PENTEGRA
Your AdvantEDGE

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How Should Retirees Approach The Decumulation Phase Of Their Retirement Savings?

The transition to retirement is not just a financial one; it's also a psychological one. There are many factors to consider as employees enter this phase. For their entire career, they have been focused on saving—and on the amount needed to retire securely. Once the employee makes the decision to retire, there's another amount that they need to focus on: how much they can spend each month, and which source of retirement income it will come from. This is what the industry calls "decumulation," or the process of distributing savings. How a retiree spend their savings is as important as how they've accumulated them. Many of the same factors that shaped savings decisions will also shape how savings are spent.

For many retirees, this can be overwhelming and often confusing. They may have savings from many different sources—employer-sponsored retirement plans, such as 401(k) or pension plans, plus Individual Retirement Accounts (IRAs) and Social Security.

As they consider how to maximize their retirement income, they may also be concerned about how to balance spending too much in the early years of your retirement and running out of savings, or being too frugal and leaving excess savings behind. Most of us face real risks related to inflation, longevity and market volatility.

A primary concern for many baby boomers will be how to "pensionize" their retirement savings.

Many income sources offer different methods of distribution. The first step is to understand which options are available from each potential income source, and the advantages and implications of withdrawing funds from each.

Annuities

Investing in annuities could be attractive to retirees looking to manage longevity risk.[1] Lifetime income annuities provide a way to maximize retirement benefits to provide comfort and security throughout retirement; in effect it delivers a guaranteed monthly income based on the retiree's accumulated retirement benefits for as long as one lives and, if the retiree so chooses, for as long as their beneficiary lives.

Annuities may be an ideal choice because they enable retirees to make long-range plans by providing basic financial security—so that personal savings and other income sources can be used, without worrying about using all of ones retirement income. In-plan annuities also offer key tax advantages. The tax code specifically protects money in retirement plans, deferring taxes until the income is recieved.

Determining the best kind of annuity involves examining an individual's sources of retirement income, how they are invested, the retiree's health, and the health of their beneficiary. Different types of annuities pay different levels of income because they take different factors into consideration.

Installment Payments and Distributions Over Time

Installment payments are another way to structure retirement savings to provide regular income throughout retirement. Installment payments generally offer a great deal of flexibility in structuring payments, offering the ability to create an income stream and payment cycle that works best for each individual.

Considerations

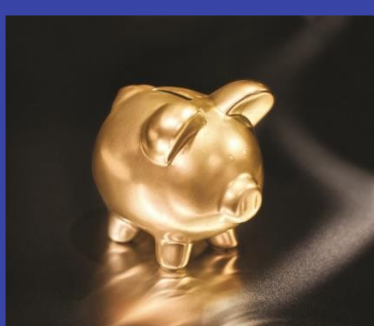
As with a savings accumulation strategy, a decumulation strategy is just as important. Realistically determining what one expects to comfortably spend on a monthly basis—including mortgages, children's college loans, car payments, and other outstanding debts—can just be the start. Budgeting for expenditures above and beyond those—downsizing/relocating, taking long-deferred trips, and so on—will, as a result, be easier to map out.

Another consideration—potential health/medical expenses. There is no perfect formula for the guesswork involved here, but examining not only one's own health but also family health histories, potential health effects of one's environment – and remembering the general trend towards longer life expectancies – can help formulate an informed outlook.

Meet with a qualified financial advisor who specializes in retirement planning. Ideally this will have already been done during one's working years, but either way it is highly recommended to ensure that the retiree understands what their options are – and what can work best for them.

1Academy of American Actuaries, "Risky Business: Living Longer Without Income for Life Information for Current and Future Retirees," October 2015.

Learn more with Pentegra's Approaching the Decumulation Phase of Retirement whitepaper



How Student Loan Debt Impacts Retirement Savings

The Financial Wellness/Student Debt Connection

If your workforce includes recent college graduates, it's likely that some of them have debt associated with their college years. Student debt may play a large part in the finances of these young (and even not-so-young) employees; that's why a complete picture of employee financial wellness should consider it. In addition, carrying student debt may play a role in how much workers are saving for their eventual retirement. Both of these are good reasons for employers to take an interest in the impact of student debt on their workforce.

The amount of student debt nearly tripled between 2005 and 2017, according to a recent study. While employees and employers alike may benefit from a workforce with more education and a higher percentage of college degrees, each may also experience negative results from the debt that often accompanies a degree.

Among individuals studied for the report there were two important, and perhaps obvious, findings. First, college graduates are better off financially than are peers who attend college but do not graduate. And second, those who graduate without debt experience better financial outcomes than those who have debt.

Little Impact on Participation, but What About Account Balances?

What is the effect on 401(k) savings for each group? On the surface, it appears the answer is "not much," at least in terms of 401(k) plan participation. Young workers with student loans tend to participate in available plans about as frequently as do those without such loans. Even the size of the student loan does not seem to impact participation much.

However, for those at the age of 30, there was a difference in the amount of retirement savings between the groups. Individuals with loans but no degree had saved less in a retirement plan at age 30 than did the group who graduated. (In fact, this was the case for people with no college debt, too, whether or not they had graduated; retirement plan assets at age 30 for graduates without debt reached $18,200 on average, compared to $5,400 for those without a degree and no student debt.)

For workers with the smallest amount of student debt — those below the 25th percentile — retirement savings averaged $9,000 for graduates and $5,100 for non-graduates. Across the board, the numbers were similar for workers who had graduated: those in the mid-range of student debt had saved $9,100 for retirement, and those with the largest amount of student debt had put aside $9,300. Non-graduates had not saved as much. Those in the middle had set aside $3,600 and those with the greatest amount of student debt but no degree had saved just $2,200 for retirement.

Based on those savings figures at age 30, it appears the amount of student debt has less of an impact on retirement accumulations than does the mere presence of the debt. This suggests that workers are often mindful of their debt, and that it factors heavily into their decision to save — or not. Employers can use this information to educate employees about financial wellness, paying close attention to communicating about how to pay off debt.

Learn more about student debt and its impact on 401(k) savings in the paper from the Boston College Center for Retirement Research, https://tinyurl.com/CRR-Student-Debt.

Web Resources for Plan Sponsors

- Internal Revenue Service, Employee Plans
  - www.irs.gov/ep
- Department of Labor, Employee Benefits Security Administration
  - www.dol.gov/ebsa
- 401(k) Help Center
  - www.401khelpcenter.com
- PLANSPONSOR Magazine
  - www.plansponsor.com
- BenefitsLink
  - www.benefitslink.com
- Plan Sponsor Council of America
  - www.psca.org
- Employee Benefits Institute of America, Inc.
  - www.ebia.com
- Employee Benefit Research Institute
  - www.ebri.org

Plan Sponsors Ask...

Q: What are the risks of losing track of a plan participant? There are a few people who remain "on the books," in spite of trying many times to reach them.

A: That's an important question because there are serious potential consequences. Losing track of a participant can be considered a breach of fiduciary duty, according to a 2014 Field Assistance Bulletin from the Department of Labor. Plan sponsors must be diligent in their attempts to contact participants with a vested account using a variety of tools, including certified mail, checking all plan and employer records, sending an inquiry to the designated beneficiary, and using free electronic search tools. In cases where the participant remains missing, the plan must consider additional methods of locating them, such as a commercial locator service, crediting reporting agencies, and investigation databases. If the plan fails to locate a participant and hasn't taken proper steps to do so, there is a potential for the plan to be disqualified. We suggest you read more on this topic in the DOL's Field Assistance Bulletin mentioned above (https://tinyurl.com/DOL-FAB-201401) in this IRS Employee Plans Memorandum (https://tinyurl.com/IRS-EP-memo), and in this letter to the DOL from the American Benefits Council (https://tinyurl.com/ABC-DOL-letter).

Q: We had two participants leave our company this year with outstanding 401(k) plan loans. We've heard the tax law passed in December 2017 may impact those loans. What can you tell us?

A: You heard right; there is a provision in the Tax Cuts and Jobs Act passed December 22, 2017, that affects plan participants who terminate employment with an outstanding loan. Before passage of the law, the loan would have been due immediately. Former employees who could not repay the loan within 60 days would have the outstanding balance deducted from their account balance and treated as a taxable distribution. The Tax Cuts and Jobs Act included a provision extending the repayment due date. Now, to avoid inclusion of the outstanding balance in taxable income, the loan must be repaid by the date the participant's federal income tax is due. There are a few important housekeeping items associated with this change. If your plan allows loans, be sure to update the plan document, the plan's loan policy and the required notice of rollover eligibility so they reflect the update.

Q: Sometimes employees ask us for advice about how much of their income they should be saving for retirement, how much they should already have saved, and how much they will need. Of course, we don't give blanket answers. But we would like to pass along some resources, either directly or through our plan communications, so they can educate themselves. Can you suggest some?

A: We're glad that you aren't trying to give one-size-fits-all answers to these important questions, and that you're interested in helping participants learn more. There are some great resources available online, and you may want to share them with your participants as you communicate about the plan. Be cautious in your communication, though, because the ideas presented by one provider or expert can vary widely when compared to another source. You do not want it to appear that you are endorsing any particular source — unless you have the backing of the plan's counsel and a full understanding that that's what you're doing. In a quick online search, we turned up resources from www.investopedia.com, www.nerdwallet.com, money.cnn.com, www.aarp.org, and The Motley Fool, among many others. Your plan provider likely has calculators available for participants, along with a variety of other tools. Take advantage of them. Even the IRS has resources that can help, at https://tinyurl.com/IRS-resources.

Finding the Right Balance with Company Stock

Including company stock among the investments in your 401(k) plan can be powerful. It gives employees a voice in the firm's direction, pride of ownership, and a direct correlation between their job and company performance. At the same time, employees should understand how to use company stock wisely as a 401(k) plan investment.

A few widely publicized corporate bankruptcies in the early 2000s taught lessons about over-investing in company stock. Federal law limits the amount of employer stock in defined benefit plans to 10%, but has no corresponding limit for 401(k) plans. In spite of past lessons, some plans hold a significant percentage of assets in their own company's stock. According to the Brookings Institute, Sherwin Williams has 62% of their 401(k) plan assets in employer stock, with Colgate Palmolive close behind at 56%. Companies with substantial employer stock holdings in their retirement plans may be risking participants' retirements if the business takes a downturn, as has occurred for General Electric. They were recently removed from the Dow Jones Industrial Average as business results slipped.

If you haven't done so lately, it could be advisable to examine the percentage of assets invested in company stock in your own plan. And make it the subject of employee investment education. By doing so, you can help employees make informed decisions about company stock investments, and at the same time, maintain the benefits of employee ownership.

Read this op-ed from the Brookings Institute for more information:
https://tinyurl.com/employer-stock-caution.

Look For Us At These Upcoming Events	
February 10-13 ABA National Conference for Community Bankers Hilton San Diego Bayfront San Diego, CA	February 10 – 12 ABA Wealth Management and Trust Conference Marriott Marquis San Francisco, CA
March 11-12 NCBA - Bank Directors Assembly Grandover Resort Greensboro, NC	March 18-22 ICBA Music City Center Nashville, TN
March 26-27 Tri-State Leadership Conference Kansas City Marriott Country Club Plaza	

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