

*Please note: This is a transcription so there may be slight grammatical errors.*

Hello, everyone, and welcome to today's webinar, Retirement Industry Predictions for 2023. I would now like to introduce Scott Matheson, managing director, head of institutional group at CAPTRUST. Scott.

- Awesome, well, thanks, Wendy, and hey, everybody, and welcome to today's session. Thanks for joining us. It's not lost on us this is the end of the year, and as so many businesses are grappling with ends of years, everybody's busy and budgets and year end and compensation and, oh, maybe try and sneak a few days off. So it means a lot that you joined us here today. As we've done in the past, today we're gonna go out there and give you, we're gonna take a risk, as we do every year, and give you our best reading of the tea leaves, share our predictions on what lies ahead for retirement plan sponsors in particular in 2023. Good news for you, I'm not gonna talk the whole time. So I'm excited to be joined by three of my partners this afternoon, each of whom lead our major retirement practices here at CAPTRUST. These three are the real experts that you want to hear from. So I'm gonna play the role of moderator, let them do most of the talking and predicting. Also, that's a better career risk for me. Just a reminder that we are recording this session for future playback and critique of my public speaking. So I'd like to also remind you that we will save time at the end for your questions. Feel free to use that chat feature in the webinar screen in front of you if you wanna submit questions. We will try and get to as many as we possibly can. But let me start with a few brief introductions. I'm gonna go in order of CAPTRUST tenure, working from longest to shortest this time, and that means Jason Stevens is up first. Jason joined the firm in 1999, and along the way, has done quite a few different jobs here and I would argue he's the brains behind many of the systems and approaches to research that we use here at CAPTRUST. For nearly the last decade, though, Jason has been really leading our non-qualified practice. He's our non-qualified executive benefits practice leader and has built alongside of him and with him a very talented team of what I'm gonna call non-qual ninjas. And together they have architected our firm's really unique fee-for-service holistic suite of services for employer sponsoring or even looking to sponsor non-qualified deferred comp plans for their, you know, kind of think top hat and executive employees. Beyond the firm, Jason's pretty actively involved in a number of leadership capacities across industry groups. He's involved in lobbying, promoting transparency and best practices, and more. I'll continue with that order, and so Jennifer you're up next. Jennifer Doss joined CAPTRUST in 2007, about six months after I did. Today she is our defined contribution practice leader and she and her team of other DC subject matter experts are responsible for the development and implementation of our defined contribution services here at CAPTRUST. That means her team is servicing more than 3,000 DC plan sponsors and almost 2X that in terms of plans themselves, and that's across, of course, millions of employees. So she has a hefty job and big responsibilities, as do her two colleagues here on the screen. Outside of her day job, just like Jason does, she's involved in Washington, D.C., and in the industry. In fact, is the chair of government affairs for our industry's largest association, which has kept her pretty busy of late, as you might imagine. Last but not least, Grant Verhaeghe, who joined the firm back in 2010 after spending I think about a dozen or so years as a consultant at Aon. He actually took a piece of business from us. He hates it when I tell this story. I called him, we had lunch, and then I

begged him to come work here 'cause he's clearly much smarter than I am and better at selling apparently. So he came and took on the role of practice leader for what was at the time our DB pension business. Today, beyond that, he's responsible for all institutional asset pools we serve as clients, including our E&F, endowment and foundation clients. And like Jason and Jennifer, Grant is called on quite often to influence legislation regulation and has an active role working across and with our competitors really trying to get best practices established for compliance, reporting, transparency, all with the aim of benefiting our clients. So the combined team underneath these three total to a really impressive count of I think almost 80 now, actually, subject matter experts and analysts. So hopefully they've armed them well. Thanks for joining me, gang. Look forward to a little conversation here, and I'm gonna provide a little bit of backdrop and then get out of the way and put you on the hot seat. So let me do a little tee up on 2022 before we move forward into those questions and, more importantly, your predictions. So in speed round fashion here, the economic front, the US consumers experienced, has experienced 40-plus-year high inflation this year. It peaked in the summer, but it hasn't really abated all that much. Little wins, not big wins. Employers along the way have been managing through what I'd call excessively tight labor markets. Labor markets riddled by a labor market participation rate that hasn't bounced back and recovered back to February of 2020 highs. We've got continued quit rates in 2022 of around four million workers a month. We, of course, in kind of concert with that, have elevated and sticky wage inflation causing not only retention, but as everybody that's in the business world or really in hiring anybody these days knows that hiring challenges are quite plentiful. And of course, we all know that markets are always trying to read the economy and effectively predict what's coming next. So what that's meant for investors this year, so far anyway, is equity markets down across the board with several sectors and sub-sectors in what many would call correction territory. Very frustrating bond market losses this year driven by an aggressive policy shift, at least here in the US and a lot of central banks around the world. But here, the Federal Reserve Bank has been aggressively raising interest rates to fight off that inflation I mentioned earlier. And then the vast majority of retirement investors, who we're gonna talk about and are concerning ourselves with on a day-to-day basis most, and be those DC participants, DB plan investors, those trustees responsible, really all of them were investing primarily most of, if not, in many cases, all of, their investment assets in long only stocks or equities and long only fixed income, which meant they all got hit on both sides of their asset allocation in this really extremely rare period of time where kind of usual portfolio diversification tools failed them. What else is out there? Washington, D.C., you know, in Jason's world, probably more relevant than anywhere else, no change in the tax regime that's been talked about for a few years now. ESG, the Department of Labor finally released their final final rule after about a year since it proposed. And then I don't know what's happened since we've been on this call, but Secure 2.0 has been being kicked around Congress and everyone is hopeful to get the latest version of that passed before Congress breaks for the holidays and until the new year. So last thing I'd just say, the workforce trends, we've been on a march towards trends that would change the social contract in many ways. That's been going on for decades between an employer and the employee in the US and what's happened kind of post the pandemic and then obviously given the economic and labor market backdrop I just went through is we got an environment where some of the power shift has skewed in the employee's favor. So that's a bunch of good news. But I will leave you with a little silver lining,

'cause as the character Antonio says well in Shakespeare's "The Tempest," "What is past is prologue," and throughout history, we've repeatedly seen that the economy markets and even labor markets work in cycles. So we're all expecting that some of the shifts are here to stay, but many, and many of the most painful ones, we expect will revert back to historical norm and we're gonna pin down our subject matter experts here to let us know when that's gonna happen or directionally what we should expect to see in 2023. Before we go to the future, Grant, I'll give you a break. We'll start with you. And I'm gonna ask you all to respond to this, but which of the headwinds that I just went through, as you sat there and got depressed, which of those has been most frustrating to your client types within your practices, for each of your respective practices? But like I said, Grant, you get us kicked off.

- Yeah, yeah, I think without a doubt in the defined benefit market, the market backdrop is probably the key driver of most of the conversations. You know, the S&P 500, I think, through yesterday was down 14.9. Just intermediate or aggregate bond, index was down call it 11%. And so, you know, if you do the math on that, most pension plans are probably gonna be down somewhere in the neighborhood of 12 to 13%. And so that's gonna manifest in a lot of different ways in conversations and a lot of that frustration really can kind of be broken down by what I'll call two plan types. You know, for those that have, we'll call it a total return approach and, you know, maybe a partnership cash balance plan as an example, I just think there're gonna be a lot of people who had really conservative allocations that are gonna kind of wake up and go, "Hey, wait a minute, the bonds didn't protect me like I thought they were gonna protect me, and, you know, what are the implications of I guess that decision and that market action?" And so I think that'll be an interesting kind of turn of the year in terms of those conversations. And then the other area I would say is just within final average pay plans or what I'll call your traditional pension plan, when interest rates go up, that means liabilities go down. And interestingly, I think that's gonna have a bigger impact on plan funding levels than the fact that assets declined. In fact, I think if you look at the Milliman 100 Index through the end of October, which was the last published index, the average pension plan was funded roughly 112, 113% right? And so there are gonna be a lot of people who are gonna wake up and say, "Look, I had an LDI strategy, my plan is really well funded," and they're probably gonna question whether it was the right decision or not because they're gonna look at the absolute return on their bonds and go, "Wait a minute, my long duration bonds lost 15 or 16%. Is that a good thing or a bad thing?" And so there'll be some folks that I think will question those decisions. And then I think also, probably more importantly, for those folks who really didn't go into this with a plan, meaning they didn't have a glide path, they didn't adopt a liability-driven investing strategy, they're gonna wake up with pretty solid funding levels and they're gonna go, "Wait, I'm pretty close to my objective," which is a good thing, but then they're gonna have to figure out, "Well, how do I act on it, right? If I'm really close to my objective, then what are the things I have to think about?" And one of the toughest decisions I think they're gonna face is, well, the natural answer is you probably want to think about hedging your liability, which means buying long duration bonds, and that's a pretty tough conversation for somebody who's never embraced that previously, you know, in the face of the returns that we just experienced last year. So I think that's probably gonna be the thing that dominates most defined benefit conversations in calendar year 2023.

- Yeah, there's a lot there. You know, cuts both ways, right? Bad news, good news. Jason, how about you?

- Yeah, thanks, Scott. I would say, you know, in the context of non-qualified plans, probably the most frustrating element of plan sponsors have really been the volatility that we've seen in the financial markets and I think that's really for a couple reasons. First, I think there was a lot of plan sponsors that were initially hesitant regarding whether the demand for these plans would remain strong in a challenging market, and especially for plan sponsors that were thinking about starting a plan. I think that caused some reason for pause. And ultimately, though, I think what we saw is that, you know, support for non-qualified plans outside of when markets are just ripping higher or tax hikes are being discussed has really remained. So we've continued to see steady demand, but that volatility I think really caused some folks to double down or kind of really think through whether or not this was the environment that they wanted to really do that. Now, I think, you know, contrary to that, the labor markets really provided some support for non-qualified plans and really, the demand that we've seen for executive talent and, frankly, the demands of executive talent for having benefit expectations has really supported non-qualified plan interests. So I'd say that's the first thing under volatility that we've seen. But the second comment which I think has caused some additional frustration really, and it's a little bit more nuanced, relates to the impact of a non-qualified plan on a company's financial statements. And really, without going into too much detail, it's fair to say that many plan sponsors really didn't understand the impact that a non-qualified plan could have on their finances if the plan liabilities weren't properly hedged. And so in some instances, you know, that may have been a calculated risk among CFOs to maybe leave their plans unfinanced or partially hedged, and in other instances, it may have just been a general misunderstanding related to how non-qualified plans work and how that relationship between assets and liabilities really work. So the return of market volatility I think really stood out among plan sponsors that we talked to from a frustration standpoint. You know, interestingly, though, I guess I would comment that a lot of committees I think have been become much more informed regarding that volatility and the nuances of it in the non-qualified plan market. And so, you know, we've seen some tighter collaboration between finance departments and human resource groups related to just the maintenance of these plans in general.

- Yep, Jennifer, you can take the mic next and explain that accounting volatility. I'm just kidding. What are you seeing in DC?

- Not what we talked about. But yeah, I would say from just a more general employer perspective, and you hit on this in your intro, it's just been a really tough, challenging labor market. I think that impacts the DC plan in a couple ways but most acutely probably through a lot of plan design conversations. You know, labor markets have just been the most frustrating item to many companies the last year. So lots of conversations this year on how employers can really remain competitive in this environment. And I will say there was a newly released Plan Sponsor Council of America survey this week and we're actually at our highest employer contribution rate in the history of the survey, and they've been doing this for, you know, like 20 years. So we're at 5.6%. Other notable plan design changes I think that they noted in the survey,

you've got things like more use of immediate vesting, more Roth availability, more managed accounts that are being offered, higher default enrollment rates really to get people more on track and taking advantage of a full match, and I think that confirms with what we've been hearing and seeing from our client base anecdotally this year, is they really took a hard look over the past two years of where their retirement plan might not be as competitive as maybe it could be and where you could make changes. The other area they're investing in related to that is financial wellness programs, and, you know, more employees today want financial wellness services from their employers than ever before. Wellness tools have just been huge this year and there are more options, I think, than ever before between third parties and recordkeepers of really how to engage employees in that conversation. And then I think to get a little bit more specific to DC conversations, you know, I think this year's been frustrating from an investment perspective, to echo some of that sentiment, but I do think that most of our plan sponsors understand that what we're looking at are very long timeframes here and that down markets are really opportunities to rebalance and reinvest. However, when you have core fixed income performing the way it has, you talked about, you know, not a lot of places to hide, you have target-date funds reacting to sustained market downturns, which we haven't had in a while, and you've got higher capital preservation rates now, and what does that do? I think a very natural question from plan sponsors is, are these the right investments? Are these the right tools for our plan? If you take target-date funds, for example, you know, we talk to our plan sponsors all the time about how target-date funds are gonna react in different market environments and what type of asset class diversification they have, but until you experience it, you know, you may feel differently about the type of target-date series that's really appropriate for your plan. You know, short-term rates I mentioned have risen a lot this year. That impacts money market and stable value and guaranteed investments in different ways and we're having conversations around that. And then, of course, you mentioned this, conversations around, you know, ESG and retirement income with more employees staying in plan and, you know, what's the right way to implement that? So we do expect a lot more of those conversations in 2023. And I think tied into all of that has always been, you know, in plan sponsors' minds, what does this do to my fees, right? If I redo my menu, like, what does that look like? And particularly concerned about all the continued litigation we've seen that's focused on fees and target-date funds and, you know, a lot of that leads to sometimes a lot of discussion and not a lot of action in our industry, and, you know, I truly hope that we can overcome that in the future because the truth is, we're never gonna solve issues or innovate, you know, if we don't ever do anything differently.

- Great point. We've been grappling with that for a while, right? The exclusive benefit fund focus of the participants and the beneficiaries is the main event and now we're moving lightning rods as your primary goal. But, you know, the business reality of it is you're trying to balance both, skewing towards that benefit, you know, what you're solving for, the fiduciary role first. And documentation, obviously we talk about that a lot, and logic and answering the question, why? Why do we do this? Why we make that choice so important? But, all right, well, let's switch to talking about silver lining for each of you and interested in opportunities that you see really coming out of the current state of the economy and markets across each of your practice areas. Grant, why don't you, I know you've mentioned a couple of these, as you think about those

people that wake up kind of surprised at their funding status, what else are you seeing out there?

- Yeah, I mean, I think you nailed it. I think folks who plan for it and folks who didn't plan for it wake up and have, you know, better funded status than they anticipated, And, you know, when you get done looking in the rear-view mirror and you kind of wonder what happened and why the returns are what they were, you realize how close you are to, you know, having a really well funded plan and trying to find a way to maintain that or, for a lot of folks, ultimately looking for ways to terminate or outsource that risk. And so I think the natural evolution is gonna be that we're gonna see a ton of pension risk transfer. I mean, we saw a lot of it in 2022. I think through 9/30, the pension risk transfer market was somewhere near 44 billion in single premium annuity group purchases. And so that's, you know, probably, well, it is definitely the largest single year we've had thus far, and I would anticipate that 2023 will be very similar. And so I think that's gonna lead to some real questions for plan sponsors as they try to navigate that environment. One of those is that, you know, in a world where we just had a record year and we're anticipating that a lot of folks are gonna want to try to look for ways to creatively transfer risk in 2023, what does that do for insurer balance sheet capacity? Are they gonna actually have the ability to buy the annuities that plan sponsors are looking to, you know, effectively place? And then even if they have the balance sheet capacity, are they gonna have the human capital capacity to actually onboard those clients and, you know, get participants paid? And so those are gonna be some tough decisions which are really gonna affect what I'll call the timing of pension risk transfer. So, you know, do I do it at the end of the year? Do I do it in the middle of the year? Do I do it in, you know, partial tranches or do I just wait until termination? And so I think that's gonna mean the people who are really successful at that are gonna be the people who are leveraging partners who have relationships with insurers, who, you know, have collective teams that include, you know, ERISA counsel and actuaries and all those other folks to really sort of land the process and make sure that it's well planned. The other aspect of pension risk transfer that I think is somewhat interesting is lump sums, right? Conceptually, if interest rates have risen, then kind of the present value of what you owe somebody is a lump sum to make up for all those future promises you made is less than it was just last year when we looked at the same rates. And so one would look at that and say, "Well, advantageously, it's a good idea for a plan sponsor to offer lump sums," and most people will do that if they seek pension risk transfer. The question I have is in a world where the lump sum that you're offering a participant is potentially half of what it was last year, are the take rates gonna look the same way that they did in the past? Because before that was a relatively easy to predict factor. I'm not sure that'll be the case when people see the numbers, particularly if you've done windows in the past. So those are a couple things. The last thing that I would say is, you know, I've been talking a lot about liability-driven investing and glide paths and pension risk transfer but not everybody follows those approaches, right? There are people who just have total return approaches. There are plan designs that warrant total return approaches. As an example, partnership cash balance plans. And I think even if you're following that type of approach, it's just natural to assume that you should probably revisit the role of fixed income in your portfolio, you know, the role of alternatives. You know, simply put, in a world where the ten-year was trading at, you know, 1.5, 1.6, and now it's trading north of three, probably closer to four at some point during the year,

you get a lot more out of a lot less risk in fixed income than you potentially used to. And so I think people will just naturally say, "Do I have the right asset allocation in the context of revised capital market assumptions," given kind of the, I guess in the wake of everything that we experienced in calendar year 2022. So those are the big things I see.

- Yeah, nothing like a good market dislocation to shake people's risk tolerance and rethinking those things. So Jason, how about you? Give us some good news, silver lining.

- Well, I think the silver lining in the non-qualified plan space has really been the support from the labor markets, which I guess is just a good theme in general, and, you know, the support that they've provided for non-qualified plan interest in particular. And really, to my earlier comments, you know, there was some thought I think among practitioners that as the financial markets, it didn't necessarily provide the same support that had been provided in the past or that there was no real movement on the tax front that that might, from a non-qualified perspective, really kind of hinder interest in plans or at least from a startup perspective. But yeah, I think we've continued to see really the labor markets and the demand for labor and the demand for talent, especially among executives, really support interest in non-qualified plans. And I think that's really come in kind of two shapes and sizes. You know, the first is with the startup plan, so those plan sponsors that don't have a non-qualified plan today and are trying to attract talent that are coming from an environment where maybe they had a plan in the past, and so a lot of startup conversations. And then frankly, it's within a lot of existing non-qualified plan sponsors, just re-energizing the plans and making sure that, you know, they're offering state-of-art features and best-in-class options within the plan because it also goes to that, you know, attraction of the executives in terms of where they're coming from and what their expectations are relative to the plans that they may have been exposed to in the past. And, you know, I think for plan sponsors in particular, that really means looking at things like eligibility, you know, how can they include the largest number of people in a plan without running to follow of any rules or regulations, so extending that benefit maybe beyond where it's been offered before, to a different class or group of employees within the organization. From a plan design standpoint is things like employer contributions. Are you offering an employer contribution? Is it an attractive employer contribution? How does that stack up relative to your competitors in the marketplace? Same thing with vesting provisions. If you are offering that employer contribution, how is the vesting done? Is that really operating as a retention feature to the plan? Can you put a vesting schedule in place that will keep people with you for the right reasons and keep them on board, which is really, you know, key to maintaining, you know, the key executives that you want to stay with your organization long term? And then other features, really from more of a participant focus perspective, are things like distribution options, right? Is my plan offering in-service distribution so my executives can take advantage of accessing the money in the plan, you know, throughout their tenure while employed? Or what are the real distribution options that are available to them and are they as flexible as what might be available under 409A, which governs these types of plans? And I'd say another, you know, plan design feature really is related to the investment menus. In particular, I would say, and Jennifer touched on this, is that we've seen really a shift in the qualified plan market of moving to investment trusts and other types of investments inside a qualified plan context that aren't

necessarily available inside a non-qualified plan context without creating some complexity. So we've seen plan sponsors really differentiate or start to differentiate the investment menus in the non-qualified plan. And that may be as simple as having some different options because of that collective trust hurdle, but it might also be expanding the menu to other asset classes because you don't have the same fiduciary barriers inside a non-qualified plan or potentially you have what many think may be a more sophisticated audience and they have access to outside advice and are able to defer more dollars relative to the qualified plan. So, you know, that's from a plan design standpoint, something we've definitely seen going across the board, and I think that'd be an interesting trend to continue to watch, and as that overlap between qualified and non-qualified plans decreases, at least relative to the investment standpoint, it does make discreet advice relative to the non-qualified plan probably more relevant than ever, where in the past, a lot of plan sponsors may have said, "Well, let's just do something similar to what we're doing in the qualified plan." That may, you know, no longer be the best route to follow as these plans become, you know, more specific and standalone. And so I think, you know, probably the biggest area that we've kind of seen a lot of conversation around is participant education, and plan sponsors, I think, are really beginning to understand that it's not only helpful to provide this population with education and advice about the non-qualified plan in particular, but it's really the same audience that could benefit from broader financial wellness and financial planning as a benefit also, and so offering that through this plan really makes all the sense in the world and I think plan sponsors are identifying that and seeing that as a good opportunity. And I could probably keep going, but those are the things that I think really jump out the most, is that impact of the labor market on those startup plans and re-energizing plan design and that shift into maybe a more robust education and advice offering through the non-qualified plan are what stand out the most.

- Well, I was just glad we recorded it 'cause I couldn't keep up taking all the notes. So Jennifer, how about you? DC plan.

- Yeah, so silver linings are my thing. So I've got this one. I think on the silver lining front, you know, participation and savings rates are actually up across the DC industry. So just take a minute to, you know, not necessarily a victory lap, there's a lot of work to do, but just to recognize that we have made progress. According to that Plan Sponsor Council of America survey referenced earlier, you know, DC participants increased their savings rate to an all-time high last year. In 2021, they contributed an average of 8.3% to their workplace retirement plans. That's up from 8% in 2020, and what it was 10 years ago was 6.7. Plan participation is also up at almost 90%. And so I think these things show us that all this participant education and advice and the uptick in auto features that we've seen is really driving some of the behaviors that we want to see. People are saving more and they're largely sticking with it. You know, I do think that while you'll see that withdrawals this year have been slightly up year over year, overall trading activity has really remained low throughout all the market volatility. So participants don't necessarily seem to be reacting negatively or sharply to recent market events. And I think a lot of the research shows us that the more people you have in professionally managed options like a target-date fund or a managed account, the more participants do stay on track regardless of market conditions. So again, that's where that auto enrollment and auto features and QDIA



really come into play. You know, the other silver lining I would say is I think we have a tendency to sometimes overlook fees. We focus so much in this industry on fee litigation and things being expensive that I think we forget that generally speaking, both across the investment landscape and recordkeeping, fees have been coming down for years now, and that's also, that's great news for participants. The collective trusts that Jason mentioned earlier, they're available to more and more plans and those are generally cheaper than maybe your off-the-shelf mutual funds. You know, things like managed accounts that I mentioned, those are down in terms of fees. Like five years ago, you know, the average for that was around, you know, 50 basis points, not including investment management underlying fees. Now we're closer to 30. And so these are meaningful, you know, improvements that we've made over the last couple of years. And so in terms of silver lining, I think that's what I would bring plan sponsors' attention to. And again, not to necessarily take a victory lap, but to realize that some of these things that we talk about and, you know, the financial wellness initiatives and all these things, they do make a difference and they are driving the behaviors that we want. And really would encourage plan sponsors to take a look at their own specific plan and some of these broader topics and really think about, you know, how they're doing in that regard.

- Yeah, I've been trying to pull double duty here, listen to you guys and look at the questions panel here. So it's harder than I remember. At any rate, there were a good number of questions in here so I'm gonna jump into the Q&A session here, and anybody that's out there that has more, chat them on in. But I'll start with Grant here. So Grant, you talked about market challenges hitting cash balance and I think you said partner cash balance, that's what we're talking about here, you know, the whole concept of causing plan sponsors to rethink plan design, maybe even asset allocation. There's a question here asking you to elaborate more on that.

- Sure, yeah, I think, I mean, in that space in particular, it largely does plan designs in a partnership structure around really about creating tax deferral for a certain population of their employees. And so the way they've done that in the past is to have, you know, a cash balance formula which is either, you know, a fixed rate or maybe it's a reference rate type of crediting rate on that portfolio and so the investment objective has generally been to try to accomplish that objective and therefore, you know, you effectively have partners who are getting a predictable tax deferral and maintaining a really well-funded plan. I think in a world where you're providing a reference rate or a fixed rate of 3 to 4 or 5% and your bond portfolio and your equity portfolio are down 12 to 13%, there'll be some folks who are gonna wake up and go, "Wait a minute, that plan design kind of hurt me and my asset allocation relative to that plan design hurt me." So I think we'll definitely see folks who have those types of plans consider whether or not having what's called a market rate cash balance plan makes sense, meaning shifting the credit rate to effectively be what the return on the plan assets are and then you can align the investment strategy, instead of relative to a target, more aligned with risk tolerance of your collective partnership. So I think from a plan design perspective, you'll certainly see that. But even if you have that type of type of portfolio, I mean, experiencing a year like that from a return perspective is still going to create some challenges. And so I just think, you know, before you had to take a lot more risk to get a 3 or 4 or 5 or 6% rate of return than you do in a world

where the risk-free, quote, unquote, risk-free 10-year treasury is yielding 3.5%. So I just think people will revisit whether they need to have the same risk or the same types of risk. And that's also been a market where people have been pretty reticent to invest in alternative investments and alternatives come in all flavors and forms. There's, you know, pretty liquid stuff, there's what I'll call semi-liquid stuff, and then there's really illiquid stuff. And so depending on the time horizon of the plan and given the IRS permanency rules on those plans, those may or may not make sense, but that market has generally been pretty reticent to have exposure to less liquid and often perceived more expensive investment solutions, largely of which were the ones that would've protected them in an environment like last year. So I'm certainly not suggesting that you change your asset allocation in the context of experiencing the event, right? That's probably the worst time to do it. But I do think people are gonna ask the question, "If I have a really long-term time horizon, should I reconsider whether those things make sense? And if I do, you know, how do I think about implementing that in a portfolio so that I'm not, you know, effectively doing it at a disadvantageous timing?" So I think that's probably gonna play out next year, particularly for cash balance plans and specifically for those associated with partnerships. It's just a pretty specific segment of the market with unique needs.

- Yeah, it's kinda the question of how much volatility are you willing to, how much uncertainty, not volatility, in this case, but how much uncertainty are you willing to take on in exchange for, you know, what is a good tax deferral vehicle for attracting and retaining your key talent. So, all right, Jason, here's one for you. I think this is what you just ended on, in fact. You were talking about growing demand for advice education for executives. The question is, "What does success look like there?" What should sponsors of non-qual plans be thinking about if they wanted to launch that?

- Yeah, so I think that really starts with making sure that eligible participants for a plan have access to the right information when making decisions about the plan specifically. And, you know, more often than not, those decisions are concentrated around the annual enrollment period, and, you know, depending on the plan design, can be pretty nuanced. But for a lot of plan sponsors, that process is probably going on right now or maybe it happened in the last couple of weeks and having support available when participants are making those decisions, I think, is important. You know, typically the administrator may have some education tools but they don't necessarily offer meaningful advice for those individuals. And so really, you know, having access to that advice or providing access to those advice and even extending that advice outside the context of the non-qualified plan is something that I think is not only useful, but it's in high demand among the individuals that are kind of targeted by a non-qualified plan. And those folks are gonna have complex financial pictures and integrating the non-qualified plan into that picture, I think, is something that they think about and want advice on how to do and I think more plan sponsors are really recognizing the value of offering that robust financial education and advice in the context of the non-qualified plan. And there's just really a ton of overlap, I think, between that audience and really the non-qualified plan and that audience that would need those financial planning resources. So I think the way to really do that or implement that maybe most successfully is really sort of a two-layered approach. It's first that broad non-qualified advice and education around the plan specifically and then really having those

individuals maybe have the ability to opt in for more robust financial planning discussions so that they have access and relationships with folks that can help them through more complex discussions not only relative to the plan but other aspects of their financial picture.

- Yeah, that's good. I know it's often vexing to particularly new plans, new participants in those plans, those non-qual plans, newer exec top hat employees. I think those are revocable decisions on future benefits tend to get people sideways. So more guidance, the better, That's good. Okay, Jennifer, here we go. Your top five favorite things to talk about in 2022 which is now a reality in '23. So now the DOL has provided final rule for ESG incorporation in ERISA plans. What do you think the conversations are gonna really look like next year with DC plan sponsors?

- Yeah, I think we've been talking about this for a while. You mentioned there was a year in between the proposed rule from the Department of Labor and now this final rule that we got. So it's a long time of uncertainty, kind of, you know, what will they do? What will they not do? So I do think a lot of conversations next year into 2023 will be like, "Well, what's next, right?" I think the industry as a whole was pretty happy with the neutrality of the final rule. So I think the natural question for next year is really how many of those plan sponsors that said that they were waiting on the sidelines for the rule to come out to take action are actually going to take action on adding ESG factors to their investment process and how does that even get implemented? You know, I've had this longstanding belief that what we're gonna see is much more ESG integration. Meaning, those factors are really just considered as part of a manager's stock or bond selection, but it's really not the primary factor that they're using to make their decisions versus something that's more ESG focused or, you know, driving an impact. So net-net, I think we're going to have a lot of conversations about how current managers do or do not currently incorporate ESG factors into their process and then what kind of information in that regard you may wanna pass on to your participants or, you know, what kind of information do you wanna arm them with and how do you get that to them so they can make decisions for themselves? You know, more so that than plan sponsors specifically coming out and adding, you know, like an ESG suite of options or something like that. I think it's gonna be much more part of a nuanced conversation, right? And part of the manager selection process going forward as well. But, again, that is just one factor in the overall assessment and not necessarily, you know, gonna be the main event for most plan sponsors.

- Yep, that's good. A lot of pent-up demand. We'll probably get that first wave and then we'll see kind of the rest, who are the first followers and second followers and so on, eh? That's what I heard, so. All right, Grant, I think you talked about this a little bit, but there was a question, "What did you mean when you said you need the right partners if you wanna move forward with terminating a traditional DB plan?" Reiterate that or expand on-

- Yeah, I think, you know, DB plan termination is a pretty complex concept, right? It's not as simple as saying, "Hey, well, you know what? We're gonna go buy some annuities and we're gonna be done with it," right? There's, you know, a crazy number of interrelated rules and timelines associated with PBGC requirements and DOL requirements and participant notices and that means you're gonna have to partner with a lot of different folks to help sort of protect

you and make sure that you handle that in a way that you know really honors the intent or the objective of providing that benefit to the participant and doing it in a way that they can understand the decisions that are made available to them. So that's a piece of it, right? And that means, you know, are your custody agents and your trustee and your actuary and your administrator, your investment advisor, you know, actively communicating? There's a whole nother element of that too, which is if you're gonna go out and buy annuities, which almost certainly you're gonna have to do at some point because some participant is going to choose that they want an annuity, and there likely may be a population of your participants that you choose to not even give them an option other than to have an annuity, and so in that world, you know, there's a very specific process that you have to follow according to the Department of Labor which is called the DOL 95-1 Interpretive Bulletin. And basically it just says that you have to buy the safest available annuity for your participants. In other words, you can't buy the cheapest thing just because it's the cheapest. You have to make a good economic decision of course. But you have to make one that makes sense in the context of the insurer's ability to honor that obligation to the participant. And so there's a very specific set of rules that you have to follow there. And then lastly, you know, at last count, there was nearly 20 insurance companies that were in that market that might actually meet that 95-1 bulletin. And so if they meet that for a given type of a plan, how do you get them all to the table and how do you make sure that you have the right data in front of them that you've underwritten the plan so that they understand the liability that they're buying so that you can get advantageous pricing? And how do you make sure that they understand where they're at in that pricing process? And so that means you really probably need to be working with an annuity placement agent that really understands the market, that has really, really, really sound resources from an actuarial perspective, and who has phenomenal relationships with the insurers. And there are gonna be some plans who just, frankly, don't have attractive liabilities relative to others that are available in the marketplace. And so who you partner with and how you brand that and how you market it to an insurer is going to matter and it's gonna matter significantly. So I just think it's about getting all those people to work in concert to ensure that you accomplish the objective that you want and ultimately to keep your promises to your participants.

- Yeah, I love this industry. We just throw around interpretive bulletins with, you know, numbers and dashes and other numbers and tax codes like everybody just speaks that way. So key takeaway there for sure is if you are interested, start now, right? Fair enough. Okay. I'm gonna ask one more question in the interest of time here and then give a few takeaways and send everybody on their way back to their year end budgets and whatnot. So Jennifer, this one, "Has anything happened with Secure Act 2.0 while we're on here?" Do you know? You haven't been watching?

- I mean, I've been trying to, you know, pay attention to actually doing the webinar, so to be honest, I don't know.

- Oh, okay. All right, let's assume then that it has not passed.

- Sure.

- Two questions then. Is there a, how do you handicap the odds of it passing this year? And then second question is, I added that one by the way, but somebody did ask, "What's the most impactful provision?" So why don't you answer it as what's your most, what's your favorite provision that is gonna go through as written?

- Yeah, I do still think that there are high, I don't think it's passed while we were on this webinar, but I still think there's high hopes that we get it before the end of the year. There's just so much bipartisan support. And I know that doesn't always necessarily equate to action, but I think we're heading down a right path here. Although, we are, you know, true to government form, we're cutting it down to the end of the wire here. So the issue is Secure Act 2.0, you know, it really doesn't have time to be passed as a standalone bill, which means it has to be attached to something that is must pass, and right now that is gonna be the government funding bill being discussed. And it was actually, funding was supposed to run out tomorrow, Friday the 16th, but Congress reached an agreement to extend that deadline I think to next week, which is December 23rd. So, you know, who's to say it'll be worked out before then or it'll be extended past that? I mean, reportedly, you know, they're close to some sort of budget agreement, so everybody's feeling very positive, but, again, don't really know. Essentially, we have until January 3rd for this to happen or, you know, the bills that make up Secure Act, we have a new Congress and it has to be reintroduced and the process is gonna start all over again. And that's not to say that we still couldn't get something done next year, but it's not necessarily gonna be number one on the priority list. And the issue is also that some of our biggest retirement legislation proponents within Congress are retiring at the end of this term, Senator Rob Portman, Congressman Kevin Brady. So, again, feeling still pretty good about it. Although, again, we're gonna be cutting it close. In terms of what I'm most excited about, I think it has to be collective trust within 403b plans. And I realize that not everybody on this call has a 403b plan so maybe they don't know that right now 403b plans cannot invest in collective investment trusts. It's annuities or registered mutual funds through custodial accounts. But that is gonna be a huge win for 403b plan participants and it's gonna result in some very, you know, quick and very tangible fee savings and all of those are very, very good things and things that directly contribute to being able to be more retirement secure.

- All right, good stuff. Okay, well, this is what I heard in rapid fire format, so hopefully I took good notes. I heard DB annuity purchase spike, but if you're interested in terminating your plan, get started quickly and make sure you got the right partners. I heard continuation of rapid growth of startups in the non-qual space as people are scrambling to take care of all segments of their workforce, including the executives. I heard a continued growth in startup partnership cash balance in particular where you get that tax deferral, as everybody's scrambling again for, you know, competitiveness in retention and recruiting of people. And then closely related to the cash balance, Grant, you talked about this, you know, revisiting asset allocation, maybe even plan design. I heard ESG focus out of, you know, the DC world, 401k, 403b. I heard revisiting, in some cases, menu design and certainly revisiting the tools, asset allocation tools, traditionally QDIA and/or managed accounts, out of DC. And then underneath all of that, we didn't talk about the continuation of discretion, but I know you all believe it so I'll say it, the transition

away as plan sponsors look to spend their time more wisely on the big rock items and also the risk transference coming from the desire to avoid litigation and all that too. And then the last piece that was threaded throughout everything that you said was a continued focus on financial wellness, be that for your execs, be that for coaching and opportunities, to provide that for terminating pension, and certainly it's been around the block in the defined contribution space for quite some time now. So did I misstate anything? There's a chance. Okay.

- Good job.

- Okay, good.

- No.

- All right, well, you heard economic uncertainty, you heard market volatility, folks, you heard labor market challenges, the unfortunate continued wave of litigation, the new legislation and regulations that will certainly keep plan sponsors hopefully in a good way, Secure 2.0, busy next year evaluating impact, enhancing retirement plan benefits. We're pretty certain of all that. But I started it by saying past is prologue. I will end it by telling you that past does not have to be prologue in all areas because the great thing about a new year is a new year creates new opportunities for everybody, and in this case, for plan sponsors to react in new ways, adopt new ideas, innovate in some really cool and key areas. So with that, we appreciate you joining us today. We wish everybody listening in a happy, healthy, safe holiday season and all the prosperity you can get in 2023.

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