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Where They Stand, Where They Are Headed: Can You Help Employees Save (or Save More)?

How realistic are employees about the true state of their retirement savings? While many among the three primary generations that make up today's workforce are feeling pretty good about the future, all three may be seeing things a little optimistically.

Even if their vision is a little rosy, there are things

employers can do that may make a difference in retirement savings for Millennials, Generation Xers, and Baby Boomers alike. Recently, Natixis Investment Managers checked in on about 1,000 US workers spread across the three generations to find out how they are feeling about their savings habits and their future financial prospects. These workers were also asked what incentives would help them start saving, or to save more.

A quick summary, by generation:

Millennials, the eldest of whom are now 38 and the youngest 23, have a great start on saving for the future. Forty-three percent of them express cautious optimism about being comfortable in retirement, although they admit they will need to be careful with their money. On average, Millennials began saving at age 25, and have saved about \$80,000 already. They estimate they will need a little over \$980,000 to fund retirement, a figure the report says is a little low. And they should factor in their targeted retirement age of 61 to make sure their savings last long enough. Many

among this group have already taken money out of their plan balances: 30% have taken a loan, and 26% took a withdrawal.

Generation X is more financially worried than their younger coworkers. This group now ranges from 39-54, and just 18% of them believe they will have saved enough money to fund the retirement they want. Almost one-quarter (23%) of them believe they will never be able to retire. This group appreciates auto-escalation in their 401(k) plans, taking advantage of it at higher rates than their older and younger coworkers do. But, their belief that they will need \$988,000 to retire is likely too low, especially considering they have fewer years to increase their current average savings of a little over \$166,000.

Baby Boomers have a more realistic retirement savings goal, at \$1,018,488 — but they have much less time to reach it from their current point of under \$307,000. Currently 55 to 73 years old, their average contribution rate is 8.5%, and they are targeting, on average, a retirement age of 69. It will take about \$142,000 in annual savings to reach their goal, on average.

Among the 1,000 people participating in the 2019 Defined Contribution Plan Participant Survey, 700 participated in the plan available to them. When asked why they aren't saving more, daily expenses were cited by 65% as the major barrier, followed by general debt at 43%. One sobering response to the question was "I'd rather spend money to enjoy life now," cited by 25%.

Of the 300 respondents who are not participating in their available plan, about one-third said their employer doesn't offer a match or that the match isn't enough. The match seems to be an important factor for those who are participating, too. Overall, 56% of respondents report that their employer's matching contribution is the top reason they are saving in the plan.

Learn more about the actions employers can take that employees say would encourage them to join the plan or save more by viewing the full report at <https://tinyurl.com/Natixis-2019-DC>.



Plan Sponsors Ask...

Q: In reviewing employment data at our company, we were surprised to find the average time our employees stay with us to be about six years. Considering that many employees who leave us take a lump sum distribution from their

401(k) accounts, it made us wonder what we can do to help more transient employees prepare for the future.

A: First, congratulations. Your average tenure is slightly higher than that of the overall workforce, based on the January Current Population Survey (CPS) from the US Census Bureau, as cited in an Employee Benefits Research Institute (EBRI) issue brief, Trends in Employee Tenure, 1983-2018, February 28, 2019. The issue brief reports that, according to CPS, over the past 35 years, a five-year employment tenure is about average. It seems the idea of holding one job for an entire career is a bit of a myth. The EBRI brief also points out the concern you have, that changing jobs (or even careers) every five years could have a negative impact on retirements. Shorter tenures may result in a lack of defined benefit plan vesting (when a defined benefit plan is even offered), reduced defined contribution savings, and as you mention, lump sum payments at times of job changes. While you may not be able to keep employees longer, you may be able to impact their savings and withdrawal decisions, thereby improving their future retirement prospects. First, implement regular and high-quality financial education, including specifics about the retirement plan. And second, enlist longer-term employees who do understand the plan to help give “on the ground” information to newer employees. Read the EBRI issue brief here, <https://tinyurl.com/EBRI-IB-83-18>.

Q: We know that emotion plays a role in money, and therefore retirement. What are some ways we can help employees offset less-than-rational emotion and thus make better decisions about their retirements?

A: Behavioral economics have been the subject of much discussion in recent years, as you know. Money is a deeply personal subject for most people, and we often view it as a big factor in our security. That's why it is difficult to get people to take a rational, rather than emotional, look at their own financial behaviors. There are a few areas where employers and plan providers can help employees make decisions that are more rational, though. PIMCO recently published an article¹ with four suggestions you may be able to use. First, make sure employees receive education about the consequences of taking Social Security benefits at the earliest possible age, and the benefits of beginning payments at (or after) full retirement age. Second, consider including education about annuities in your pre-retirement sessions. These can help overcome fears about running out of money. Such fear may lead people to underspend in the early years of their retirement; PIMCO claims that 18 years into retirement many people have spent only 20% of their nest egg. For retirees who remain uncomfortable with annuities, PIMCO recommends education about how a conservative asset allocation may be used to provide some relative stability and hedge against longevity risk. Read the article for more useful information.

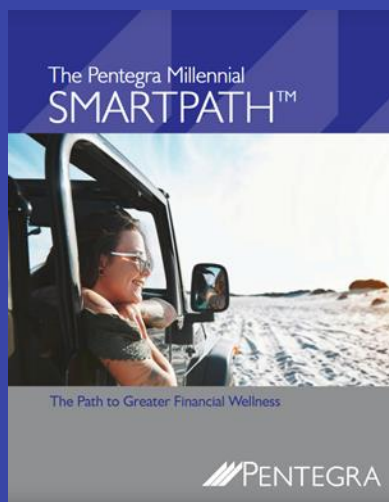
Q: Our 401(k) plan is relatively small. Do we need to be concerned about fiduciary issues and lawsuits? It seems like there are bigger fish to fry!

A: If your plan does not hold much money in assets, you are correct that ERISA enforcement agencies have bigger fish to fry. However, that does not mean you won't find yourself in the frying pan. All it may take is one participant complaint — or even none in the event of random chance — and you could find yourself subject to a plan review by the Department of Labor's Employee Benefits Security Administration (EBSA). That's when the fun begins. According to the EBSA fact sheet for 2018², the DOL recovered \$1.1 billion from enforcement actions against plans last year. Another \$443.2 million was recovered through information complaint resolutions. EBSA closed over 1,300 civil investigations, about two-thirds of which resulted in some kind of corrective action, such as monetary recovery. The agency closed 268 criminal cases in 2018 as well, including indictments against 142 individuals. Eighty-seven of those corporate officers, plan officials, and service providers were convicted or pled guilty. The takeaway here is that NOW is the time to make sure you are dotting the I's and crossing the T's when it comes to your plan. Talk to your plan attorney or advisor to measure how you're handling your compliance matters and what you could do to improve.

Pension Plan Limitations for 2019	
401(k) Maximum Elective Deferral (*\$25,000 for those age 50 or older, if plan permits)	\$19,000*
Defined Contribution Maximum Annual Addition	\$56,000
Highly Compensated Employee Threshold	\$125,000
Annual Compensation Limit	\$280,000

1 PIMCO Behavioral Insights, Rationality and Retirement: Mutually Exclusive?, Richard Fulford, Steve Sapra, April 2019, <https://tinyurl.com/PIMCO-rationality-retirement>

2 <https://tinyurl.com/EBSA-2018-fact-sheet>



The Pentegra Millennial SmartPath™

Have you read the latest installment in our SmartPath™ thought leadership series? The Pentegra Millennial SmartPath™ details financial wellness tips and guidance for millennials— including harnessing the power of compounding, finding extra dollars to save, saving for college and retirement, managing debt, and asset allocation guidance.

As the first true 'post-pension' generation, millennials must save enough for retirement largely on their own. This can be challenging for a generation saddled with record levels of student loans. The good news is that

many millennials are rising to the challenge. Our latest SmartPath™ provides valuable information to help millennials master the financial strategies they should look to adopt right now, and offers practical ways to achieve greater financial wellness and retirement readiness.

To view the Pentegra Millennial SmartPath™ [click here](#).

Learn more about our entire SmartPath™ series, available on our website, at www.pentegra.com/expertise. For additional copies of the Pentegra Millennial SmartPath™, or to discuss our SmartPath™ series, please contact your Plan Consultant or Relationship Manager at 800- 872-3473.



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.pasca.org
- Employee Benefit Research Institute
 - www.ebri.org

Look For Us At These Upcoming Events

August 25–28 Western Bankers Association - Education Summit & Expo Hyatt Regency Huntington Beach Resort & Spa Huntington Beach, CA	September 8-10 FMS East Coast Regional Conference Ocean Place Resort and Spa Long Branch, NJ
September 12-14 LBA Executive Management Conference	September 12-15 CBA Annual Convention & Mini-Trade Show

The Grand Hotel Point Clear, AL	The Ritz Carlton Amelia Island, FL
September 12-15 Maine Bankers Association Annual Convention Hotel Frontenac Quebec, Canada	September 19 – 21 CBAI's 44th Annual Convention & Exposition Crown Plaza Hotel Springfield, IL
September 23-25 NCBA Fusion Forum Washington Duke Inn Durham, NC	September 26-29 PACB Annual Convention The Broadmoor Colorado Springs, CO
September 26-29 OBL Convention Fairmont Scottsdale Princess Scottsdale, AZ	

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