Fiduciary Commentary

Fall 2018

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IRS Announces 2019 Cost-of-Living Adjustments

On November 1, 2018 the IRS announced this year's retirement-related cost of living adjustments.

Plan Limitations	2019	2018
401(k) / 403(b) Salary Deferral Limit	$19,000	$18,500
Age 50 Catch-up Contribution limit for 401(k), 403(b) and 457 Plans	$6,000	$6,000
Maximum Compensation Limit	$280,000	$275,000
Social Security Taxable Wage Base	$132,900	$128,700
Individual Retirement Accounts		
IRAs for individuals age 50 and below	$6,000	$5,500
IRAs for individuals age 50 and above	$6,500	$6,500
Highly Compensated Employees		
Compensation in excess of:	$125,000	$120,000
Top Heavy / Key Employees		
Officer having greater annual compensation from the employer greater than:	$180,000	$175,000
415 Limits		
Defined Benefit Plan dollar limit:	$225,000	$220,000
Defined Contribution Plan dollar limit:	$56,000	$55,000

Collective Investment Trusts

Collective Investment Trusts (CITs) have experienced rapid growth in retirement plans. The recent increase in CIT assets have been significant, rising from $1.9 Trillion at the end of 2015 to an estimated $3.1 Trillion today. CITs are pooled investment vehicles operated by a bank or trust company for use in ERISA plans, as well as for certain types of government plans. Target-date funds (TDFs) have been the dominant offering for these investment products. In fact, as of 2017 approximately 40% of 401(k) plan CIT assets were used for the TDF offerings. This rapid growth in market share has come at the expense of mutual funds – the long standing dominant defined contribution plan investments.

The appeal of CITs is justified. Investment trusts can cost significantly less than the mutual funds that they are often modeled after. In addition, there are some inherent structural advantages of CITs. The products do not have many of the same investment restrictions of registered mutual funds. For example, CITs can utilize higher yielding stable value investments, whereas mutual funds must invest in lower yielding money market instruments for liquidity. Also, as CITs are exclusively used in retirement plans, they don't need to maintain the same level of cash to meet redemption requests as retail mutual funds. This frees up CITs to invest assets more fully in the securities of the asset class they are pursuing.

However, CIT’s cost advantage over mutual funds may be diminishing, as the mutual fund industry responded to the familiar objection of high costs by increasing their share class offerings to include more institutional and zero-revenue share classes. With these new options, the cost advantage has contracted to around five basis points today from around ten basis points a decade ago. Nonetheless, even a small pricing advantage can have a significant impact on returns during a participant’s lifetime savings.

Plan fees have been a principal fiduciary concern over the last decade. With the plan fee reduction movement showing no signs of waning, CITs are expected to experience continued growth in retirement plan market share. While offering similar benefits to mutual funds at generally lower costs, CITs can provide an attractive option for fiduciaries to fulfill their continual duty to monitor investments and fees for the best value.