

IN THIS ISSUE

Stable Value Industry Has Diverse Views on Opportunity Presented by Target-Date Funds*By Randy Myers* 1**How America Saves: The Unending Quest to Improve Retirement Savings Habits***By Randy Myers* 1**Employers Advised to Brace for the Next Wave: Generation Z***By Randy Myers* 1**Can Stable Value Find a Home in Europe?***By Randy Myers* 6**Most Plaintiffs' Lawsuits Are Found in Favor of Stable Value***By Randy Myers* 7**New Tool Helps Advisors Compare, Choose and Monitor Stable Value Funds***By Randy Myers* 8**Tech-Savvy Attorney Sees Blockchain Still in Early Stages for Retirement Industry Applications***By Randy Myers* 9**Uphill Battle: Tax Reform 2.0***By Randy Myers* 10**Voya Strategist Sees Pro-Business Policies Bolstering Stock Market***By Randy Myers* 11**A 20 Year Perspective on Stable Value***By Randy Myers* 12**Going Beyond Retirement to End of Life Issues***By Randy Myers* 12**Stable Value Industry Has Diverse Views on Opportunity Presented by Target-Date Funds***By Randy Myers*

The explosive growth of target-date funds, especially in defined contribution retirement plans, is by now a well-told story. Data from Morningstar indicate that assets in target date funds grew to more than \$1 trillion dollars by 2017 from about \$150 billion a decade earlier. Meanwhile, approximately 80 percent of new participant contributions to DC plans are now going to target-date funds, up from 40 percent a decade ago. During that same period, the rate of new contributions to stable value funds fell to about 7 percent from 12 percent.

[Continues on page 2](#)**Employers Advised to Brace for the Next Wave: Generation Z***By Randy Myers*

For much of this decade, businesses have debated at length how to hire and manage millennials—the 82 million Americans born between 1980 and 1994 who now make up the largest generational slice of the U.S. workforce.

David Stillman, a generational expert and speaker, suggests it may be time to start focusing some of that attention on a new group: Generation Z, the 72 million Americans born between 1995 and 2012 who have strikingly different attitudes about work than the millennials who preceded them into the workplace.

[Continues on page 4](#)**How America Saves: The Unending Quest to Improve Retirement Savings Habits***By Randy Myers*

Convincing Americans to save and invest appropriately for retirement, it seems, is a bit like convincing them to get plenty of sleep, eat healthy and exercise—it can be done, but it's a never-ending quest that never seems to work for everybody.

Since 2000, The Vanguard Group has been studying the behavior of retirement plan participants in what are now more than 1,900 retirement savings plans on its recordkeeping platform.

[Continues on page 3](#)

Stable Value Industry Has Diverse Views on Opportunity Presented by Target-Date Funds

Continued from Page 1

Aruna Hobbs, head of institutional investments at MassMutual Financial Group, laid those statistics out at the start of a panel discussion at the 2018 SVIA Fall Forum on the outlook for stable value in target-date funds. The panel also included Ken Verzella, vice president, MMUS Investment Solutions Innovations at MassMutual; Jerome C. Clark, co-head of T. Rowe Price Asset Allocation Target Date Strategies at T. Rowe Price Associates; and Tony Luna, head of stable value management at T. Rowe Price.

Hobbs said one of the big questions facing the stable value industry is whether there is still time to get its products into target-date funds on a broad front, or whether it should focus on building a role for stable value funds during the decumulation phase of an investor's retirement journey.

At T. Rowe Price, sentiment seems to be leading toward the latter option. While the firm has both a thriving stable value business and a thriving target-date business, it generally has not been using stable value in its target-date portfolios. Clark attributed that in large part to his firm's greater focus on managing longevity and inflation

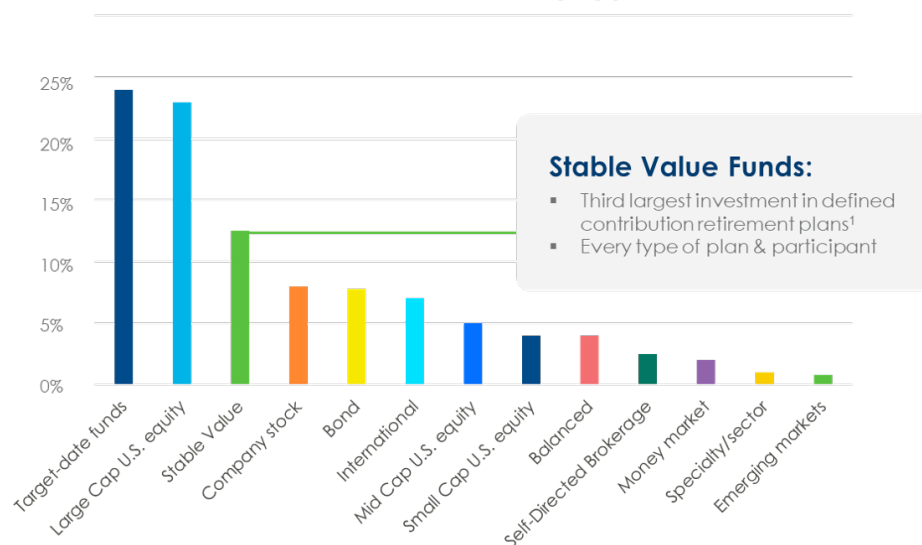
risk in its target-date portfolios rather than managing market risk or preserving principal. He also noted that his firm's target-date funds maintain very small allocations to cash, where stable value allocations are often slotted. But even there, he said, he hasn't been able to conclude that the premium charged for stable value relative to other cash equivalents is in the best interests of his firm's clients. Finally, he said that with the explosive growth in target-date funds he has some concerns about whether wrap capacity in the stable value industry would be sufficient if the asset class were to be used more broadly by target-date managers.

All that said, Luna noted that T. Rowe Price does promote the use of stable value for the cash component of custom target-date funds crafted by some of its clients.

Luna also suggested that Clark and his team—and other target-date managers like them—might be more amenable to incorporating stable value into their target-date funds if the stable value component, while still using book-value accounting, would “feel” like a market-value product and impose no rebalancing or termination provisions on target-date managers.

“Right now,” he said, “there's no value add. They (target-date funds) are already gaining assets. If we can't justify it (adding stable value) from an investment perspective, we certainly can't have things that make the asset class a little quirky. Right now, there is no uniformity (in the industry) when it comes to terms and conditions that would fit within the target-date complex.”

Percent of assets by type



¹ Aon Hewitt 401 (k) Index (www.aon.com) – asset allocations for December 2016.

Stable Value Industry Has Diverse Views on Opportunity Presented by Target-Date Funds

Continued from Page 2

MassMutual's Verzella had a brighter take on the outlook for stable value in target-date funds. His firm, he said, has been working diligently over the past three years to develop a stable value product that can fit easily into what he called "off-the-shelf" target-date funds structured as collective trusts.

MassMutual introduced its first such product about a year ago and has since begun to see a sizeable appetite for it among clients.

Verzella said MassMutual's approach incorporates "guardrails" into its product—namely a cash buffer—to minimize the impact of cash movements initiated by plan sponsors. He indicated, however, that large withdrawals that exceed the cash buffer could cause a market value adjustment that affects the fund's unit value. Meanwhile, there is no discontinuance fee connected with the product that is explicitly assessed or reported at a participant

level, and participant-directed exchanges are made at book value with no market value adjustments.

"There were a lot of moving parts (when creating the product), but I will tell you with confidence the appetite for the inclusion of stable value within (custom target-date fund) glide paths is tremendous," Verzella said. "So much so that we had another asset manager come to us, and we're now able to include our stable value (product) within their framework."

Across the stable value industry, most efforts to incorporate stable value into target-date funds have focused on funds structured as collective trusts, because regulatory hurdles generally preclude using them in funds structured as mutual funds. **SVIA**

How America Saves: The Unending Quest to Improve Retirement Savings Habits

Continued from page 1

Ten years ago, says Patricia Selim, head of stable value investments at Vanguard, the median deferral rate for participants in those plans or the median amount of their pay they were socking into their plans was 6 percent. As of 2017, that median deferral rate was ... unchanged.

Speaking at the 2018 SVIA Fall Forum in Washington, Selim suggested that figure was so sticky in part because many participants tend to set their deferral rates just high enough to take advantage of their employer's matching contributions. The most common formulas have employers matching 50 percent of what employees contribute, up to 6 percent of their salary, or 100 percent of what they contribute, up to the 3 percent of their salary.

Vanguard's data also shows that about a quarter of eligible workers fail to participate in their plans. Selim noted that plan sponsors who incorporate an automatic enrollment feature into their plans can typically push participation rates upward of 90 percent. As of 2017, she said, 46 percent of

the plans in Vanguard's recordkeeping system had adopted automatic enrollment, although many were using it only for new employees and were not going back and reenrolling existing employees who never joined the plan.

Perhaps more worrisome is what's happening with lower income employees—those earning less than \$30,000 annually. Among that group, Selim said, deferral rates tend to be lower in plans with automatic enrollment (4.2 percent) than without (5.0 percent). She suggested that may be because employers often set the default deferral rate low for fear that participants otherwise might opt out of their plans.

Account balances in defined contribution retirement plans have risen modestly over the past decade, Selim said, from a median of \$17,000 in 2008 to \$26,000 in 2017—and from an average of \$56,000 to an average of \$104,000. Selim cautioned that those averages are not characteristic of the typical participant.

Continues on page 4

How America Saves: The Unending Quest to Improve Retirement Savings Habits

Continued from page 3

"Those numbers are for the 75th percentile, meaning only 25 percent of participants have balances higher than that, and 75 percent have balances that are the same and lower."

Overall allocations to equities haven't changed much in Vanguard's participant accounts over the past several years, Selim added, standing at 73 percent at year-end 2017. However, she noted, an increasing share of those equities are now held in target-date funds.

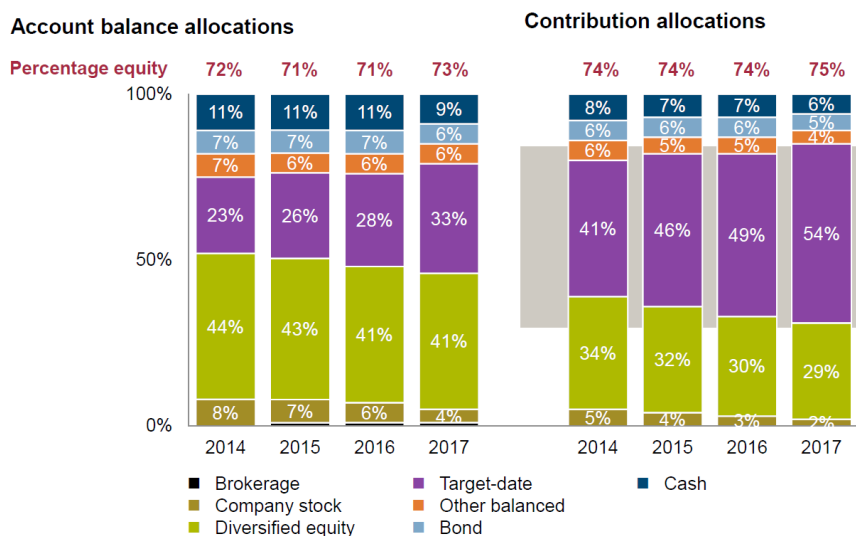
In fact, allocations to professionally managed funds of any kind, including target-date funds, traditional balanced funds and managed account programs, have increased substantially, to 58 percent in 2017 from 22 percent in 2008. Digging

into the details shows that allocations to target-date funds during that time rose to 51 percent from 13 percent, while allocations to managed accounts rose to 3 percent from 2 percent.

Perhaps surprisingly, for all the efforts the retirement industry has poured into it, investment advice, while now more frequently offered, is still seldom used. While 65 percent of plans now offer online advice and 71 percent offer financial planning advice for those over the age of 55, only 6 percent of participants use the former and only 2 percent use the latter.

Nonetheless—and perhaps reflecting the increased use of target-date funds and managed accounts—portfolio construction has improved, with 74 percent of participants now using asset allocation strategies versus just 41 percent in 2008.

Among the biggest challenge for the retirement industry moving forward, Selim said, will be helping participants who aren't saving enough save more, helping participants figure out how to draw down their retirement plan assets once they stop working, and making retirement plans available to a broader cross-section of the public. Right now, she noted, three in 10 private sector workers work for employers who do not offer any type of retirement plan. **SVIA**



Source: How America Saves 2018, Vanguard.

Employers Advised to Brace for the Next Wave: Generation Z

Continued from page 1

"A lot of people say they're going to wait to get to know Gen Z till they're a little bit older," Stillman said during a presentation at the 2018 SVIA Fall Forum. "What they're really saying is that they're going to wait until Gen Z becomes more like them. Never happens. We do not become more alike as we get older. Yes, we hit the same life stages, but each generation reinvents itself because they enter with a different generational personality."

By way of example, Stillman noted how the different generations view NASA and space exploration based on defining events from their youth. Baby boomers, Stillman said, think about NASA putting a man on the moon—an exciting time when government demonstrated its prowess. Gen Xers remember the explosion of the space shuttle Challenger and think of a government that might have been wasting its money on something

Continues on page 5

Employers Advised to Brace for the Next Wave: Generation Z

Continued from page 4

that didn't work. Gen Zers, meanwhile, think of entrepreneur Elon Musk and wonder who needs the government, since private enterprise can now lead the way into space.

Because few leaders in government or business recognize differences like these, Stillman said, they're making the mistake of thinking they can recruit and retain Gen Zers the same way they recruit and retain millennials. And it's backfiring.

To help them get on the right track, Stillman undertook national studies to identify key traits of Generation Z that business and government leaders should put on their radar.

Many of the questions were solicited from CEOs and celebrities.

When asked whether they regard employment as an entitlement or if they are prepared to start at the bottom and work their way up, 76 percent of Gen Zers say they are willing to start at the bottom. "Dues-paying is back on the table for the first time since the baby boomers," Stillman said, adding that so is loyalty with 61 percent of Gen Zers saying they'd stay with an employer for 10 years. Drive and a competitive nature are back, too; 88 percent of Gen Zers say they're willing to work longer and harder than their peers, and 73 percent say they feel competitive toward those peers.

Stillman links sentiment like that in part to the challenges Gen Zers saw their parents go through during the 2008 financial crisis and recession, when significant numbers lost jobs and homes. "Think about entertainment," Stillman added. "The millennials, who when they were young were told they could be anything they wanted to be, had Harry Potter—mystical, magical, anything's possible. What did Gen Z have? Hunger Games. You versus the world. You don't win, you die."

In terms of what they're looking for from work, Stillman noted that millennials might have been willing to sacrifice a high salary if they thought they were making a difference in their work, but Gen Zers see it differently. "They want passion and meaning, but those things don't make their top

10. Number one on their list is pay or salary." They also expect a high degree of customization in their lives, which in the working world might translate into wanting to be able to help shape their job descriptions and career paths, or when and where they work.

Gen Z also differs from its immediate predecessor generations in thinking about college, Stillman said. Baby boomers told their millennial kids they were going to go to college at any cost and many of them did just that, racking up massive amounts of student loan debt. Gen Xers saw that and thought, "maybe there's an alternative path." Now, he said, Gen Zers are much more questioning of the value of college, with 75 percent contending that there are other good ways to get an education, and many wanting to go only if they know exactly what they want to do afterward. Half consider an online college degree comparable to a traditional college degree.

Based on that finding, Stillman encouraged employers to start reaching out to students when they're still in high school to expose them to the great careers their companies have to offer. "You have to get on their radar earlier if you want to make some waves," he said, ticking off the names of several large employers already doing just that. "If you're reaching out in college, it might be too late."

Stillman said he's worried that nobody's been training millennials how to manage Gen Zers, given their differing world views. Millennials may be surprised to find, for example, that 40 percent of Gen Zers say access to Wi-Fi would be more important in choosing a job than having a working bathroom, and a like number say they should own a successful product or service they create while working for their employer. Nine out of 10 say an organization's technological sophistication impacts their desire to work there.

In summary, Stillman said, now is the time to get to know Generation Z. "The leading edge of this generation is 24 years old, and they're already in the workforce." **SVIA**

Can Stable Value Find a Home in Europe?

By Randy Myers

Amid all the things the U.S. exports to other parts of the world—movies, fast food, soda pop, grain, iPhones ... the list goes on and on—stable value funds are conspicuously (to the stable value industry, at least) missing.

Robert Whiteford thinks there's an opportunity to change that.

A longtime member of the stable value industry, including a 14-year stint with Bank of America Merrill Lynch—Whiteford has been working as an independent pension consultant for the past seven years. For the past few years, he's been talking with regulators and financial services firms in Europe about introducing stable value funds to the retirement plan market there, with a special focus on the U.K.

"We edged pretty close, but fell a little bit short in the end," Whiteford said of those efforts during a presentation at the SVIA 2018 Fall Forum in Washington.

Still, Whiteford has hardly given up on the idea. He argues not only that the stable value industry, as a mature business, needs more outlets, but also that it has a proven product that has done a lot of good for retirement plan participants in the U.S. and could do the same for those in Europe. Investors there could find it "a better package of risk and return than they have right now."

The European marketplace should be receptive to a stable value product, too, Whiteford said. On balance, Europeans are good savers. And in the U.K., the second-biggest pension market in the world, there already exists a defined contribution plan framework which, while younger and smaller than the one in the U.S., is otherwise very similar—and grew 17 percent last year. In fact, Whiteford said, about 90 percent of private sector workers in the U.K. now participate in a defined contribution plan. About 85 percent of the time they're invested in their plan's default investment option, which is usually a target-date or target-risk fund.

Beyond the challenge of figuring out how to fit into or supplement target-date funds, Whiteford

said breaking into the U.K. market would require learning to compete with "With-Profits" investments, which he described as an annuity-like product that provides downside protection with a share in upside opportunity. Their presence could actually present both a challenge and opportunity, Whiteford said, explaining that a number of With-Profits funds failed during the 2008 financial crisis, leaving some U.K. investors wary of them. But, he said, stable value funds are more transparent, and unlike With-Profits funds feature crediting rates known in advance. Accordingly, investors might see stable value as something similar to, but better than, the "With-Profits" investments they already know.



Whiteford also noted that the U.K. government in the past few years has indicated an interest in having a guaranteed product for its retirement plan market, and he said stable value funds could fill that role assuming the all-in costs were acceptable (a hurdle he thinks is manageable).

Beyond those issues, Whiteford cautioned that bringing stable value to the U.K. market will require close coordination with a wide range of players, including not only asset managers and wrap issuers but also regulators, auditors, retirement plan sponsors, plan consultants and plan advisors. And, he conceded, there's no guarantee that any attempt to do all that will work. But, he said, "I think there's a very high chance it will." **SVIA**

Most Plaintiffs' Lawsuits Are Found in Favor of Stable Value

By Randy Myers

Class action lawsuits involving stable value funds appears to have slowed, and for most defendants is beginning to look more like a minor dust up.

The plaintiffs' bar began filing lawsuits against retirement plans starting in 2006, typically alleging that the plans were paying excessive fees to service providers to the detriment of plan participants. Eventually, plaintiffs' attorneys began filing suits against plans in connection with their use, or non-use, of stable value funds. Sometimes, they argued that the plans were harming participants by offering money market funds as their principal preservation option rather than higher-yielding stable value funds. Other times, they argued that the stable value fund was managed too conservatively, robbing plan participants of potential earnings, or too aggressively, subjecting participants to too much risk. In still other instances, they contended that insurers providing general account fixed-income stable value products were violating their fiduciary duty by earning a profit on what plaintiffs' attorneys called the "spread" between a fund's costs and its crediting rate.

Speaking at the 2018 SVIA Fall Forum, Mark Blocker, a partner with the law firm of Sidley Austin LLP, said that managers of pooled synthetic funds have won most of the cases where they were alleged to have taken too little or too much risk. He said courts generally found that contrary to to plaintiffs' attorneys, comparisons of crediting rates to an average of like funds, or to returns on insurance company general account products, was not meaningful.

All of those cases have now been resolved, Blocker said. In only one case did the defendant settle. Although the settlement was substantial, he said the specifics around that case were unique, involving the management of assets compromised during the 2007-2009 credit crisis. Accordingly, he said, it would be hard to predict whether it will generate any more lawsuits. "Usually, plaintiffs' lawyers follow the money," he said, "but I suspect that is unlikely here."

Lawsuits involving single-company stable value funds typically revolved around claims that the funds were mismanaged, including, in some cases, that they held too much cash. Blocker said one

such case was dismissed, one was settled, and another was affirmed on appeal in a way that will make it difficult to bring similar claims in the future. Court rulings, he said, have indicated that process, not results, matter when setting a fund's strategy; that deviation from an industry standard means nothing; and that it is not enough for plaintiffs to suggest ways a fund could have performed better using hindsight.

Blocker said his firm has been involved in eight cases involving general account products over the past four years, and seven of those were lost by the plaintiffs, with nothing paid out in settlements. The remaining case that is still pending is in district court, and, he said, he's hoping for a ruling on that one soon.

The one type of lawsuit where it's not yet clear how retirement plans will fare, Blocker said, captures cases arguing that the plan sponsor should have offered only a stable value fund, or a stable value fund along with a money market fund, to plan participants. So far, he said, one such case has been won by the plaintiffs, although it is now on appeal; another has resulted in a settlement; one has gone through the trial process and is awaiting a decision; and many others are pending.

The case that was settled, involving an American Airlines plan, was interesting, Blocker said, because the judge was asked to approve the settlement amount. The court refused to do so. The judge argued that the settlement amount—\$8.8 million—was too low because plan participants may have lost out on as much as \$88 million in expected returns. That case is now back on the litigation track. Blocker explained the settlement, by historical standards, would not have been unusually low. "It is not unusual for settlements to be in that range; 10 percent of the totality is not an uncommon amount. Judges generally won't flinch at that; a lot of times they will not flinch at an even smaller amount."

No matter what happens with the remaining cases around plans not offering stable value funds, Blocker said, there may be a positive boost to the industry as a whole. If the cases are decided in favor of the plaintiffs, he explained, it could simply lead to more plans offering stable value funds. **SVIA**

New Tool Helps Advisors Compare, Choose and Monitor Stable Value Funds

By Randy Myers

Speakers:

Matthew Gnabasik, Founder and Managing Partner, Blue Prairie Group

Scott Revare, Managing Director, Fi360

A few clicks on a computer mouse can take institutional investors to almost any information they want about a publicly traded stock, mutual fund or exchange traded fund. It's never been that way with most stable value funds, but Fi360 and Blue Prairie Group, companies that offer a wide range of services to financial services providers, intermediaries and retirement plan sponsors, are looking to change that.

Speaking at the 2018 SVIA Fall Forum, Fi360 Managing Director Scott Revare and Blue Prairie Group Founder and Managing Partner Matthew Gnabasik demonstrated the latest version of Fi360's Stable Value Navigator investment database, which they described as one of the largest stable value database now available for advisor use. Drawing on data that Blue Prairie Group has been collecting for more than a decade, it features profiles on 55 stable value funds representing more than 30 stable value managers and \$450 billion in stable value assets. Blue Prairie Group is currently migrating the process of data aggregation to Fi360.

Gnabasik said the need for the database among the advisor community is demonstrable. "There are tools for advisors out there," he said, "but they either aren't built for advisors or they are incomplete in terms of the data needed for advisors to do their job."

Revare added that the need has become greater in recent years as advisors have increasingly taken on fiduciary responsibilities in connection with their work for retirement plan sponsors, particularly in terms of evaluating the investment options offered by those plans. "We constantly had the issue of seeing a lineup of funds and being able to evaluate all of them except one (stable value)," he said. "And as the Department

of Labor expanded their audit processes and the number of audits they were doing, more and more questions arose about why this one fund was not being evaluated [the same as other funds]."

Revare's search for more data led him to Gnabasik and Blue Prairie Group. The product that evolved from that partnership—Stable Value Navigator—lets investment advisors screen its underlying stable value database in whatever way they wish using a wide range of data points, and to score stable value funds based on those criteria. Advisors also can compare funds side-by-side, and access a wealth of background information about funds in the database, including information about their wrap providers, subadvisors and competing fund provisions.

| General Accounts | Insurance Company SAs | SA Composites | Synthetic GICs |
|-------------------------|-----------------------|------------------------|-------------------------|
| 15 Products \$200 BB | 9 Products \$18 BB | 5 Products \$284 BB | 27 Products \$145 BB |

Fi360 is working to further expand the reach of its database. Gnabasik pointed out that stable value providers are not charged to contribute their data to it. Revare also invited providers to monitor the database and let Fi360 know if and where they see any errors. "We want to get this right the first time, as the data gets collected," he said.

Responding to a question from the audience, Revare and Gnabasik acknowledged there is work to do, in partnership with the stable value industry, to coalesce around standard terms and definitions in stable value contracts, so that advisors using the databases can be sure they're making accurate comparisons between funds. **SVIA**

Tech-Savvy Attorney Sees Blockchain Still in Early Stages for Retirement Industry Applications

By Randy Myers

Blockchain is among the most hyped technologies at the moment, nearly up there with machine learning and other forms of artificial intelligence.

Just don't expect it to become commonplace in the wealth management or retirement industries anytime soon, says attorney Andrew Ray, a tech-savvy partner in the law firm of Morgan, Lewis & Bockius LLP, where he leads the firm's interdisciplinary corporate practice.

Describing blockchain during a presentation at the 2018 SVIA Fall Forum, Ray likened it to "double-entry bookkeeping on steroids." Rather than having two entries confirm each other and balance out, blockchain relies on a digital ledger of transactions, or "blocks" of data, shared among a distributed network of computers. To add to the chain of transactions, a majority of the participants in the network must agree, after subjecting it to rigorous review, that it is valid. Once approved, the new block of data is added, and it becomes very difficult to change or remove it. This allows for the blockchain to be secure without the need for a central authority overseeing it.

Blockchain first caught the public eye for its use in creating cryptocurrencies, such as Bitcoin. Today, many industries, particularly the financial services industry, are looking to adapt it to other applications. Their hope is that it can make transaction processing and recordkeeping faster, more efficient, more secure, and, as a result, cheaper.

This past summer, the World Bank launched the first publicly traded bond that was sold, registered and run exclusively on a blockchain platform. The deal featured the issuance of \$73 million of a two-year "smart security" dubbed a Bondi (Blockchain Operated New Debt Instrument).

Elsewhere, consortiums of big banks are working on using blockchain to, among other things, automate how their systems interact with one another, Ray said. For those attending the SVIA forum, however, he said the arrival of blockchain technology in their daily activities may be quite some way off.

"One of the questions I often get," he said, "is 'What inning are we in with respect to blockchain technologies?' I think with respect to traditional wealth management or retirement management, we are probably just in batting practice."

By contrast, he said, efforts by major banks to develop blockchain platforms for the custody of currencies for high net worth customers, or by startups looking to trade cryptocurrencies, are probably in the "first or second inning."

Even so, he said, regulators are even further behind. But that's to be expected. "Regulation lags innovation," he said. "It's a normal thing for regulators to have to play catch up."

Responding to a question from the audience, Ray said he hadn't personally seen any use of blockchain-enabled "smart contracts" in the insurance industry. He said he's given thought, though, to its application with master swap contracts. "It seems like more of a natural use case, and I think people are working on that," he said. "But the more variables there are, the harder it's going to be to put a smart contract on blockchain, for two reasons. First, you've got to get some consensus about what the right variables are, and then you've got to get people to agree to use the same blockchain."

Ray also cautioned his SVIA audience that the cost of adopting and using blockchain technology is not zero. For one thing, it requires a lot of computing horsepower, and a lot of electricity to drive that computing power. That means it might not be particularly useful for applications where there isn't room to absorb those costs. On the other hand, Ray said, "if you want to think about what it might disrupt, think about the processes in your business that are highly manual and therefore have a high expense associated with them. If you have something that costs 50 basis points in servicing or administrative fees, you could probably find a blockchain application that is significantly cheaper than that." **SVIA**

Uphill Battle: Tax Reform 2.0

By Randy Myers

The Tax Cuts and Jobs Act of 2017 whipped through Congress and onto President Trump's desk at warp speed by Washington standards. Introduced in November, it was signed into law 52 days later. Now comes what looks to be the harder part: making all of those changes permanent, via a package of legislation the majority Republican party has nicknamed Tax Reform 2.0.

Republicans were able to speed their initial tax reform bill through Congress so quickly, explains Sarah Babbage, a legislative analyst with Bloomberg Government. They used a procedure called budget reconciliation, which let the bill pass with 51 votes in the Senate—none of them from Democrats. Under that procedure, Republicans had to set a limit on how much revenue the measure could lose over the next decade—a limit they set at \$1.5 trillion. To make that work, they had to make the changes on the individual side of the tax code temporary, expiring after 2025. For the most part, only the tax cuts for C corporations were permanent. Under Tax Reform 2.0, the GOP would now like to make individual tax cuts permanent, create new tax breaks for new businesses, fix some drafting errors in the first piece of legislation, and make a wide range of changes to the rules around retirement savings plans.

Speaking at the 2018 SVIA Fall Forum in October, Babbage said the contemplated changes to the retirement landscape have more bipartisan support than many of the other measures, and she suggested the GOP may push to make them law if they retain control of the Senate and lose control of the House in the upcoming midterm elections.

Perhaps the most far-reaching of those changes would make it easier for small employers to join together to create pooled retirement plans similar to existing multi-employer plans—except that now those employers would not have to be from the same industry. The proposed legislation also would give employers relief from the so-called “one bad apple” rule, so that if one employer in a pooled plan ran afoul of Internal Revenue Service rules around those plans, other employers in the plan wouldn't be punished.

Other retirement-related measures contemplated in Tax Reform 2.0, Babbage said, would allow graduate students to contribute money from their fellowships and stipends to Individual Retirement Accounts,

repeal the maximum age for making traditional IRA contributions (currently 70½), bar loans from retirement plans made on credit cards, eliminate required minimum distributions from retirement plans after age 70½ for people with account balances under \$50,000, and provide some tax credits for small employers who start pension plans or automatically enroll employees in their retirement plans.

Still other proposals would loosen non-discrimination testing requirements around retirement plans, create universal savings accounts to which individuals could contribute up to \$2,500 per year, allow people to withdraw as much as \$7,500 from their retirement account after the birth or adoption of a child, expand the list of expenditures eligible for favorable tax treatment within 529 college savings plans, and allow contributions to 529 plans on behalf of unborn children.

Babbage said the bill to make the 2017 individual tax cuts permanent is unlikely to pass in the Senate this year because Republicans cannot use the budget reconciliation procedure, and they would be unlikely to win sufficient votes from Democrats to carry the measure. The proposals that might have a chance of passing this year yet, she said, would probably be those that would provide some tax credits to small employers who start pension plans or automatically enroll employees in retirement plans.

Even though the proposal to expand tax breaks for new businesses, and some others that would relax some of the rules around medical savings accounts, would appear to have some bipartisan support, Babbage noted that the only bills introduced in those areas so far have been in the House. Without corresponding legislation in the Senate, she said, it's unlikely they will pass anytime soon.

One thing the Senate may take up, Babbage said, is legislation to overhaul the Internal Revenue Service (IRS). “That's because the top tax writer in the Senate, Orrin Hatch, is retiring at the end of his term, and he really wants to improve the IRS and its functions as his legacy before he leaves.” Contemplated legislation would require the IRS to put more of their services online, beef up their identify theft and fraud prevention work, and make some changes in the way the agency is organized and conducts enforcement. **SVIA**

Voya Strategist Sees Pro-Business Policies Bolstering Stock Market

By Randy Myers

For investors, the fourth quarter of 2018 got off to a rocky start. After setting new highs just the month before, the stock market embarked on a sharp decline and Treasury yields shot higher.

Douglas Coté, chief market strategist for Voya Financial, suggested at the time that anyone unnerved by the turbulence may be missing the bigger picture.

Addressing the SVIA 2018 Fall Forum on October 9, Coté said Americans are a pessimistic lot, susceptible to turning “every little news item into a big thing.”

But that focus on current events, he explained, can mask lots of positives. When he looks at America today, Coté said, he sees a country with access to trade along the East and West coasts, the Gulf of Mexico and the Bering Strait. He sees a vast Middle America that produces so much food the country is able to export much of what it grows, and vast crude oil resources newly accessible via fracking. He sees a U.S. Navy that knows “everything happening in the world’s oceans every millisecond,” and a country that recently rid itself of a bitter nemesis in ISIS.



For an investor, Coté said, that constitutes a “pretty good baseline before we even start talking about economics.” And there, he suggested, the outlook is pretty good, too.

Ten years after the worst recession in our lifetimes—Coté called it a depression—the U.S. economy has been reinvigorated by a pro-business president, Donald Trump. Capital spending by businesses has been on the rise

for six consecutive quarters, he added, and corporate profits, helped by a massive cut in the federal corporate income tax rate, are soaring. Unemployment is at its lowest level in 49 years, and exports are at record highs.

While some investment analysts are fretting about trade wars and tariffs at the moment, Coté argued that their negative impact will be minimal compared to the positive impact of the Trump tax cuts and the business deregulation initiatives undertaken by the Trump administration.

The good news isn’t confined to the U.S., either, Coté said, noting that approximately 185 out of the world’s 190 countries had positive economic growth last year. Importantly, that included growth in what he called the “Big Three” drivers of the global economy—the U.S., Europe and China.

The most important metric in all of that, Coté said, is corporate profits, which he likened to the “canary in the coal mine” for the stock market. “If we get negative corporate earnings, that’s bad,” he said. “Up is positive.” And right now, he said, the signals coming from corporate earnings are not good, but “great,” concluded Cote.

Asked by a conference participant whether the surge in corporate profits might just represent a “sugar high” from the Trump tax cuts—one that might soon fade—Coté argued the opposite. He said business behavior is changing. Companies are investing money in plants and equipment, and productivity is improving. He likened the tax cuts to a “gift that keeps on giving.”

He also downplayed the possible negative impact of rising interest rates. The Federal Reserve has raised its target for short-term rates eight times in the last two years, painting it as a healthy reaction to a rising economy. He also argued that the U.S. is doing the right thing in trying to reset its trade relations with China, a market which, however things work out, will remain too big for the U.S. not to engage in.

What worries him most, Coté said, is cyber warfare. “It’s rampant, and the Chinese are best at it,” he said. “We do have to counter it. To me, that’s the biggest risk in the economy.” **SVIA**

Going Beyond Retirement to End of Life Issues

By Randy Myers

Investment professionals tend to have a handle on preparing for the future and their own mortality. They're aware of the importance of protecting their assets and minimizing their liabilities. They know where to start when it comes to thinking about how they may be able to provide for the generations that come after them.

At the 2018 SVIA Fall Forum in October, Chaplain Carla Thompson of Capital Caring Hospice challenged the investment professionals in attendance to add two additional elements to their long-term planning: deciding who they wish to make decisions for them if and when they can't do it for themselves, and how they wish to live or be cared for at that time.

Thompson noted that as "children of the Enlightenment" taught to hang our hats on the sciences, it is tempting for us to believe that science and technology will finally bring us to a place where we are, at least temporarily, "eternal." But, she said, "that's not the case today."

In that case, deciding now whether we want doctors to pursue extraordinary measures to prolong our lives if we become seriously ill, and

putting those wishes in writing and making sure the people close to us know them, can greatly improve our chances of being treated the way we wish as we approach the end of our lives.

That's important, she continued, noting that her years of experience counseling people has shown her that "nothing is more horrible (at life's end) than having somebody go against your personal wishes."

"The biggest issues that arise when people are reticent of talking about death is their fear of losing two things: dignity and control," Thompson said. "This begins when we're going into our toddlerhood. What's the first thing a toddler wants besides being fed and loved? A toddler wants control. 'Let me start to do it.' They want ever-expanding layers of control."

"So, she asked, "would the assumption be that at the end of your life you're just going to say, 'I don't want any control?' Of course not. You've reached the penultimate point, assuming a person has not died in an unexpected accident, in which control becomes very important."

Continues on page 13

UPCOMING EVENTS IN 2019

BOARD OF DIRECTORS MEETING

JANUARY 7-8, 2019 (MONDAY - TUESDAY)

THE FAIRMONT HOTEL

2401 M STREET, NW

WASHINGTON, DC

RATE \$289

BOARD OF DIRECTORS MEETING

JUNE 3-4, 2019 (MONDAY - TUESDAY)

THE FAIRMONT HOTEL

2401 M STREET, NW

WASHINGTON, DC

RATE \$359

FOURTEENTH SPRING SEMINAR

APRIL 7-9, 2019 (SUNDAY - TUESDAY)

RITZ CARLTON DOVE MOUNTAIN

1500 NORTH SECRET SPRINGS DRIVE

MARANA, AZ

RATE \$329

ANNUAL FALL FORUM

OCTOBER 14-16, 2019 (MONDAY - WEDNESDAY)

THE FAIRMONT HOTEL

2401 M STREET, NW

WASHINGTON, DC

RATE \$324

Going Beyond Retirement to End of Life Issues

Continued from page 12

Thompson also pointed out that different people will have different wishes about how they want to spend the last moments of their lives. While most want to be comfortable, she said, others eschew drugs that would enable that, preferring to be fully present for the experience. She added that 90 percent of the people in this country die in a hospital and encouraged all to think about whether that was what they want for themselves.

Although it is inherently common to want to avoid thinking about and preparing for death, Thompson encouraged everyone in her audience to do it because no one knows when death will come. "We're not going to end death, at least not in our lifetimes," she said. "But we can be honest about the subject. We can have conversations. We

can sit our children down. We can sit with each other. We need to ensure that everyone we are responsible for understands this is a natural part of the life experience. We have to make sure it becomes normal."

Thompson concluded by encouraging everyone in her audience to "hold your mortality gently. Know what a gift it is to be here, to sit here, to be with the people you love and care about. The people that work for you and that you work for. And when you have embraced that and the things I talked about earlier, you will be on the road to living life more vigorously, more robustly, more fruitfully. And less fearfully, and less concerned about the eventuality of our mortal existence." **SVIA**

A 20 Year Perspective on Stable Value

By Randy Myers

The 2018 SVIA Fall Forum marked 20 years and one month since Gina Mitchell was hired to serve as the president of the Stable Value Investment Association.

To say the two decades since her appointment proved eventful would be an understatement.

During that period, the stable value industry had to work through multiple market upheavals, including the dot-com stock market crash of the early 2000s, the oil spike in 2008, and the credit crisis that same year, which cratered stock prices and provoked the worst recession since the Great Depression. The industry also endured an ever-shifting regulatory environment that included potential challenges to stable value's book-value accounting treatment, the quashing of the fledgling market for stable value mutual funds, and the development of Qualified Default Investment Alternatives for defined contribution plans. That development contributed to the siphoning of assets away from stable value funds—and many other DC plan investment options—into target-date funds. Finally, for nearly the entire 20-year period, interest rates were in a long secular downward trend that steadily pared the crediting rates stable

value providers could offer on their products.

Through it all, Mitchell and her colleagues on the SVIA board, and throughout the association's membership ranks, steered a steady course. The net result? Stable value remains a core portfolio holding for millions of American retirement plan participants. By the second quarter of 2018, assets invested in stable value products had climbed to \$758 billion, according to SVIA research, up from \$222 billion in 1999, (Mitchell's first year at the association).

Reviewing those figures at the opening of the 2018 Fall Forum, SVIA Chairman Stephen Kolocotronis, associate general counsel for AIG Institutional Markets, noted that stable value assets today account for about 10 percent of all defined contribution plan assets, up from 8 percent in 1999.

"We have been very successful at many things," Kolocotronis said as he helped Mitchell open the conference. Then, turning to Mitchell, he continued, "And if you want to boil it down to one reason, she is standing right there." **SVIA**