Retirement Times

NEWS AND UPDATES FOR RETIREMENT PLAN SPONSORS AND FIDUCIARIES

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Case Study: Automatic Enrollment Revisited

Eight years have passed since the Pension Protection Act of 2006 virtually blessed automatic enrollment for defined contribution plans. Has automatic enrollment turned out to be the panacea intended?

In 2007, a financial services center whose plan participation languished below 50% began working with a retirement plan firm. Since the client had multiple branch offices of minimum wage-earning employees for whom English was a second language, it was difficult to meet effectively with everyone to encourage participation. As a result, the plan decided to add automatic enrollment with a default deferral at 1% into a target date fund. Participation, which started at 49% in 2007, ballooned to a whopping 84% just one year later.

The plan fiduciaries were so encouraged by the success, they subsequently increased the default rate to 3% and included a sweep of all current employees contributing below the 3% threshold. Participation today holds steady at a proud 86%. In addition, the plan's former nondiscrimination testing woes have all but disappeared as the plan passed its nondiscrimination test each of the last four consecutive years.

Automatic enrollment works. A plan fiduciary committed to increasing plan participation and passing the nondiscrimination testing will adopt automatic features. Contact your plan consultant to discuss how these important design features will enhance your plan.

Pension Protection Act of 2006 Restatements

If your retirement plan document is a "pre-approved" document (prototype or volume submitter), every six years you are required to restate your plan. Your last required restatement was likely your EGTRRA (Economic Growth and Tax Relief Reconciliation Act of 2001) restatement.

And it's time for restatement again.

The present restatement window is being referred to as the Pension Protection Act of 2006 (PPA) restatement. The restatement is meant to update your document to incorporate that piece of legislation along with the following:

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- Final 415 Treasury regulations;
- The Katrina Emergency Tax Relief Act of 2005 (KETRA);
- The Gulf Opportunity Zone Act of 2005 ("GOZone");
- The Heroes Earnings Assistance and Tax Relief Act of 2008 (HEART); and
- The Worker, Retiree, and Employer Recovery Act of 2008 (WRERA).

Because your plan document is required to be restated, now is a good time to also reexamine all of your existing plan design provisions. Perhaps your document, as it presently exists, has historical provisions that no longer reflect your plan's demographics, your company's retirement plan goals, or you wish to make your plan more dynamic. The optimal course of action would be to fold these plan design changes into a required restatement.

The current restatement must be completed by April 30, 2016. Failure to restate your plan jeopardizes its qualified status. If a plan loses qualified status it results in a loss of deductibility of contributions for you, the employer, and employees' vested account balances would become immediately taxable (and ineligible for rollover to another qualified plan or IRA). If the plan is restated after April 30, 2016 it must file as a late amender in the IRS's Voluntary Correction Program (with attendant fees . . . ranging from $750 - $5,000).

Your plan provider has already begun the process by having their prototype and volume submitter documents submitted to, and approved by, the IRS for opinion or advisory letters. In other words, the form of your plan's restatement has already been designed and likely approved by the IRS. All that's likely left to do is for you to discuss any potential plan design changes desired with your plan consultant and service provider, have the document's specific provisions selected to reflect your specific plan and have the document executed.

Despite Noise, Macro Factors Will Drive Fixed Income Markets

All eyes in bond land have been focused on Newport Beach, California, since Bill Gross on September 26 announced he was departing for another firm after 40 years at the helm of PIMCO. Given Gross's position as the highly visible CIO of the world's largest bond manager, the market's fixation on his decision — and the impact it may have on fixed income dynamics as PIMCO contends both with fund outflows as well as with potential adjustments to its portfolio positioning — is understandable. And while all this makes for interesting bond desk chatter, fixed income markets continue to be driven primarily by much more impactful fundamental and technical factors, both on the western front and well east of PIMCO HQ.

Global Interest Rates

Macro backdrop. U.S. economic data continues to surprise to the upside. Though each upbeat data point out of the U.S. going forward has the potential to draw forward market expectations of the Fed's timing, we continue to believe the central bank will hold off on its initial fed funds rate hike until mid-2015, at which point it will steadily raise rates over time to the 2.0-2.5% range before taking a breather. While the U.S. economy is exhibiting the type of cyclical strength that should bias short- term rates higher and the dollar stronger, the Fed's consistently dovish messaging — relative to its more-hawkish "dot plot", which depicts the interest rate projections of individual FOMC members — is stifling the rate move, as broader structural factors are keeping inflation readings below target. For example, while September nonfarm payrolls came in stronger than expected and were accompanied by upward revisions to July and August, wage growth remains moribund, as evidenced by flat average hourly earnings in the latest reading.

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Common Misconceptions

Retirement has a different meaning today than it did in previous generations. Here are a few highlights of how it differs:

"I'll continue to work during retirement"
As Americans consider their outlook for retiring, many are assuming the easiest way to deal with their lack of preparedness is to decide to just continue to work during what would otherwise be their retirement years. In fact 70% of employed Americans plan to work beyond the age of 64. The reality is that only about 28% of current retirees were actually able to do so. Numerous factors are impacting retirees such as personal health issues, family obligations and employer problems, which may include losing their job. Longevity also continues to be a recurring theme. A 65 year old couple today has a 91% chance that at least one member will live to be 80 years old, and a 52% chance of making it to 90. More than ever, Americans need to plan for at least 30 years of being in retirement.

"My spending patterns won't change much in retirement"
The highest area of inflation by spending category over the past 30 years is medical care. The inflation rate for this area has been 5.3%, when inflation for things like housing and transportation has hovered below 3%. Additionally, out of pocket medical expenses are three times larger for individuals 65 or older, versus those between the ages of 25 to 34. On average, out of pocket expenses for medical care are 15% of retiree expenses, or about the same as the cost for food.

"**My medical expenses will be covered"**
First off, only about 27% of retirees report having access to employer medical coverage. More importantly, the costs for those who don't have employer medical coverage are significant. For those individuals retiring in 2010, the present value of savings needed to cover 90% of the possible health outcomes and prescription drug expenses is $187,000 for men and $213,000 for women, who typically live longer. Those same expenses are expected to be $313,000 for men and $357,000 for women by 2020.

*JP Morgan *Guide to Retirement, 2012.*

Despite Noise, Macro Factors

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Furthermore, slowing growth and inflation abroad is inducing very easy central bank policy; the ECB and BOJ are locked into more, not less, accommodation for the foreseeable future, and Chinese liquidity remains additive. The U.S. economy is not fully immune from these growth and liquidity dynamics, and the rise in the dollar will have some restraining effect on inflation and on net exports. In addition, money flowing into the U.S. from foreign reserve managers is creating demand for Treasuries that is fairly insensitive to changes in the U.S. domestic economy and contributing to the currency appreciation.

While the U.S. yield curve is poised to flatten as we enter into this tightening cycle, the yield on the ten year is unlikely to move meaningfully beyond the 3% level even as short-term rates rise. Further support for U.S. rates will be provided by a strong U.S. dollar and yield that handily eclipses that of global alternatives like German bunds and Japanese government bonds.

Investment Grade Corporates
Macro backdrop. The positive outlook for the U.S. economy is supportive of both risk appetites and corporate spreads. Fundamentals for corporate issuers remain broadly positive, with some ebb and flow as positive economic conditions are reflected in improved revenue and EBITDA while also inspiring an uptick in shareholder-friendly activity by increasingly confident managements. That said, many investment grade corporate issuers have global footprints and thus are likely to be impacted by widespread economic weakness beyond domestic borders. For instance, the recent decline in commodity prices has not been kind to commodity-sensitive industries, as evidenced by widening spreads in metals and energy of late. Interest rate volatility

could also inspire technical pressure for investment grade corporates in the coming months.

Investment outlook. Widening in recent weeks to early-2014 levels, corporate spreads currently are fairly valued. Generally speaking, we prefer market segments that are more U.S.-centric given the aforementioned multinational nature of many investment grade corporate issuers. Banks may be particularly susceptible to international volatility, which tends to transmit more quickly through financial concerns than industrial companies. Shorter-dated corporates may be somewhat insulated from any tumult, however, given their reduced sensitivity to changes in market technicals and a credit cycle that has yet to peak. Technical conditions related to recent heavy new issuance should ease as the market heads into earnings season, but the calendar will still be active. Carry or yield is expected to remain the primary driver of excess returns in this space.

Emerging Markets

Macro backdrop. Growth and inflation across emerging markets is divergent, but we see higher probability of downside surprises given weak demand from the G-3 and weak global trade in general. Though uncertainty around the Fed's tightening path is a cause for concern and weaker commodity prices are a risk, global liquidity conditions are generally supportive of emerging markets. As such, flows are not leaving the asset class but are being circulated within it. For example, tensions between Russia and Ukraine are redirecting flows away from Central Europe and toward Latin America and Asia.

Conclusion

While the recent news from PIMCO does have the ability to influence certain sectors of the market, we fully expect macroeconomics and broader technical factors to be the dominant forces in fixed income. Any change in market dynamics caused by portfolio transitions among fixed income managers not only will be an exception to the rule, but also a potential tactical investment opportunity on which to capitalize.

While the U.S. economic outlook continues to improve, a broad array of challenges are impeding recovery elsewhere. These weak global economic conditions combined with the rock-bottom U.S. labor market participation rates, a stronger U.S. dollar and the absence of any domestic wage pressures will allow the Fed to remain "exceptionally patient" as it moves to raise interest rates. As such, changes in U.S. monetary policy will be gradual, and we believe the extent of federal funds rate hikes will most likely undershoot even the central bank's own expectations. Moreover, inflationary pressures outside U.S. borders are benign, and the net level of global monetary accommodation remains positive.

However, while strength in the U.S. is a tailwind for U.S. spread assets, lack of attention to global concerns may leave one exposed to bouts of episodic volatility and the large downside risks that are likely to emerge from beyond our borders, particularly from Europe, where inflation is trending near zero. While technical pressures emanating from the big bond manager in California bear watching, immunizing portfolios against the potential tail risks looming farther east is our prescribed course for navigating the fixed income landscape.

VOYA *This article is an excerpt from Voya Perspective's Market Insight. Despite Noise, Macro Factors Will Drive Income Markets. October 6, 2014.*

M E M O

November 2014

TO: All Employees

FROM: Management

RE: **IMPORTANT NOTICE RE RETIREMENT PLAN CONTRIBUTION LIMITS IN 2015**

Congratulations to all employees who have participated in our retirement plan. The secret to any successful savings program is consistent saving and investing. Our plan gives you a great opportunity to make a difference in your financial future.

For January 1, 2015, the maximum amount you can contribute is $18,000.

If you are age 50 or older anytime in 2015, you may contribute an additional $6,000 for a maximum contribution of $24,000.

Please note that some employees may be limited in their contributions due to nondiscrimination testing.

Don't Miss Out!

We encourage you to contribute the maximum amount to the retirement plan. Should you wish to increase your contribution, please contact your Benefits Department. You are allowed to increase your retirement plan contribution periodically, and likely effective for January 1, 2015.

This table compares the 2015 dollar limits and thresholds most relevant to retirement plans to those in prior years.

Plan Limits for Plan Year	**2015**	2014	2013
401(k), 403(b), 457 Elective Deferral Limit	**$18,000**	$17,500	$17,500
Catch-Up Contribution Limit	**$6,000**	$5,500	$5,500
Annual Compensation Limit	**$265,000**	$260,000	$255,000
Defined Contribution Limit	**$53,000**	$52,000	$51,000
Defined Benefit Limit	**$210,000**	$210,000	$205,000
Key Employee	**$170,000**	$170,000	$165,000
Definition of Highly Compensated Employee	**$120,000**	$115,000	$115,000
Taxable Wage Base	**$118,500**	$117,000	$113,700
IRA Contribution Limit	**$5,500**	$5,500	$5,500
IRA Catch-Up Contributions	**1,000**	1,000	1,000

Thank you and we hope you take full advantage of the company's retirement plan and all it has to offer!