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LIFT RETIREMENT

NEWS AND INFORMATION
FOR EMPLOYERS

Is it Time to Consider a **New Plan Design?**

Should You Include ESG Funds in Your Retirement Plan? Maybe, Maybe Not.

How to Think About **Financial Wellness ROI**

Is it Time to Consider a **New Plan Design?**

Ever wonder if a Cash Balance plan is right for your company?

#cashbalance
#advancedplandesign

You may have heard about a "cash balance plan" and wondered whether it would be something advantageous for your business. A cash balance plan operates differently from other types of traditional retirement plans in that it combines features of both defined benefit and defined contribution plans.

Technically, a cash balance plan is classified as a defined benefit plan, which means it is subject to minimum funding requirements. Likewise, the investment of cash balance plan assets are managed by the employer or an investment manager appointed by the employer. Since cash balance plans are a "benefit," increases and decreases in the value of the actual plan's investments do not directly affect the amount promised to employees.

> **For example,** if Jane is promised through a cash balance plan a $10,000 account value, then she is entitled to a $10,000 payment, whereas, the actual value of Jane's account could be $8,000. The employer is responsible for making Jane's account whole. Or, vice versa, her account could be worth $12,000, yet she is only eligible to claim the $10,000 that is her accrued benefit.[1]

Typically, however, an employee benefit is expressed as a hypothetical account balance, giving it a defined contribution "feel." A participant's account is credited each year with a "pay credit," usually a percentage of pay, and also with an "interest credit," either a fixed or variable rate that is tied to an index. When a participant is eligible to receive benefits under a cash balance plan, the plan is treated as if it were a defined contribution plan with distributions available at termination of employment in the form of an annuity or a lump sum that can be rolled over into an IRA.

1 This example is a hypothetical illustration. It is not representative of any specific situation and your results will vary.

WHO ARE CASH BALANCE PLANS BEST SUITED FOR?

Cash balance plans are especially suited for self-employed or small business owners with high incomes, since these plans allow high-earning business owners to save more than the $56,000 currently allowed for profit sharing/401(k) plans. Cash balance plans have generous contribution limits – upwards of $200,000 in annual wage deferral.

These plans allow for large annual tax deductions because the limitation is on the annual distribution that the plan participant may receive at retirement ($225,000 for 2019), not on the annual contribution to the plan as is the case with profit sharing or 401(k) plans. Employer contributions to a cash balance plan could potentially be three to four times their profit sharing/401(k) contributions and will vary depending on age, income, employee payroll and how much is currently invested in the plan.

Most cash balance plans are designed for the primary benefit of owners or executives of a company. Some candidates include professional practices (doctors, lawyers, accountants, architects, agencies, family owned businesses, to name a few examples) who would like to minimize taxes by putting away their hard-earned dollars into tax-deferred accounts. Additionally, cash balance plans can be appropriate when the owner or executive-level employees are several years older than most of the non-highly compensated employees. For more specifics, it's best to speak with a retirement plan advisor and third-party administrator for a sample plan design proposal.

THIS SOUNDS TOO GOOD TO BE TRUE, SO WHAT'S THE CATCH?

Downsides to sponsoring a cash balance plan include the need to commit to annual minimum funding levels, annual administration fees, investment management fees, and actuarial fees associated with the annual certification requirement showing that the plan is properly funded. Typically, the tax savings are advantageous and outweigh many of the disadvantages.

INTERESTED, BUT SHOULD I BE CONCERNED ABOUT CASH FLOW FLUCTUATIONS?

Businesses that may not want to make the commitment to a cash balance plan or that are not good candidates for it, but would nonetheless like to optimize retirement benefits for executive and other highly compensated employees, may want to consider a profit-sharing plan with an allocation method known as “new comparability” or “cross-testing.”

With the new comparability plan, profit sharing contributions are allocated using the time value of money as a basis to allocate larger contributions to participants closer to retirement age. Depending on the demographic make-up of a company's work force, the new comparability allocation method can be an effective means of targeting contributions to certain senior highly-compensated employees without committing to funding a defined benefit plan.

WHAT SHOULD I DO NEXT?

Plan design is largely dependent on the demographics of a business as well as the level of contributions with which the business is most comfortable. For these reasons, consulting with a third-party administrator is highly recommended. This third-party administrator will create customized illustrations using your company's particular demographics to provide alternative plan designs for review and consideration.

Proper retirement plan design can help you fulfill your company's retirement plan objectives, such as maximizing benefits to key employees, tax deferral and efficient ways to minimize cost to the company.

ESG and socially responsible investing funds can be appealing to many investors, including millennials. But should employers include them in their retirement plan's investment menu? Well, that depends.

#esgfunds #sociallyresponsibleinvesting #ESG #retirement #investing

Should You Include **ESG Funds** in Your Retirement Plan? Maybe, Maybe Not.

ESG, or environmental, social and governance funds, can be appealing to many investors, including millennials. These funds may be viewed as a proactive way to encourage reluctant and under-prepared millennials to save for retirement. But is it a good idea to include ESG funds in your plan's investment menu to entice investment do-gooders to boost their retirement savings? The short answer is, "it depends."

WHAT ARE ESG FUNDS?

ESG = Environmental, Social and Governance

SRIs = socially responsible investments

Ethics-driven investment vehicles have existed since the 1970s. Initially, they sought to weed out companies that conflicted with investors' values, including tobacco, liquor and gambling stocks.

ESG investing has come a long way since then. Today, it is used to describe "socially conscious" investments— think companies purposefully using water more efficiently in their plants, firms with eco-friendly missions, or businesses setting up shop in underserved locations. And don't forget corporate governance, an often-overlooked feature of ESG funds that includes practices like ethical behavior, fair executive pay and forthright financial reporting.

EVALUATING ESG FUNDS FOR YOUR PLAN

Now that you know a bit about how ESG funds work, you may be wondering how to evaluate them effectively in the context of your investment selection process. Your plan's financial advisor can likely offer insights on specific funds and performance data. In addition, there are third parties who rate the underlying companies in ESG funds based on their sustainability or ESG practices. Even investment information and data provider, Morningstar, offers a dedicated ESG data and research platform, which rates 20,000 funds worldwide.[1]

How about investment performance? There is a widespread perception that ESG factors may negatively impact performance.[2] However, some industry observers argue that incorporating ESG factors results in enhanced risk-adjusted returns, because companies with sustainable practices tend to be stronger, better prepared for the future, and more appealing to consumers.[3]

ESG FUNDS: YAY OR NAY?

Thus far, the Department of Labor (DOL) has not looked favorably on the use of ESG funds in retirement plans. Although they have not ruled against using ESG options, the DOL has cautioned plan fiduciaries not to put too much emphasis on the funds' socially responsible mission as part of the investment selection and decision-making process. [4]

Due in part to the DOL's cautionary guidance, the uptake of ESG funds in retirement plans has been minimal — just 2%, offered as an option as of 2016.[5] That said, if you are considering adding ESG options to your plan, make sure to do the following as part of your fiduciary responsibilities:

- amend your investment policy statement (IPS) to reflect any updates to the plan's investing criteria
- make sure any ESG funds you select going forward adhere to the policies set forth in the IPS (i.e., regarding fees, diversification, management, and track record)
- provide additional participant communication and education, as many investors find these funds confusing
- be sure to include ESG funds in your plan's regular investment reviews

ESG funds may benefit the world given that they seek to invest in companies with socially-conscious missions. However, whether they are beneficial for your plan and participants is, ultimately, up to your plan's fiduciaries to decide. Choose wisely.

1 Morningstar. "Sustainable Investing: Surfacing ESG Data and Research." 2018

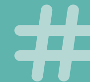
2 Barney, Lee. PlanSponsor magazine. "GAO Explores Why Few Retirement Plans Embrace ESG Investing." August 2018.

3 Hartnett, Judy Faust and Moore, Rebecca. Plan Adviser magazine. "What Would Encourage More ERISA Plans to Use ESG Investments?" November 2018.

4 DOL. ESG Investment Considerations. April 2018.

5 Barney, Lee. PlanSponsor magazine. "GAO Explores Why Few Retirement Plans Embrace ESG Investing." August 2018.

Financial wellness is a hot topic in boardrooms these days, but to sell your company's leaders on a program, you'll need to talk numbers.



#financialwellness, #ROI, #retirement

How to Think About Financial Wellness ROI

If you want to sell your C-suite on paying for an employee financial wellness program, you'll probably hear this question from your CFO: ***What's the ROI?***

It's natural for a chief financial officer to ask about the return on investment (ROI) from spending the organization's money on a program that, at first glance, appears to only help employees with their lives outside work. But research finds a direct connection between employees feeling financially stressed and a decline in work productivity, an increase in health problems, and a rise in job absenteeism—plus, a shortfall in retirement savings.

According to a study by PwC, 53% of full-time employed American adults say they've felt stressed dealing with their personal financial situation over the past five years.[1] The same study finds that among financially worried Americans:

22% ACKNOWLEDGE THAT IT AFFECTS THEIR PRODUCTIVITY AT WORK

28% SAY IT IMPACTS THEIR HEALTH

12% REVEAL THAT THEY MISS WORK OCCASIONALLY DUE TO FINANCIAL STRESS.

62% SAY THEY'LL POSTPONE RETIREMENT BECAUSE THEY HAVEN'T SAVED ENOUGH.[1]

[1] PwC, "Special Report: Financial stress and the bottom line," September 2017.

YOU CAN THINK ABOUT FINANCIAL WELLNESS ROI IN A COUPLE OF WAYS:

THE SHORT-TERM RETURN

If your employees don't feel financially stressed, they're more productive in their job, miss work less, and have lower health-care expenses. This saves your company money, and the PwC paper offers a hypothetical illustration of how you can quantify that savings, using productivity as the example focus. Based on PwC's survey, 30% of employees say they get distracted by their finances while at work, while 46% of the distracted employees say they spend three hours or more weekly at work dealing with personal-finance issues.[1]

Using a 10,000-employee company as an example, the 30% stat means it has 3,000 distracted employees, while the 46% stat means that 1,380 of them spend three or more working hours weekly focused on their personal finances. Those 1,380 employees, losing three hours of productivity weekly and working an average of 46 weeks a year, account for 190,440 total hours of lost productivity annually for their company. Using the $17.24 average skilled worker hourly wage cited by PwC, this translates into a **$3.3 million productivity cost impact in just one year** for the employer.

THE LONG-TERM PAYOFF

You can also look at the financial wellness program ROI by thinking about how much more money it will cost your company if the employees don't save enough and delay retirement. Prudential pegs the incremental cost of a one-year delay in retirement at more than $50,000 for an individual retirement-age employee, the cost differential between the retiring employee and a newly hired employee.

A one-year increase in the workforce's average retirement age translates into an incremental annual workforce cost of 1.0% to 1.5% for the entire workforce.[2]

Research finds that employees who have gone through a financial wellness program and feel less financially stressed are more apt to increase their deferrals to their retirement plans. A particular Financial Finesse paper gets specific about the increases in contribution rates seen when employees' financial wellness scores rise.[3] Those higher employee contributions will likely lead to more on-time retirements which, for an employer, means lower salary and benefits costs, among other plusses.

What's the annual savings? When an organization with 10,000 employees sees overall financial wellness scores improve from 4.0 to 5.0 (on a 10-point scale), the study finds that company saves an estimated $6,570,593 by reducing delayed retirements. And when overall financial wellness scores improve from 4.0 to 6.0, the savings projection jumps to $12,914,642.

Hard numbers like these can get a CFO's attention. At your next retirement plan committee meeting, present this information and then use your company's headcount to learn the potential bottom-line impact a financial wellness program could have within your company.

[2] Prudential Financial, Inc., "Why Employers Should Care About the Cost of Delayed Retirements," 2017.

[3] Financial Finesse, Inc., "2018 Special Report: The ROI of Improving Employee Retirement Preparedness," October 2018.

This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements and you should consult your attorney or tax advisor for guidance on your specific situation.

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