

RETIREMENT TIMES

NEWS AND UPDATES FOR RETIREMENT PLAN SPONSORS & FIDUCIARIES

DECEMBER 2018



FROM SIKICH!

On behalf of everyone at Sikich, I want to wish you joy and happiness during this special season. Thank you for choosing us to be your dedicated retirement plan advisor. This year we certainly saw plenty of activity in the retirement plan landscape — the end of the DOL's Fiduciary Rule, new ruling on hardship distribution rules and litigation against plan fiduciaries. We look forward to 2019 and continuing to keep you abreast of current events within the industry. We are extremely proud to be your retirement plan advisor, protecting you as a fiduciary and helping your plan participants prepare for a meaningful retirement. Congratulations for all you accomplished in 2018.

As we do each December, this month's Retirement Times highlights excerpts from issues published this year. Please contact us with any questions or feedback; we look forward to serving you in 2019 and beyond!

*Warmest Regards,
Joe Connell*



WEATHER OR NOT, **STAY INVESTED**

Last year was one of the strongest years on record for hurricanes in the Atlantic region of the United States and among the costliest of seasons on record, with preliminary estimates totaling over \$200 billion. This is the second largest season in damages since 1900, with 2005 having a slightly higher total (Hurricane Katrina).¹ For those not directly affected by the hurricanes or other extreme weather events, some often wonder how it might affect them indirectly, via their investments. Article upon article is quickly spewed out, some with catchy titles that contain minimal factual content (example: "Investors Brace for Hurricane Irma"). While these articles succeed at garnering clicks, they can also lead investors to act irrationally, thinking they can time the markets or shift investments due to pending storm damages.

Thankfully, there exist some helpful studies that show how markets react to these extreme weather events. The first, from Ishuwar Seetharam at Stanford University, shows that natural disasters do have a small effect on companies who are directly exposed.² He looked at over 30 years of data, spanning the top 122 natural disasters. From a timing perspective, the largest effect occurs five days preceding the event to 20 days following. Though this may seem like a no-brainer, other variables can surface which help drive this effect in either direction. For example, if a company has different business lines, or is spread around multiple geographies (to name a few), this can add to or mitigate potential losses.

Diving deeper into the markets by industry, Dubravko Lakos-Bujas, from JP Morgan's U.S. Equity strategy team, claims that



distributors and construction materials are the top beneficiaries from hurricanes, while energy and insurance companies fare the worst.³ He arrived at these conclusions by looking at all of the major hurricane landfalls since 1995. As for the overall market, the losses from hurricane damage tend to revert back to normal levels due to ensuing increases in public and private spending.

¹ <http://time.com/4952628/hurricane-season-harvey-irma-jose-maria/>

² https://web.stanford.edu/~ishuwar/Disasters_Stocks_Current.pdf

³ <https://www.marketwatch.com/story/what-history-says-about-hurricane-irma-and-the-stock-market-2017-09-08>

Weather or Not, Stay Invested cont...

Despite a lack of strong evidence from the two studies above, there is another idea that comes from no closer than that of left field, albeit from a highly respected individual. Robert Bruner, dean emeritus and current professor of the University of Virginia's Darden School of Business, believes that Hurricane Katrina (2005) triggered the 2008-2009 financial crisis.⁴ Like a domino effect, Katrina caused significant damage to housing in the Gulf Coast states, which then triggered credit card delinquencies, and then sub-prime mortgages fell after that. He also claims that other market downturns were triggered by natural disasters, notably referencing the Mississippi flood of 1927 eventually triggering the Great Depression.

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One major lesson learned in investing is that you cannot immediately discredit an idea, no matter how unusual it might be. Professor Bruner's claim might sound strange, but perhaps the overarching claim pertains to vulnerability. Some companies, countries and geographic regions are prepared and built to withstand a natural disaster, either physically, financially or some combination of the two. Both studies above show that certain companies and industries can immediately be affected (via-the stock market) if they are not prepared. Also, keep in mind that a particular company's preparedness (or lack thereof) can already be priced into the market. The long-term effects, though intriguing, are very difficult to assess because they seem tangential (i.e. hindsight is 20/20).

If conducting the research on affected companies and industries while also factoring in investor sentiment seems daunting, we believe it is best to remain diversified and hold for the long-term.

⁴ <http://www.cityam.com/277606/floods-hurricanes-and-earthquakes-triggers-financial-crises>

EXCHANGE YOUR OLD RETIREMENT SOLUTIONS FOR NEW ONES

What is an Exchange?

An exchange is a turnkey solution for businesses that allows you to provide the benefit of a retirement plan while offloading some of the administrative and fiduciary responsibilities at a potential cost reduction. A team of professionals work together on your behalf, so you can focus on running your business, not your retirement plan.

Retirement Readiness

An exchange is a great way to help your employees reach retirement readiness by providing them with a savings vehicle like a 401(k) plan, but with less administrative burden and by transferring certain risks.

Fiduciary Risk Mitigation

The fiduciary has a legal obligation to carry out its plan responsibilities with prudence, good faith, honesty, integrity, service and undivided loyalty to beneficiary interests – in this case, retirement plan participants. When joining an exchange, a fair amount of fiduciary responsibility is taken off your hands.

Administrative Relief

Employers oftentimes don't have the resources to effectively manage the complex requirement of administering a qualified retirement plan. With an exchange all plan administrative duties can be outsourced – a benefit typically only available to very large companies.

Cost Effectiveness

There's strength in numbers. By teaming up with other businesses in an exchange, you can benefit from economies of scale and seamless processing that help reduce the costs associated with operating and maintaining a retirement plan.

For more information on exchanges, please contact Joe Connell.



HEY JOEL! *Answers from a recovering former practicing ERISA attorney*

Welcome to **Hey Joel!** This forum answers plan sponsor questions from all over the country by our in-house former practicing ERISA attorney.

QUESTION: *Should I distribute the Fiduciary Investment Review to plan participants?*

– Generous in Georgia

ANSWER:

Dear Generous,

I appreciate your desire to provide detailed information to your plan participants, but hold your horses. While there is nothing legally preventing the sharing of the Fiduciary Investment Review (FIR) with participants, we do not recommend it and, in fact, strongly discourage it. The FIR is designed for delivery to fiduciaries, not participants. This is not only because the fiduciaries are more sophisticated but because the report is better understood (I would even say, only understood) when presented/explained by an advisor that knows the data. The average participant may be alarmed by watch listed funds and take inappropriate action (i.e., remove them from his/her portfolio when that's not the recommendation.) Further, we fear that participants will move all their money into the funds

scoring 9 or 10 and as you can imagine, doing so would ignore the critical strategy of diversification. Instead of sharing the report itself, I always recommend an employee communication from the plan sponsor. Something like – “Hey employees, the company has met with our plan advisor to review the plan investments and all is doing great. We take the monitoring seriously, we do it regularly and will let you know when/if a change is needed... Until then, don't forget to join, increase your deferral, diversify, etc, etc.” No need to create alarm unnecessarily.

Always here to **give** advice,

Joel Shapiro

If you have a question for Joel, please send it to your plan advisor, Joe Connell, joe.connell@sikich.com. It may be featured in a future issue!

About the Author, Joel Shapiro, JD, LLM

As a former practicing ERISA attorney Joel works to ensure that plan sponsors stay fully informed on all legislative and regulatory matters. Joel earned his Bachelor of Arts from Tufts University and his Juris Doctor from Washington College of Law at the American University.



SIKICH RETIREMENT PLAN SERVICES*

Mutual funds are sold by prospectus only. Before investing, investors should carefully consider the investment objectives, risks, charges and expenses of a mutual fund. The fund prospectus provides this and other important information. Please contact your representative or the Company to obtain a prospectus. Please read the prospectus carefully before investing or sending money. The target date is the approximate date when investors plan on withdrawing their money. Generally, the asset allocation of each fund will change on an annual basis with the asset allocation becoming more conservative as the fund nears target retirement date. The principal value of the funds is not guaranteed at any time including at and after the target date.

* Investment advisory services offered through Sikich Financial, an SEC Registered Investment Advisor.

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OUR EXPERTS



JOE CONNELL
AIFA®, QPFC, CRPS®, RF™
PARTNER
T: 763.445.2632
E: joe.connell@sikich.com



WAYNE BACA
ARPC, RF™, CHSA®
CLIENT SERVICES MANAGER
T: 763.445.2638
E: wayne.baca@sikich.com