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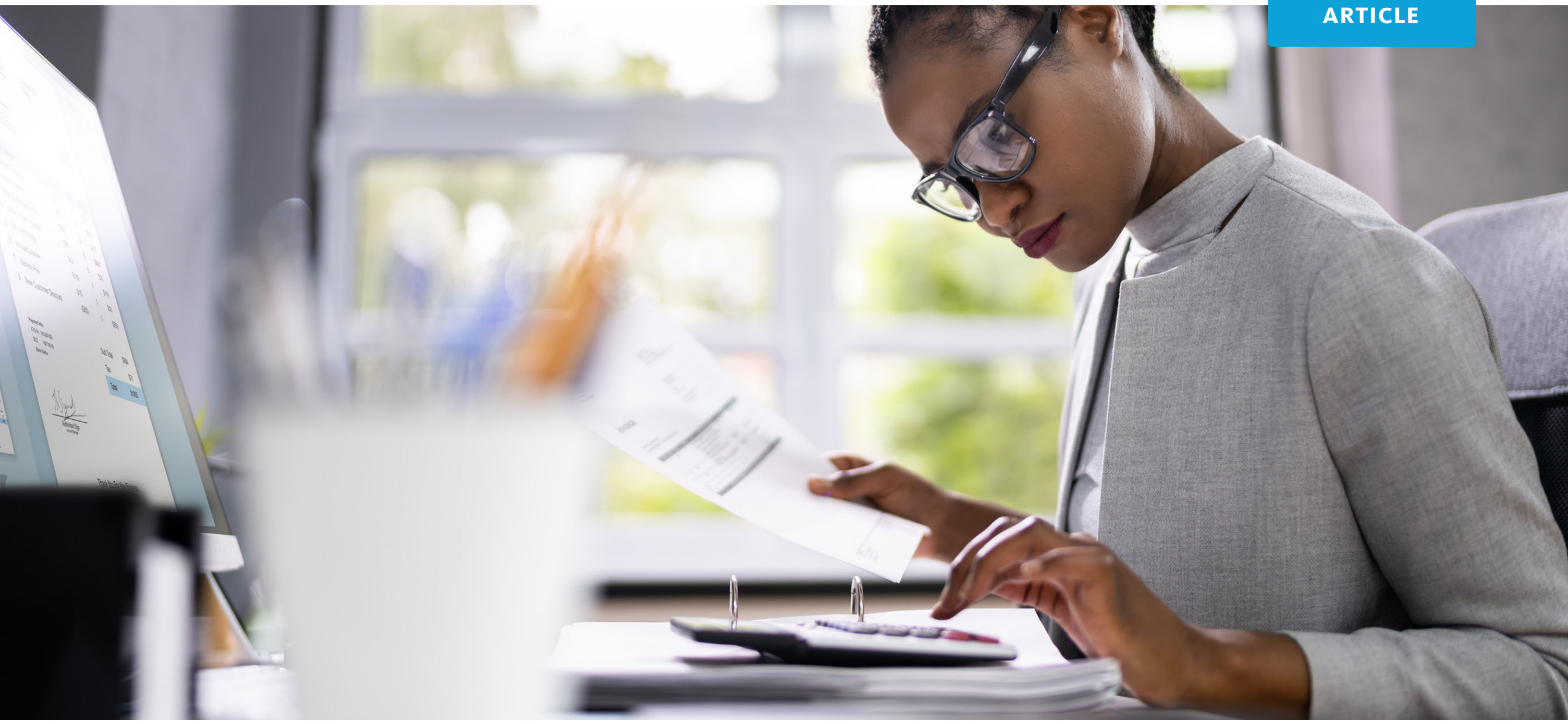

RETIREMENT TRENDS: ARTICLE TWO

Product opportunities in the evolving retirement landscape

Retirement Trends, a new article series from Broadridge, explores the major movements that are impacting plan advisors, sponsors, administrators and recordkeepers today.

Only 56% of U.S. workers participate in employer-sponsored plans. This shortfall, coupled with economic uncertainty and a receding Social Security safety net, signals a growing urgency for expanded coverage. Fortunately, plan advisors, sponsors, administrators and recordkeepers looking for an advantage have new options to consider.

Our first article on Retirement Trends explored how firms can drive participation through enhanced engagement. This second article focuses on the types of investment plans and products that can help attract more plan sponsors and participation. It outlines specific opportunities and challenges presented by Department of Labor (DOL) and Social Security Administration (SSA) actions. And it considers how trends in general investor interests may play out for retirement plans.

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Incentivizing small business

Only 52% of employees at businesses with fewer than 50 employees have access to DB or DC plans, amounting to millions of uncovered Americans. The reason: their employers don't offer employer-sponsored retirement plans because of the overwhelming cost and administrative burdens. SECURE Act provisions now offer new options designed to make plans more attractive and accessible.

The SECURE Act

The SECURE Act provides up to $5,000 for starting a 401(k) (or similar) defined contribution plan. It also gives owners with an existing retirement plan a $500 tax credit if they include an automatic enrollment feature (employees can still opt out). These incentives are designed to spur employers to act. They are available for businesses with fewer than 100 employees. In addition, the SECURE Act has introduced new plan options that make offering retirement benefits more attractive.

Pooled employer plans (PEPs)

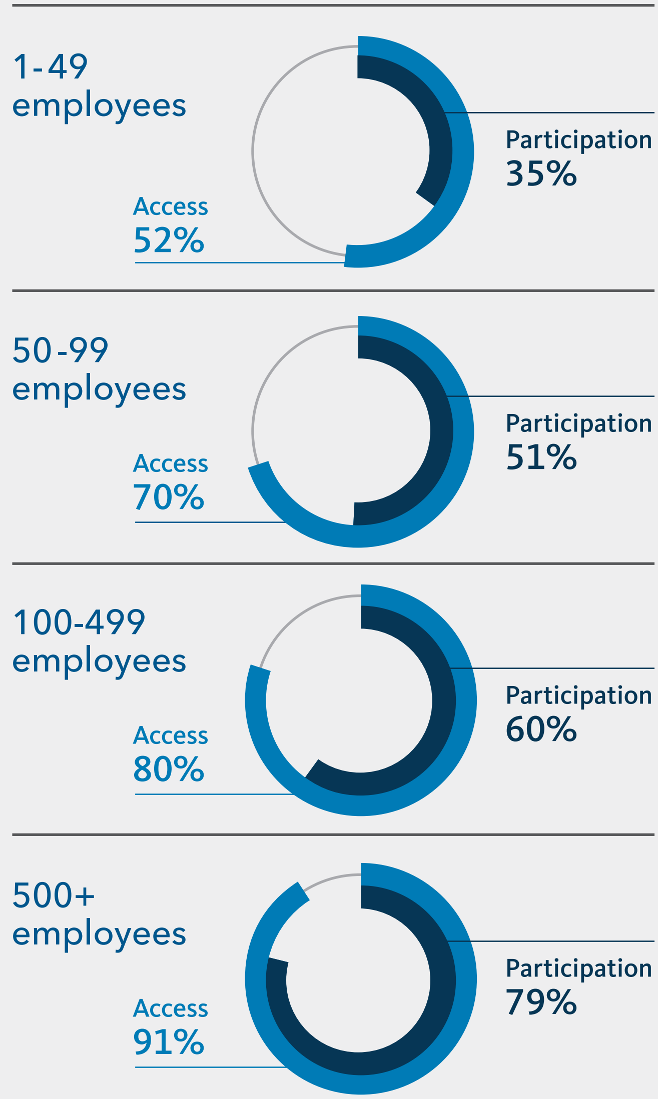
PEPs were introduced through the SECURE Act. Unlike their predecessor, multiple-employer plans (MEPs), PEPs allow unrelated employers to band together to participate in a single DC plan. PEPs are currently limited to 401(k) plans; however, the opportunity they represent is huge.

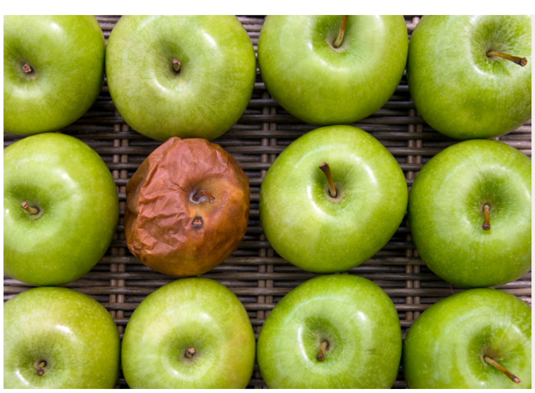
PEPs offer a way for small businesses to lower plan costs, spread the actuarial risk and place the administrative burden with a fiduciary. They may also help small businesses attract and retain talent in a tight job market.

Becoming a PEP plan administrator and fiduciary (i.e., a "pooled plan provider" or PPP) may allow industry players to tap into this underserved market. PPPs can expand their business by educating employers, establishing pools and providing incentives to boost participation rates and accelerate PEP adoption. They must register with the DOL and IRS to offer a PEP to employers.

CLOSING THE SMALL BUSINESS COVERAGE GAP

Access and Participation Rates in Employer-Sponsored Pension Plans (either DB or DC), March 2021[3]





NO BAD APPLE

The so-called "one bad apple" [Treas. Reg. § 1.413-2(a)(3)(iv)] had deterred many businesses from considering MEPs. This "bad apple" rule stipulated that the failure of any employer maintaining the plan (or the plan itself) to satisfy compliance requirements could disqualify all participating employers. Importantly, this rule is not part of PEP legislation. Instead, the PPP holds this fiduciary responsibility, reducing the risk to employers.

Adding annuities to the mix

Some SECURE Act provisions extend beyond small businesses. For example, advisors often point to need for lifetime income in retirement plans. Participants and plans need to be able to project what retirement income will be. If they can't get this in the plan, they are going to move assets to an IRA. The SECURE Act safe harbor provision makes it easier for advisors to include annuities in retirement plans.

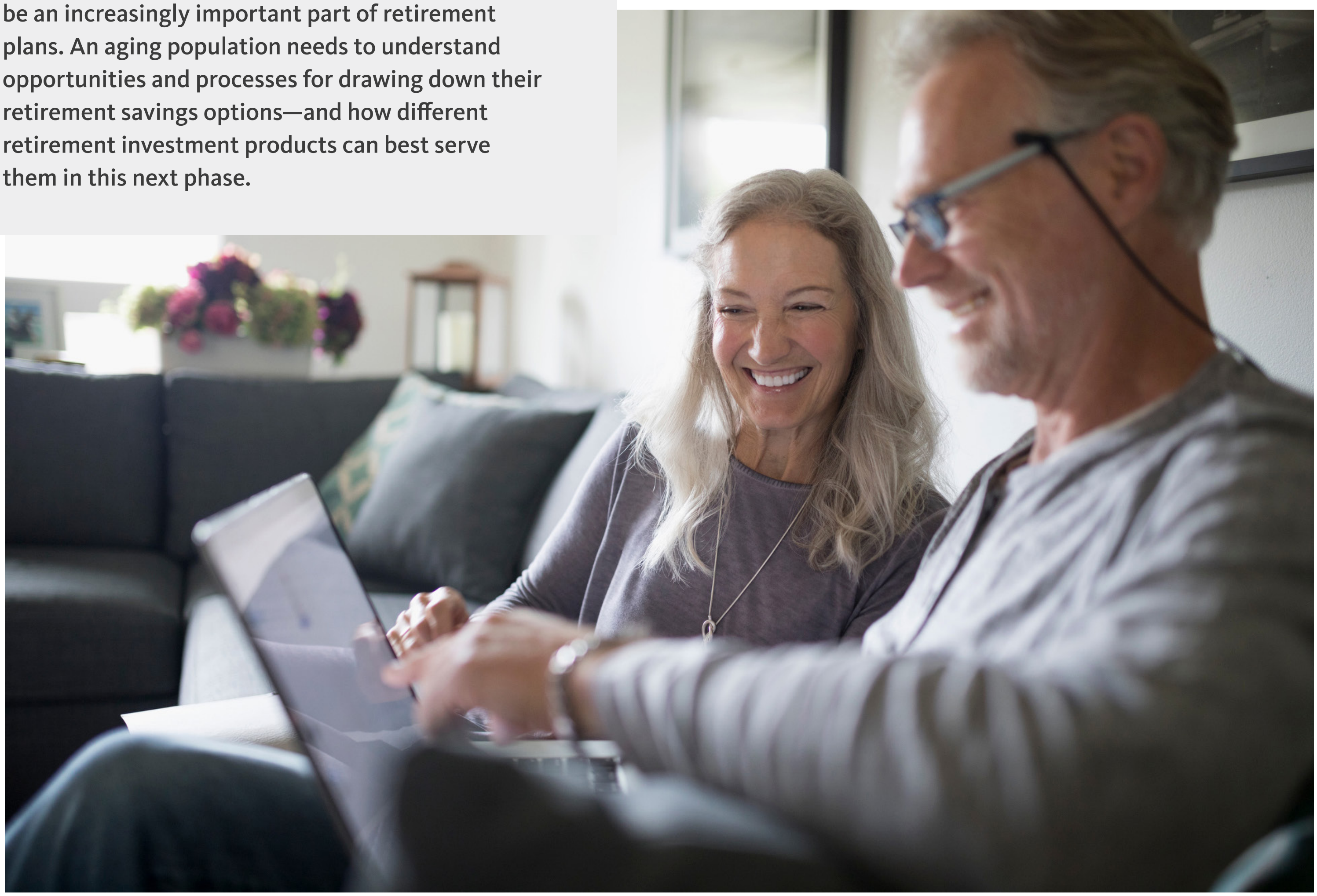
This will not happen overnight. The markets have work to do to put the capabilities in place. Mutualization is likely the answer to expediting implementation on a broad scale.

"Does a provider have the capacity, flexibility and breadth of expertise to provide an edge in integrating new types of products with confident fiduciary controls built in? It's important to think broad as well as deep when considering platform capabilities—and critical to think beyond the next new requirement."

— Michael Tae, President, Mutual Fund and Retirement Solutions
Broadridge

WHAT GOES UP...

As the population ages, decumulation options will be an increasingly important part of retirement plans. An aging population needs to understand opportunities and processes for drawing down their retirement savings options—and how different retirement investment products can best serve them in this next phase.



Alternative investments: Casting a wider net

Once exclusively the purview of high net worth investors, alternate investments (alts) are now gaining ground across a wider demographic. A market ecosystem is evolving to accommodate alt investment opportunities on this broader scale.

When it comes to retirement, DC pensions in Europe are beginning to incorporate alts. And in the US, a recent federal court decision[4] combined with the DOL "Information Letter"[5] is starting to make room for prudent fiduciary use of private equity investments as a component of a professionally managed asset allocation fund.

With this increased transparency, fiduciaries can more readily assess the prudence of including certain alts in their retirement plans—and effectively monitor their performance. This makes it possible for them to meet some key requirements set forth by the DOL. Market leaders are also finding ways to accommodate the longer return cycles often associated with alts. Target date funds may be a logical fit here.

Cryptocurrencies

Crypto is still relatively new. Entities from asset management firms and wealth managers down to financial advisors and end-retail investors are trying to sort out their positions on crypto, including whether and how to participate. It's covered very heavily in the news as both an investment and an emerging currency. Crypto has captured so much investor interest that it requires consideration.

> ***"Crypto has all the elements of a hit Hollywood movie, with lots of stories of fortunes made and passwords lost so it's not surprising that interest remains high. I can't think of another investment with the same level of accessibility that's more discussed in social circles across generational and wealth segments."***
>
> — Andrew Guillette, Vice President, America Insights, Broadridge

However, volatility appears to be part of crypto's allure, and the DOL warns that "At this early stage in the history of cryptocurrencies, the U.S. Department of Labor has serious concerns about plans' decisions to expose participants to direct investments in cryptocurrencies or related products such as NFTs, coins, and crypto assets."[6] It "cautions plan fiduciaries to exercise extreme care before they consider adding a cryptocurrency option to a 401(k) plan's investment menu for plan participants."[7] While interest is high, adoption for retirement is likely to be slow.

Environmental, Social and Governance (ESG)

In their non-retirement accounts, investors demonstrate an interest in—and are even pushing for—ESG investment opportunities. Heightened concerns regarding climate change, social justice and other factors drive this interest. When it comes to retirement plans, pending amendments could make ESG a viable option.

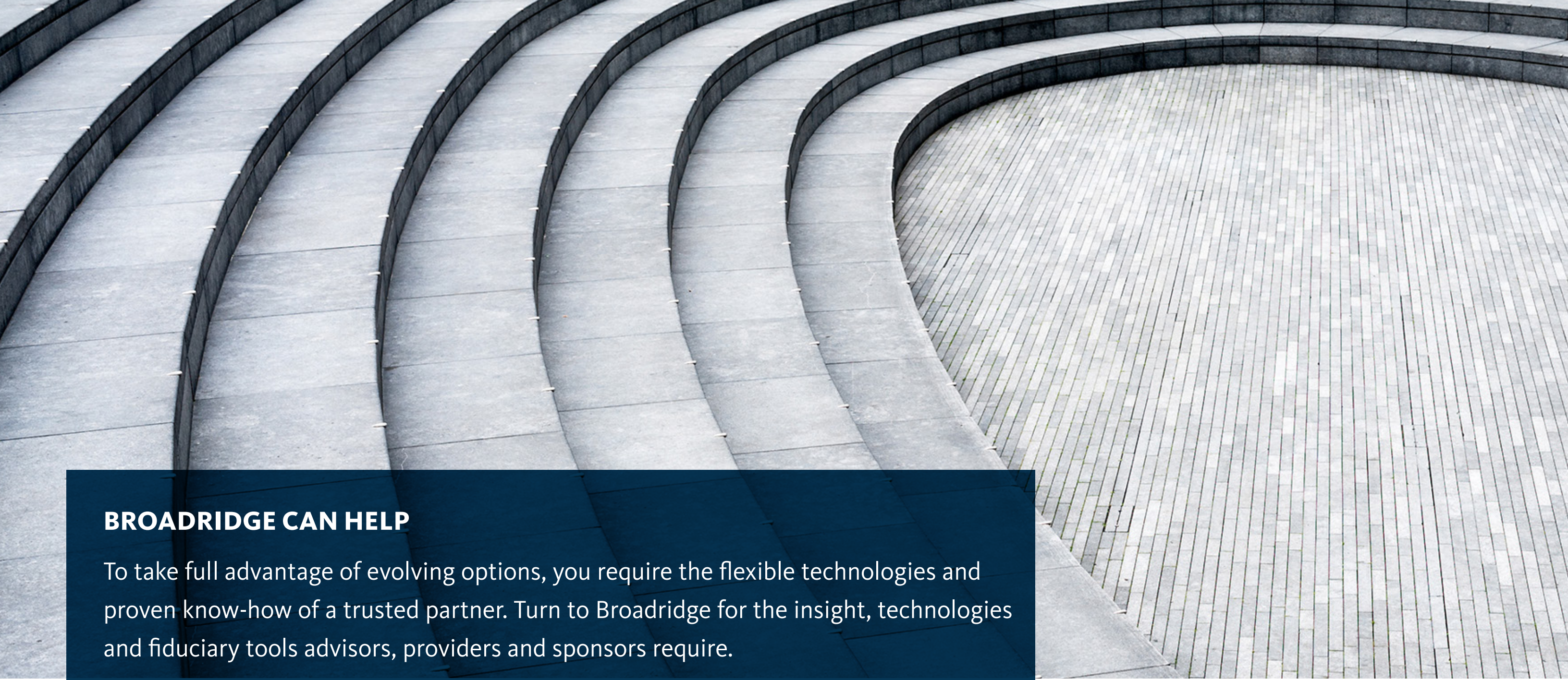
ESG concerns were once allowed under ERISA as a "tie-breaker" between investments of otherwise equal fiduciary merit. The Trump administration then disallowed the tie-breaker rule, focusing more strictly on "pecuniary" factors. Now, the Biden administration has taken another tack.

Pending amendments provide that "under ERISA, if a fiduciary prudently concludes that a climate change or other ESG factor is material to an investment or investment course of action under consideration, the fiduciary can and should consider it and act accordingly, as would be the case with respect to any material risk-return factor."[8]

This would leave the ERISA bar higher than for a fiduciary-managed wealth account (the wealth advisor has to follow the investor's willful requests) but allow ESG factors to be considered after pecuniary criteria are met.

Managed accounts and target date funds

Managed account platforms provide participant investment advice, often through a "robo-advisory" algorithm that matches participant inputs to an investment allocation.[9] The services they provide are often promoted as superior, professionally managed alternatives to target date funds (TDFs) which have faced more than 150 lawsuits. Most of these suits allege the target date funds charged excessive fees. However, TDF performance has also been challenged: a recent suit alleges a breach of fiduciary duty, claiming a target date fund was outperformed by its peers over five years and should have been removed from the plan.



BROADRIDGE CAN HELP

To take full advantage of evolving options, you require the flexible technologies and proven know-how of a trusted partner. Turn to Broadridge for the insight, technologies and fiduciary tools advisors, providers and sponsors require.

Two Broadridge companies, Matrix and Fi360, offer additional value. Matrix provides automated trust, custody and agent services for qualified and non-qualified retirement plans. Fi360 helps financial intermediaries use prudent fiduciary practices to profitably gather, grow and protect investors' assets via software and technology, learning and development, and data and analytics solutions.

For more on ways to diversify plans and grow participation, contact us at broadridge.com or call +1 866 359 0456.

[1] https://sgp.fas.org/crs/misc/R43439.pdf

[2] https://www.napa-net.org/industry-intel/meps-peps-ppps

[3] https://sgp.fas.org/crs/misc/R43439.pdf

[4] https://www.ropesgray.com/en/newsroom/alerts/2021/February/3-Takeaways-From-Intel-Retirement-Plan-Leaders-ERISA-Win

[5] https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/information-letters/06-03-2020

[6] https://blog.dol.gov/2022/03/10/cryptocurrency-concerns-why-were-working-to-protect-retirement-savings-from-volatile-digital-investments?_ga=2.82612182.1346184227.1646939216-1335365379.1646665776

[7] Ibid

[8] https://www.federalregister.gov/documents/2021/10/14/2021-22263/prudence-and-loyalty-in-selecting-plan-investments-and-exercising-shareholder-rights

[9] https://401kspecialistmag.com/managed-accounts-or-tdfs-cant-we-have-both/

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