HHM WEALTH ADVISORS AUGUST 2018

RETIREMENT TIMES

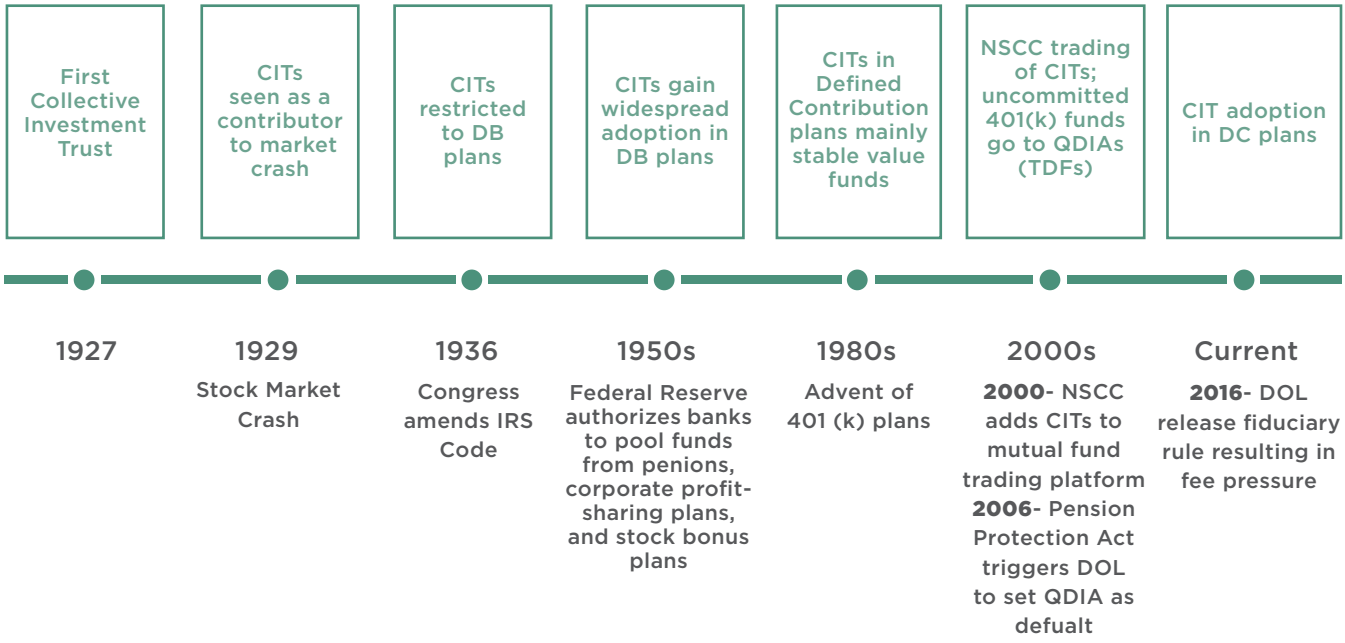
Collective Investment Trusts – The Fastest Growing Investment Vehicle Within 401(k) Plans

For almost a century, collective investment trusts (CITs) have played an important role in the markets. They were originally introduced in 1927. A 2016 study showed that they are the fastest growing investment vehicle within 401(k) plans, with 62% of asset managers believing their clients will shift from mutual funds to CITs.[1]

For the vast majority of their existence, CITs were available only in defined benefit (DB) plans. In 1936, CIT use expanded in DB plans when Congress amended the Internal Revenue Code to provide tax-exempt (deferred) status to CITs. CITs then gained widespread adoption in the 1950s when the Federal Reserve authorized banks to pool together funds from pensions, corporate profit-sharing plans and stock bonus plans. The IRS also granted these plans tax-exempt status.

In the 1980s, 401(k) plans became primary retirement plans and mutual funds became the primary investment vehicle, due to daily valuation. In the 2000s, CITs gained significant traction in defined contribution (DC) plans due to increased ease of use, daily valuation and availability. During this time CITs were also named as a type of investment that qualifies as a qualified default investment alternative (QDIA) under the Pension Protection Act of 2006.

THE HISTORY OF COLLECTIVE INVESTMENT TRUSTS



From 2009 to 2014, the use of target-date CITs nearly doubled as a percentage of target-date assets, from 29% to 55%.[2]

The advantages of CITs are plentiful:

- Lower operational and marketing expenses
- A more controlled trading structure compared to mutual funds
- They're exempt from registration with SEC, thereby avoiding costly registration fees
- On the other hand, CITs are only available to qualified retirement plans and they may have higher minimum investment requirements

While CITs have traditionally only been available to large and mega-sized plans, continued fee litigation – as well as increased CIT transparency, reporting capabilities and enhanced awareness – has amplified the allure of CITs to plan sponsors across all plan sizes. However, CITs haven't been widely available to all plans — until now.

Through our strategic partnership with RPAG, a national alliance of advisors with over 35,000 plans and $350 billion in retirement plan assets collectively, HHM Wealth Advisors can provide our clients with exclusive access to actively managed, passively managed and target date CITs, featuring top-tier asset managers at a substantially reduced cost.

This Won't Hurt a Bit: It's Time to Include Health Care in a Holistic Retirement Strategy

Health care expenses are one of the most critical issues that workers and employers face today. Historically, both health care and retirement savings have largely been kept separate, but that conversation is changing. As health care is increasingly considered through the lens of financial wellness, employers need to understand the savings options. Pretax and Roth retirement account contributions, along with HSAs, are three common ways that many employees can save for health care expenses in retirement. It's important to consider the advantages of each.

UNDERSTANDING THE DIFFERENCES IN HEALTH CARE SAVINGS OPTIONS

Advantages

ACCOUNT TYPES	PRETAX	ROTH	HSA[1]
Contributions	Excluded from taxable income[2]	Not excluded[2]	Excluded from taxable income[2]
2018 Maximum Annual Contributions[3]	$18,500 retirement plan $5,500 IRA[3]	$18,500 retirement plan $5,500 IRA[3]	$3,450 individual $6,900 family
Early Distribution Penalty[4]	10%	10%	20%
Early Distributions	Limited access[5]	Limited access[5]	Qualified medical expenses (QME): No tax or penalty
Taxes on Distributions	Ordinary rate	Tax-free if qualified	Tax-free if qualified
Required Minimum Distributions (RMDs)	Begin at 70$^{1/2}$	Begin at 70$^{1/2}$ for retirement plans[6]	None
Tax Treatment for Non-Spouse Heirs	Ongoing tax deferral (with RMD)	Ongoing tax (with RMD)	Value immediately subject to ordinary income tax

HSAs Paired with a High-Deductible Health Plan (HDHP) Can Be Part of a Competitive Benefits Package

The old mantra of offering a competitive benefits package to "recruit, retain, and reward" needs updating. With an emphasis on financial wellness and health care flexibility, the "three R's" should now shift to "recruit, retain, and retire."

RECRUIT

Depending on your organization's size, offering an HSA could be seen as a differentiator, or merely table stakes, versus your competition.

- 87% of jumbo employers,
- 72% of large employers, and
- 34% of small employers

...plan to offer HSAs by 2019.

RETAIN

HSAs can support retention efforts for key employee demographics (e.g., healthy millennials who prefer the ability to save for their own health care expenses and executives who appreciate an HSA's triple tax advantage).

- $4,129 is the average cost of onboarding a new hire.

RETIRE

Comprehensive benefits all add up to providing employees with financial support that allows them to retire when they want to rather than when they have to.

64% of employees think health care costs will impact their retirement.[3]

HSAs may help you bring value to your employees.

We suggest that you:

1. Arrange for fair and balanced reviews of health care savings options, strategies, and benefits to employees
2. Review educational materials to ensure that they are clear and comprehensive
3. Connect the health care conversation to retirement and financial wellness
4. Evaluate adoption and usage data
5. Explore ways to provide employees with HSA investment education or guidance

HSAs may make sense for certain employers, especially since the average cost of an HSA-eligible plan is 22% LESS than a traditional PPO.

Terminated Participants: Force Them Out or Keep Them In?

Is there regulatory guidance that would indicate whether forcing out terminated participants is favorable to keeping them in? What fiduciary liabilities are absolved by forcing them out (assuming this is consistent with the plan document)?

Assuming consistency with the plan document, there is no expanded fiduciary liability in forcing them out of the plan, as this is an allowable plan provision. As to whether cashing participants out is favorable to keeping them in, that depends on the benefit to the plan or the benefit to the participants.

An example would be if the plan is of significant size to have competitive expenses and access to sufficiently diverse investments including appropriately selected TDFs, it should typically benefit most participants to remain in the plan from an investment perspective.

From the viewpoint of the plan, if participants leaving the plan leave it in a less competitive pricing structure, it would benefit the plan to keep them in. Since these are low account balances, this is unlikely to be the case.

There are potential positives and negatives for both plan and participant interests, therefore it is best determined on a case-specific basis, but most typically it benefits the plan to cash out low account balances as if assets remain in the plan, the plan fiduciaries remain responsible for all prudence requirements including distributions to terminated participants. So, small account balances can be an inconvenience to the plan and fiduciaries.

Retirement Plan Check-Up

It's important to conduct regular check-ups on your retirement plan to make sure you are on track to reach your retirement goals. Below are a few questions to ask yourself, at least annually, to see if (and how) they affect your retirement planning.

1. Review the Past Year

Did you receive a raise or inheritance?

If yes, you may want to increase your contributions

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Did you get married or divorced?

If yes, you may need to change your beneficiary form.

Are you contributing the maximum amount allowed by the IRS?

In 2018 you can contribute up to $18,500 ($24,500 for employees age 50 or older).

Did you change jobs and still have retirement money with your previous employer?

You may be able to consolidate your assets with your current plan. (Ask your human resources department for more details.)

2. Set a Goal

What do you want your retirement to look like? Do you want to travel? Will retirement be an opportunity to turn a hobby into a part-time business? Will you enjoy simple or extravagant entertainment? Take time to map out your specific goals for retirement. Participants that set a retirement goal today, feel more confident about having a financially independent retirement down the road.

3. Gauge Your Risk Tolerance

Understanding how comfortable you are with investment risk can help you determine what kind of allocation strategy makes the most sense for you. Remember, over time, and as your life changes, so will your risk tolerance.

4. Ask for Help

If you have questions about your retirement plan or are unsure of how to go about saving for retirement, ask for help. Your retirement plan advisor can help you evaluate your progress with your retirement goals, determine how much you should be saving and decide which investment choices are suitable for you.

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