AFS

Retirement Report

NEWS AND UPDATES FOR PLAN SPONSORS AND FIDUCIARIES OF DEFINED CONTRIBUTION PLANS

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March Madness!?!

This month has a number of key dates and important events. Of course, March 15th was the corporate tax filing deadline (without extension) and a key date for retirement plan compliance testing, but more importantly, March brings us St. Patrick's Day, "Spring Forward", March Madness NCAA basketball, and Easter as a few highlights. For those of us in the Mid-Atlantic region, it has not brought spring just yet.

For our team, March has been an incredibly busy month as we participated in the ASPPA / NAPA 401(k) Summit which is the industry's largest retirement plan conference. Additionally, we participated in a series of meetings, town hall sessions, and luncheons with numerous department heads from Administration and Congressional committees, as part of a Retirement Readiness forum in Washington, DC. The short story is that retirement plans are very much "in focus" right now for our administration, on numerous levels. Therefore, this month's newsletter will give you a summary of the key items we've discussed and championed during the last month and our vision for retirement plans of the future.

ASPPA / NAPA 401(k) Summit

ASPPA (the American Society of Pension Professionals and Actuaries) and its sister organization, NAPA (National Association of Plan Advisors) are the largest advocacy organizations for the private retirement system with over 10,000 members nationwide. NAPA's primary mission is to enhance retirement security in America. Each year, the organization holds their 401(k) Summit, a gathering of industry experts, thought leaders, and financial institutions serving company retirement plans.

Here is a summary of the top sessions held at this year's summit:

From the Hill to the Summit – Brian Graff, Executive Director/CEO of ASPPA and NAPA, joined a high-level Congressional staffer from the Senate HELP Committee (Health, Education, Labor, and Pensions) to discuss tax reform, the definition of fiduciary regulation and the Harkin proposal.

Tax Reform – Three dates are looming:

- March 27: Expiration of the fiscal cliff's extension of federal funding
- April 15: An agreement that both houses of Congress will *introduce* budget measures in order to be paid – **this has been completed**
- End of May: Expiration of the temporary extension of the debt ceiling

"The tax committees on the Hill are hell-bent on doing tax reform," said Graff. Though the politics differ between the House and Senate, there are working groups in place. Options considered include the Simpson-Bowles 20/20 proposal, a 28% cap on tax benefits, and a $2 million lifetime cap on defined contribution (DC) plan contributions. Every time Congress acts, they are looking for revenue.

Regulation on the Definition of Fiduciary – The final definition of fiduciary is in the works, the impact of which is significant on Individual Retirement Accounts (IRAs), IRA rollovers including a possible restriction on use of current advisors, and 401(k) plans. The Department of Labor (DOL) see themselves as protectors of the public while NAPA's focus is on participant outcomes. Advisors believe that employers should focus on ensuring their participants are well prepared for retirement and not just on reduction of plan fees.

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The Harkin Proposal – What is at issue? A retirement income deficit that some say is up to $6.6 trillion. The reality check is that low savings rates, a lack of access for some workers, and a fair amount of inefficiency all lead to retirement readiness problems.

Senator Tom Harkin (D-IA) and others propose to strengthen each leg of the retirement income stool: improve Social Security, continue to improve 401(k)s, rebuild pensions, and expand access.

Harkin's USA Retirement Fund proposal includes innovative plan design features such as the use of a private trustee, defined benefit (DB) plan-like components, and increased ease of use for employers. The plan promises success and accessibility resulting in better outcomes for participants. A unique feature of the plan is that employers without a retirement plan will be able to automatically enrol their employees to make payroll deductions to the default USA Retirement Fund. Employers with competent plans, such as pension and/or 401(k) plans with automatic features, would not be impacted.

Are 401(k) Plans a Failed Experiment? - This session featured several industry leaders to discuss both the positive attributes of the current retirement system and the need for refining and evolving 401(k) plans to suit a changing retirement landscape. Here are some highlights:

Brian Graff, CEO of ASPPA; Kevin Crain, Merrill Lynch; Karen Friedman, Pension Rights Center; and Judy Miller, Director of Retirement Policy at ASPPA.

- Significant progress during the last 10 years including creation of paternalistic system with evolution of automatic enrollment and automatic escalation.
- Despite two economic downturns in last 12 years, unanimous agreement on the remarkable improvement of average account balances, participant deferral amounts, and participation among younger workers.
- Still, the average balances are still too low to replace the suggested 70-80% needed in retirement. It is important to note that overall savings numbers are at times skewed because many investors have multiple 401(k)s or IRAs.
- Too many tough decisions for employees: how much to save? How to invest? How to estimate what they need for retirement? How to avoid pitfalls of loans and distributions?
- Not enough coverage – many part-time and seasonal workers are not covered under a retirement plan.
- Need for retirement income solutions – how to translate participant balances into understandable streams of income to provide a secure retirement.

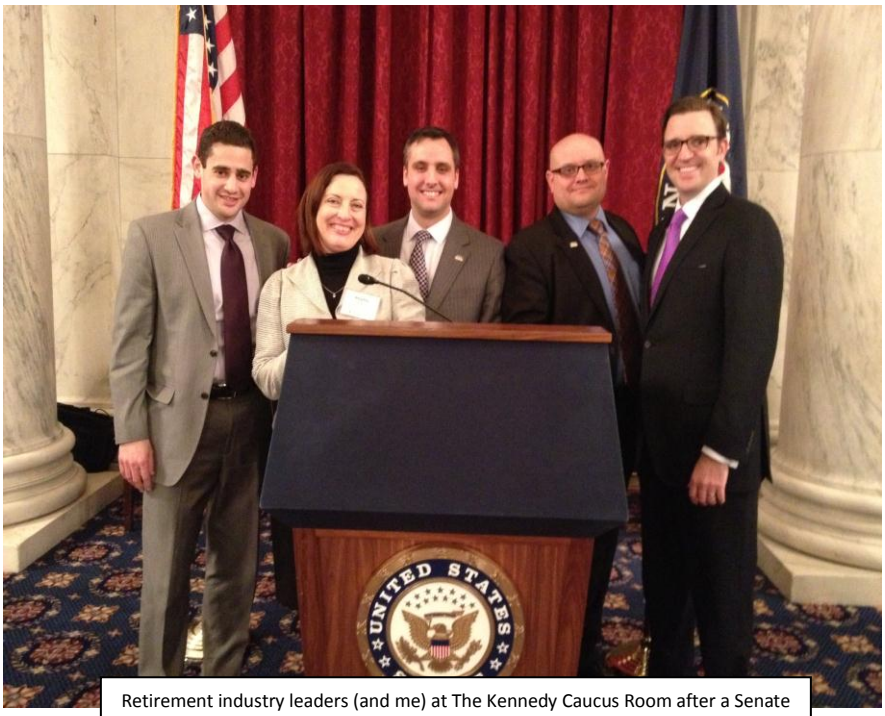
In closing, Graff stated "The 401(k) is not dead yet," but we do need to make improvements and we, working together with you (employers), must lead the way to create successful financial outcomes for employees.

Retirement Readiness Forum in Washington, DC

On March 21st and 22nd, a small group of retirement plan advisors, mutual fund company representatives, and ERISA attorneys gathered at the Willard Intercontinental in Washington, DC for a series of meetings and think tank discussions with Congressional leaders, staffers, and other Department heads around the future of retirement plan policy in America.

A Voice for Social Change – We strongly believe that our team has been forward thinking in the strategies and ideas we share with you and your employees to improve retirement success. It is refreshing to see that there are many professionals following suit. The premise of our sessions with the administration was two-fold: 1) How can we enhance the current retirement plan system to help more American workers save and prepare for a dignified retirement?; and 2) How can we provide coverage to more workers? Here's a quick summary of what's happening currently and what is to come:

Changing our beliefs about retirement plans – The great thing about statistics is that they can almost always be shaped to benefit one's argument. There are a lot of myths about retirement plans and savings in America. For example, we often hear the complaint that, "the reason no one can retire is because companies got rid of pensions!" While pension plans were a great retirement benefit (and are for those who still have one), even at their highest level of popularity, they covered slightly more than 50% of the workforce. Today, you hear that only 4 out of 10 workers have access to an employer-sponsored retirement plan. That is partially true – but only when you include part-time and seasonal workers who commonly don't participate in any of a company's benefit programs. About 70% of full time workers are covered and able to participate in an employer-sponsored retirement plan. Nonetheless, here are some major themes and presentations you will be hearing more about in the near future:



Retirement industry leaders (and me) at The Kennedy Caucus Room after a Senate briefing.

- **Drive to 10% savings rates.**

- Utilizing automatic enrollment and automatic deferral increase provisions to make it easier for employees to get into their retirement plan and increase their savings rate to an effective level.
- Creating a nation of saver's – altering the belief system within companies to help employees understand that saving for their future is critical.
- Easing regulatory oversight and administrative burdens. We discussed ideas about safe harbor provisions for employers who adopt automatic provisions – making it easier for them to comply with rules and regulations.

- **Stretching the match –** Considering courageous plan design that stretches match provisions so that employees also defer more, save more, and put themselves in a better position to have enough income for retirement.
- **Courageous plan design –** In addition to "stretching the match," consider eliminating or minimizing loans, hardship withdrawals, lump sum and in-service distributions, that are common sources of retirement savings erosion.

- **Congressman Richie Neal (D-Mass)**
    - Proposed legislation to enact "Automatic IRA plans" for small employers (10 – 100 employees) who do not currently offer a 401(k), 403(b), or other qualified retirement plan.
    - Proposing legislation to ease correction requirements on automatic enrollment and automatic deferral increase provisions. Additionally, legislation that will create testing safe harbors for these provisions.
    - Spending cuts v. Revenue increases – Congressman Neal believes there is a need for a balanced approach of spending cuts and revenue increases in order to work towards a balanced budget. However, he believes additional revenue should come from economic expansion and has fears over too deep of cuts in the current environment. His preference is to continue efforts to fuel the economic recovery and in time, enact spending cuts and additional revenue through (hopefully) economic expansion.

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- **J. Mark Iwry – Deputy Assistant Secretary at the U.S Treasury Department**
  Mark Iwry often testifies before congressional committees representing the Treasury and Executive Branch. He has advised numerous Senators, Members of Congress and their staffs, as well as five Presidential Campaigns. He participated in an interactive town hall session with us and discussed the following:
  - Strong proponent of the current retirement plan system indicating that it works, the tax incentives work, and they need to stay intact in order to provide greater coverage to American workers.
  - Automatic IRAs are a good proposal and idea to create broader coverage to small employers.
  - Multiple Employer Plans for small businesses is another effective strategy to allow and encourage small businesses (under 100 employees) to band together and create economies of scale for developing new retirement plans.
  - Automatic enrollment and increase provisions: 3% starting point was just a guideline, but numerous research studies indicate 6% automatic deferrals are just as effective. For automatic increases, companies should consider 1% or 2% per year (both having similar effectiveness) and should get employees somewhere between 10-15% of their pay. This should be for all employees, not just new hires.
  - Companies should also consider stretching the match to incentivize employees to contribute more of their own pay and attain an appropriate savings retirement to meet their retirement needs.

- **House Ways and Means Committee: Congressional staffers to Pat Tiberi (R – OH) and Ron Kind (D – WI)**
  - *Who is driving this bus anyway*? Our biggest concern coming out of this session is the focus on retirement plans as a revenue generator. While qualified retirement plans serve as one of the largest tax expenditures, we all recognize that, because it is constructed as a "deferral" and not a "deduction," participants eventually pay their tax liability. Unfortunately, the Congressional Budget Office (CBO) "scores" tax revenue over a 10-year period and therefore, view retirement plans as a major expenditure and potential source of tax revenue moving forward. There are a number of proposals such as limiting deductions to the lesser of 20% of income or $20,000 per year (including employer contributions), creating a 7% tax surcharge on high income earners deferrals (in essences double-taxing contributions), or swapping the 401(k) for a government-run system with credits. Admittedly, we are biased towards a private retirement system that promotes and incentivizes savings, since one of our looming crises are the underfunding of worker retirement plans.
  - After our meeting and Q/A session with staffers from this committee, it is apparent that the Tax, Retirement, and Pension working group of the House Ways and Means committee does not possess the knowledge, education, or experience to alone create effective policy that benefits workers and their retirement savings. Fortunately, many professionals in the retirement and financial services industry (such as your vendors, advisors, and TPAs) are making proactive efforts to educate and provide data and resources to this group in effort to help them with the most effective and worthwhile policy changes possible. We will have to wait and see.

Summary – Overall, we strive to remain heavily involved as thought leaders and advocates for an innovative, ethical, and improved private retirement system. As fiduciary advisors and your advocates, we are working to ensure you and your employees have the most efficient and effective paths to creating successful retirement plans.

We believe you and your employees should enjoy your life, all of it. That's why we strive to make complex retirement plans simple. In the coming weeks and months, we will be sharing with you more tools, resources, and services enhancements to help promote a better retirement plan system and education program for American workers. We appreciate your partnership and value your continued trust and confidence in our team.

As always, please feel free to contact me with questions or feedback at aassaley@afs401k.com or (301) 961-8401.

Best,

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