WRAP-UP REPORT

P&I | CONFERENCES
Virtual Series

2021 DC INVESTMENT LINEUP

VIRTUAL SERIES

Pensions & Investments' **2021 Defined Contribution Investment Lineup Virtual Conference Series** delved into the challenging environment that plan sponsors find themselves in right now, with the uncertain economy and ongoing COVID-19 pandemic that have impacted not only day-to-day business operations but also the financial and physical health of their plan participants. Plan sponsors shared that their plan participants have dealt with the unprecedented events of the past year with a resilience as well as recognition of the importance of workplace benefits.

Financial wellness, already a focus for many plan sponsors, has become even more critical, along with an emphasis on retirement preparedness and the steps required to reach financial resiliency. Participants are more engaged, and more interested in accessing—and heeding—expert advice toward optimal retirement moves in today's turbulent times.

Plan sponsors discussed how their priorities have changed and looked ahead to new initiatives that are likely to remain in place as the economic environment settles into a "new normal." This report offers highlights from the conference as well as audience poll results that offer insight into plan sponsors' thoughts on key issues.

To access the recorded sessions, go to:

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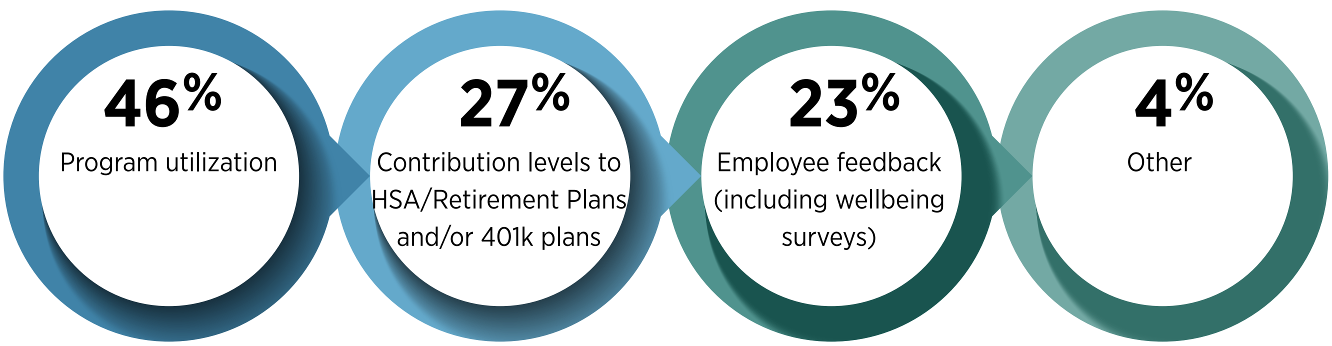
NEW FINANCIAL WELLNESS PROGRAMS

The challenges of 2020 drove home to plan sponsors the interconnectedness of physical, psychological, and financial wellness for their employees. It also highlighted that differences between companies mean that there really is no one-size-fits-all financial wellness solution. Plan sponsors said that they have spent the past year taking a close look at their employee demographics and working with their benefits providers to tailor programs and offerings to meet the specific needs of their workforce.

Plan sponsors shared that their focus was not on introducing new benefits as much as it was on educating plan participants on existing benefits that may have been under-utilized. Clear and targeted communication to groups such as millennials or near-retirees was an important tool in this effort. Plan sponsors reported increased interest in voluntary benefits such as hospital indemnity insurance, student loan repayment, and financial coaching.

Looking ahead, plan sponsors said they expect an increased emphasis on flexibility and an increased reliance on data. As programs continue to evolve, they are seeking to find a balance between the short-term financial needs of plan participants and helping them make progress toward long-term financial goals for a successful retirement.

AUDIENCE POLL: How does your company measure the success of financial wellness programs?



Hear the session: Financial Wellness: New programs and strategies to meet people where they are
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MANAGING CRISIS-DRIVEN RESPONSES

Not every generation responded to the pandemic crisis of 2020 in the same way. The late Boomers—those closest to retirement—were more likely to respond to market volatility by moving all or most of their assets out of the stock market entirely, panelists said. This reaction often meant that these plan participants missed out on the subsequent stock market gains that came later in the year. The experience had plan sponsors doubling down on other efforts to educate participants in the importance of getting their financial house in order—and taking steps to get back on track for retirement.

Plan sponsors on this panel opted not to implement CARES Act provisions allowing additional plan loans during the pandemic, but at least one plan sponsor said that her plan saw an uptick in emergency withdrawals. Others reported a shift in assets toward guaranteed funds, potentially impacting retirement readiness. To better help these participants, plan sponsors said they'd look closely at plan analytics to understand what's driving participant behavior and create targeted programs aimed at helping participants make better financial decisions, even in times of extreme volatility.

Hear the session:
Managing crisis-driven decisions: Investing lessons learned and ways to guide participants of all generations
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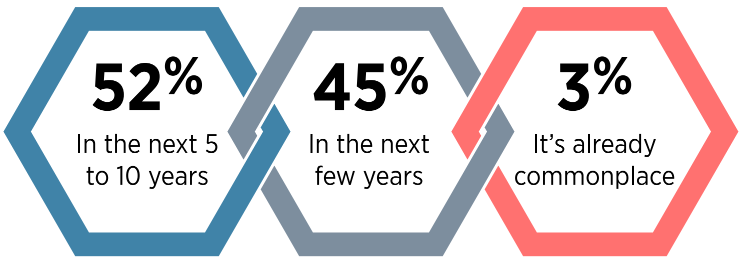
LIFETIME INCOME NEEDS

While plan sponsors have been heavily focused on—and made huge strides in—education and support around accumulation during the savings phase, many are just starting to work on the decumulation side and looking at ways to keep participant assets in the plan, even after employees have separated from their employer. Among session attendees, more than two-thirds said that they do not currently have a decumulation provision in their plan. Panelists said they expect that share to decrease in coming years, especially after the upheaval of 2020 has plan participants re-evaluating their retirement preparedness.

The SECURE Act, passed in late 2019, eased the way for in-plan annuities, which will likely become a large part of this market in the decades ahead. While plan sponsors consider annuities, however, they're also taking other steps helping participants think about income in retirement, introducing managed retirement solutions, withdrawal strategies, and education programs aimed at helping participants begin thinking about and preparing for the transition to retirement.

AUDIENCE POLL: When do you think it will be commonplace to have retirement income options offered as part of a DC investment menu?



Hear the session: Examining Lifetime Income Needs and Readiness
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ESG POLICY AND PRACTICE

As a growing body of research has shown that environmental, social, and governance (ESG) factors can have a material impact on company performance, more investors are looking for ways to align their investments with their values, shared this panel. To date, however, that's been difficult to do via workplace retirement plans as fiduciary concerns have kept many plan sponsors from introducing ESG in their DC menu. That could be changing, however, as the Department of Labor announced last month that it would not enforce the Financial Factors rule pushed through by the previous administration, which had been interpreted as limiting the ability of fiduciaries to consider ESG factors when selecting investment options.

While panelists appreciated the ruling and said that ESG remains an increasingly important consideration for plan participants, they also cited challenges measuring and comparing ESG factors across companies or funds. One plan sponsor said they've considered deploying a separate tier of ESG investments but remain concerned about overwhelming participants with too many investment choices. Still, while they haven't yet implemented a specific ESG fund, they've had ongoing discussions with current investment managers, many of whom already incorporate ESG factors into their strategy.

Hear the session:
Emerging Trends: The rise in popularity of ESG and DEI and their impact on your DC Investment Lineup
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EXPLORING RETIREMENT INCOME TIERS

While it appears clear that annuities will play a larger role as plan sponsors transition their focus to the full retirement lifecycle—up to and into retirement—for participants, plan sponsors also recognize that they're likely not the only solution. Instead, panelists said they see annuities as one part of a "retirement tier," a suite of offerings that can accommodate a wide range of retiree goals and financial situations. The ability to offer a variety of solutions reflects a recognition of the heterogeneity of today's plan participants.

In addition to traditional annuities, the retirement tier might include paycheck-like services and advice for those with more complicated financial profiles, such as those who need to determine the best withdrawal strategy, multiple (taxable and non-taxable) accounts and who have flexibility as to when to tap their Social Security. Even plan sponsors who aren't ready to fully embrace income solutions, might consider design features such as partial withdrawals or digital tools aimed at helping retirees navigate decisions around their retirement portfolios.

AUDIENCE POLL: Which choice best describes most defined contribution plans today?

49% An investment portfolio they manage on their own

31% A savings account they draw from sparingly in retirement

20% A secure retirement benefit that can pay people for life

Hear the session: Navigating Retirement Income Beyond Annuities
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FOCUS ON THE DEFAULT

Among the many concerns that surfaced in 2020, some plan sponsors worried that plan participants spooked by the market volatility may move large portions of their assets to investments that they perceived as safer—and potentially miss out on subsequent returns. While some participants did just that, most participants enrolled in the default, typically target-date funds, stayed the course.

Whether that's due to inertia or enhanced participant education (or both), it's good news for plan sponsors who have largely moved to TDFs as their qualified default investment alternative (QDIA). Even so, plan sponsors took the opportunity to analyze their funds over the past year, confirming that their fund selection makes sense given the behaviors and demographics of their population.

Panelists said that they looked forward to seeing even more personalized solutions within TDF offerings, allowing plan sponsors to deliver even more targeted advice for both the accumulation and decumulation phases. Given that technology will play a large role in scaling such solutions, they expected greater uptake and engagement among younger cohorts, who are more comfortable with technology and digital interactions with financial institutions.

Hear the session: Testing Target-Date Funds & Managed Accounts During Roller-Coaster Market Swings
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REVIEWING AUTO FEATURES

As more plan sponsors move to incorporate auto-enrollment and auto-escalation features in plan design, the value of such programs continues to grow. Panelists reported that these "nudges" have resulted in higher participation rates and higher contribution levels among employees, which, in turn, has contributed to higher rates of retirement preparedness among employees. Research shows that the average default investor materially outperforms the average DIY investor.

Still, some employers remain hesitant to implement "paternalistic" policies, worried they might upset participants or add costs to their plans. Panelists said they've largely received positive feedback on these plan features and suggested that those worried about the cost might be able to come up with creative solutions. Stretching an employer match, for example, might allow more participants to enroll in a plan, without committing to a larger outlay from the employer perspective. Putting a brokerage window in place can also meet the needs of a DIY investor who is interested in allocating funds outside of the standard plan menu.

Hear the session: Action vs. Inaction and When Is Inaction Action? Helping Your Plan Participants Make the Best Choice for Their Investment Lineup
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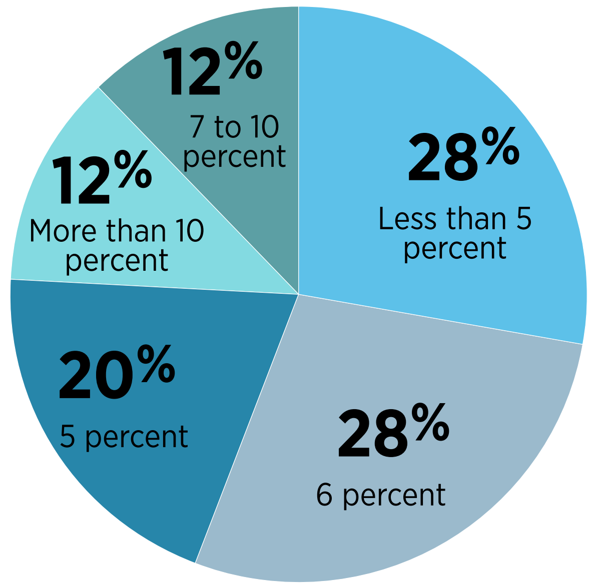
43% of attendees have auto-escalation

AUDIENCE POLL: What is your organization's default savings rate?



ADDING ALTERNATIVES

The volatility of last year further confirmed the importance of portfolio diversification, which has more plan sponsors considering ways to incorporate private equity and other alternative investments into their lineup. The trend got a further boost last year, with the DOL letter allowing plan fiduciaries to consider private equity as part of a target-date fund or diversified fund.

Panelists said that private equity may make sense for retirement investors who, by definition, have a decades-long time horizon and a structure that already has liquidity restrictions built in. In exchange for such illiquidity, today's private equity investors enjoy enhanced returns, which panelists said they expected to continue, especially as more companies remain private longer. Given that potential, panelists cited a target allocation of 10% to 15% to private equity in a diversified fund, since that could likely provide a meaningful return without running into liquidity challenges.

Hear the session: Adding Private Equity and Alternative Strategies to Your Portfolio
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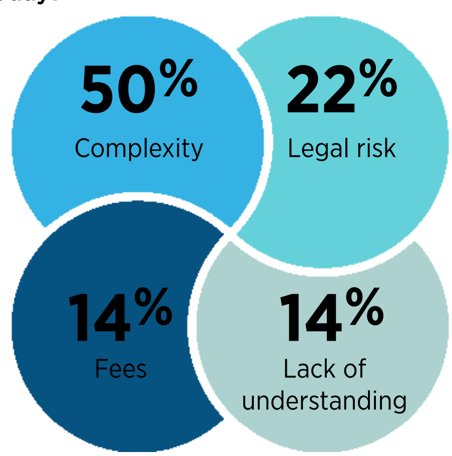
AUDIENCE POLL: What is the primary drawback keeping you from adding alternatives to your DC plan today?



ACTIVE VERSUS PASSIVE

In the market turmoil of 2020, active managers typically outperformed passive managers, but defined-contribution plans continue to increase the passive fund offerings, in both their core offerings and in target-date funds. Plan sponsors said that shift reflects a focus on keeping costs low and presenting a limited number of offerings that are easy for participants to understand.

Still, panelists recognized the importance of maintaining some active management choices in their investment menu. They suggested that less efficient asset classes, such as intermediate fixed-income investments may perform better under active management than more efficient asset classes, such as large-cap equity. Plan sponsors said that they regularly return to discussions about their active versus passive opportunities and expect their approaches to evolve as market conditions and participant needs change over time.

Hear the session:
Active and Passive Investing in Pandemic Times
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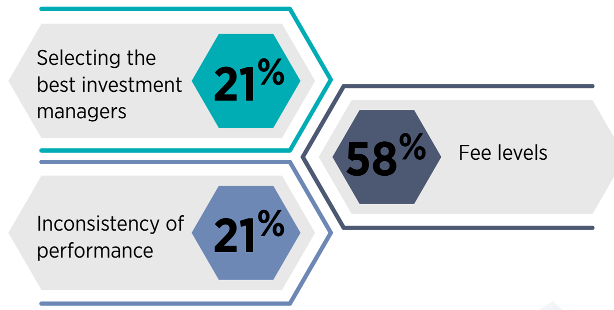
AUDIENCE POLL: What is the greatest challenge to using more active management in your defined contribution plan?



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ACKNOWLEDGEMENTS

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