Radio 85

# IBM leaving 401k going back to Defined Benefit Plan

# Transfer of wealth: More last year from inheritance than earnings

# How to ask boss for earnings to keep pace with inflation

# Chicago Firefighters pension earned negative 14.2% last year

# Gen z (45-59 year olds) planning on ZERO social security

# Rush to annuities, is this safe?

# Snowplowing Financial Parents.

# IBM to end 401(k) match, offering a hybrid plan. Other firms can’t ‘pull off this type of change,’ expert says

**KEY POINTS**

* IBM is switching from a 401(k) match to a traditional defined benefit contribution.
* Companies considering creating a similar plan would need to have a comparable structure to what IBM has built over the years.
* Under the new plan, employees will get a guaranteed rate of return, but one that could be much lower than what they could get investing the money more aggressively.

IBM, which decades ago helped lead the shift from defined benefit plans to defined contribution plans, recently told U.S. employees it will be scrapping its [401(k) match](https://www.cnbc.com/2023/11/30/dont-make-these-common-401k-plan-mistakes.html) in favor of funding what it calls a “retirement benefit account.”

Starting next year, [IBM](https://www.cnbc.com/quotes/IBM/) will no longer provide a 5% match and a 1% automatic contribution into an employee’s 401(k). Instead, effective Jan. 1, the company will put 5% into the RBA, essentially a pension plan that will pay 6% interest through 2026. After that, the RBA will earn a rate equivalent to the 10-year U.S. Treasury Yield, with a 3% per year minimum through 2033.

**IBM says the change adds a stable and predictable benefit to employees and helps diversify their retirement portfolios.**

“Under the plan, IBM bears 100 percent of the risk and must be prepared to pay the benefit at time of employee separation,” IBM said in a statement.

It’s unlikely to start a trend, however.

To make a similar move, experts say a company would have to already have a traditional defined benefit pension plan in place, and it would have to be overfunded and not be affiliated with a union.

“Other companies may not have structure to pull off this type of change,” said Craig Copeland, director of wealth benefits research at the Employee Benefit Research Institute. “IBM was in a really good situation to do it.”

## IBM change makes use of a $3.5 billion surplus. “Big Blue,” as IBM was once known, has a long history of changes to its retirement plans.

**In 1984, it was among a wave of large companies that began offering 401(k) plans. By the 1990s, its pension plan was cut back, then closed to new participants in 2006 and frozen in 2008. Some employees opposed the change, filing a lawsuit. In 2005,**[**IBM settled some claims**](https://www.nbcnews.com/id/wbna6134119) and won on appeal for the rest.

**Last year, IBM transferred $16 billion worth of pension liabilities to insurance companies Prudential and MetLife. The company had a $3.5 billion surplus in its plan, according to the company’s annual report.**

Restructuring the retirement plan gives IBM the ability to use those surplus pension assets to fund its match.

“What’s interesting about what IBM is doing is they’re thinking about maybe there’s a more efficient way to capture those assets,” said Jonathan Price, a senior vice president and the national retirement practice leader at Segal, an HR management consulting firm. “They’re taking a slightly more nuanced approach than what we might have seen a few years ago and what we still might see other employers choose to do in the future.”

## What the change means for employees

For employees, IBM’s change is a mixed bag. Even employees who are not contributing to the 401(k) plan will get a defined benefit and the option for a lifetime annuity payment. But younger employees and those who make significant contributions in the plan are likely to find the set returns will limit potential upside.

“Six percent sounds nice for 2024-2026, but after that, yields could be as low as 3%,” said Brandon Gibson, a certified financial planner and founder of Gibson Wealth Management in Dallas. He says a 6% to 7% annual return is a reasonable goal that can be reached with a mix of equities and fixed income.

CFP Jack Heintzelman, a financial adviser with Boston Wealth Strategies in Needham Heights, Massachusetts, says plan participants should consider the allocation of the rest of their 401(k) assets since the match is going into a highly conservative investment.

# UBS Billionaire Ambitions Report 2023: The great wealth transfer

# <https://www.ubs.com/global/en/media/display-page-ndp/en-20231130-the-great-wealth-transfer.html>

# “This year’s report found that the majority of billionaires that accumulated wealth in the last year, did so through inheritance as opposed to entrepreneurship. This is a theme we expect to see more of over the next 20 years, as more than 1,000 billionaires pass an estimated USD 5.2 trillion to their children,” said Benjamin Cavalli, Head of Strategic Clients at UBS Global Wealth Management.

# “The next generation has fresh views about business, investing, and philanthropy, redirecting large pools of private wealth to new business opportunities arising from the times we live in. Engineering a smooth succession will require founders and their families to do things differently, more than ever discovering common values and purpose to navigate a way forward that appeases all generations and allows them to continue building their legacies,” Cavalli added.

Changing of the guard

After a surge in entrepreneurial activity over the last few decades, this year’s report found that many billionaires are passing their wealth on to the next generation and for the first time in nine editions of this report, the next generation of billionaires accumulated more wealth through inheritance than entrepreneurship. A total of USD 150.8 billion was inherited by 53 heirs over the last year, exceeding the 84 new self-made billionaires’ total of USD 140.7 billion.

As the great wealth transfer progresses, each generation has their own view on legacy. Sixty-eight percent of billionaires surveyed with inherited wealth, said that they aim to continue and grow what their parents achieved in terms of business, brand, or assets. Believing in continuing the current family legacy, 60% of heirs want to enable future generations to benefit from their wealth and plan to continue to follow their parents pre-defined philanthropic goals (32%).

Heirs make their own way

However, heirs are conscious that they may need to reshape and reposition their wealth to continue the family legacy. As they inherit their parents’ businesses, investments, and foundations, heirs look to focus more on today’s major economic opportunities and challenges, such as innovative technologies, the clean-energy transformation and impact investing. First-generation billionaires are aware of this, with 58% claiming their greatest challenge will be instilling the necessary values, education, and experience in their heirs to take over.

Heirs also have their own views on risks to the business and how they should be positioned for the future. For example, 66% of first-generation billionaires rank a potential US recession as their primary concern, closely followed by geopolitical tensions (62%). In contrast, heirs are concerned about inflationary pressures (57%) and the availability and price of raw materials (52%). However, all agree on the opportunities and risks of generative artificial intelligence (“AI”), with 65% viewing AI as offering one of the greatest commercial opportunities to their operating business over the next 12 months. As technology gains prominence, 58% viewed a cyber threat or hacking as the biggest risk.

When it comes to investing, 43% of first-generation billionaires intend to increase their allocation to private debt over the next 12 months and 38% plan to increase developed market bond holdings. Heirs favor private equity, with 59% looking to raise direct private equity investments and 55% looking to invest more in private equity funds.

Among billionaire heirs, there is a strong entrepreneurial theme, and many see alternative opportunities to joining the C-suite of the family business. More than half of the 53 heirs surveyed are choosing to step away, opting for careers more suited to their own ambitions, skills, and circumstances. There is also a rise in heirs becoming philanthropists and driving sustainable innovation, creating new business ventures, or building on existing ones with a focus on sustainability and philanthropy.

# Most American workers say wages have not kept pace with inflation

<https://www.investmentnews.com/most-american-workers-say-wages-have-not-kept-pace-with-inflation-246421>

 **Young and low-income** Americans are experiencing inflation at higher rates than other folks, finds a [report](https://link.axios.com/click/33531691.583415/aHR0cHM6Ly93d3cubmV3eW9ya2ZlZC5vcmcvcmVzZWFyY2gvZXF1aXRhYmxlLWdyb3d0aC1pbmRpY2F0b3JzP3V0bV9zb3VyY2U9bmV3c2xldHRlciZ1dG1fbWVkaXVtPWVtYWlsJnV0bV9jYW1wYWlnbj1uZXdzbGV0dGVyX2F4aW9zbWFya2V0cyZzdHJlYW09YnVzaW5lc3M/655d15fcd0e8796faa0e36e3B13596717) out Wednesday from the Federal Reserve Bank of New York, *Emily writes.*

**Why it matters:** Though inflation rates have come down this year, they're still elevated — which especially hurts lower-income Americans, who are far more likely to feel the pain of higher prices.

* As Federal Reserve chair Jerome Powell [said last year](https://link.axios.com/click/33531691.583415/aHR0cHM6Ly93d3cuZmVkZXJhbHJlc2VydmUuZ292L25ld3NldmVudHMvc3BlZWNoL3Bvd2VsbDIwMjIwODI2YS5odG0_dXRtX3NvdXJjZT1uZXdzbGV0dGVyJnV0bV9tZWRpdW09ZW1haWwmdXRtX2NhbXBhaWduPW5ld3NsZXR0ZXJfYXhpb3NtYXJrZXRzJnN0cmVhbT1idXNpbmVzcw/655d15fcd0e8796faa0e36e3B115ceb96), "The burdens of high inflation fall heaviest on those who are least able to bear them."

**By the numbers:**Housing costs — which ran hotter than overall inflation this year — really pinch lower-income and young Americans. Both groups are far more likely to rent than own a home.

* In October, the bottom 40% of income earners experienced inflation rates 0.16 percentage points higher than average, implying a 3.4% inflation rate compared with the 3.2% overall CPI number.
* Households headed by someone under the age of 25 saw a rate that was 0.35 points higher.
* Meanwhile, higher-earning households saw a slightly lower-than-average rate of inflation.

# Chicago Firemen returns -14.2% for fiscal year

# <https://www.pionline.com/pension-funds/chicago-firemen-pension-fund-returns-142-fiscal-year>



Chicago Firemen's Annuity & Benefit Fund posted a gross return of -14.2% for the fiscal year ended Dec. 31, a major setback for the severely underfunded $900 million pension fund.

The pension fund's return fell short of its policy benchmark return of -13.6% for the period, according to an investment report on its website.

The report does not disclose the potential impact on its funding ratio, which was 20.9% as of Dec. 31, 2021, according to its latest actuarial valuation. In the valuation report, actuarial consultant Segal Group said "even under the statutory funding schedule, the funded ratio is projected to remain below 50% through 2041."

[**Compare returns of public pension plans with P&I's Pension Fund Returns Tracker**](https://www.pionline.com/section/returns-tracker)

The statutory city contribution for 2023 is $399 million, which increases to $428 million in 2024 and thereafter will be about 74.5% of total projected payroll on an annual basis.

The firm issued the warning after the pension fund posted a strong return of 11.4% for the year ended Dec. 31, 2021.

For the three, five and 10 years ended Dec. 31, the pension fund returned an annualized gross 3.4%, 4.7% and 7.4%, respectively, compared with their respective benchmarks of 3.9%, 5% and 7%.

For the most recent year, the pension fund's negative return reflected a challenging market environment. For the year ended Dec. 31, the Russell 3000 index and Bloomberg U.S. Aggregate Bond index returned -19.2% and -13%, respectively.

# 4 Ways Gen Z Is Already Planning for Zero Social Security Checks

<https://www.gobankingrates.com/retirement/social-security/ways-gen-z-planning-zero-social-security-checks/?utm_term=incontent_link_10&utm_campaign=1253384&utm_source=yahoo.com&utm_content=13&utm_medium=rss>

The oldest members of Gen Z won’t [qualify for Social Security](https://www.gobankingrates.com/social-security/?hyperlink_type=manual) for another 35 years or so, and a lot can happen between now and then. Although most financial experts say Social Security isn’t going anywhere anytime soon, nearly half of Gen Zers (45%) [believe they “will not get a dime”](https://www.gobankingrates.com/news/?hyperlink_type=manual) of the benefits they have earned, according to a recent survey from the Nationwide Retirement Institute.

These kinds of worries are nothing new; people have fretted over the future of Social Security almost as long as the program has been around. But concerns have intensified in recent years because of a looming funding shortfall tied to the program’s Old Age and Survivors Insurance (OASI) Trust Fund. The fund is [expected to run out of money](https://www.gobankingrates.com/retirement/social-security/social-security-retirees-17400-cut-2033-will-social-security-be-saved/?hyperlink_type=manual) in a decade. When it does, Social Security will have to rely solely on payroll taxes, which pay about 77% of current benefits.

* Take a proactive investing approach by seeking out investment opportunities.
* Consult with professional financial advisors on 401(k)s and other retirement savings plans.
* Explore alternative avenues to financial stability.
* Build up personal savings

Regardless of what lawmakers eventually do, many Gen Zers have already moved beyond the idea that Social Security will serve as a financial cushion in retirement.

“The idea of relying on Social Security feels like a gamble,” Palmer Careen, a 25-year-old recent graduate from the University of Chicago, told Newsweek in an interview. “I’m focusing on my savings and investment plans instead.”

A similar take was offered by 23-year-old University of Illinois student Austin Scarpelli, who told Newsweek he is “already resigned to the fact that Social Security might not be there for us. Hearing about raising the retirement age just adds to my worries.”

With many Gen Zers convinced they will get zero benefits from Social Security when they retire, their focus now is on alternative retirement strategies. Here are the ways they are planning for retirement

# Annuities Are Back In Fashion, But Are They Safe?

<https://www.fa-mag.com/news/annuities-are-back-in-fashion--but-are-they-safe-75523.html?section=153>

**Every time interest rates go up there is a flurry of demand for a product that has been around at least since the Roman Empire—annuities. The insurance industry has already seen rapid growth in annuity sales since 2021 and if rates remain at or move above current levels, demand seems poised to explode.**

There’s been some hand wringing of late about whether annuities could be bad for investors, for insurance companies or even for the financial system. The concerns spring from changes to the structure of the industry and the products themselves.

Private equity firms have gotten into the business, buying public insurance players or starting new private ones, and now represent 10% of the sector. Both new and old **insurance companies are using more leverage and expanding their holdings of exotic assets such as collateralized loan obligations and reinsurance contracts to fund annuities. In addition, insurers are offering greater liquidity to investors,** raising the risk of bank-run-type disasters for the companies.

**All these changes could lead to a race to the bottom where the most aggressive companies offer the highest annuity rates, win a bigger share of new business, chase the riskiest strategies to fund them and, eventually, collapse first.** A big enough collapse could cause systemic problems in the financial system. It’s not clear that state insurance regulators can keep up with the changes.

I’m not going to discuss annuities used by wealthy investors with professional advice for tax savings, estate planning or creditor protection. Those are specialty needs that do not apply to most investors and do not represent a significant share of the annuity market.

The basic annuity of most interest to individual investors is one that is purchased for a lump sum, and makes monthly income payments that rise with inflation, for the lifetime of the beneficiary, with zero value upon death. The amount of income insurance companies offer depends on three main factors: the long-term real interest rate, the life expectancy of the beneficiary, and the amount of investment risk the company is willing to take.

The long-term real interest rate, as measured by the yield on 30-year inflation-protected treasuries, has been rising steadily over the last 18 months from negative values to about 2.5%. This puts many inflation-adjusted life annuities above 4%, the traditional threshold for demand to surge.

That’s because diversified portfolios of stocks and bonds can deliver about 4% while growing with inflation over the long-term, at least they always have in the past. These portfolios are available with zero or near-zero fees, and with high liquidity and flexibility. They generally are worth more, even after inflation, at death than at inception, allowing beneficiaries to help their heirs.

Inflation-adjusted life annuities have to offer higher rates than 4% for most investors to consider paying the often-high fees, while accepting the loss of liquidity and flexibility (as well as the complexities) of many contracts, and the loss of assets that can be passed along to their heirs.

One factor that can go either way is that a portfolio might fail to deliver the 4% above inflation, while the annuity is guaranteed though tied to the insurer’s financial strength. In the kind of market meltdown that might deliver unprecedented long-term losses in stocks and bonds, it’s anyone’s guess whether individual portfolios or insurance companies would fare better.

Insurers offer a few variations beyond real life annuities, but all of these—for example, fixed payments without inflation increases or variable payments tied to market indices—will benefit in the current rates environment; and are facing similar competitive pressures to bring in new customers.

**It’s not just the asset side causing concerns either. Competition has led some annuity companies to offer investors more liquidity and flexibility. While that’s good for customers in the short run, it could introduce the risk of something akin to runs on banks.** If interest rates keep rising, even annuities securely funded with cash-flow matched, high-quality, fixed-income assets could fail. Annuity holders might redeem to get higher rates elsewhere, forcing the annuity provider to sell assets at a loss, imperiling its financial stability, causing more annuity holders to redeem, until the slowest customers are left with nothing.

It’s impossible to predict whether recent innovations among insurers will eventually help annuity customers get higher rates or result in a financial disaster if a major provider becomes insolvent. The sector already looks very different from what it was during the last big demand surge between 2004 and 2008. Investors typically look to the credit ratings of insurance companies to judge risk, but rating firms aren’t always up to the task of evaluating aggressive and sophisticated strategies. Some people remember the financial crisis.

These are only worries for now not substantiated problems. Investors and regulators can count them as one of many pressing issues to consider as we transition to a financial system built around persistently higher interest rates than we have seen since 2006.

## **'Snowplow' parents clear a financial path for adult children**

# Parents pay grown-up kids' bills with retirement savings

Three-fifths of parents with adult children gave them financial help in the past year, Pew Research reports in a[new study](https://www.pewresearch.org/social-trends/2024/01/25/financial-help-and-independence-in-young-adulthood/).

The finding illustrates -- in case we needed a reminder -- that modern parenting does not end when a child turns 18. But supporting an adult child can get costly, financial planners say. And parents need to make sure their own financial needs are met.

Roughly half of under-30 adults[live with their parents](https://www.pewresearch.org/short-reads/2022/08/24/americans-more-likely-to-say-its-a-bad-thing-than-a-good-thing-that-more-young-adults-live-with-their-parents/), prior Pew research has shown. That figure has[spiked dramatically](https://www.pewresearch.org/short-reads/2020/09/04/a-majority-of-young-adults-in-the-u-s-live-with-their-parents-for-the-first-time-since-the-great-depression/) over the years.

Americans are[marrying later](https://www.usatoday.com/story/opinion/2023/09/20/gen-z-millennials-live-home-prolonged-adolescence/70865944007/), and waiting longer to have children. Researchers say those trends point to a new life stage, tucked between adolescence and full adulthood. Some term it “[emerging adulthood](https://www.usatoday.com/story/college/2012/08/01/moving-back-in-with-parents-not-always-a-slacker-move/37396149/).”

Young adults face myriad economic challenges in 2024 America. [College costs](https://nces.ed.gov/fastfacts/display.asp?id=76) and [student debt loads](https://www.usatoday.com/money/blueprint/student-loans/average-student-loan-debt-statistics/) are rising. [House prices](https://fred.stlouisfed.org/series/ASPUS) have soared. Mercurial inflation and interest rates have vexed consumers.

Parents, for their part, seem ever more inclined to carry on with parenting well past the age a child exits childhood, removing every obstacle in their path. Some researchers call it “snowplow” parenting.

“Let’s move everything out of the way, so our kids can walk perfectly down the street,” said[Jonathan Abramowitz](https://jonabram.web.unc.edu/), a psychology professor at the University of North Carolina.

It’s easier than ever to pay an adult child’s bills, whether the kid lives with you or not. Earlier generations mostly paid their bills by mail. Now, everything’s on apps or online.

Pew reports that 28% of adults ages 18 to 34 received financial help with household expenses, such as groceries or utilities, in the past year; 25% got a parent’s help with a cellphone bill or streaming subscriptions; 17% with rent or a mortgage; 15% with medical expenses; and 11% with education expenses.

## Fewer than half of adult children report financial independence

Fewer than half of young adults claim complete financial independence from their parents, Pew reports. Even past 30, one-third of adult children rely on their parents to pay at least some of the bills.

The Pew study, published on January 25, draws on a survey of 4,512 adult children and parents.

Often, parental aid to aging children is relatively trivial.

For aging parents, helping adult children is 'Parenting 101'

For many aging parents, supporting an adult child seems the very essence of parenting.

“We’d go to the ends of the earth to make sure our children are safe and happy,” said[Christopher Lyman](https://www.afallc.com/the-team-at-allied-financial-advisors/christopher-lyman/), a certified financial planner in Newtown, Pennsylvania, who advises couples with adult children.



**In 2022, 4 in every 10 high school students failed to complete the Free Application for Federal Student Aid form, FAFSA, leaving almost $3.6 billion in Pell Grants unused, according to the National College Attainment Network**.

Parents who support adult children see their progeny emerging into a different world than the one they knew as young adults, said [Teresa Bailey](https://wealthstrategists.com/team-member/teresa-j-w-bailey/), a certified financial planner in Nashville.

“**They feel like the economy is different now, and the world is different, and it’s more difficult for somebody to be fully financially independent**,” she said.

Parental aid is fine, she said, so long as the parents can afford it. Some aging parents continue supporting adult children at the peril of their own retirement.

 **“Are you spending on your children and putting yourself in a situation where they will have to spend on you, because you haven’t saved enough for retirement**?"

Bailey projects a couple’s budget to age 90, showing them where their finances are likely to be, based on their patterns of saving and spending.

For couples who spend heavily on adult children, she said, the exercise can yield “a lightbulb experience.”

## Many parents who aid adult children hurt their own finances

In the new Pew study, more than one-third of parents who provided financial help to adult children said that doing so hurt their own finances.

“Often, the ones who are providing the support aren’t the ones who can afford to provide the support,” Lyman said.

For adult children on the receiving end of parental largesse, the help can come as a blessing or a curse.

In some circumstances, parental aid can be a godsend: A new graduate struggling with student loans, or a first-time home buyer who can’t quite make the down payment.

Yet, experts say, the help must eventually come to an end.

“It does have a downside,” Abramowitz said, “and that is, it can reinforce that need for dependence. Young adults, they get stuck, because the parents are protecting them, and the kids never learn how to launch.”

Parents who support adult children “have the best intentions at heart,” Abramowitz said.

Still, every so often, he said, they should ask themselves this question: “When does it get in the way of the kid being able to move on with their life?”

**TSP Annuity vs. Installment Payments, What’s Right for You?**

<https://www.fedweek.com/tsp/tsp-annuity-vs-installment-payments-whats-right-for-you/>

The TSP will soon be [re-competing](https://www.fedweek.com/tsp/thrift-board-wants-to-make-tsp-annuities-more-attractive/) the annuity contract (currently held by MetLife).  In a recent article we outlined the [options](https://www.fedweek.com/tsp/is-a-tsp-annuity-right-for-you/) available in the current annuity contract and speculated what, if any, changes will appear in the new contract.

Historically, a life annuity has been the least popular choice made by TSP participants when they begin withdrawing from their accounts.

Annuities are designed to provide you (and a joint annuitant in some cases) with monthly payments for exactly as long as you live.  Annuities are not, however, the only way to receive monthly payments from your TSP.  Installment payments are a far more popular method of receiving monthly income.  In fact, installment payments of a fixed dollar amount are the most popular method of withdrawal.

What’s the difference between installment payments and the annuity option; after all, both pay you a specified amount each month?

The biggest difference is who’s in charge.  The installment payment choice gives the participant control, while the annuity choice cedes all control to MetLife.  With installment payments (available monthly, quarterly, or annually), you can choose between two withdrawal methods (a fixed amount, or the IRS life expectancy table), and you can change the number and amount of your payments whenever you want to.  You can choose to stop installment payments if you wish to do so.  You can also cash out at any time by taking a single payment of your remaining account balance.  Purchasing a TSP life annuity is an irrevocable choice that cannot be changed, even if your situation changes.

Another difference is how long your monthly payments will last.  If you elect monthly installment payments and choose a fixed dollar amount, rather than the IRS life expectancy table, you can pick any dollar amount you want.  If you choose a large amount, it’s possible to run out of money before your death; if you choose a small amount, there may be money left over for your heirs after you die.

If, on the other hand, you elect installment payments based on the IRS life expectancy table, your payments are likely to last as long as you do, and there is likely to be money left over for your heirs after your death.  With the life annuity option, your monthly payment amount is determined by a formula and will last exactly as long as you (or the joint annuitant) live, no longer.  There are three types of TSP life annuities; single life, joint life with spouse, and joint life with someone who has an insurable interest in your life.

Why do so many people choose installment payments rather than annuities?

Perhaps the main reason is that our FERS annuity and Social Security are guaranteed lifetime income; so why tie up our Thrift Savings Plan, another major source of income, in inflexible, lifetime payments?

Taking installment payments leaves us with the flexibility to take individual withdrawals for other reasons (e.g., bucket list items, gifts to grandchildren, etc.).

The annuity is an irrevocable choice and you’re locked into specific payments regardless of how your circumstances might change.  Another reason installment payments are more popular is that we feel (generally) optimistic about the performance of our TSP investments and expect to have enough money for the rest of our lives and still have money left over for heirs.