US Consumer Spending in Seventh Inning of Rebound

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unless employment growth accelerates. While the country has been creating about 180,000 jobs per month on average, despite declining employment in the government sector, that rate would have to accelerate to 250,000 to 300,000 a month to make a real difference in savings rates, consumer spending and the economy.

Bryson said there is pent-up demand among consumers, especially for cars and houses. He noted that the average car on American highways is now 11 years old and that the country has been building just under a million new housing units per year. Just to keep pace with household formations, he said, we need to be building between 1.25 million and 1.5 million units annually.

Given this sluggish economic outlook, Bryson said he doesn't expect the Federal Reserve to begin raising short-term interest rates anytime soon, especially since inflation is running at about half the Fed's target rate of 2 percent. Besides, he noted, the Fed has specifically said it won't push short rates higher until unemployment hits 6.5 percent. The unemployment rate stood at 7.2 percent in September, and Bryson said he doesn't expect it to fall to 6.5 percent until early 2015.

Bryson said the Fed could act sooner to end its quantitative easing program aimed at holding down longer-term interest rates. That program involves the Fed buying $85 billion of bonds monthly, and the Fed has said it will begin to taper its bond buying once the economy looks stronger. Bryson said the earliest he expects the Fed to start tapering is December of this year, and that it might not begin until early 2014.

There are no guarantees the economy will continue its slow recovery without slipping back into a recession, of course. Bryson identified three potential threats, the first being an extraordinary event, such as a Middle East war that sends oil prices soaring to $200 a barrel, for example, or the federal government defaulting on its debt. Europe is the second, he said. It has only recently emerged from its second recession since the 2008 credit crisis and it continues to face troubling debt issues in some of its member countries.

The third threat is China, whose economic growth has slowed as it tries to transition from an economy based almost entirely on capital investment to one based more equally on capital spending and consumer spending. Bryson said his firm is in the camp that believes China's economy, which had been growing at 10 percent or more annually until recently, will make a "soft landing," growing in the 7 percent to 8 percent range over the next couple of years.

"To sum up, assuming we don't shoot ourselves in the head, and Europe and China don't blow up anytime soon, the outlook for the global economy is not bad," Bryson concluded.

Attendees at the Stable Value Investment Association Fall Forum 2013

How United Technologies Revamped its 401(k) Plan

By Randy Myers

Plenty of employers offer 401(k) plans because it seems like a good idea. Maybe the competition does it. Maybe employees like them. Perhaps the boss wants one.

United Technologies Corp., a global manufacturer that generated $57.7 billion in revenue in 2012, has bigger ambitions for its 401(k). As Kevin Hanney, the company's director of defined contribution plan portfolio investments, explained at the 2013 SVIA Fall Forum, one of United Technologies' goals is to create a secure retirement benefit for the vast majority of its employees for whom the 401(k) is their only retirement plan. But it also wants that plan to be flexible enough to provide opportunities for attractive investment returns for other workers using it to supplement a defined benefit plan. And, for those employees investing in the plan's stable value fund, they want to be sure that fund delivers a steady crediting rate that helps them to maintain their lifestyle in retirement.

To achieve those goals, United Technologies began thinking in 2006 about how it wanted to revamp its plan, Hanney said. In 2011, it streamlined the plan's investment menu, reducing the number of investment options, replacing actively managed equity funds with passively managed alternatives and reducing fees. In 2012, it introduced a lifetime income option within the plan, delivered through a target-date portfolio. For plan participants who choose that option, the retirement income is guaranteed by insurance contracts, which combine a guaranteed income floor with upside potential, liquidity, and optional joint life and beneficiary features. The total cost, at about 119 basis points, is about one-third what a similar income guarantee would cost in the retail marketplace, Hanney said.

The United Technologies plan uses custom target-date funds as the default investment option for participants who don't select investments on their own. While it still has a relatively streamlined menu of low-cost, core investment options for people who wish to construct their own investment portfolios, Hanney said it will be adding two additional options in 2014: a multi-strategy real asset fund and multi-manager risk parity fund.

"In a nutshell, what we are now offering through our 401(k) is a pension plan for the 21st century," Hanney said. "We embraced the idea that a 401(k) plan can be a pension plan."