RETIREMENT PLAN
ADVISORY GROUP

Retirement Times

NEWS AND UPDATES FOR RETIREMENT PLAN SPONSORS AND FIDUCIARIES

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Financial Wellness Insights:
Millennials vs. Generation Xers and Baby Boomers

Contrary to their reputation, Millennials stack up surprisingly well against Baby Boomers and Gen Xers across key financial wellness indicators, including debt and savings rates. However, Millennials diverge when it comes to investing for the future.[1] For example, Millennials are saving nearly as much for retirement as Baby Boomers (as a percentage of annual salary) and are more likely to track expenses and budget.[2] Yet, Millennials have less wealth than previous generations; Millennials' median net worth was under $10,400 in 2013, down from the $18,200 that Gen Xers had when they were under 35 in 1995.[3]

Millennials are saving slightly less than the Gen X populations and Baby Boomers, but these youngest members of the workforce are demonstrating smart decision making in areas that will prepare them well for retirement. For example, Millennials' key financial concern is "progress made toward financial security.[4] Additionally, workers in their twenties start saving at the median age of 22, despite having credit card debt and student loans.[5]

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At the start of this year, the Pew Research Center forecasted that Millennials will overtake Baby Boomers by population in 2015.[6] According to Pew, Baby Boomers always have had an outsized presence in comparison to other generations, while Gen Xers have had a smaller presence.

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Board of Directors' Liabilities

Virtually all plan documents name the sponsor as "plan administrator." Typically the Board of Directors of a company (sponsor) is seen as the official governing body of the sponsor, and thus plan document language directs that they, in effect, are the plan administrator. Most Boards of Directors are not involved in the day-to-day operations or decision making in regards to their plans, thus without effective delegation of authority they are likely not following the terms of their plan document and are violating their fiduciary responsibilities. The Board of Directors' Resolutions documents them following the terms of their plan document and officially delegating authority to a committee. With such delegation they are now only responsible for monitoring the committee (perhaps an annual review of committee meeting minutes) rather than bearing the day-to-day fiduciary responsibility of the plan. A Committee Charter helps to bracket what are, and are not, the fiduciary responsibilities delegated to the Committee and therefore limits their potential liability exposure to only those responsibilities delegated. The Acceptances are meant to bracket the duration of the Committee members' exposure to liability. They shouldn't be liable for actions taken prior to becoming fiduciaries, but they may be required to remedy any breaches that occurred prior or failure to do so may be considered a subsequent breach.

The Six Categories of Fiduciaries

A plan may have one or more fiduciaries. Each of the fiduciaries may have different responsibilities and many individuals/committees serve in multiple fiduciary roles. Here is a simplified list, along with brief definitions, of each category of fiduciary:

- **Named Fiduciary**. This party should be named in the plan document and is considered the plan's primary decision maker. This fiduciary may be either an employee of the sponsor, or an independent party, that, absent delegation otherwise, has the duty to control, manage, and administer the plan. Every plan must have a named fiduciary. It is not uncommon for the named fiduciary to also serve as plan administrator and trustee for a plan.
- **Plan Administrator**. Not to be confused with pension administrator or a hired third party administrator (TPA), this fiduciary is responsible for the plan's government filings, making required disclosures to participants, hiring service providers, and fulfilling other responsibilities set forth in the plan document.
- **Trustee**. The person(s) recognized as having exclusive authority and discretion over the management and control of plan assets.
- **Investment Manager**. A fiduciary with full discretionary powers for selecting, monitoring and replacing plan investment options, as defined by ERISA section 3(38).

- **Investment Advisor**. A limited scope ERISA 3(21) advisor who does not have explicit discretionary control over plan assets, but may exercise a certain level of influence over the operation of the plan by way of providing investment advice/monitoring services. This fiduciary must still meet the fiduciary standards set forth in ERISA.
- **Other Fiduciaries**. Other individuals, including members of various plan-related committees appointed by the named fiduciary, as well as others whose actions may dictate fiduciary status, may fall within the definitions of fiduciary under ERISA. Thus it is important to not only monitor those individuals who are explicitly named as fiduciaries in writing, but also those that have a high likelihood of undertaking fiduciary actions on behalf of the plan.

In all cases, the plan sponsor retains the authority to remove and replace any fiduciary, even if he/she has delegated day-to-day responsibilities to others. As a result, the sponsor/named fiduciary retains the responsibility to monitor any persons to which he/she has delegated responsibilities on an ongoing basis.

May Any Employee Serve on the Retirement Committee?

Upon first blush, to the extent an employee from the general populace can and wishes to make a contribution as a committee member, there seems to be no reason why they shouldn't participate on the committee. In practice, most committees consist of executives from finance (preferably the CFO), benefits and human resources. Due to the potential exposure, if there is interest from other lay people who wish to represent the vote of the participant base, they are best served participating as a non-voting member with no discretionary capabilities. This type of person should be identified and documented as a non-voting member assuming there is no intent to take fiduciary status and the potential liability attached to all retirement committee members.

Financial Wellness Insights

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The imbalance of Baby Boomers near or at retirement age and Gen Xers in the workforce has raised concerns about the viability of Social Security. Furthermore, 60 percent of Millennials in T. Rowe Price's Retirement Saving & Spending Study agreed with the statement, "I expect Social Security to go bankrupt before I retire."

Millennials need to accumulate more savings and diversify their investments, indicating a need in financial education around investment choices. Millennials do have time on their side, and they appear to be aware of their responsibility to prepare for retirement.

Millennials' bleak prospects about Social Security and their willingness to save early should be encouraging for plan sponsors that want to engage younger employees, especially with the aid of new technologies.

[1]Based on Retiremap implementation data from Q2 2015.
[2]Retirement & Saving Spending Study, T. Rowe Price.
[3]New York Times.
[4]Employee Benefit Trends Study, MetLife 2014 & 2015.
[5]Retirement Throughout the Ages: Expectations and Preparations of American Workers, Transamerica Center for Retirement Studies.
[6]This year, Millennials will overtake Baby Boomers, Richard Fry, Pew Research Center, January 15, 2015.

This is an excerpt of Retiremap's, Financial Wellness Insights, Key Data Insights on Financial Wellness, September 2015. Slight modifications were made for compatibility purposes.

COMMUNICATION CORNER: 2016 Retirement Plan Limits

This month's employee memo provides participants with the cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2016.

As a reminder, we post each monthly participant memo online via the Fiduciary Briefcase™ (fiduciarybriefcase.com).

Call or email your plan consultant if you have questions or need assistance.

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To remove yourself from this list, or to add a colleague, please email us at lfellows@firstohioplanning.com or call (614) 486-0691 ext. 6.

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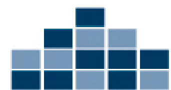

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