DC Plan Hot Topics: Governmental Plans

November 2019

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November 2019 DC Plan Hot Topics

Engagement

- Projected retirement age
- Global concerns about financial literacy
- Lack of knowledge of rollover rules

Investment

- U.S. Senate seeks to bar TSP from adding fund with Chinese securities
- Building participant interest for lifetime income solutions
- No cost retirement income strategy

Compliance / Risk

- Proposed rules on expanding electronic disclosure of plan documents
- Auto-portability of small retirement balance distributions

Engagement

"Big Three" Questions on Financial Literacy

Question	Choice of responses
1. Suppose you had $100 in a savings account and the interest rate was 2 percent per year. After five years, how much do you think you would have in the account if you left the money to grow?	❑ More than $102 ❑ Exactly $102 ❑ Less than $102 ❑ Do not know ❑ Refuse to answer
2. Imagine that the interest rate on your savings account was 1 percent per year and inflation was 2 percent per year. After one year, how much would you be able to buy with money in this account?	❑ More than today ❑ Exactly the same ❑ Less than today ❑ Do not know ❑ Refuse to answer
3. Do you think that the following statement is true or false? "Buying a single company stock usually provides a safer return than a stock mutual fund."	❑ True ❑ False ❑ Do not know ❑ Refuse to answer

Engagement
"Big Three" Questions on Financial Literacy

Summary	What this means to plan sponsors
• Increases in longevity combined with lower birth rates have created a major societal issue in assuring retirement income adequacy not just in the United States but across virtually all advanced economies. • This issue is exacerbated by a lack of employee financial literacy to manage this challenge: a recent global worker survey found only 30% of respondents could correctly answer all of the "Big Three" financial literacy questions developed by two academics which test knowledge of compounding interest, inflation, and risk diversification. (See questions on following slide).	• Employers with a global workforce may want to consider how to extend any financial literacy initiatives being undertaken in the U.S. to their global population as well.

How Buck can help

Buck can assist with conducting surveys of different workforce populations or at a more basic level educate sponsors on the need for financial education in different countries given the structure of their national retirement programs.

* Aegon - The New Social Contract: Empowering individuals in a transitioning world, May 2019.

Engagement
Knowledge of rollover rules

Summary	What this means to plan sponsors
A recent study highlighted that many participants are unaware of some of the basic rules governing retirement plan rollovers: • 42% of those between the ages of 35 and 65 who left a job were unaware that they could leave their 401(k) balances in the plan • 28% didn’t know that some retirement plan distributions trigger tax liabilities and penalties • 51% didn’t know it’s possible to move money from an individual retirement account (IRA) into a 401(k) plan.	The disturbing lack of knowledge about basic rules governing plan distributions highlights that the average participant needs more help with complex retirement plan rules. • Consider reviewing current procedures to identify areas to simplify the rollover process. • Consider polling employees through quick surveys to identify topics warranting more information.

How Buck can help

We can review existing documentation to see how this messaging can be more prominently conveyed.

* Plan Sponsor- Participants Lack Knowledge About Retirement Plan Rollovers, June 2019.

Risk/Compliance

Proposed Rules On Expanding Electronic Disclosure of Plan Documents

Summary	What this means to plan sponsors
The U.S. Department of Labor (DOL) proposed adding posting on the internet/website as another method for e-delivery of certain required documents to participants, beneficiaries and alternative payees who have provided an electronic address to the employer, sponsor or administrator. Unlike the DOL's current safe harbor*, the new proposed safe harbor would not require individuals to be have online access as an integral part of their workplace duties (that is, "wired at work") or otherwise affirmatively consent to electronic delivery.	Since the rule is unlikely to be effective before 2021, sponsors may want to use this interim period to, in conjunction with their plan administrators. increase the number of covered participants eligible for electronic distribution: • Consider assigning all current employees an email address even if not essential to their workplace duties • Proactively collect personal email addresses to facilitate electronic disclosures to deferred vested members, beneficiaries, and alternate payees • Develop procedures to flag invalid email addresses and institute postal mail communications as required under the proposed regulations.

How Buck can help

Buck's engagement consultants can help draft required notice of internet availability and discuss how to increase participant engagement via electronic media as traditional paper-based communications are phased out.

*A safe harbor is a provision or practice which eliminates legal or regulatory liability if certain conditions are met.

Risk/Compliance
Small Retirement Account Rollover and Auto-Portability Program

Summary	What this means to plan sponsors
On July 31, the U.S. Department of Labor granted a five-year exemption from its prohibited transactions rules to allow an employer plan to contract with Retirement Clearinghouse, LLC (RCH) to locate, match and transfer any rollover IRA balances held by a newly hired employee from a rollover IRA into their new employer's eligible retirement plan. (This automatic rollover from one employer plan to another is referred to as *auto-portability.*) RCH serves as a default IRA provider for many plans to facilitate mandatory distributions of balances between $1,000 and $5,000. It monitors accounts of cooperating recordkeepers and will automatically rollover the IRA balance if the account owner becomes a participant in an employer sponsored individual account plan.	Sponsors who use the RCH default IRA and/or auto-portability features have a fiduciary obligation to: • Disclose to participants the process and fees charged to the accounts • Select proper investments for the default IRA • Understand the way RCH uses participant information.

How Buck can help

We can assist with the review of the policies and outline the required procedures, assist with selection of the Default IRA, draft and/or review participant disclosures.

Investments

U.S. Senate seeks to block TSP from adding fund with Chinese equities

Summary	What this means to plan sponsors
The Thrift Savings Plan (TSP), the U.S. Government's main defined contribution program with 6 million participants, agreed to add an International Equity Index Fund in 2020 which invests 8% of its assets in securities listed on the mainland Chinese exchanges In response, a number of U.S. Senators, citing control of several of these companies by the Chinese military, have sponsored a bill which would ban the TSP from adding this fund Further, the TSP Board believes the legislation would also require them to drop their existing international equity fund as well	While this bill is not likely to pass, it may activate interest in politically sensitive holdings held in State and local plans Governmental plan sponsors should also understand their current statutory obligation to select funds solely based on the best interest of plan participants without regard to outside political concerns .

How Buck can help

Our investment consultants can help analyze your current plan holdings to identify any potentially politically sensitive holdings as well as detailing current statutory obligations regarding investment selection by Plan Fiduciaries

Investments

Building Participant Interest for Lifetime Income Solutions

Summary	What this means to plan sponsors
Many plan sponsors, providers, academics, and legislators recognize the need to introduce lifetime income options (to produce a stream of payments for the remainder of the owner's life) in defined contribution plans but the solutions which have been offered so far haven't been widely used. A recent whitepaper* suggests that participant reluctance to consider annuities may stem from how the issue is framed: • When annuities are framed as an "investment", consumers are concerned they won't "payoff" due to uncertainty around date of death • However, when annuities are framed as the ability to guarantee spending throughout retirement, interest appears to rise dramatically.	Little progress will be made in increasing use of retirement income solutions without greater employee acceptance. This even applies to governmental employers who allow a lump sum option from their defined benefit pension plans Sponsors may want to review their overall communications approach for all wealth accumulation programs and consider shifting the focus from savings and accumulation to include creating and protecting retirement income.

How Buck can help

Our consultants can analyze plan demographics and messaging to determine the value of an increased focus on lifetime income options

*BlackRock, "Income reimagined: expanding DC from saving to spending.", October 2019

Investments
Spend Safely in Retirement Strategy

Summary	What this means to plan sponsors
The Society of Actuaries* has published research on its strategy for middle income retirees to generate retirement income from 401(k) and IRA assets: • Optimize expected Social Security benefits through a careful delay strategy; many middle income retirees – those with less than $1M in retirement savings - may have all the guaranteed income they need • Generate retirement income from savings using the IRS required minimum distribution rules, coupled with a low-cost index fund, target date fund, or balanced fund.	Sponsors are increasingly recognizing the need to offer retirement income options within DC Plans but don't want to incur the risk or complexity of offering guaranteed income annuity options within their plans. This research suggests a methodology for generating lifetime income that doesn't require annuities or paying for a financial advisor or managed account product.

How Buck can help

Our engagement consultants can work with sponsors to suggest how to introduce more focus on generating lifetime income in their communications approach.

*Stanford Center on Longevity and the Society of Actuaries, "Viability of the Spend Safely in Retirement Strategy", July 2019

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