

# INNOVIEWS

A quarterly newsletter for retirement plans by  INNOVEST

SPRING 2020

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## NEW CLIENTS

Brown and Caldwell

Adams County

Town of Gilbert

*It is not known whether the listed clients approve or disapprove of the services provided. The new clients on page one are listed with their approval and permission.*

# GUIDING DISCIPLINES DURING HEIGHTENED UNCERTAINTY



**Scott Middleton, CFA, CIMA®**  
PRINCIPAL AND DIRECTOR

Uncertainty has gripped the global markets and economy in recent weeks. The personal and economic risks of COVID-19 were unforeseeable just a few months ago, and the range of potential outcomes from this crisis remain very wide. Our hearts go out to those whose health, employment, businesses, and families have been impacted by these recent events.

It is very difficult to anticipate how you will respond to risk. If you asked investors three months ago what they would think of a 30% market decline, most would have said: "I love bargains. I will buy stocks if that happens!" But it was easier to say it then than to have done so recently, because three months ago you probably could not envision your family's health being in jeopardy or that the

economic fallout could endanger your job security or your business.

Recent events have reminded us that no one can predict the future with certainty. Prudent investors acknowledge in the midst of adversity that matters very well may get worse. As financial writer Morgan Housel recently reminded investors, "Uncertainty shrinks your field of vision at the worst time. When the world changes in a 24-hour period it becomes hard to think more than 24 hours ahead." It is ironic that long-term thinking becomes most powerful when everything around us is falling apart. The majority of long-term investment results are determined by decisions made during a small percentage of the time, and the first few months of 2020 have been one of those times. The results are usually tragic when long-term investors become short-sighted in the midst of a crisis. Selling assets once they have already fallen in value is the classic and most destructive aspect of

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having become short-sighted.

Another sign of investors losing their long-term focus is decision-making paralysis. Steep drops in the financial markets are often accompanied by the financial news going from bad to worse. The crisis has no end in sight. At such times investors can become strongly averse to rebalancing their portfolios and buying assets at depressed prices. This paralysis can be a sign of surrendering to the fears of being ridiculed (by oneself or others) and possibly suffering even greater financial losses in the near term.

For investors who have either sold after incurring significant losses or who have become paralyzed, the disingenuous solution can present itself as waiting to feel better about investing. The vast majority of investors think it is a good time to invest only after prices have risen for a time and have already experienced good upside momentum. However, waiting for better news means passing up the most attractive bargains and likely missing out the most powerful stock market gains. The results are significantly diminished long-term gains.

Innovest is nearly 25 years old and has weathered many markets. As follows are the key disciplines that have served our clients through all markets, especially in challenging times.

1. A long-term approach: History has proven that the most prudent way to invest is to maintain your focus on the long term. Inevitably volatile markets will test investors' risk tolerance and patience. Taking a long-term approach allows investors to avoid the temptation to try to time the market and to instead focus on market fundamentals in order to generate the long-term returns.
2. Diversification: Our strategic asset allocation process is designed to weather all market environments through quantifying risk and diversifying among and within asset classes. The S&P 500 was down 14% in the fourth quarter of 2018. However, in calendar year 2019 the S&P 500 posted a gain of 31%. In all market environments, a prudent allocation to less-correlated asset classes help to reduce the volatility of returns over the long term.
3. Rebalancing your portfolio: We believe that periodic rebalancing during times of market dislocations is a key way to manage the long-term risk of your portfolio. What rebalancing means during stock market corrections and bear

markets is trimming positions that have performed well, such as bonds, and adding to positions that have become cheaper in price, notably stocks. Portfolios that are not rebalanced will have their lowest exposure to growth assets at the bottom of the market, just as it begins to rebound. If markets turn down again after rebalancing, we rebalance portfolios again. Rebalancing has been a best practice for institutional investors for decades, and we are confident that rebalancing works well for all investors.

4. Tax management: For our taxable clients, we harvest losses to offset future realized gains. We sell investments trading at a loss and immediately replace that position with a similar asset in the same asset class to stay fully invested. Harvesting losses as they become available is an effective way to improve portfolios' long-term tax efficiency.

5. Opportunities: During times when markets are hit hard, new investment opportunities are uncovered through rigorous due diligence. Creating an allocation to some of these areas may make sense for patient, long-term investors.

In summary, it might look bad today, and it might look bad tomorrow. But hang in there and embrace the disciplines that have endured over time.

We will get through this together. ▼

“The future is never clear; you pay a very high price in the stock market for a cheery consensus. Uncertainty actually is the friend of the buyer of long-term values.”

— Warren Buffett

**Innovest strives to provide great service to our clients, especially during times of volatility. In the last several weeks, we've produced a number of materials to advise our clients as they deal with the repercussions of COVID-19. Our team is also working at full capacity and able to serve your needs. As always, we appreciate your continued confidence in Innovest, and please do not hesitate to reach out with any questions.**

# SECURE IN OUR THINKING



**Troy Jensen, QKA, APA**  
VICE PRESIDENT



**Marianne Marvez, RPA**  
VICE PRESIDENT & DIRECTOR

In the waning weeks of 2019, a great deal of speculation centered on whether the long-discussed SECURE Act would reach a vote in the Senate before the end of the legislative calendar. The largely nonpartisan bill passed with a 417-3 vote in the House in May, and similarly broad positive regard from those in the Senate pointed to a forgone conclusion to the years of work undertaken to get it there.

As months ticked away and a looming Presidential impeachment trial took focus, however, inevitability began to feel more like impossibility. There was brief hope that SECURE might be passed by unanimous consent, avoiding the time-consuming requirement for floor debate, but that hope was dashed by three Senators who wanted to amend the bill's language with their own loosely related insertions. Odds of the new retirement rules being passed rapidly faded.

By mid-December, that meandering path changed again: a surprise addition to a \$1.4 trillion Congressional appropriations bill incorporated all SECURE's provisions into a mostly unrelated spending measure that needed to pass to keep our government funded. With that legislative sleight of hand, the Act was thereby ratified and signed into law by the President on December 20th.

Legislative machinations notwithstanding, the "Setting Every Community Up for Retirement Enhancement" (SECURE) Act will affect both retirement plan and individual estate planners alike. Understanding how the new rules affect each of us will be important in the years to come.

## **Stretched: Out**

On the individual side, the most palpable impact will be an end to what has become known as a "stretch IRA" provision. Tax law previously allowed non-spousal beneficiaries of inherited Individual Retirement Accounts to distribute those assets over their lifetimes. The new rule will eliminate that option, now requiring the balance to be distributed within ten years. Spouses and disabled beneficiaries are exempted from the 10-year requirement, but the rest of us will need to

comply or alter any plans to use an IRA as a form of mitigating taxes in inheritance. A qualified estate planner or investment advisor can suggest other means to plan for and manage wealth transfer, so it might be a good time to evaluate your strategy in light of the new restrictions.

The SECURE Act also gives a nod to our increased life expectancies by raising the age at which required minimum distributions (RMDs) must begin. Long triggered by a taxpayer reaching age 70 ½, the new RMD begin date is set to age 72 for those who haven't already begun required distributions by the end of 2019. Applicable to both retirement savings plan accounts and individual retirement accounts, required minimums are determined by your balance as of December 31st of the prior year and your life expectancy as determined by IRS actuarial tables. Most account custodians will help in this calculation each year it applies, and a trusted advisor can help you plan around the income and tax considerations specific to your circumstances.

On the flip side, SECURE also allows retirement savers to continue contributing to their traditional IRA past age 70 ½, so long as you are still working. This change more closely approximates the same provision already in place for employer-sponsored retirement plans and Roth IRA's.

Additional individual benefits include a new exception to early-withdrawal penalties for new parents who incur adoption or childbirth expenses. Up to \$5,000 can be taken from your retirement account – plan or IRA – for these expenses without incurring the usual 10% penalty for doing so before age 59 ½. Less directly related to retirement saving, but nonetheless part of the overall budget picture for many, SECURE also adds a provision to allow up to \$10,000 to be withdrawn, tax-free, from qualified 529 plans for repayment of student loans. This one is retroactive to 2019. We recommend you consult with your account provider or tax advisor to determine your eligibility and other implications.

## **Employer Plan Changes**

Plan sponsors and retirement savers who benefit from an employer-sponsored 401(k) and certain other plan types are also affected by the new law. The provisions expand automatic contribution escalation caps from 10% to 15%, allowing employers to proactively prod employees to save more. Rules around adding (and less so, removing) Safe Harbor employer contributions are also adjusted to allow more flexibility. Additional language opens the path to adding

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in-plan annuity investment options and will (eventually) help make those options more portable. And a new required disclosure in participant statements should help individuals better understand how their retirement account balance might translate into a monthly income in retirement.

#### Small Businesses and Part-timers Invited to the Party

Part of the Act's intent was to allow and encourage more individuals to start saving for retirement in a tax-advantaged way. Credits and tax incentives have been added and expanded for small employers to defray the cost of setting up and offering a retirement plan to employees. Further credits are offered for the first three years if the plan includes automatic enrollment.

While not true of all retirement plans, many haven't previously allowed part-time employees who work less than 1,000 hours to become eligible, leaving a significant portion of workers without a key employment benefit. The new requirement obligates employers sponsoring a 401(k) plan to allow anyone who works at least 500 hours in three consecutive years to participate in their plan. Collectively bargained (union) plans are excluded from this requirement. Additional flexibility is added for loosely or unrelated employers wanting to share in a joint retirement plan offering. Without getting too far into the details, such Multiple

Employer Plan (MEP) and Pooled Employer Plan (PEP) offerings may offer another avenue for employers who might not otherwise be able to provide a retirement plan to their workforce. Details of how these arrangements will operate have yet to be ironed out, but we can expect the Department of Labor to eventually clarify the specifics.

#### Late Filing Will Sting

While not a new imposition, the existing late- and non-filer daily and maximum penalties that can be assessed by the IRS are increased substantially, some by ten-fold. Form 5500, 8955-SSA, and 1099 requirements now carry a much higher cost when missed or delayed, so plan sponsors should ensure they and their providers remain compliant. The DOL's penalties for the same infractions remain unchanged.

#### More to Come—pliance

While the enhancements of the SECURE Act are generally a welcome, pragmatic change for plan sponsors and retirement savers, the rush to get it passed leaves the more practical considerations not completely settled. The IRS and DOL will be providing additional guidance in the months and years to come. As always, Innovest remains committed to guiding you through these and other regulatory changes, and we welcome you to contact us for help in charting your investment path. ▼

# TARGET DATE FUNDS



**Gordon Tewell, CFA, CPC, ERPA**  
PRINCIPAL



**Kristin Lee**  
SENIOR ANALYST

The recent passing of the Secure Act has paved the way for increased utilization of lifetime income options. The Act allows plans to include lifetime income portability provisions

and to establish a fiduciary safe harbor for the selection of lifetime income providers.

A February 6, 2019 report from the Government Accountability Office (GAO) on retirement security reiterated five policy goals the GAO published in a 2017 report about reforming the U.S. retirement system. The GAO noted that current plans did not provide sufficient tools to aid retirees in the spend down of their savings, including the absence of lifetime income options in most defined contribution plans. Even with new Secure Act provisions, the industry has far to go to create effective income solutions for participants.

As expressed by participants, an ideal income solution will allow them to spend on a consistent, predictable basis without fear of running out of money or market losses changing their ability to spend. Solutions currently available to participants typically involve an insurance component. Issues exist with these products, including the fact that many have features that are only supported by a small number of investment platform providers, they are expensive and they can be complex.

With defined contribution (DC) plans, responsibility for planning and managing retirement savings has shifted from employers to employees. As participants in DC plans near retirement they are required to continually make complex financial decisions; decisions which require financial literacy and that will have significant consequences for their financial security throughout retirement.

To make early-career decisions easier, the approach for DC plans has been to put automatic feature systems in place. DC plan sponsors have encouraged participation in their plans by adopting auto-enrollment and encouraged increased deferral rates by adding auto-escalation. From an investment perspective, the default investment option is one of the most direct ways plan sponsors can impact retirement readiness for their employees.

These features will, hopefully, lead future retirees to the levels of savings necessary to fund longer retirements. Even with automatic features, it is probable that many retirees will need to consume all their retirement savings as efficiently as possible or be forced to make changes in their lifestyle.

Prior to the Pension Protection Act of 2006 (PPA), employers sought to minimize fiduciary liability for their plan's default investment options by making the default option one that would be less likely to lose money – typically a stable value fund or a money market fund. While money market funds offer less risk, there is a lesser chance of participant's money growing to an appropriate amount needed by retirement. The PPA reformed policies like these by allowing safe harbor for default options that have a more balanced approach to capital preservation and capital appreciation. Thus, the balance fund, managed account, and target date funds became commonplace for the default investment option.

The stakes have never been higher to assist those nearing retirement and for DC plans to create successful retirement outcomes for their participants. This will require efforts across plan design, investment design, and education and advice.



Target date funds were introduced in the mid-1990's and introduced the "glide path," which automatically adjusts the asset mix over time as the fund approaches its target date, making the asset allocation appropriate for every participant. This relatively simple, low-maintenance concept has been a hit with DC plan sponsors due to their one-size fits all structure.

Target date funds are uniquely positioned to adopt the goal laid out by the GAO of aiding retirees in the spend down of their savings creating a lifetime income option. From a behavioral standpoint, participants are already familiar with target date funds, associate the target date with their retirement date and expect the fund to be a source of retirement income.

The creation of an income solution within target date funds will solve many issues. If a method for providing an income solution can be entrenched into target date funds, participants may accept it as a natural extension of the career-long investment management the funds already provide. Inserting an income solution into a target date fund will also help the plan sponsor making it simpler to incorporate an income solution option into their existing menus and creating scale for institutionally priced income. The adoption might also address what has been an issue for current in-plan income options which is that of participant utilization. In many plans which have adopted an income solution option utilization has been quite low.

We don't claim to know how an income solution option will be integrated into target date funds, but we believe it is consistent with the evolution of DC plans. The focus of the retirement industry has evolved to improve accumulation and has now turned its focus towards income and decumulation and the next development will likely be a change in creating retirement income. ▼

# HELPING SCHOOL EMPLOYEES REACH THEIR GOALS



**T.J. Berge, QPFC, CFP®**  
SENIOR LEAD ANALYST

As retirement plan fiduciaries, you want to offer a plan that helps the participants achieve their retirement goals. You also want to be sure that participants are educated regarding their financial well-being, remaining sensitive to the cost and value of included services and features. The case study below demonstrates how Innovest helped a school district improve their retirement plan offering to meet their participants needs.

## Situation

Innovest was retained by a large school district to evaluate their current 403(b) plan design and system. The district's main funding vehicle was a statewide defined benefit (DB) plan. The plan included six different 403(b) providers with a total of \$41 million in plan assets and 1,800 participants. Across these six providers were a total of 481 proprietary investment options. The district recognized that the DB plan alone would not translate to a successful retirement for their staff.



## Challenges

The first challenge facing the district employees was choice overload. Innovest determined that a participant would need to make about 521 possible decisions before they even put one dollar in their voluntary/supplemental plan. Behavioral finance experts hold that the more decisions individuals have to make, the less likely they are to act. In this context, that means employees are much less likely to participate in a voluntary plan, deterred by too many options.

The second challenge was that the current plan did not offer sufficient retirement income. The present system led to a 16% salary shortfall (assuming an 80% income replacement target). That shortfall needed to be made up with a voluntary plan.

## Actions

To address the issue of choice overload and to potentially reduce costs and improve investment performance, Innovest recommended that the district undergo a Request for Proposal process.

## Results

The RFP process led the district to move to a single 403(b) provider with a high quality, low cost, non-proprietary investment menu. The price reduction for both administrative and investment fees resulted in an projected annual cost savings to participants of \$375,000.

Quality of the education provided to participants was also greatly improved. Rather than being motivated by potential sales, the provider became an advocate for participants, helping them work toward their retirement goals.

Administrative overhead for both human resources and payroll staff and school principals was dramatically reduced as well. The changes also increased enrollment in the plan by 26% year over year, a direct measure of the impact of paring down the overwhelming number of investment choices and providing an understandable menu of options. ▼

**At Innovest, we make retirement work by delivering custom retirement plan solutions, fiduciary guidance and uncommon service so you can do what you do best.**

# GARRY BEAULIEU

## Where is your hometown?

Manchester, NH. But if you ask me where I am from I will always say Boston because I lived there and I talk like I still do.

## Tell us something unique about you:

I worked at Price Club (now Costco) for a couple of years and learned how to drive a forklift. Every time I see a forklift I have the urge to jump on and take it for a spin and put some pallets up on a rack.



## What do you like best about working at Innovest?

I love our independence and the amazing people who work here. Having come from a background working for large trust banks I never knew what being independent and truly client focused meant. I do now and cannot think of another way I would work in this industry.

## How do you give back to the Community?

I am quite active in the non-profit community at the board and volunteer level. I work with the Food Bank of the Rockies, Children's Hospital Foundation and Wounded Warriors. I enjoy volunteering at the Food Bank and Rescue Mission.

## What are your hobbies and interests?

I am a big fly fisherman. I love to travel and I love the ocean. However, I am a poor swimmer and have a deep fear of being attacked by a shark while I body surf the waves. I have also become a bit of a wine snob the past few years and travel to a wine destination every year.

## Tell us about your family:

I have a 20-year daughter, Maddie going to school at UNC in Greeley. I have a 17-year-old son, Cam who is a junior at Grandview High. My partner, Elizabeth is an attorney and partner at Snell and Wilmer focusing on employment law. Elizabeth has a 21-year-old son, Ben going to school at Montana State. She also has an 18-year-old daughter, Elyssa who is a senior at Colorado Academy and just committed to Oklahoma. We are now reluctant 'Sooners'. We have a three-year-old sausage of a French Bulldog named Jimmy Dean.

## What is your favorite ice cream flavor?

Mint chocolate chip...is there another flavor? ▼

## RICH TODD'S QUARTERLY QUOTES

"The future is never clear, and you pay a very high price in the stock market for a cheery consensus. Uncertainty is the friend of the buyer of long-term values."

—Warren Buffett

"Caring is the gift of making the ordinary special."

—George R. Bach

"The only thing we have to fear is fear itself."

—Franklin D. Roosevelt

"You will never reach your destination if you stop and throw stones at every dog that barks."

—Winston Churchill

"Everything worthwhile is uphill. Problem is that most have a downhill habit."

—John Maxwell

"Winners keep score."

—Brian Allen

**Richard Todd is the CEO and Co-founder of Innovest Portfolio Solutions.**



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# AROUND THE FIRM

### Conference and Speaking Engagements:

Innovest co-sponsored the 20th annual Rocky Mountain Nonprofit Conference on March 4th! More than 100 attendees enjoyed sessions including Nonprofit Effectiveness in Today's Environment, Considerations for SRI, ESG and Divestment and Cybersecurity. This year's event, held at CU Denver South, featured a charity activity and a delicious Mediterranean lunch. If you would like access to the presentations, please email [kjames@innovestinc.com](mailto:kjames@innovestinc.com).

On February 11th, CFOs, Plan Administrators and Plan Committee Members gathered to learn about Plan Leakage, Cybersecurity, and Emerging Issues in the Qualified Retirement Plan arena, as a part of Innovest and Eide Bailly's half day educational event.

### Featured in:

BenefitsPro published Vice President Marianne Marvez's article "What You Need to Know About Student Loan Programs and Consolidation."

Innovest was recently named a Top DC Advisor Team by the National Association of Plan Advisors.

### Celebrations:

Vice President, Chris Meyer and his wife, Kathryn welcomed their fifth child, a baby girl named Caroline in January.

Analyst Zach Heath passed the CFA Level I exam, which is one of the key requirements toward earning the highest distinction in the investment management profession. He also closed on his first house in March.

Jana VanGyteenbeek, Office Manager Carol VanGyteenbeek's daughter, was named Gatorade Player of the year. Her team, the Creek Bruins, made it to the 5A state basketball championship before the tournament was cancelled.

Megan Pohls and Alexa Dominguez, both daughters of Innovest employees, made it to the 4A State Basketball Championships before the tournament was cancelled.

### Giving Back:

This quarter, Innovest employees participated in mock job and scholarship interviews at Arrupe Jesuit High School.