Care
- HSA/FSA
- 401(k)/403(b) Plans
- 529 Plan

Benefit decisions and financial stress



Same retirement goal – who's funding it changed

What happened to retiree health care and pension benefits?



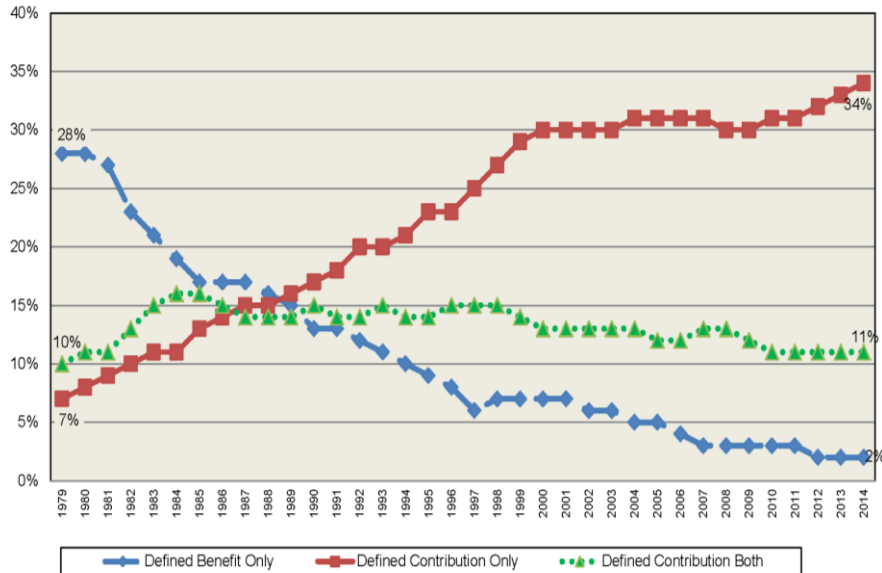
This information is from the Principal Financial Group® Replacement Ratio Calculator with source information from the Annual Statistical Supplements to the Social Security Bulletin (www.ssa.gov). It is intended to demonstrate the potential impact of Social Security and 401(k) plan benefits at various income levels. For more information on your individual circumstances, please speak with your financial or tax professional. ©2015 Principal Financial Services, Inc.

But, a struggling economy coupled with government regulations caused companies to clean up their balance sheets . . . but did it really work?

Same retirement goal – who's funding it changed

Figure 1

Private-Sector Workers Participating in Employment-Based Retirement Plans, by Plan Type, 1979–2014
(Among All Workers)



Source: U.S. Department of Labor Form 5500 Summaries 1979–1998, Pension Benefit Guaranty Corporation, Current Population Survey 1999–2013, EBRI estimates 1999–2014.

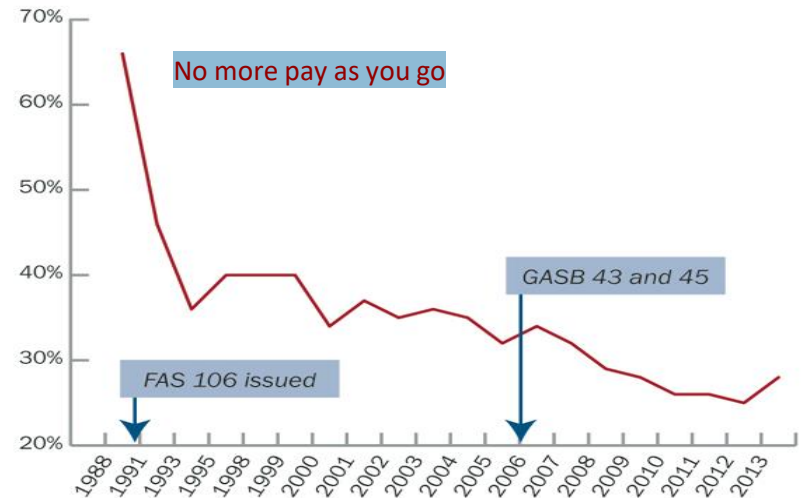
With the passage of FAS 106 and GASB 43 and 45, retiree healthcare plans were quickly terminated



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With the decline of company sponsored pension plans 401(k)/403(b) plans became the new choice to fund retirement benefits

Retiree health care trendline: firms with 200 or more employees



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999–2013; KPMG Survey of Employer-Sponsored Health Benefits, 1991, 1993, 1995, 1998; The Health Insurance Association of America (HIAA), 1988.

The true impact of delayed retirement?

What is the potential unidentified liability of delayed retirement on a company's balance sheet



Potential areas of increased cost

- Annual salary increase
- Higher healthcare costs
- Higher workers compensation costs
- Higher match costs
- Higher profit sharing costs
- More vacation
- Increased turnover (log jam)
- Potential loss of productivity

Studies show that the average cost of a worker who delays retirement can equate to \$50,000 annually².

¹ Source: <https://www.planadviser.com/nearly-three-quarters-boomers-want-delay-retirement/> March 2018

²Source:http://research.prudential.com/documents/rp/SI20_Final_ADA_Cost-of-Delayed_1-4-17.pdf January 2017



The impact of financially stressed workers on the bottom line

Let's look at the cost of lost productivity:

- Let's assume:
 - 1,000 employees of which
 - 30% are stressed/distracted and
 - 46% of them spend 5 hours/week on personal finances at work
- $1,000 * 30\% = 300$ distracted workers
- $300 * 46\% = 138$ spending 5 hours/week on finances
- $138 * 5 \text{ hours} * 46 \text{ ave work weeks} = 31,740$ hours lost
- $31,740 * \$17.24/\text{hr}^1 \text{ ave skilled worker wage} = \$547,198$ productivity loss/yr
- What if this stress leads to delayed retirement – average age increases

What is the financial impact?

Case study

Three like companies with 1,000 employees that only vary in Worker demographics

Case Studies may not be representative of the results of all clients and are not indicative of future performance or success.

	Company 1	Company 2	Company 3
Percent of workforce 60+	30%	20%	10%
Percent of workforce 40-60	45%	40%	35%
Percent of workforce under 40	25%	40%	55%
Annual healthcare and disability premiums	\$7.6M	\$6.6M	\$5.5M
Annual salary costs	\$49.5M	\$48.0M	\$46.5M

Source: CIGNA (healthcare premium)

Source: www.lanl.gov (Voluntary LTD rates); Ge Re Research, www.genre.com/aboutus/press-releases/gen-re-announces-2013-us-group-disability-and-group-term-life-market-survey-results.html

Source: Bureau of Labor Statistics, www.bls.gov/news.release/archives/wkyeng_10202015.pdf (Salary Differential)

More recent data may alter this assessment



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Five Styles of Financial Wellness Programs



Tools



Education and Literacy



Coaching and Behavioral



Services and Products



Enhanced Employee Education Programs



Delivering an Effective Financial Wellness Program

A turnkey, multi-channel, holistic approach with coordinated in-person and technology enabled learning opportunities.



Consideration when designing a Financial Wellness Plan



- Is a primary reason for offering a competitive benefits package to recruit, retain, and reward top talent?
- Is your company paternalistic, wanting to give employees the best opportunity for replacement income ratios that are superior to the industry?
- Are you willing to devote the time and resources to supporting a robust financial wellness program?
- Who will own it (HR, Benefits, Retirement)?
- Should you look to outsource a financial wellness benefit?

Considerations for Selecting a Financial Wellness Provider



Budget or Cost



Business Model



Communication Frequency



Data Reporting Capabilities



Integration with other Benefits



Financial Wellness

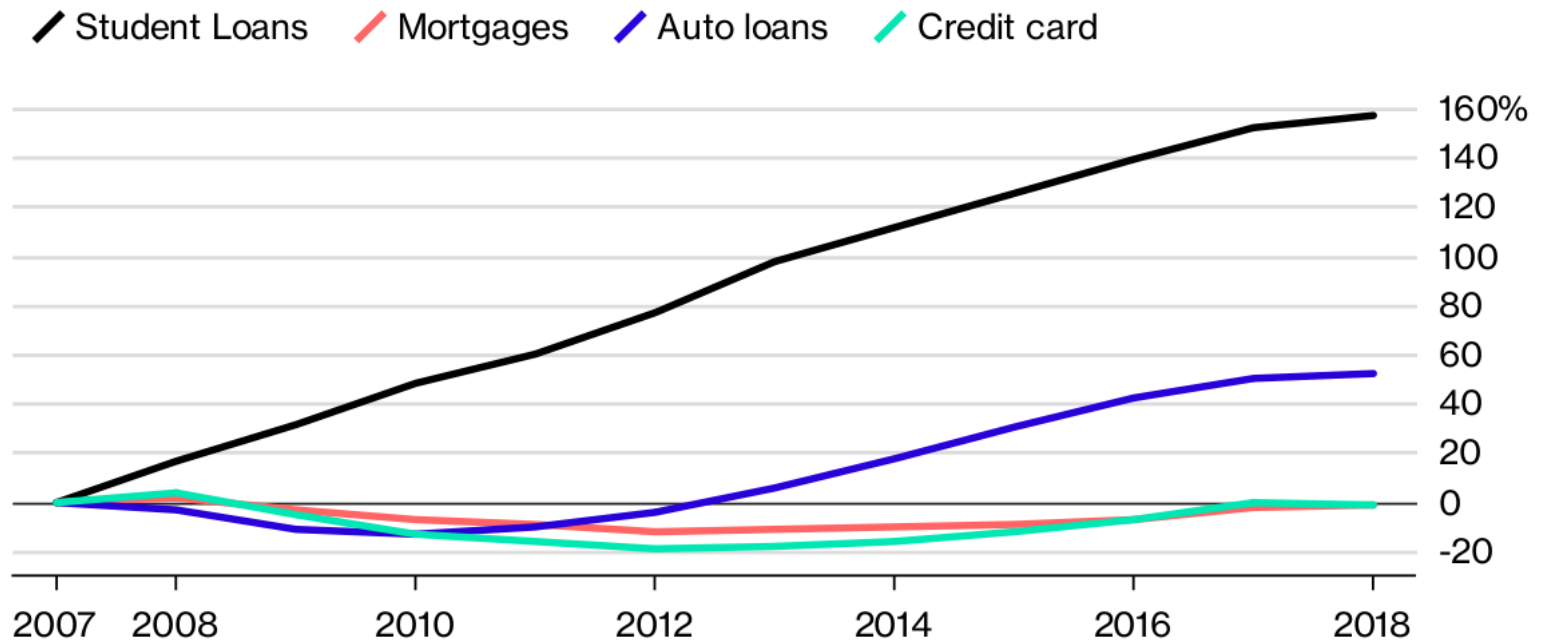
Keys to successful rollout:

- ❖ Employer commitment
- ❖ Multiple employee touchpoints
- ❖ Gift cards/prizes to encourage engagement
- ❖ Consider rolling out prior to open enrollment
- ❖ Consider combining with other wellness credits
- ❖ Mandatory as part of open enrollment to get health benefits

Student Loan Issues

Student Debt Just Keeps Growing

Student loans are the fastest growing segment of U.S. household debt, seeing almost 157 percent growth since the Great Recession.



Source: Bloomberg Data

Bloomberg

Student Loan Repayment Plans

- Adopt a standalone benefit
- Adopt a standalone benefit that uses 401(k)/403(b) budget
- Research private letter ruling or wait for legislation

Impact on Health Benefits

Poll Questions:

- ❖ How many of you offer a High Deductible Healthcare Plan with an HSA?
- ❖ Do you view the HSA as more of a healthcare or retirement benefit?

Using Big Data to bring health and retirement together

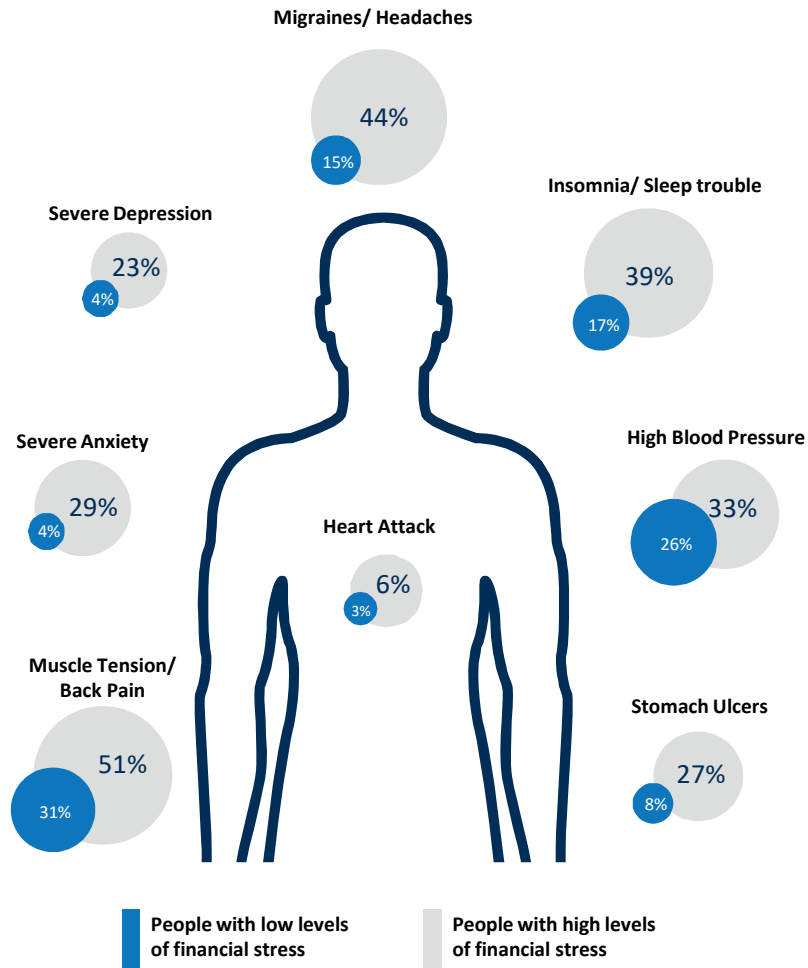
Identifying Financial Stress Warning Signs Through Plan Data



- Are employees retiring on time with adequate savings?
- Are participants opting out of auto-enrollment and auto-increase?
- Is there a high volume of plan-specific Web traffic or calls regarding loans, hardships, or access to money?
- Do you currently offer a High Deductible Health Plan and an HSA?

Impact on Health care costs

Financial stress manifests as:



Financial Wellness Matters To Employers

Stressed out employees are more prone to health risks.

1. Financial Stress is the #1 cause of stress-related illnesses¹
2. 84% of employees report having some degree of financial stress²
3. 24% higher healthcare costs in people who are stressed³



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1. Research Works: Partnership for Workplace Mental Health report. Feb 2009.

2. Q2 Trends in Employee Financial Issues, Financial Finesse, September 2012.

3. Higher Health Care Costs for Metabolic Syndrome Risk, Disabled World, September 2009.

Impact on Health Benefits

Better management of chronic conditions can lead to improved retirement savings:

High Blood Pressure	Average Annual Pre-Retirement Healthcare Costs	Expected Longevity
Poorly Managed	\$7,533	84 Years
Average Managed	\$6,292	86 Years
Well Managed	\$5,299	87 Years
Difference (Poorly to Well)	\$2,234	+3 Years

Type II Diabetes	Average Annual Pre-Retirement Healthcare Costs	Expected Longevity
Poorly Managed	\$7,004	72 Years
Average Managed	\$5,682	76 Years
Well Managed	\$5,065	80 Years
Difference (Poorly to Well)	\$1,939	+8 Years



CEBS – Right on Target



HENDERSON



THANK YOU

BROTHERS