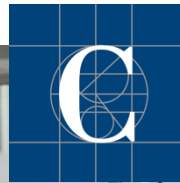


IS YOUR RETIREMENT PLAN READY FOR 2022?

November 4, 2021

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Industry Changes



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Fiduciary Update

With the disruption due to the COVID-19 pandemic, action items related to legislative or regulatory guidance may have been overlooked. Below are some items that may require attention.



THE CARES, SECURE, AND MINERS ACTS

Several provisions of the CARES, SECURE, and Miners Acts may require plan sponsor action in 2021:

- Plan sponsors may need to track hours worked by part-time employees beginning in 2021 to determine eligibility for elective deferrals.
- Plan sponsors may reduce the minimum age for in-service distributions for 457(b) and money purchase plans to 59½.
- Plan sponsors may permit qualified birth or adoption distributions (QBADs), which are penalty-free distributions for birth or adoption expenses, of up to \$5,000 per child.
- Plan sponsors should ensure their recordkeepers are prepared for the resumption of required minimum distributions (RMDs).



PLAN DOCUMENT RESTATEMENTS

2021 is expected to be a busy year for plan document restatements with the Cycle 3 restatement process in full swing.*

- Restatements impact both prototype and volume submitter documents, but this cycle does not apply to 403(b) plans. Restatements are mandatory and occur every six years.
- The current restatement window opened on August 1, 2020 and closes on July 31, 2022. Most recordkeepers, TPAs, and other pre-approved document providers have started restatements. Affected plan sponsors may wish to check with their providers to see when their plans will be ready for review and execution.
- Note: Individually designed plan documents do not have a restatement cycle. However, these plans must incorporate certain required amendments each year.

*Amendments needed to reflect plan provisions offered by the SECURE and CARES Acts will not be included in the Cycle 3 restatements. They will instead be added to those documents as separate amendments.

The Final Frontier

The SECURE Act eliminated major barriers to the adoption of guaranteed retirement income investments in defined contribution plans, including fiduciary liability concerns for annuity provider selection and portability at the participant level. It also shed new light on the topic of retirement income at a time when more participants are keeping their assets in their employers' plans after retirement.

According to T. Rowe Price, in 2012 45% of participant assets remained in a plan at least one year after retirement. By 2018, that number had risen to 61%¹. Data from the University of Michigan's Health and Retirement Study shows a similar story—between 2016 and 2018, only 13% of participants withdrew their entire plan balance or rolled it over to an IRA at retirement.² Given these trends, the topic of how best to help prepare participants for—and support them during—the decumulation stage of retirement is an important one.

1

PARTICIPANT EDUCATION AND ADVICE

Participants need advice about the timing of Social Security benefits, budgeting, withdrawal strategies, and creating an appropriate investment portfolio, and education around benefits of staying in plan.

2

WITHDRAWAL OPTIONS/PROGRAMS

Systematic or periodic withdrawal options are now more prevalent among plan sponsors. Some recordkeepers have built enhanced programs to support participants' withdrawal strategy needs. Some also offer out-of-plan annuity placement services.

3

MANAGED ACCOUNTS

Managed account programs may offer pre-retirement planning assistance and post-retirement withdrawal strategy and Social Security recommendations.

4

GUARANTEED INVESTMENTS

Guarantees can take the form of a guaranteed lifetime withdrawal benefit (GLWB), qualified longevity annuity contract (QLAC), or deferred fixed annuity. They can be integrated into a default solution or offered as a standalone. Fees vary widely.

5

NON-GUARANTEED INVESTMENTS

Income-oriented strategies can include managed payout funds, yield-focused fixed income strategies, or through retirement target date funds.

68%

of plan participants reported a need for advice or support in managing a plan to convert retirement assets into a stream of income.¹

¹ "Bridging the Gap Between Accumulation and Decumulation for Participants", T. Rowe Price, March 2020

² Health and Retirement Study (HRS Core) Public Data Set, University of Michigan

Managed Accounts

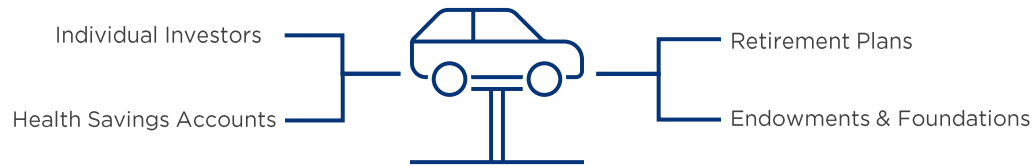
Changes on the Horizon



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Investment Vehicles: The Future 403(b) Model?

Most participants at public education institutions, nonprofit hospitals, religious entities, and other nonprofits are limited in the type of available investment vehicles to choose from, which can result in higher investment management fees. The proposed Securing a Strong Retirement Act (SECURE Act 2.0) seeks to level the playing field by allowing certain 403(b) plans access to collective investment trusts (CITs), which are widely considered cost-effective investment vehicles. While CITs are similar to mutual funds, these investment vehicles are regulated differently and carry their own considerations.



MUTUAL FUNDS

- Investment company pools investor money
- Regulated by the Securities and Exchange Commission (SEC)
- Held to securities laws and regulations
- Investment performance and unit prices widely available
- Valued on a daily basis
- Available on most recordkeeper platforms
- Retail and institutional management expenses
- Available to investors at all asset levels






COLLECTIVE INVESTMENT TRUSTS

- Investment company pools investor money
- Regulated by the Office of the Comptroller of Currency (OCC)
- Held to ERISA fiduciary standards and banking regulations
- Investment performance and unit prices not widely available
- Valued on a daily basis
- Available on major recordkeeper platforms
- Lower institutional management expenses, generally
- Access typically requires a higher minimum

In May, the House Ways and Means Committee unanimously passed the Securing a Strong Retirement Act, advancing it to the full chamber for consideration.

Meeting in a Post-Covid-19 World



2020 forced organizations to adapt almost overnight to a virtual environment. Everything from hiring to open enrollment to retirement plan committee meetings went virtual. With the U.S. opening back up and the ability to meet face-to-face becoming a reality again, will companies return to a fully in-person environment? Or will they stay virtual? As with most things in life, there are pros and cons to each approach, and ultimately a hybrid approach may work best.

VIRTUAL MEETINGS	
	Reduced travel and expenses
	Easier to schedule
	Ability to include more participants and outside parties
	Shorter agendas and more efficient use of time
	Better attendance

IN-PERSON MEETINGS	
	Easier to communicate when there are many participants involved
	Builds better personal relationships through unplanned social interaction
	Body language and other nonverbal cues improve communication
	Impossible for participants to get disconnected or have audiovisual issues
	Participants are generally more engaged and less easily distracted

Managed Accounts

More plan sponsors are considering adding managed account services to their retirement plans due to an increased focus on participant investment advice, improved recordkeeper data integration, and costs. In some cases, the opportunity exists to leverage the expertise of an independent investment advisor to offer a managed account solution. Below, we outline the roles involved in offering managed accounts.

	TRADITIONAL MANAGED ACCOUNTS	ADVISOR MANAGED ACCOUNTS
Plan Sponsor 	<ul style="list-style-type: none"> Reviews and monitors the managed account provider as 3(38) investment manager and the provider's participant assignment methodology Reviews program fees 	<ul style="list-style-type: none"> Reviews and monitors the managed account provider (the advisor) as 3(38) investment manager Reviews program fees
Advisor 	<ul style="list-style-type: none"> Consults on the selection and monitoring of the managed account provider 	<ul style="list-style-type: none"> Serves as 3(38) fiduciary to participants Populates models using the plan's investment menu Reviews and monitors the managed account provider's participant assignment methodology Provides proactive monitoring assistance
Managed Account Provider 	<ul style="list-style-type: none"> Serves as 3(38) fiduciary to participants Provides technology platform and participant portfolio assignment methodology Creates underlying models using the plan's investment menu Provides user-friendly participant interface 	<ul style="list-style-type: none"> Provides technology platform and participant portfolio assignment methodology Provides user-friendly participant interface
Recordkeeper 	<ul style="list-style-type: none"> Manages plan and participant data exchange with the managed account provider Implements participant portfolio assignment and rebalancing transactions 	<ul style="list-style-type: none"> Manages plan and participant data exchanges with managed account provider Implements participant portfolio assignment and rebalance transactions

Plan Sponsor Checklist

Retirement income planning is a holistic concept centered around meeting the needs of participants in and nearing retirement. It's important for plan sponsors to understand all their options and what their plan providers can support. The solution for retirement income isn't one-size-fits-all, and it may include multiple options. Plan sponsors should focus on what option or options will meet the specific needs of their participants and help further a specific goal they're trying to achieve.



QUESTIONS TO ASK WHEN SELECTING A RETIREMENT INCOME SOLUTION:

1. Do you want the solution to be offered in-plan or out-of-plan?
2. Should the solution to be guaranteed?
3. Will the solution be offered as opt-in or opt-out?
4. How important is recordkeeper portability?
5. How important is participant liquidity?
6. Do you want unique solutions focused on accumulation and decumulation or prefer a single solution for both sets of needs?



CONSIDERATIONS FOR RETIREMENT INCOME SOLUTIONS:

1. What are the implicit and explicit costs of the solution you're considering?
2. How will you communicate the solution to your participants (i.e., call center, website, quarterly statements, employee meetings, etc.)?
3. How will you measure effectiveness?
4. What are your fiduciary responsibilities related to selecting and monitoring your solution?
5. What kind of educational resources will you provide to participants at launch and ongoing?

DOL Cybersecurity Guidance—Cybersecurity Program Best Practices

1. Formal, well-documented cybersecurity program
2. Prudent annual risk assessments
3. Reliable annual third-party audit of security controls
4. Clearly defined and assigned information security roles and responsibilities
5. Strong access controls
6. Assets and data stored in a cloud or managed by a third-party service provider are subject to appropriate security reviews and independent security assessments
7. Cybersecurity awareness training conducted at least annually for all personnel and updated to reflect risks identified by the most recent risk assessment
8. Implement and manage a secure systems development life cycle (SDLC) program
9. A business resiliency program that effectively addresses business continuity, disaster recovery, and incident response
10. Encryption of sensitive data stored and in transit
11. Strong technical controls implementing best security practices
12. Responsiveness to cybersecurity incidents or breaches

Fee Discussion



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Benchmarking Plan Recordkeeping Fees and Services

Part of a plan sponsor's fiduciary duty is to ensure fees charged to the plan are reasonable in light of the services received. To assess the reasonableness of recordkeeping and administration services fees, plan sponsors typically perform a fee benchmark. Best practices include benchmarking fees every one to three years and a formal recordkeeper search and selection process approximately every five to seven years.

CAPTRUST offers several fee and service benchmarking solutions, ranging from a quick internal price check to a full scope request for proposal (RFP), depending on what the plan sponsor is seeking to accomplish.

RECORDKEEPING FEES ONLY

STANDARD FEE BENCHMARK

Utilizing thousands of data points CAPTRUST has within its centralized database, we can benchmark fees without going to market.

- This approach is used to get a quick fee reasonableness check.
- Finding higher-than-average fees could warrant a pricing discussion with the current recordkeeper or issuance of formal RFI/RFP.
- Timeline: 1-2 weeks

CUSTOM FEE BENCHMARK/RFI

Several pieces of plan data are gathered and sent to vendors that could service the plan. Those vendors then respond to the opportunity with a proposed price.

- Live bids from other vendors can be used as a negotiating tool with current vendor.
- Transaction and ancillary fees are included as part of benchmark.
- Timeline: 3-4 weeks

RECORDKEEPING FEES AND SERVICES

LIMITED SCOPE RFP

To assess recordkeeper services in addition to fees, a short list of questions is sent to vendors along with the pricing request.

- Simple to moderate plan complexity means a shorter timeline and streamlined output
- Live bids from other vendors and details on the proposed service model help clients determine who they would like to dig deeper with.
- Timeline: 5-6 weeks

FULL SCOPE RFP

This is the most robust vendor search process and asks for a full scope of services from each recordkeeper, with pricing.

- Plan complexity, multi-plan arrangements, and current service issues often require an in-depth assessment from each vendor.
- Meetings with vendor candidates are typically held as a result of the project.
- Timeline: 6-10 weeks based on complexity

Legal Framework and Current Landscape

Fiduciary Requirement and Liability

- Act in the best interest of plan participants
- Plan fees must be reasonable
- Fee disclosures introduced in 2012
- DOL and audit focus

Litigation against 403(b) Plan Sponsors

- 22 suits brought against university plan sponsors since 2016
- Settlements reached in excess of \$115 million, plus a variety of non-monetary requirements

Fee Compression among Recordkeepers

- Fiduciary requirements, litigation, and industry consolidation spur fee reductions

Formal Fee Policy

Methods to Pay for Plan Expenses

Structure of a Fund's Expenses

- Fund expense ratio = investment management net cost + revenue sharing (e.g., 12b-1, sub-TA, admin fees)
- A plan sponsor's decision regarding share classes used, how fees are calculated, and how plan fees are allocated to participants is generally referred to as a **fee methodology**

Fund Expense Ratio	Sub-TA Fee	Recordkeeper
	12b-1 Fee	Advisor or Recordkeeper
	Investment Management Fee	Fund Company
	Fund Administration Fee	Fund Custodian/Trustee

Methods to Pay for Plan Expenses

Generally, there are three options if paid by plan assets (currently, there is no current requirement to use one or the other, but trending toward the institutional or “fee leveling” method):

Built-In with Revenue Sharing

- Fees are allocated based on participant assets in each fund.
- Expense ratio includes revenue sharing to cover administrative costs of the plan.
- Issue: transparency and equity.

Institutional Lineup Method

- Expense ratio does not include revenue sharing.
- Administrative costs are charged and collected separately, either through an asset-based fee or a per-head fee. Asset-based means larger account pays more for same service.
- Trend toward using a per-head fee in larger plans.

Fee Leveling Method

- Each participant’s contribution to plan expenses is *leveled*, meaning all participants contribute the same percentage toward plan costs regardless of the fund’s revenue sharing.
- A fund’s revenue sharing is “leveled” to a targeted amount, either through charging additional fees (if less than the required revenue amount) or by rebating excess revenue to participants.

Prudent Process: How to Determine Reasonableness and Competitiveness of Fees

Benchmark Fees on a Regular Basis

- 1-3 years is most common.
- Committees should understand *what* is being charged and *how* it's being paid.
- Recordkeeping technology exists to implement various methods of fee payment.

Resources to Benchmark Fees

- Book of averages can help, but may not adequately take your plan into account.
- Seek advisor with significant database to benchmark, which will include plan size and average account balance.
- RFI to assess the marketplace as it gets closer to a plan comparison.
 - Be aware of ancillary fees (both plan and participant).
 - Be aware of investment requirements.
- Full RFP to assess both price and services is the most accurate. Fits well with current non-monetary settlement requirements.
- Document, document, document.

Ensuring Competitive Fees

Consider Ways to Ensure Your Plan Is Attractive to Recordkeepers:

- Net cash flows matter
- Average account balance is important
- Encouraging rollovers into the plan
- Eliminating small balances of terminated employees
- Retain larger account balance vs. having employees take lump sums
- Limiting number of loans available to participants
- Liquid assets to move to new provider if appropriate
- Need for on-site education—cost vs. benefit

What About Investment Fees?

- Benchmark investment fees, too
- Document total plan fees. Assess for reasonableness against peer investments

Key Takeaways

1

Litigation and fee disclosure are driving the trend of plan sponsors evaluating plan fees more often. Every 1-3 years is recommended.

2

Fee compression means recordkeepers are looking to collect revenues through other means—e.g., proprietary investments and services, transaction fees, fund change fees, and SDBA. Make sure you understand all your plan's fees.

3

There are steps you can take to make your plan more attractive from a recordkeeper perspective—e.g., encouraging rollovers, adding retirement income options, and evaluating loan and hardship programs.

4

There are many ways to pay for plan expenses and some interesting trends. It's important to follow a prudent process to evaluate fees, document your evaluation, and revisit as needed. There is no single right way to pay for plan fees.

Plan Design

Diversity and Inclusion

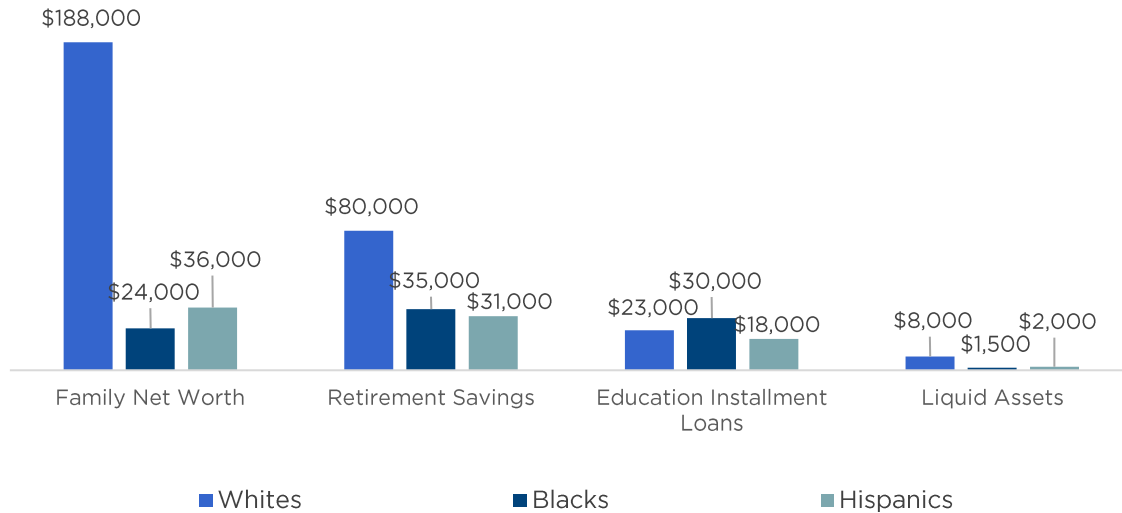


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Diversity and Inclusion in Retirement: Financial Wellness

Financial wellness means having the ability to meet both current and future financial needs, resulting in lower levels of financial stress. Studies show that people of color may face a higher hurdle in achieving financial wellness due to differences in access to investment savings, homeownership, and the ability to build wealth. We explore some of the challenges faced by people of color and share ideas on how to design a more inclusive and effective financial wellness program.

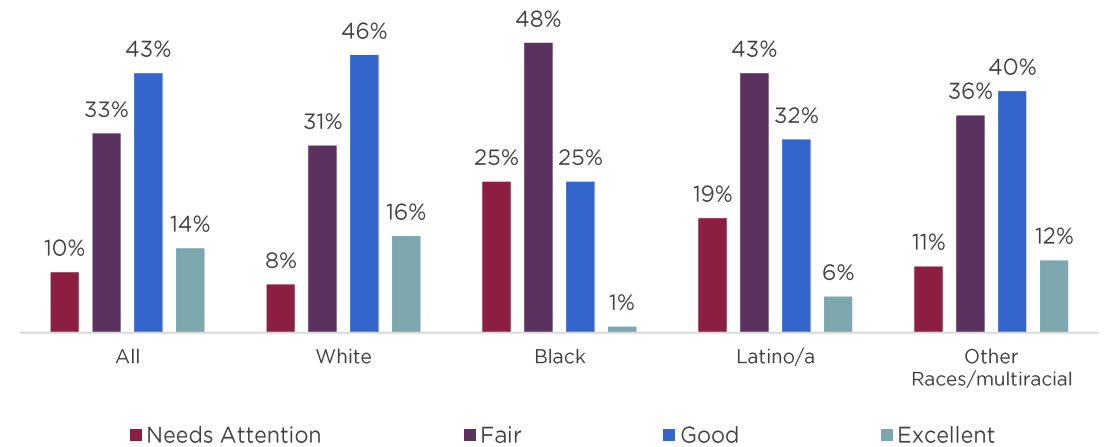
Consumer Finances by Race



According to the Federal Reserve’s “Survey of Consumer Finances,” Whites have significantly higher net worths, more retirement savings, and more liquid assets than Blacks and Hispanics.

Sources: “Racial Inequalities in Financial Wellness,” Fidelity; “Financial Wellness Through the Lens of Race and Ethnicity,” T. Rowe Price; “Race and Financial Stress,” Financial Finesse

Financial Wellness Scores by Race



According to Fidelity, among those with retirement plan access, fewer than 1 in 10 White participants had financial wellness scores that needed immediate attention. For Black employees, this was 2.5 times higher, and it was 2.7 times higher for Latino/a employees. This held true even when accounting for household income across groups.

Diversity and Inclusion in Retirement: Financial Wellness

To design a more effective financial wellness program, consider ways to drive participant usage—like integrating content into open enrollment periods or requiring employees to complete certain steps to collect incentives. Programs should be accessible, inclusive, and relevant.



MAKE IT ACCESSIBLE

- Use various forms of communication, like mailers and flyers, in-person meetings, email communications, webinars, and videos.
- Make the content and services accessible in multiple languages and available during flexible hours.
- Keep language simple and avoid the use of jargon when possible.



MAKE IT INCLUSIVE

- Be thoughtful with examples and how people are portrayed in communications.
- Be gender neutral in your messaging.
- Consider differences in gender, sexual orientation, marital status, disability, and caregiver status in addition to race.
- Seek input from groups you want to reach by asking questions.



MAKE IT RELEVANT

- Target financial wellness campaigns to make the benefit more relevant to employees.
- Tie educational content to specific participant actions, like loans, hardship withdrawals, or deferral changes.
- Consider surveying employees to identify their wellness needs or work with internal employee resource groups to determine relevant content.

Diversity and Inclusion in Retirement: Plan Design

A huge disparity exists between retirement savings of minorities versus Whites, and women versus men. Women and minorities, on average, have lower earnings and lower job tenure, and are more likely to work part-time or seasonal shifts. In our D&I topical series, CAPTRUST examines the actions plan sponsors can take to create more equitable and inclusive retirement benefits for their participants. We start by focusing on plan design features that benefit minorities and women and encourage savings.



AUTOMATIC PLAN FEATURES

Implement auto-enrollment and auto-escalation features to encourage savings and improve deferral rates.

DID YOU KNOW?

According to a Vanguard study, auto-enrollment is particularly important for low-income Blacks and Hispanics. With voluntary enrollment, these individuals participate in a defined contribution plan at 35% and 36%, respectively. With auto-enrollment, participation jumps to 93% and 94%, respectively.

Auto-escalation is also important in reducing the disparity in savings rates between lower-income minorities versus Whites and Asians. Whites and Asians were more likely to override their plan's default deferral contribution. As a result, deferral rates for Whites and Asians with auto enrollment were about 0.5 to 2 percentage points higher than those for Blacks and Hispanics.

These recommendations are from a 2010 ERISA Advisory Council report: *Disparities for Women and Minorities in Retirement Savings*. While dated, the tactics suggested above remain relevant. The ERISA Advisory Council will issue a new report later this year, *Gaps in Retirement Savings Based on Race, Ethnicity, and Gender*, and will formulate specific recommendations that the Department of Labor could follow to reduce these gaps in retirement savings.



LOANS

Update plan loan provisions to:

- Offer access to loans to encourage plan participation;
- Actively promote the use of loans over hardship withdrawals for emergency needs; and
- Allow terminated employees to continue to repay loans.



ELIGIBILITY

Update eligibility to:

- Allow part-time and seasonal workers to participate in the retirement plan; and
- Allow for immediate eligibility and shorter vesting periods.

Questions?

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