QUALIFIED PLAN NEWSLETTER

Third Quarter 2016

PLAN SPONSORS ASK...

QUESTION. How can we reduce our fiduciary risk when selecting Qualified Default Investment Alternatives (QDIAs)?

ANSWER. While the de facto options for most retirement plans are target date (TDFs) and risk-based funds, not all QDIAs are created equal. When evaluating funds and providers, watch out for red flags, i.e., unreasonably high fees or inappropriate glide paths.

Also, TDFs assume that all investors in one age group have similar needs. They don't account for differing risk tolerances, or participants who may end up retiring sooner or later than their projected retirement date due to health concerns, a lack of employment opportunities, or inadequate savings.

Risk-date funds claim to address some of these issues, however, most risk-based funds make inappropriate assumptions about a participant's risk tolerance that actually prevent them from taking the proper amount of risk for their situation and time horizon, causing them to fall short of their accumulation goals.

Avoiding fiduciary pitfalls through proper due diligence and careful research is critical when selecting any fund in your plan's investment line-up, not just QDIAs. Additionally, keeping detailed records of your rationale for choosing certain funds, and educating participants about how the funds work, what they do and don't do, and the associated risks, are all key to reducing your fiduciary exposure.

Learn more about reducing fiduciary risk when choosing QDIAs here: http://tinyurl.com/QDIARedFlags.

SEPTEMBER 2016 CAPITAL MARKETS REVIEW

	PERIOD ENDING SEPTEMBER 30, 2016					
INDEX	QTR	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
S&P 500	3.85%	7.84%	15.43%	11.16%	16.37%	7.24%
Russell 2000	9.05%	11.46%	15.47%	6.71%	15.82%	7.07%
Russell 3000 Value	3.87%	10.40%	16.38%	9.46%	16.09%	5.84%
Russell 3000 Growth	4.92%	6.12%	13.64%	11.40%	16.56%	8.80%
MSCI ACWI Ex U.S.	6.91%	5.82%	9.26%	0.18%	6.04%	2.16%
Barclays U.S. Aggregate Bond	0.46%	5.80%	5.19%	4.03%	3.08%	4.79%
3-Month U.S. Treasuries	0.07%	0.19%	0.20%	0.09%	0.08%	0.84%

The U.S. economy continued to move in a positive direction in Q3 2016, albeit at a slower pace than many desired. The national unemployment rate started the quarter at 4.9% and remained flat through July and August, before climbing slightly to 5.0% in September. According to the BLS, total nonfarm payroll saw increases of 252,000, 167,000, and 156,000 in July, August, and September, respectfully. The labor force participation rate started the quarter at 62.8 percent in July and August, and ended the quarter at a modestly higher 62.9 percent. September's 62.9 percent labor force participation rate reflects a 0.5 percent increase over the previous twelve months.

Commonly watched stock markets and indexes showed at least modest increases over Q3 2016. During Q3: the Dow Jones increased 2.4 percent; the S&P 500 increased 3.28 percent; the NASDAQ Composite decreased 9.82 percent; the Russell 2000 decreased 8.67 percent; and the NYSE Composite increased 2.16 percent.

The federal funds (effective) rate dropped in Q3 2016; it started the quarter at 0.41 percent and ended at 0.29 percent. With a presidential election looming in Q4, 2016, it is uncertain whether we should expect any significant changes in the rate before year end.

The average 30-year fixed rate mortgage increased ever so slightly in Q3 2016; after beginning the quarter at 3.41 percent, the average 30-year fixed mortgage rose to 3.42 percent by the week of September 29, 2016.

S&P 500 is a commonly used measure of common stock performance. Russell 2000 is a commonly used measure of small capitalization stocks. Russell 3000 Value measures performance of U.S. equity universe broad value segment with lower price-to-book ratios and lower forecasted growth values. Russell 3000 Growth measures performance of Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. MSCI ACWI EX U.S. tracks 850 stocks traded in 22 world markets (excludes U.S. based stocks). Barclays U.S. Aggregate Bond Index tracks domestic investment grade bonds (including corporate, government, and mortgage-backed securities). Citigroup 3-Month U.S. Treasury Bill Index tracks short-term U.S. Government debt instruments. All referenced indices are unmanaged and not available for direct investment. Past performance is not a guarantee of future results.

Gen X Needs Retirement Planning Help

Much has been written about generations in the workplace, most of it focused on Baby Boomers and Millennials. Just like a middle child, members of Generation X have been largely overlooked with regard to their long-term financial needs.

Considering that the youngest members of this generation, born between 1965 and 1980, are now reaching their 50s—peak wealth accumulation years for most people. Weber Shandwick's study, *Leveraging the Gen X Retirement Market: From Overlooked to Opportunity*, discusses the financial needs of GenXers for the benefit of financial advisors. Its insights may also be useful for employers seeking to help this segment of their employee population.

Gen Xers were up-close witnesses to the recession of the early 1990s at a critical point in their lives. They were just emerging from their so-called slacker period and launching their careers. They were hit again as the first wave of them entered their early 40s, and the Great Recession swept away much of their financial progress. According to the Pew Charitable Trusts, GenXers took the biggest financial hit among the generations during that time, losing almost half (45%) of their total wealth in a four-year period.

This information isn't a surprise to members of Gen X; the study reveals many are worried about their long-term financial security, especially when asked about financing their healthcare as they age. The worry doesn't seem to be motivating additional saving, though. This group wants and needs financial strategies, programs, advice and encouragement.

As you research and implement strategies to help GenXers save more for their retirement, discuss with your advisor resources they can provide and how they can help. Some of the ideas offered up by the Weber Shandwick study include:

- Consider GenX as an individual target segment, distinct from the Boomers and the Millennials.
- GenX holds a substantial amount of wealth, but they are less-than-confident in its security—understandably, considering their early financial experiences. Help them understand their investment options; show them incremental steps toward achieving their retirement goals; and continue to show the impact of equity investing while acknowledging their concerns.
- Make sure your communications address future healthcare costs. Offer regular updates and commentary about the changing healthcare marketplace.
- Provide both basic and advanced financial training, to meet the needs of beginners and those with investing experience. Webcasts can be effective, as can access to a financial planner. Be sure to address questions about managing 401(k) investments, insurance, taxes and fees.

Supreme Court Confirms Duty To Monitor Investments

Plan sponsors and other fiduciaries will want to take note of a recent U.S. Supreme Court decision, *Tibble v. Edison International*,* in which the Court held that plan fiduciaries have a continuing duty to monitor the investment choices offered in a 401(k) plan.

In Tibble, participants in a company's 401(k) plan alleged that the plan fiduciaries had breached their duties by adding to the plan certain mutual funds with unnecessarily high administrative fees. In response, the defendants asserted that any claims related to three of the funds were time-barred because the participants failed to bring their lawsuit within the required time frame after the funds had been added to the plan.

The Court held that under trust law (and therefore ERISA pension law) a "trustee has a continuing duty to monitor trust investments and remove imprudent ones." The Court further held that the *duty to monitor* is separate from the *duty to prudently select* investments, and that for claims based on the former, the statute of limitations runs from the date of the breach, rather than the date of selection.

Though declining to speak further to the specific scope of the defendants' duty to monitor, the Court did state that "under trust law, a fiduciary is required to perform a regular review of its investment with the nature and timing of the review contingent on the circumstances."

As a result, plan fiduciaries may want to establish a procedure to make sure they are regularly reviewing plan investment options, diligently following up on any recommendations, and documenting any actions taken.

**135 S. Ct. 1823 (2015)*

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