

Transcript

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Episode 71 – RESA with Congressman Mike Kelly

Congressman Kelly - Look at retirement programs to what they're supposed to be able to do. It's a learning right now that throughout our country, there's very few people, too many people that have absolutely no retirement plan in effect. We're encouraging employers to work very closely with their associates to prepare for retirement. Talent is awfully hard to come by today, so what you try to do it put together a package of benefits that makes sense to those people that you're trying to attract, that they would come to work for you and more importantly that they would stay working with you and have a career and Ways and Means has an awful lot to do with the policy that's developed. What can we do to make their retirement more secure and bring them some peace of mind? I just think that it just makes sense. I think it's totally what we're all about.

Emily Larsen - Welcome to *Better Conversations. Better Outcomes.* presented by BMO Global Asset Management. I'm Emily Larson.

Ben Jones - And I'm Ben Jones, and on this show we're going to explore the world of wealth advising from every angle, providing you with actionable ideas designed to improve outcomes for advisors and their clients.

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Ben Jones - Today we have a timely episode on some proposed US legislation, which holds some important provisions for advisors to know about. We're talking about, of course, the Retirement Enhancement and Savings Act of 2018, commonly referred to as RESA. RESA proposes to amend the internal revenue code and the Employee Retirement Income Securities Act of 1974, known as ERISA. These modifications, if passed, have planning implications for American retirement programs.

Emily Larsen - You may have heard bits and pieces of what's in the bill or read about similar legislation that's been proposed this year. Today we'll be unpacking some of the key components of the bill. We're joined by Congressman Mike Kelly of Pennsylvania 16th District, who is also a member of the U.S. House Committee on Ways and Means.

Ben Jones - The Ways and Means Committee is the main tax writing committee in the House of Representatives. Congressman Kelly is also the sponsor of the House version of the retirement bill and he's the perfect person to talk to us about this proposed legislation. First though, I couldn't pass up the opportunity to ask him what life on Capitol Hill is really like.

Congressman Kelly - The job is not the way I think a lot of people perceive it to be. Because what they get inundated with are news reports or what are op eds that really show it as a

completely different environment than the one we work in. Sometimes it is very testy, but most of the time, there's a great deal of collaboration. I really -- I enjoy the job. I find it -- there's no two days that are the same. You're always keeping up with what's going on and doing it on a moment my moment basis. I enjoy it. I tell my friends all the time, listen, it's a great job. It's great job. It's a hard job to get, it's a hard job to keep, but nonetheless, it's a great job. What really makes it great is the staff that we work with. We have a dedicated group of people that serve the needs of all the folks back in Pennsylvania 16th Congressional District. That, by the way, that doesn't include just Republicans. There's 705,687 people who look to us to represent their best interest, so that's what we try to do.

Ben Jones - Why don't you think the story about all the collegiality doesn't get out into the mainstream where we, as the people, might hear how collegial the environment is.

Congressman Kelly - I don't think good news was ever what people liked to hear, you know. I think it goes back to news, it's not news when the dog bites man, but it's the news when a man bites dog. That's kind of the narrative that's out there. That's been forever, what news is about. Getting people to actually look at something and then stay on board with it. I think people -- they kind of take for granted some times, the good stuff. But really engages them when there's something that goes awry or something that goes wrong. Now they want to know why that happened. I think too often we take the good days for granted and we think that bad days are what drives our news. That's now what drives our news, it's a form of government that really represents people.

Ben Jones - Wonderful. Well maybe it would be helpful if you could just take a minute and just give us your story a little bit about how you came to life in public service.

Congressman Kelly - Well you know what, I think I'm like a lot of people. There's an old saying out there that change takes place when crisis or a tragedy. I got to tell you, I was kind of bumping along very well. I was happy in my life, I had bought a business that my mother and father started in 1953, I bought it from my father in the late 90s and everything was going fine until about 2008, 2009, when all of a sudden one of my franchises -- I'm an automobile dealer, I'm a Chevrolet, Cadillac, Honda and Kia dealer -- the franchise I have is between myself and the manufacturer. Unfortunately the government decided to intervene and decide that I would no longer be able to keep the Cadillac franchise. When General Motors went to the government for a bail out, then the government took over General Motors. The decisions were not being made by the General Motors Board of Directors; it was being made by the government. And so when that happened to me, this is the family business, as I said, started in 1953, which I bought, by the way, did not inherit, but bought from my father, all of a sudden it was under great duress and after going through that process of finding out that somehow the government could take away one of my franchises because they just wanted to, not based on anything factual, but the fact that they decided they were going to take it away and I had to go to arbitration. I was given the opportunity to either accept what was being decided for me or to go to arbitration. So I did go to arbitration and I won, by the way. I got to keep my franchise and then there was an election coming up and a former member had come to me and said you know what, we need more people from the private sector coming forward and serving in Congress. And I said you know what, I've got a responsibility to make payroll twice a month here, I've got a lot on my table, 125 people expect to get paid with a check they can actually cash. I think I'll stay in the private sector and he said no, we really need you to come forward and serve. So I did. I was one of 14 or 15 people in a primary. Survived the primary and won the general election. I've been here since 2011 fighting for people in the private sector and what I think most people would call the folks that don't feel they have a voice anymore in Washington and they

appreciate the fact that somebody was able to step out of their private life and come to Washington and fight for them and for their values and what they really think is important to them as opposed to accepting what Washington D.C. sends back into the country and say this is the way we have to operate. I just think it makes sense.

Ben Jones - That's a great story. Now, you also are a member of the House Ways and Means Committee, which, for our audience, is a really important committee. Maybe you, for those who are listening who aren't familiar with it, could you just maybe describe what does the Ways and Means Committee do and how does that impact retirement policy as well as other aspects of finances.

Congressman Kelly - Well our big responsibility is tax policy. So I think tax policy probably reflects on just about everything we do in this country. In a situation that we're in, the dollars, the revenues we collect from hard working American tax payers that pay for everything, I think sometimes there's a disconnect. People think that the government pays for these different programs. The truth of the matter is, the government doesn't pay one penny, it redistributes what it collects from people that are the citizens of the United States. So the Ways and Means - there is a great deal of jurisdiction on it, but when it comes to retirement, because of tax policy, that's one of the things that we look at and say, there must be a better way to prepare for retirement, then what we're doing right now. When we talk about retirement, those funds aren't put there by the government; they're put there by tax payers. So then the tax policy comes down to, well, how are you allowed to go ahead and prepare for your retirement? I've always found it fascinating, the government's going to determine what they're going to allow you to do. I think most of us in the world that I grew up in, what I was told from a very early age, it's not how much you make, it's how much save. It's also, start saving today for your retirement, because it's going to come along quicker than you think.

Ben Jones - With respect to the new retirement bill, the Senate bill is called the Retirement Enhancement and Savings Act or RESA, I think there's quite a bit of bipartisan support as well. What are the drivers that are leading to that bipartisan support and the desire to get something done?

Congressman Kelly - I think the drivers -- there's always the same drivers. As I said earlier, listen, when we have over 42% of our population not ready to go into retirement, that's scary. They don't have -- they have less than \$10,000 set aside. That's not a heck of a lot of money in today's world. I think whenever we look at -- this is not a republican or a democrat issue, this is an American issue. I can tell you as growing up as a child, the one thing my parents used to worry about all the time is they didn't want to be a burden to us as they grew older. As a child, I could never understand why a parent would ever think they'd be a burden to its child. But as I've gotten older now, I've looked and seen what goes on. In too many instances, we have people reaching their retirement years that are not ready to retire and they don't have enough income to live any type of a comfortable life. I think as far as being bipartisan, a secure future is not one party or the other party's main driving force or one has an advantage over the other. These folks that we're talking about are people that have worked all their life. It's their money that we're talking about and it's also, in a lot of cases, the people that they've worked for and with for mutual success, that's money that's all been set aside. I think what we want to do is give people more opportunity to do that in different ways so that they face the retirement years feeling secure about it and now worrying about it.

Emily Larsen - It's clear that Congressman Kelly is a big advocate of this bill, but let's talk about a few of the specific components of the proposed bill. The bill is inspired by a goal to help

Americans amass greater wealth to finance their retirements. Therefore, access to retirement savings vehicles plays a big role. It's estimated that nearly 1/3 of private sector workers don't have access to a work place retirement savings vehicle. One element of RESA focuses on providing greater access to saving vehicles, primarily by making it easier for small businesses to offer retirement plans to their employees by using a concept known as open MEPs or multiple employer plans.

Ben Jones - This proposal would eliminate the current requirement that businesses in MEP, be in the same trade industry or have some sort of special relationship with each other outside of the MEP. In addition, the bill proposes a means to overcome a massive tax code obstacle that currently is in existence for MEPs. Today, the IRS applies something known as the "one bad apple rule" to MEPs, which essentially says that if one participating employer violates the rules, that may disqualify the entire plan and negatively impact the remaining participating employers and employees. The proposed solution formalizes protocols, requirements and the responsibilities of the parties, such as the plan trustee and administrator. Additionally, the proposed requirement formalizes that each participating employer retains a fiduciary responsibility for the selection and monitoring of the providers, fees and investment management related to the specific pooled plan. RESA would also provide a procedure for dealing with non-compliant employers, which would help solve that IRS, one bad apple, problem we mentioned earlier. The hope is that open MEPs make it easier for smaller employers to offer plans to their employees and those small employers can band together for greater bargaining power with their service providers. Ultimately with the goal of making plans less expensive for small employers to offer to their employees.

Emily Larsen - The other part of RESA that's been getting a lot of attention is Mandatory Lifetime Income Disclosure of MLID. The thought is that regular disclosure of an employee's retirement benefit in an easier to understand format such as projected monthly income, would give employees a greatest chance of understanding the connection between their account balances and an income in retirement, which might help people make a better decision. For example, instead of saying an employee has a \$100,000 account balance; an employee would get a statement that shows a projected monthly income of \$333. RESA would require plan administrators to provide participants a projected monthly income stream based on the annuitization of their account balances. The projections are required to be provided on an annual basis and they would be based on assumptions that adhere with the Department of Labor guidance. In addition, RESA supports the adoption of in plan annuity options. Although in plan annuities have been around for a while, their adoption has been very limited as a result of a variety of concerns that include fiduciary risks, as well as participant communication challenges. We should note here that this part of the bill has been met with varying degrees of opposition. No so much about the intent of MLID, but the specifics and the mechanics of how it would get implemented.

Ben Jones - Two other components you should be aware of is first the elimination of the stretch payment provision -- sometimes referred to as stretch IRAs. Under the current law, beneficiaries of an IRA or 401k account can choose to take payments over their remaining life expectancy. In other words, they're stretching the payments over their life expectancy. Which means dollars remaining in the account can continue to accumulate tax deferred. With the proposed changes in RESA, balances under \$450,000 would be treated similarly as before, but for values that exceed \$450,000, the excess must be distributed within five years of the death of the account holder -- meaning that all of the associated taxes must be paid as well. If passed, there will be new planning approaches to consider with respect to your clients. The other component contained in the legislation is a repeal of the maximum age for traditional IRA

contributions. This allows individuals over the age of 70 and a half to continue to contribute to a retirement account. As we live longer, we are all working beyond the traditional retirement ages and this will allow people to continue to save for retirement that continue to work well into their 70s. This provision, also if passed, will create a need for new planning conversations with your clients that are working during their retirement.

Emily Larsen - We've only covered some of the highlights of this legislation. If you want to learn more, we've put some reference resources on our website at www.bmogam.com/betterconversations. To close, Ben asked Mike about how folks can reach out or become more involved in the policy making process.

Congressman Kelly - There is tremendous support for it. We're going to be whipping this very hard and I just said I'm encouraging anybody who has any questions about it to please contact the Ways and Means staff and if there's something in -- if there's something in this piece that we're trying to pass that is confusing or not knowledgeable to them, just find out.

Ben Jones - Now, if there's someone out there that has an idea around taxation or retirement policy and they're listening, how would you suggest they even start about thinking getting that put forth as an idea.

Congressman Kelly - When you say there's people out there, now here's what I suggest. Every single person -- I'm going to assume every single person that's going to be listening to this has a representative somewhere here. I suggest that they call their representative and probably call them at the local level and they'll talk to staff there. But I would just suggest that they weigh in with their representative, letting them know that they have a concern about this and they want to make sure -- the big gap that I see form time to time is that not enough people weigh in with those people who represent them in Washington D.C. on these very critical policies. We have a wonderful industry out there that can guide people through a very complicated issue and that is retirement, that's pensions and how you fund them. I just think with that knowledge that's out there, with that talent that's out there, I would encourage everybody please -- there's a vote coming up, please, call your Congress member, develop a personal relationship, develop a relationship that you can actually call and follow these things through. It's not hard to do, it's just that you have to take the time and actually do it. I would just encourage everybody, get a hold of the people that represent you, let them know how you feel, let them know what you're watching and then just watch and see how it develops. You can get it right to them at their offices.

Ben Jones - Well thank you so much for taking sometime today to share your thoughts on this. Is there any parting thought that you'd like to leave with our listeners before I let you get back to the rest of your important work today.

Congressman Kelly - Get on the phone and call your representative, make sure we get this retirement package put across the finish line for you.

Ben Jones - We'll be keeping a close eye on this bill. Based on the interest of you, our listeners, we might have further coverage on the eventual legislation, should it get passed into law. One thing that really came through during my discussion with Congressman Kelly was his sincere request for people to get actively involved with their representatives in the legislative process. I want to take a moment and thank Congressman Kelly and his staff for making the time to speak with us about the proposal. It was very much appreciated. Thank you.

Ben Jones - Thank you for listening to *Better Conversations. Better Outcomes*. This podcast is presented by BMO Global Asset Management. To access the resources discussed in today's show, please visit us at www.BMOGAM.com/betterconversations.

Emily Larsen - We love feedback and would love to hear what you thought about today's episode. You can send an e-mail to betterconversations@BMO.com.

Ben Jones - And we really respond.

Emily Larsen - We do!

Ben Jones - If you thought of someone during today's episode, we would be flattered if you take a moment and share this podcast with them. You can listen and subscribe to our show on Apple Podcasts or whatever your favorite podcast provider is. And of course, we would very greatly appreciate if you'd take a moment to rate or review us on that app. Until next time, I'm Ben Jones.

Emily Larsen - And I'm Emily Larson. From all of us at BMO Global Asset Management, hoping you have a productive and wonderful week.

Ben Jones - This show and resources are supported by a very talented team of dedicated professionals at BMO including Pat Bordak, Gayle Gipson, Matt Perry, Derek Devereaux. The show is edited and produced by Jonah Geil-Neufeld and Annie Fassler of Puddle Creative. These are the real people that make the show happen, so thank you.

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