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Matt Patrick:

Hello everyone. Welcome to our 2024 Trends and predictions webinar for Retirement plans. As Kevin mentioned, I'm Matt Patrick, I'm a member of the defined Contribution team here at CAPTRUST, and I'm joined today by two members of our investment strategist team, Kevin Fieldman, who is in Chicago, and then Brent Hartman who has coming to us from Salt Lake City. Welcome gentlemen, Matt, we're excited to have everyone join today. We've got a pretty ambitious agenda that we want to get to. We're going to start off with some economic items, so what to look forward to in 2024 in that area that we're going to pivot to secure 2.0 and run through some of the provisions that are going live this year in that area. And then we'll wrap up with some more specific predictions tied to defined contribution, defined benefit and non-qualified plans. So that's the agenda.

We'll save some time at the end for questions. Please feel free to submit those if anything comes up along the way and we'll try to get to as many as possible. So, alright guys, let's get rolling here. We're going to start with some of those economic items. So Kevin, I'm going to start off with you 2023 surprise people a little bit. We had a lot of doom and gloom predictions coming into the year. Those didn't manifest thankfully in the way that a lot we're projecting, but what do you see as the big items to monitor going into 2024?

Kevin Fieldman:

Yeah, Matt, thanks and good afternoon or good morning, depending on where you're, thanks for joining us today. So yeah, so I think it's good just to take a quick step back and look at where we were 12 months ago. So 12 months ago, Matt, as you said, anyone in the all economists were looking for recession. The question wasn't if we're having a recession, it was when's it going to start and how long is it going to last? The thought was that we would have negative corporate earnings. Corporate earnings would fall off and that the Fed would start to cut rates sometime in the second half of 2023. And as you said, fortunately none of that happened. We ended up having a very robust year for the market, but it was very turbulent. So we started off really well. We struggled a little bit towards the early summer.

We had a big sell off in September, October, and then we had the big rally in November and December. And really the biggest factor around that is there others we'll talk about, but the biggest factor was really the markets and feelings on interest rate path. So really the market went up in the first quarter, they thought rates would start to come down because they were pricing the recession. And then when the Fed kind of pushed back on that, the middle of the year rates started to go back up and the market started to sell off again. And then we got really positive economic news around jobs and around CPI in the late part of the year. And the market again, started pricing a sell off. We saw that rally really in November, December, and really if you look at January, we're seeing a similar thing.

So you look at January, we started off the first week, a little rough, really people thinking maybe they overdid in December. And then we started to get some positive news. The Fed started to talk about the feeling that the Fed was going to start cutting again. But you just look at yesterday, you look at Jerome Powell's press conference and the feeling was cuts were coming, market was up. And then he said basically a base case is not cut in March, which is what the market was pricing. And we saw the biggest sell off in the market since September. So interest rates are going to continue to drive the markets going forward. So really the three things that we're really focused on looking at for 2024 in terms of trying to get a gauge on where this is going and really the first important one is the labor market.

So the one thing we saw that nobody really saw 12 months ago is this continued robust labor markets. We continue to have jobs being created, people are still employed, we're seeing wage growth at the end of last year for the first time we actually saw wage growth outpace the pace of inflation. So people are getting real wages, especially at the lower end of the curve. And what that's led to is really the second thing we're watching is that's consumer wages led to a strong consumer. That's important for US economy because the US economy is 70% made up of consumer activity. So people have jobs if they're making money, if they're getting money, they're going to spend that money that's beneficial for the US economy. That's what we've seen really robust growth rates both the third and fourth quarter of last year. But there is a caveat on that is that we're also seeing a lot more debt.

So last year for the first time in US history, we saw credit card debt exceed a trillion dollars. So people are using credit to spend some of this detailed spending to super spending. So that creates a question of a, is that going to cause

consumer to slow down? Are they getting to the point where their credit's getting maxed out and we're slowed down and if we do have a slow down, does that exacerbate a slow down because now all of a sudden people are potentially, jobs are starting to slow down, wages slow down, and now they have all this debt to pay off. So that's a positive. That's we're watching for both the positive and a negative standpoint. And then the big game in town is going to be the Federal Reserve. So what decision they make, it's clear after yesterday's meeting, they're going to start cutting sometime in 2024, not as soon as the market thought, which was March, but maybe sometime middle of the year.

So that's really the big question is when did they start cutting and then how many times did they cut in 2024? Jerome Powell, the one thing he's been consistent about is going to be very data dependent, so they're going to wait for more data. So they'll probably have a cooler idea as we get to the middle of the year in terms of how fast and when they start making the cuts. There are some other things for Washington as well, geopolitical events. We still have the war in Ukraine, we have the concern of what's going on in the Middle East and that expanding into a more regional war, which would clearly have an impact on oil prices, which would then affect the inflation, which then will affect the fed's, Fed's calculus, corporate earnings are something we're still watching, so we think that corporate earnings will start to grow in 2024.

That's a benefit for the market, but we'll watch that again, all of this is tied together. And then other thing is we do have an election here in the US but it's not just the US election. Over 50% of the nation's population and over 60% of the world's, sorry world's population and 60% of the world's GDP has an election this year. So we have an election here. There was just an election in Taiwan, there's one in India later this spring. Russia has one, so the EU will elect their parliament. So there's a lot of elections. So kind of the outcomes of that, not just here in the US but overseas all going to play a big role. So ultimately we think we're going to see similar to what we saw last year, more turbulence in the marketplace. So if we get the soft landing, we could see another positive year like we did, but it's not going to be a straight line. We're going to see ups and downs we saw so far in January and like we saw throughout most of 2023.

Matt Patrick:

Great, thanks so much Kevin. So certainly a lot to think through there and a lot of things changing from what we were talking about last year. A big piece of what you're hitting on is interest rates, federal Reserve, certainly a big topic of

conversation. I think a lot of the messaging out there is how is that tied to the debt that I'm holding? How is that tied to mortgage rates? But I guess pivoting to what does that mean for retirement plan sponsors? Brent, maybe could you tackle that one and how plan sponsors should be thinking about that?

Brent Hartman:

Absolutely. Clearly it's going to be a year of volatility. Kevin already alluded to this, but the market is anticipating faster and more fed cuts than what the Fed has implied. I thought Jerome Powell did a pretty good job yesterday of closing the door on a March cut and yet today still the market's pricing in a 40% probability of a March cut, despite the fact that I really thought Chair Powell tried to close that door pretty hard and say we're not going to see a cut in six weeks. A march is not a base case scenario. With that, what that means is we're going to see a year of volatility as we have this tug of war between what the market wants and expects versus what the Fed is communicating. Even when you dig down a little bit deeper and look at the Fed's communication of the Fed is saying, we think we're going to give you three cuts this year.

There are eight Fed governors who voted for one or two or zero cuts. If you listened to Chair Powell's comments yesterday, you heard him say multiple times, almost everyone on the committee agrees that it is time to start thinking about rate cuts. So in other words, there may be some governors on the board who do not want to cut rates or do not think it's time to start cutting rates. So eight governors voted for anywhere from zero to two cuts, five voted for three or more, and the average or the mean expectation came out as three. But you can see we've got a wide range of expectations from the Fed governors. That kind of uncertainty and volatility will wreak havoc in the markets, both the equity markets and fixed income. And then quite frankly, if we do get rates starting to fall, that will have meaningful impacts, especially for pension plan sponsors, I should say fasb government corporate pension plan sponsors whose rates or funding status really is driven by interest rate environment. So hopefully you've got a hedge in place and a strategy to think about what is my glide path? How much interest rate as a pension plan sponsor do I want to have on my balance sheet? How well funded am I and what should I be doing about hedging some of that interest rate risk?

Matt Patrick:

Great. So we'll certainly keep an eye on that. I think a lot of takeaways around monitoring what the Fed is going to do and how soon do we get those interest rate cuts if that comes through like the market is expecting right now, we're going to jump away from markets and get into secure 2.0, which was a big topic of conversation last year as we saw the first round of provisions from that act go into place. We've got some more coming online this year as we'll see over the next few years as they start to roll out new provisions. So a few mandatory provisions coming out this year around required minimum distributions and auto portability. But what I'd like to focus on is more around some of the optional provisions that are coming out since those are items that plan sponsors are going to have to think about whether it makes sense to make those available for their employee base. So a few of the big ones we're seeing are around emergency savings and emergency withdrawals and then student debt, which are two big topics of conversation just broadly across the economic environment. So maybe starting with the emergency savings piece, Kevin, if I can bring it back to you, can you run through what we're looking at in terms of what's going live and maybe what should plan sponsors be thinking about in terms of those provisions?

Kevin Fieldman:

Sure, yeah, thanks Matt. So it's interesting really since the pandemic Congress seems very determined in terms of being able to give retirement plan participants additional ways to get access to their money before retirement. So really started with the CARES Act and we've seen some of those things expand and it's really created some interesting dynamics between plan sponsors and I think one of the things that as a plan sponsor you have to consider is, is this plan really for retirement? Are you diluting potential, retire someone's potential retirement by giving them access to some of these things or are you going to get more people involved in the plan and staying in the plan if they know they have access to the money? And I think that's really the debate that most plan sponsors and committees are going through right now. But there are three optional provisions that did become effective one of 2014 I'll cover quickly.

And the first one is a pension linked emergency savings account. So this is as a plan sponsor, you have the ability to set up a cotton account where you can auto enroll participants up to 3% of a salary for a maximum annual maximum of $2,500 and that's money they can use for really anything and they can take a tax-free and pen penalty distribution once per month. So it's a provision that gives them somebody who needs help savings, somebody who help in terms of getting a plan

together. And you do get a tax benefit for that. It's not a lot, it's about $200 I think $2,500 maximum a year. It's about $200. But again, it gets into this debate I think that you as a plan sponsor have to start having with your committee in terms of what's the actual purpose of this plan and what impacts are we going to do to get more people involved.

So I think there's a lot of debate going on that these are things that I haven't seen a lot of people adopt yet, but I think there's a lot of conversations and I think these are ongoing conversations that'll happen over time. The second one is for certain emergency expenses. So this will allow a participant, you can add this, this will allow a participant to take a thousand dollars out of their plan and self-certify. So you wouldn't have to be involved in certifying as a hardship or so forth. And they can do that basically once every three years unless they repay the thousand dollars. So if somebody takes a thousand dollars this year, they either have to repay the distribution to the plan or if there's salary deferrals exceed a thousand dollars in that timeframe, then they can take another thousand dollars. So this one seems a little bit more from a plan sponsor standpoint.

It's not a lot of money, it's not something that somebody can really abuse but does give a participant if they need access quickly to money up to a thousand dollars to be able to do that. So I think that this would be one that you might see a little bit more pick up on because of the fact that it's really, you're not talking about somebody taking half their retirement balance, but it does give them access if they need something quickly and as a planned sponsor you don't have to be involved. They can self-certify that it was a hardship. The third one is a provision for victims of domestic abuse. So it gives people who are victims of domestic abuse, again, self-certification, ability to get money on the plan if they're going to have to leave or find a place to live or something like that.

So that's another one. Again, I think that we'll see more plan sponsors offer because you do want to help. If your participants are going through something like that, it's a way to be able to help them. Again, it's not a huge amount of money they're going to take out that give them access in a really difficult situation. So I think we'll see more of these type of provisions come out in the future. I think that it seems like Congress feels like if they give people more access to the money, more people will start saving. So I think we'll see more of these, but I think those are three big ones and I think a lot of committees will be having debates on over the really next several quarters in terms of the determination of if and when they want to add these to their plan.

Matt Patrick:

The point you brought up around the debate between is this going to cause people to take money out of the plan or am I splitting money into the plan is an interesting one because we've also seen studies from some of the big retirement plan providers like Vanguard and empower infidelity putting out studies shown that loans and hardship withdrawals have been on the uptick and a lot of the rationale for people taking those is emergency needs. So trying to balance that between, if I don't make this available, are they going to take the money out through other means anyway or does this help maybe bucket that off like you were saying, where it limits it some and helps encourage better behavior. So off to see as we start to roll out, how do participants use them and how effective are they at solving those needs. So the other big topic in security 2.0 for optional provisions was student loan debt. That's certainly a big topic broadly in the news. Brent, what are your thoughts there?

Brent Hartman:

Great question. Clearly 44 million Americans received some sort of relief or reprieve from making student loan payments during the pandemic. And as those are coming back online, that becomes a significant impact for people who for a couple or maybe even three years not thought about having to make that student loan payment and have adjusted their budget to all of a sudden having to resume those payments could be a hardship. So employers who adopt this provision, it gives the employer the ability to allow employees to certify a, that they are making the payments on their qualified student loan and that the can then use those payments, look through those payments and say, okay, you're making payments, you qualify for the match and then contribute the match to the plan. So it gives the participant the benefit of getting the match without necessarily making a contribution to the plan.

As a plan sponsor, you'll need to look at your population. How big of an issue is this for your, how many employees do you have that are going to be saddled with student loan payments that may be burdensome and how many of those just can't contribute to the plan because they can't afford to after having resumed student loan payments? So this is one where depending on your population, it could be very beneficial certainly to those people who just say, I can't meet all my budgetary needs and make my student loan payments and save for retirement. This could be a way for them to get ahead of that game a little bit.

Matt Patrick:

Perfect. So I think the key there is looking at each individual employee population trying to determine how big of that is a burden relative to the other ones. That's probably going to be the biggest challenge for plan sponsors in terms of which one of these optional provisions rises to the top of the list in terms of what to tackle. Alright, so we've covered economic backdrop, we've covered secure 2.0 and now we're going to transition over to some of our more plan specific predictions for the year. So looking at defined contribution plans, defined benefit plans, non-qualified plans, we've got some thoughts on all those areas. Kevin, I'm going to start with you on the defined contribution side. What are you seeing as the big items that plan sponsors are going to have to grapple with this year?

Kevin Fieldman:

Yeah, I think really when you look back, it's a lot of the same issues that they've been grappling with for the last several years. So I think we've talked about volatility, so we're going to continue to have volatility. I think the one difference when you look at where we've been now with the markets to where we were, if you go back to the great financial crisis back in 2007, 2008, I think the advent of target date funds has really helped participants be more sticky in their money. So they're not looking, you're not seeing people make as many changes, you're not seeing as many moves into things like stable value or money market accounts as you probably did back 12, 15 years ago into financial crisis. So I think that's been a positive for plans. So I think target dates have really helped in terms of keeping more participants, especially defaulted to participants invested and allocated in a proper way.

But I think as we said earlier, we're going to continue to see volatility. We've already seen it here in January, so I think that's going to be something. And again, as more and more people get into plans that volatility becomes more meaningful. So if you're just starting the plan and you have a volatile year, you can kind of live through it. It's not a big loss If you've been investing for 20 years and have a volatile a year, that's really a bigger issue for participants. And I think the way to address that, and I think one of the things we'll see more of is really the adoption or addition of financial wellness services. So really giving participants the ability to have somebody who can help them make decisions, decide how much they need to invest, how much they need, where they shouldn't be investing, and then really being done in more holistic way where it's not just you're looking at the retirement plan, you're planning it into their whole overall financial picture.

So you're looking at what their bills are, what their debts are, are they saving for college? So how do they tie all those pieces together? Think that's the biggest. I think auto enrollment is great that it's gotten people into plan. A lot of people still struggle with how do we fit this into my overall financial picture? How do we do everything we need to do? So I think we'll continue to see the increase of services like financial wellness, tying it into your overall health benefits as well. So it's an overall wellness program that a lot of sponsors are already using. So they're providing help for now, keeping them physically healthy but financially healthy. And I think that's really where more and more people, especially as we go through volatile times, really need that assistance. So I think that's one thing we'll see. Another thing I think we'll continue to see, which is really from protecting the participants is continued on cybersecurity, continue to emphasis on cybersecurity and really making sure that participants data participants accounts are safe.

I think the DOL clearly has this on their radar in terms of cybersecurity and I think the plan, the record keepers are clearly putting more and more emphasis and revenue towards creating stronger cybersecurity. I think we'll continue to see plan sponsors ask their record keepers for a audit of their cybersecurity capabilities. I think that's going to be something that your plan sponsor, I think you'd want to look at just like you're reviewing your fees, you want to review their cybersecurity protocols every couple years because you want to make sure that they're doing everything they can to protect your participants and protect their balances, especially I think as a plan sponsor, but with the knowledge that for most of your participants, that's their primary asset. So it's even more important than ever that they watch that. And then the other thing I think unfortunately we'll continue to see in the industry is lawsuits.

I think we have not seen any slowdown in lawsuits. We continue to see them increases. We're seeing more law firms get involved, we're seeing different topics that are being involved. So one of the things we're seeing is more and more sponsors of all sizes start to outsource more and more of that fiduciary liability. So you see a 3 38 investment fiduciary where you hire a fiduciary investment manager to take on responsibility of selecting funds to reduce some of that fiduciary liability on the trustees and the committee, and then the three 16 fiduciary management for plans who want to outsource some of the fiduciary administrative services as well. So I think that's going to be, remember as a plan sponsor, you're always still liable. You have to monitor the people you hire, but I think we're seeing more and more of that throughout the industry of people who are saying, you know what?

I want to get much of this fiduciary liability off and tied into really increasing fiduciary insurance coverage costs. So it's also a way for companies who are looking at cutting costs, it's a way that you can potentially reduce your fiduciary insurance bill as well. So I think we'll continue to see that. So I think there's a lot of what we've seen over the last several years. I think it's going to continue. I haven't seen anything in the market that says any of those things are going to slow down. So I think those will be some of the big ones that plan sponsors will still be wrestling with here in 2024.

Matt Patrick:

Perfect. Thank you Kevin. Brent, I'm coming to you. Same question on the defined benefits side. What are the items you have on your radar?

Brent Hartman:

I think for plan sponsors, you need to have a clear understanding of where does my DB plan fit in the scheme of my benefits? So for example, CAPTRUST works with a little over 400 pension plans. The overwhelming majority of those pension plans are hard frozen, meaning nobody in the plans getting any more new benefit, there's no increased service or salary. In other words, when I talk to CFOs, they say, it's not bringing new employees to me. It's not even keeping my existing employees here. It's just very expensive variable rate debt on my balance sheet that I'd love to get off. So if you've got a hard frozen plan, quite frankly, the question ought to be how do I get this off my balance sheet and how do I do that as quickly and efficiently as I can? If you've got a soft frozen plan where some of those employees who are still employed are getting additional years of service and salary increases, that's still retaining those employees there.

So you need to understand how that fits in to the overall scheme of your retirement benefits and does it make sense to think about hard freezing that plan and or do you want to let those people live out their employment service at your organization before doing that? And then quite frankly, I could count probably on one hand, certainly less than two hands, the number of pension plans we have that are open and accruing, meaning everybody who's hired falls into that and that's an integral part of their benefit structure. And so you've got to think about where am I at on the spectrum of hard frozen, soft frozen or open for those plans that are hard frozen, it's been a race to get fully funded. The last 24 months have been incredible as far as increasing their funding status. Again, remember as interest rates go off the present value, their liabilities falls.

And most of those plan sponsors have seen meaningful improvements in their funding status and are now thinking about getting this off their balance sheet when that was not even a concept 24 months ago. So a timeline that may have been decades away has now come down, how do I do this in the next three to five years and what does that look like? What do I have to do from an investment standpoint, maybe potentially funding standpoint, and how should I be positioning that portfolio? Hopefully you've got a glide path and have been moving up that glide path de-risking your assets as funding has improved. If you haven't been, we certainly ought to be having those conversations. So talk to your advisor and let's have those conversations. But clearly interest rates are going to be a big driver of that. And again, if we're at peak interest rates and interest rates start coming down, we're now going to see the present value of liability start going up. So plan sponsors, pension plan sponsors specifically are thinking very hard about what is my hedge ratio? How much should I have in hedge assets to offset that interest rate risk that I have? And how do I protect the funding improvements that I've seen in the last 1824 months?

Matt Patrick:

Perfect. Alright, and then last up from a plan perspective, the non-qualified executive benefits, Brent, what are your thoughts there as well?

Brent Hartman:

Clearly we're still in a tight labor market, and so those nonqualified plans are all about attracting and retaining the key talent at the top of your organization and in a tight labor market like this, and quite frankly where tax both personal and corporate taxes are on the horizon as we're running massive deficit deficits, non-qualified plans become incredibly more important both to the organization again to pull those employees in or keep them there if you've already got a nonqualified plan. So it's going to be about reviewing your plan design structure, how do I make this as attractive to these employees so that they do value it and stay here instead of take their sets and go somewhere else. And then from the tax perspective, if corporate and personal tax rates go up, companies are going to be a lot more interested in how do I fund this tax efficiently and make sure that my non-qualified participants are not naked and just trusting the future strength of the company to be there to pay those benefits and do that in a very tax efficient manner.

We're seeing, I'd say two different kind of paths. Number one, qualified plans are adopting things like CITs or Collective investment trusts, and maybe especially in Target as their plans get big enough, those things don't transfer over to the non-qualified world. So we're seeing a ation or a separation between the non-qualified plan lineup and the qualified plan lineup. But that's okay because again, the plan sponsor doesn't have the same fiduciary responsibility for the non-qualified as they do for the qualified. And quite frankly, because of the flexibility to draw money out at different times even during service, allows plan sponsors to think differently about what should my lineup look at and how do my people utilize that qualified plan? Maybe they're thinking about funding kids' college education or weddings while they're still employed and they want to be able to have liquidity and access to those non-qualified assets while still employed. So different structures, different lineups, different thought processes for different audiences.

Matt Patrick:

Perfect. So no shortage of things for plan sponsors to tackle in this year, certainly from a regulatory standpoint. We talked some about the legal stuff and then just even given how the markets have unfolded, how the labor market unfolded, all that has impacting what are the best solutions available for your plan and for your employee base. So we've got a lot of good questions coming in through the chat, so if you're out there and you have a question, keep those coming in because we're, I'll jump to a wrap up of some of the topics we ran through and then we'll have plenty of time here to take on some of these questions. So in terms of wrapping up the big areas that we covered, started off with our economic backdrop, talked a lot about from the reserve's perspective, keeping an eye on interest rates, look at those and how those will impact plan sponsors moving forward.

The market shouldn't shifted there in terms of where we're looking at the beginning of last year in terms of when rates were going to cut, what the inflation picture was going to look like, and then even now we're seeing some of that shift in terms of market expectations as we start off the year. So that'll be the big thing for us to monitor going into the year. And then certainly we're keeping an eye on consumer debt items and what impact that has as that has risen over the years. Keeping an eye on wage growth and productivity driven. There's certainly a lot of things out there that have inspired a lot of excitement, artificial intelligence coming into the mix and what kind of impact will that have on productivity and

then we'll see what the impact there is. Market-wise Secure 2.0 got mandatory provisions coming online and we've got some optional ones to think about around emergency savings and student loan debt.

So we'll keep an eye on those in the slide that we will pass around afterwards. There's a link in there to a microsite that we have set up just tracking secure 2.0 on the provision. So if you have questions around what's going live this year or what's going live in upcoming years, I'd reference you there. It's a really simple resource that you can check to keep track of everything going on there. And then from an individual plan sponsor perspective for your DC plans, looking at financial wellness, continuing to be a big topic as people are trying to offer advice and education for all of their employees across all the different areas that they need to save for. You've got health, you've got retirement, you've got college savings, where do I put my next dollar in savings to optimize for that in the future? Cybersecurity continues to be of utmost importance As you see more and more data breaches broadly, it's important to understand your retirement plan provider, what are they doing, how do they check out from a data security perspective and just making sure that there's ultimately a sound process in terms of checking that off.

And then as the legal environment continues to be a little more active than anybody would like, we're seeing plan sponsors look to offload as much of their fiduciary risk as possible through investment 3 38 investment management and then three 16 discretionary plan administration. So if you have questions on those good things to ask because they are solutions that can take work off of your plate and help you feel like you've offloaded some risk from your organization. DB plans seem to be where the interest rate conversation came back up in terms of what funding status looks like now. So plans are looking well funded relative to where they were two years ago. So that's introduced some interesting conversation in terms of do we want to fully terminate the plan, do we want to look for ways to offload that liability or do some liability matching? And then certainly looking to hedge interest rates as we look for maybe those to come back down later in the year.

And then from the non-qualified side, again, the labor market's tight, we keep hearing about that. So if you want to maintain and retain talent in that way, making these plans available, making sure they're efficient and good options for your employees is a good way to do so. We expect that to be a big push in terms of plans or in terms of plan sponsors enhancing those offerings or setting them up and going live with them. So that's our recap, but like I said, we've got a ton of

questions in here, so we'll keep 'em rolling. Brent, it's your lucky day, the first ones are coming to you. So we've got two separate questions that are somewhat related to what we were just talking about from the pension side in terms of what to do from either a termination or a full risk transfer. So thank you to John and Deborah in the comments. We're going to get to those. So the first one is we'd like to terminate the plan and conduct a full pension risk transfer. What are the steps involved there? And then I guess conversely we've got someone who's not ready to do a full pension risk transfer. So what are the options there? So how do we do it? And then if we're not ready to do it, what are the options for us?

Brent Hartman:

Great question. So the pension termination, and let me be clear, terminating a pension plan and doing a PRT or pension risk transfer, transferring that liability over to an insurance company can and oftentimes are separate. You can terminate a plan but not do a PRT for a decade or more. And we've got plans that have been terminated for a long time, but that termination process is very specific, very, there are things that need to happen. You've got to file certain things, amend the plan, notify both the IR Rs and the PBGC, communicate with your population and that termination process. And I'm going to, in this instance, Mary termination along with PRT can go anywhere from 18 to 24 months and there's a lot of variables that are outside of the plan sponsors control. One of the big variables of course, is whether or not to get a determination letter in that process because we've seen so many plan sponsors getting ready and wanting to terminate and there've been backlogs at the IRS.

We've seen them dual tracking that. So in other words saying, I want to go ahead and get a determination letter from the IRS, but I'm not going to hold up my termination and I'm going to move forward and even if I don't get my determination letter back in time, I'm going to move forward with finalizing my plan termination and doing a PRT before I get that PRT back. Now we're not attorneys, we're not advising you to do that. I'm informing plan sponsors are on the call. This is what we're seeing in the environment, and we advise you to talk to your ERISA council, talk to your actuary, talk to your investment consultant and make sure that everything's happening because all of these things have got to happen. And again, a very specific order and over a course of time. But then once that's all done, getting the assets ready to get transferred as you're transferring or settling that liability before you transfer it to an insurance company, ultimately your liability is getting settled in a couple of ways.

Either it's going to get paid out in lump sums as you make lump sums available to your term vested and your active employee population, they can choose instead of taking an annuity for the rest of their life to take a lump sum amount and especially for your actives, we tend to see a high take up rate there. They roll it over to their 401k or maybe an IRA and put their own risk return profile on those assets. But very easy to do with your active employees who you're got good communication with, but you can't force anybody to take that lump sum. And then for anybody who does not take the lump sum and your existing retiree population, we're talking about buying a single premium group annuity to cover all of those people. And so you'll invite insurance companies to come to the table and negotiate through that.

It's a competitive process. So the more insurance companies you can get to come to the table to increase your competitiveness of those companies, the better off you'll be as a plan sponsor. And ultimately as a plan sponsor, your job is to select the safest available annuity provider. So you can't go with the cheapest because it's good for you as a company. You need to make sure that whoever you transfer those liabilities to is going to be around to make those payments for the next 30, 50, 80 years, however long those people be receiving those benefits. So it's very important that you go through that process and do the due diligence to make sure you're selecting the safest available of those options. Now if you're not ready to go through that process, what can I do? One of the thoughts plan sponsors have is my plan, how do I make it a little bit smaller so I'm reducing costs, reducing risk to the organization?

And there are things you can do, quite frankly, a lump sum window to your term vested is one of the easiest things to do. Open that population up, send them letters. Your actuary will do the calculations and say, Mr. Jones, we owe you X amount of $800 a month as an example, or you can choose to select $28,000 and change right now is a lump sum. And those people who opt to do that, you can settle them. And that liability literally goes away. The number of participants in your plan gets smaller, the PBGC premiums you're paying gets smaller. So there are some advantages to going down that lump sum window route. The other way is if your plan is big enough, you can settle some, maybe not all, but some of your retirees and say, let's carve out the people who get the smallest monthly benefit and let's go out and identify who those people are and buy a single premium group annuity for them and transfer them to an insurance company.

Again, you're not asking the permission of that population, you're doing it and you might want to communicate with them ahead of time because one month

they'll get a payment from the retirement trusts of XY, Z corporation and a few months later, the next payment monthly benefit check they receive will come from a BC insurance company. So you'll want to make sure that they're aware of that change and make sure that all of that process is as smooth as it can be. But again, by getting those people out of the plan, again, you reduce the head count, you reduce the overall size of the liability. And quite frankly, that retiree population is very attractive to the insurers. So we're seeing the pricing on those really quite at the accounting liability. I'm going to call that par, right? So you're settling that liability at what you're carrying on your book. So it can be very favorable and not necessarily having to pay a premium. Matt, answer that question,

Matt Patrick:

I think you got both parts of it, so I appreciate that, Brent. All right, so we got another one in here. I'm going to take the specifics out, but Kevin question is essentially my 401k plan provider got acquired by another provider out there. Is this fairly common? Is this something I should worry about moving forward and what are your thoughts there?

Kevin Fieldman:

Yeah, thanks Matt. So I think this gets into the other things we talked about. This is another trend in our industry that I think is going to continue. We've seen some large providers, Wells Fargo, mass Mutual, Prudential, just in the past few years, sell off their retirement plan business. And really since the introduction of the fee disclosure laws, the fee disclosures for both participants, plan sponsors, that came out in the last decade, record keeping is becoming a smaller and smaller margin business. So you really need to have scale to be able to really make money at record keeper. And the scale really is just basically to help you break even. So if you don't have scale. And then I think the other thing you throw into this now is the cybersecurity and the amount of investment you have to make in terms of cybersecurity and making sure that your data is safe, making sure you have all the right protocols in place.

I think you're going to continue to see people who are smaller without scale are going to have to make a decision of either trying to merge with somebody else or selling their business outright to another record keeper. So I think that we've seen a little bit of a pause. There was a lot of action in the last three or four years. Not all those transactions, from what I understand have gone totally smoothly. So I

think people have kind of taken a pause to kind of make sure that they get those worked out. But I think we're probably right on the precipice of seeing more consolidation. And I think eventually you'll see kind of a handful, just a handful of really large record keepers who have the ability to scale the business, have the resources to be able to spend on technology like financial wellness, like cybersecurity. So I think this is something we're going to continue to see, and I think it won't be long until we probably get the next big announcement of somebody else selling their record keeping services.

Matt Patrick:

Perfect. Something else for us to keep an eye on. Another defined contribution related questions. Kevin, coming back to you, this person in there, they've heard from their plan provider about a solution that provides income for life or income in retirement for their investors. And the question is, are these common? Is this something that most people are using in their plans?

Kevin Fieldman:

Yeah, that's a great question. I like to say I think it's something that we're going to see more and more of as we go. I would like to say we're in the second or third inning of a inning game in terms of this really came out of secure act one, and really the thought is to try to, Brent talked a lot about pensions. How do we pensionize a 401k benefit? So we've done a really good job in the industry in terms of getting people to save, getting people invested, giving them balances to be able to help pay for the retirement. We haven't done a good job yet in terms of how do we teach them how to spend that, how do we spend it down so they don't outlive their money so they don't spend all the money right to retirement. And I think that's where we're going.

There's some products that are coming out from different record keepers, but I think, again, it's still early in the process. There's some pros and cons with some of the products that are out there, and it's really, I think it's going to be an important thing. I think the Government Department of Labor Congress is going to continue to focus on trying to find ways to get people to turn their 401k balance or 4 0 3 B balance into some type of monthly income or regular income. So I think, but we're really early in the game, so we've seen a few adopters. A lot of people are waiting to see how some of these plans, how some of these products mature, waiting for some of the others. There's some other ideas that

are on the table with some of these record keepers in terms of what things they can do in the future.

So I think it's something that as a plan sponsor, you're definitely going to want to stay on top of. I think it's something you definitely want to talk to your advisor about to make sure you're in the loop. I think at this point for most plans, it's probably more a wait and see, but again, we're not too far from when this will become. I think this will become regular, like a target date fund. So you'll have a target date fund and you'll have some type of income product for those people who don't want to go out and spend or don't have the assets to spend for their own individual advisor to give them a way to help guide them through the distribution of that asset.

Matt Patrick:

Yeah, thank you. You raised a lot of good points in terms of with all things, it falls under a category, but when you get into the individual solutions that are there, there's a wide range of things that are guaranteed, things that are non-guaranteed, things that are more education focused. And then even how can these things be embedded in some solutions that are already in the plan, like a target date series. And there's a lot of ideas going around and people are coming to market with new products every day and there's still some regulation that could help encourage some of that and make them easier to access, easier to use for individuals and plans. So great stuff. There's more questions out here. We've got a list of 'em and we will make sure to contact everybody that put a question. Thank you so much for doing so. We're right at time here. So I want to say thank you to Kevin and Brent for joining me on this. Like we said at the top, we'll provide the materials. There'll be a recording of this available if you want to revisit any of the topics in here. And thank you so much for taking out some time this afternoon or this morning to join us.

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