

PENTEGRA

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A Look Inside the Average 401(k) Plan

Today, employers face the challenge of helping employees achieve retirement readiness, with the need to balance that with attracting and retaining the talent to drive their business forward. The answer—a competitive 401(k) plan. Below we take a look at defined contribution plan design and activities across a wide variety of industries and company sizes, with data drawn from a recent survey.

Contributions

In 2016, 84.9% of participants made contributions to their plans, up from 81.9% in the prior year. Lower-paid participants (as determined by the plan's ADP test) contributed to their plan an average of 6.1% of their pre-tax pay. Higher-paid participants contributed more, at 7.0% of their pre-tax pay on average.

Company contributions have shown a relatively steady increase over time, since dropping to 3.5% of payroll in 2010. In 2015, company contributions amounted to 4.7% of payroll, rising to 4.8% in 2016.1 Just 5.6% of companies participating in the survey did not make contributions to the plan, 82% made matching contributions and 45.4% made non-matching contributions. For companies whose match is a fixed percentage, 41.3% match \$.50 for each dollar contributed by the participant, up to the first 6% of pay. A further 31.8% of these employers match participant deferrals dollar-for-dollar up to 6% of pay.

Investments

Just where is the money going? Plans continue to offer between 17 and 19 investment options for company contributions, and between 18 and 20 for participant contributions, figures which have remained relatively steady for the last 10 years. Most frequently, assets in 2016 were invested in actively managed domestic equity funds, with 22.9% of assets directed there. Target-date funds (TDFs) were the investment of choice for 22.2% of assets, followed by indexed domestic equity funds at 13.5% and stable value funds with 8.1% of assets.

Almost 40% of the surveyed plans offered a professionally managed portfolio to participants. Seventy percent of plans use a Qualified Default Investment Alternative, or QDIA, which for 77.5% of them is a TDF.

Target-date funds continue to increase in both availability and usage. Compared to 2007, availability of TDFs rose from 44.4%, reaching 73.1% in 2016. Average allocation was just 6.4% in 2007, compared to 22.2% by 2016.

You can read more about 2016 trends in defined contribution plan in the PSCA's Annual Survey of Profit Sharing and 401(k) Plans, 60th Annual Survey. Available for purchase online at psca.org.



Employees Prefer a Retirement Paycheck

The shift away from traditional pension plans means today's employees are largely responsible for their own retirement security. Yet many seem to long for the "good old days," at least in the sense of knowing they will receive a monthly income throughout retirement.

What role should companies play in the retirement security of their employees, especially as it relates to steady retirement income? And how can employees best meet the need for a retirement income they can count on? Those were among the questions explored recently with about 1,000 U.S. employees.

While 54% of the survey's respondents said they retain primary responsibility for their own retirement security, 27% said companies are primarily responsible, and 19% believe it's the government that has primary responsibility. Asked if they would prefer a set retirement paycheck for life from their employer over a lump sum of money to invest themselves, 58% preferred the steady paycheck. Interestingly, that sentiment came not only from Baby Boomers, but also from Millennials.

Employees want to partner with employers

Employees continue to want to partner with their employers in the planning and execution of their retirement savings, the survey found. In fact, they said they want companies to be more

involved in providing for their retirement security in the next five to 10 years; 61% of respondents agreed with that sentiment, compared to just 9% who said the employer should be less involved.

When asked whether they would prefer to set aside part of their salary into a company-sponsored retirement plan or into the Social Security program, about three-quarters said they prefer to channel their money to the company plan. In fact, 56% said they would prefer to save on their own rather than paying into Social Security, if those were the only two choices. Forty-four percent preferred Social Security to saving on their own.

This information, which was gleaned from MetLife's Role of the Company Survey², released in April 2018, aligns with research that found a crisis in financial confidence among single female retirees; close to half of those surveyed are not confident their savings will last through age 90.³

Annuities and advisors increase confidence

The concept of a paycheck for life could be realized, even without traditional pension plans, through the purchase of annuities. Among single retirees, 71% of women with an annuity felt confident that they could live the retirement lifestyle they want, compared to 56% of those without an annuity. The figure was 68% for single male retirees, whether or not they owned an annuity.

The same research shows that working with a financial advisor can have a significant impact on retiree confidence. Three out of four single men and women retirees who work with an advisor were confident in living the lifestyle they want, while 66% of single men and 54% of single women who do not work with an advisor feel that way.



Plan Sponsors Ask ...

Q: We have several new employees who will be involved with our 401(k) plan. How can we help them stay on the right side of their duties as fiduciaries?

A: Fiduciary outsourcing can help protect individual fiduciaries, the plan as a whole — and, of course, the participants. You may already know that the penalties for fiduciary breaches can be both criminal and civil, a fact that emphasizes the importance of knowing how to carry out these duties.

While seeking out targeted fiduciary training from your plan's advisor, consultant or legal counsel is a good course of action; there are a few things important to understand right away. First is that a fiduciary may or may not be named in the plan document. It's the actions that determine fiduciary status, not just the title. That's why outsourcing these responsibilities to a professional makes sense. As an institutional fiduciary, Pentegra offers a comprehensive array of fiduciary outsourcing services that reduce fiduciary burdens and make plan management simpler, safer and easier for sponsors and advisors.

Q: Our soon-to-be-retirees are sometimes unclear about how their finances will actually look in retirement. We are offering them financial wellness information, but it made us wonder about what we can learn from the Baby Boom generation's actual retirement experience.

A: That's the topic of an Insured Retirement Institute (IRI) annual survey and report, now in its eighth year. While the survey indicates a generally positive financial picture for current Boomer retirees, many are not confident with their preparedness. Fifty-eight percent of Baby Boomers have retirement savings in 2018, up from 54% in 2017. Of the Boomers who have retirement savings, 43% have \$250,000 or more, up from 32% last year. Still, just 25% of Boomers think their money will last throughout retirement, and 28% said they are doing (or did) a good job with their financial preparation for retirement. As far as who is doing the best job of preparing for retirement, the survey shows it's those who work with a financial professional; these have at least \$100,000 saved compared to 48% of those without a financial professional. Read more from the IRI report, *Boomer Expectations for Retirement 2018*, <https://tinyurl.com/IRonlineBoomers>.

Q: As our company leadership retires and younger employees take over, we are sometimes unsure about how best to help them in their efforts to save for the future. How do younger people view the role of their employer and the government?

A: As the workforce transitions toward more Millennials in company leadership roles, change is happening in how things are done and in attitudes. Recently, a national cross-section of workers was asked about a variety of topics that included what they expect from their company. According to the survey, American workers say they play the largest role in their own success. But the next-highest number, 76% of the workers, say their employer should have "a meaningful role in providing access to opportunities to help them be successful." In fact, 36% of the surveyed workers said their employers should have a large role in providing access to opportunities to be successful. That figure is higher than the 34% who said their families should have a large role in their success. The list of actions employers could take to give employees the help they need, according to the survey, included: access to financial products, including retirement savings plans, to help them grow and build wealth (87%); health and wellness programs (85%); and free financial education courses (82%). Read more of the American Workers Survey commissioned by Prudential and conducted by Morning Consult, at <https://tinyurl.com/Worker-attitudes-Pru>.



Pentegra Celebrates 75 Years of Success

Pentegra is extremely proud to mark our 75th anniversary – a significant milestone that few companies achieve.

It is particularly gratifying to be celebrating this anniversary as the future of our business looks so bright. With nearly 10,000 baby boomers retiring each day, “retirement readiness” has taken on a new urgency. Demand for our products and services continues to grow, and Pentegra is building new, dynamic partnerships across the nation.

Reflecting on our history, Pentegra has grown from a company that serviced the eight retirement plans of the Federal Home Loan Bank System to one whose products and services today—qualified and nonqualified retirement plans, fiduciary outsourcing and institutional investment solutions—are as diverse as those we serve.

While it is meaningful to look back, it is equally exciting to look forward. We are focused on creating value-added solutions that deliver successful outcomes—greater retirement readiness with our SmartPath™ solutions, broader retirement coverage, fiduciary outsourcing solutions that reduce burdens, benefits financing solutions that make it more affordable to attract, reward and retain key talent, and institutional investment solutions that make your job easier.

Our customers and partners continually show their confidence in us by giving us their business, by sharing new opportunities and by recommending us to others. We are grateful for that confidence and we continue to do all we can to earn it. That confidence is possible thanks to our talented and dedicated employees, along with the trusted leadership and guidance of our Boards of Directors.

We are proud to share the celebration of our 75th anniversary with you. We are confident that Pentegra will continue to be successful for many years to come. To our employees, customers, partners and friends—thank you for your continued commitment to Pentegra.

[Pentegra 75 Years of Success!](#)

Look For Us At These Upcoming Events

October 21 – 23
ABA Annual Convention
New York Hilton Midtown
New York, NY

October 28-30
Excel 401 (k) Advisors Conference
Caesar's Palace
Las Vegas, NV

October 28-31
NYBA Financial Services Forum
Ritz Carlton
Naples, FL

October 29-30
MSTC Advisor Conference
Holiday Inn & Suites
East Peoria, IL

