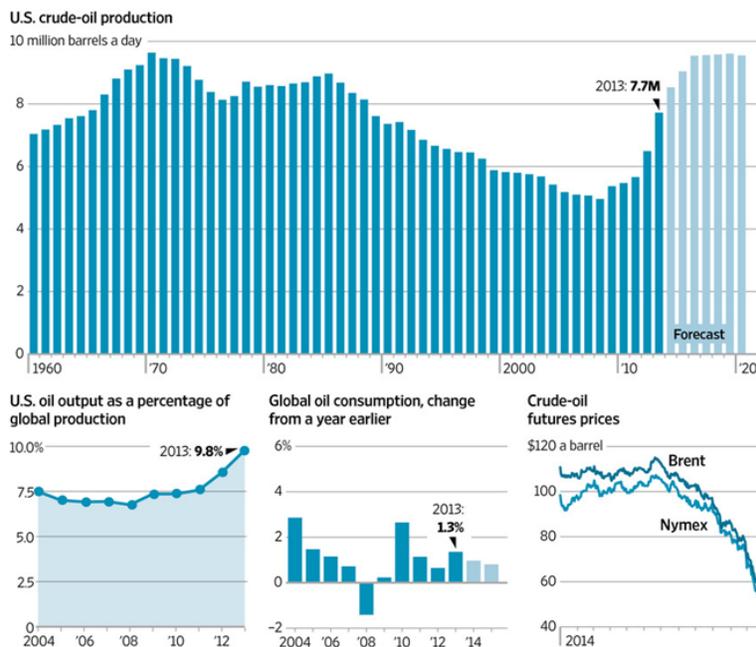


## Is the Oil Price Decline Beneficial to the U.S. Economy?

Since June, oil prices have fallen to a six-year low, down over 50% from when Brent crude hit a 2014 high of \$115 a barrel. Prices began their swoon mid-year as global supply outstripped global demand. The demand side of the equation weakened as a result of the economic woes of Europe and Asia, increased fuel efficiency and a trend toward alternative fuel sources. On the supply side, the largest variable has been increased U.S. production, up about 50% since 2008 and largely driven by a boom in shale production. Oil prices tumbled further in late November when the Organization of Petroleum Exporting Countries (OPEC) members decided not to curb production. Many observers believe OPEC has an agenda to drive marginal U.S. shale producers out of business by keeping prices low.

### Oil Production<sup>1</sup>



On the surface lower oil prices should be beneficial to the U.S. economy. The United States is a net importer of oil, with imports representing 1.6% of GDP according to JP Morgan. The American Automobile Association (AAA) estimates that the decline in gas prices translates into over \$100 a month in savings for the average American household.<sup>2</sup> Additionally, Goldman Sachs estimates lower gas prices at their current levels is akin to \$100 to \$125 billion tax cut for consumers.<sup>3</sup> The reduction in energy prices clearly will benefit the U.S. consumer, whose spending accounts for 65–70% of GDP. Furthermore, lower energy prices will keep inflation at bay near term and could enable the Fed to keep rates lower for longer.

However, the drop in oil prices is a double-edged sword this time around. One important difference is that the U.S. economy has benefited from its increased oil production over the last several years, which is in fact a key reason our recent economic recovery has been stronger than other developed nations. According to the Manhattan Institute, the U.S. would have remained in recession without its oil and gas boom, which added \$300 to \$400 billion annually to the economy in recent years.<sup>4</sup> For instance, the shale boom created elevated levels of capital spending

which aided the earnings of industrial companies. In addition, the oil and gas sector accounted for much of the growth in employment over the last several years. From 2007 through the end of 2012 employment growth in the oil and gas sector was up 40% compared to about 1% for total U.S. private sector employment.<sup>5</sup> The spike in oil production also served as a catalyst for job creation in related non-oil sectors such as transportation, construction and industrial equipment.

The net result is that lower oil prices should provide a tailwind for the U.S. economy in 2015. PIMCO believes the drop in oil prices will add 0.5% to 0.7% to U.S. GDP growth.<sup>6</sup> Despite the likely headwind of reduced energy-related capital expenditures and job growth, consumer spending is the driving force of the economy and additional money in the pockets of consumers should stimulate a more broad-based recovery into non-energy sectors.

1. <http://www.wsj.com/articles/oil-prices-hit-again-by-weak-china-data-buildup-in-u-s-stockpiles-1420019256?KEYWORDS=oil>
2. <http://video.foxbusiness.com/v/3932919958001/average-household-is-saving-100-a-month-on-gas/?#sp=show-clips>
3. <http://blogs.wsj.com/economics/2014/12/10/lower-gas-prices-like-huge-tax-cut-for-middle-class/>
4. [http://www.manhattan-institute.org/html/pgj\\_04.htm#.VK75YSvF9qU](http://www.manhattan-institute.org/html/pgj_04.htm#.VK75YSvF9qU)
5. <http://www.eia.gov/todayinenergy/detail.cfm?id=12451>
6. [http://www.advisorperspectives.com/commentaries/pimco\\_010915.php](http://www.advisorperspectives.com/commentaries/pimco_010915.php)

## The Hopes, Fears and Reality of Retirement

A 2014 study by MassMutual surveyed more than 1,800 retirees and pre-retirees about retirement issues. The study found retirees overall are very satisfied with life after working years.

### How happy are retirees?

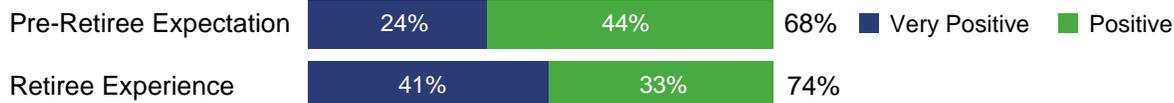
Seven in 10 retirees report being “Extremely” or “Quite” happy.



### Retirement is better than expected

**Pre-Retirees:** What type of experience do you expect to have in retirement?

**Retirees:** Now that you are retired, what type of experience have you had?



### Positive surprises

What is your one positive surprise about retirement?



### Negative surprises

What is your one negative surprise about retirement?

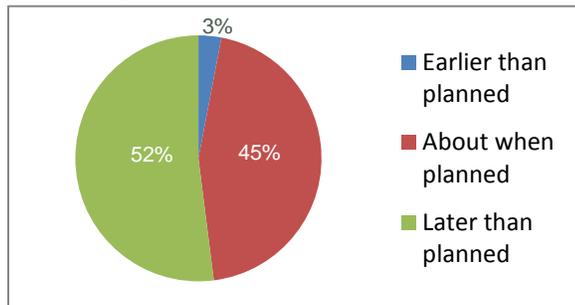


Missing work/work friends/  
loss of professional identity

10%

## Retiring Early

When did you retire?



This article was originally published by MassMutual in its December 2014 Research Study Summary on the MassMutual study: Hope Fears and Reality.

## Preparing for a Partial Plan Termination

The IRS is actively pursuing plans that may have experienced a partial plan termination. A partial plan termination may have occurred if you have experienced a substantial reduction in your workforce. Information on your Form 5500 filing may indicate a possible partial plan termination and may cause the IRS to investigate to ensure that proper procedures are being followed. The determination of a partial termination is a facts and circumstances test, but there are a few factors which serve as good indicators.

The first factor is the population of affected participants. If it is a class of participants, then there is a chance of the reduction being viewed as a partial termination. More commonly, the percentage of participants being affected will be scrutinized. Per internal IRS guidelines, a 20% reduction is generally considered “significant.” Some ERISA attorneys state that a more conservative threshold is a 15% reduction in workforce. The percentage is determined by looking at the number of participants terminated by corporate action compared to all pre-corporate action vested and non-vested participants.

Voluntary terminations (terminations occurring in the normal course of business) and terminations due to death, disability, or retirement are typically not to be included in determining the percentage reduction.

Another factor to be considered is the period over which the terminations occur. The IRS generally includes all employer terminations within a rolling window unless the terminations can be proven to be unrelated to one another. In other words, the IRS will consider all terminations to be in accordance with a single downsizing plan unless proven otherwise. In addition, separate reductions in workforce may be combined in the determination of a 20% reduction.

In the event that a partial termination has occurred, all “affected participants”, or those that can no longer participate in the plan, must become 100% fully vested in their accounts on the effective date of the partial termination. All other “non-affected” participants continue to participate in the plan in accordance with the plan’s vesting provisions. If an absolutely definitive determination of a partial termination is desired, a plan sponsor may file a Form 5300 with the IRS, although this action is not required.

If you suspect that a partial plan termination has, or may occur, please contact your plan consultant.

## Employee Communication Strategies for All Seasons

With all the uncertainty in the marketplace, there is likely no better time to provide education to your participants than there is today! Education may consist of the following vehicles: employee meetings, webinars, memos, flyers, payroll stuffers, or mailers (just to name a few). We encourage you to utilize a variety of these methods to keep the material fresh and exciting to participants. We also encourage you to focus on more than one education topic throughout the year. For example, one quarter, you may consider mailing participants a piece on the benefits of automatic rebalancing. The next quarter your education focus could be about investing during recessions. The following quarter could be a webinar to tour your service provider’s website capabilities. We also encourage you to reach out to your service provider to see what new information and materials they have available for your

participants and find out what assistance they may provide. Creating a clear education plan is a great way to keep you on track to meet your goals and objectives.

### **Communication Corner: What is Roth 401(k)? Is it Right for Me?**

This month's employee memo is titled: What is Roth 401(k)? Is it Right for Me? This memo addresses the questions that many participants have regarding Roth 401(k) plans.

Call or email your Meltzer Plan Consultant if you have questions or need assistance.

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