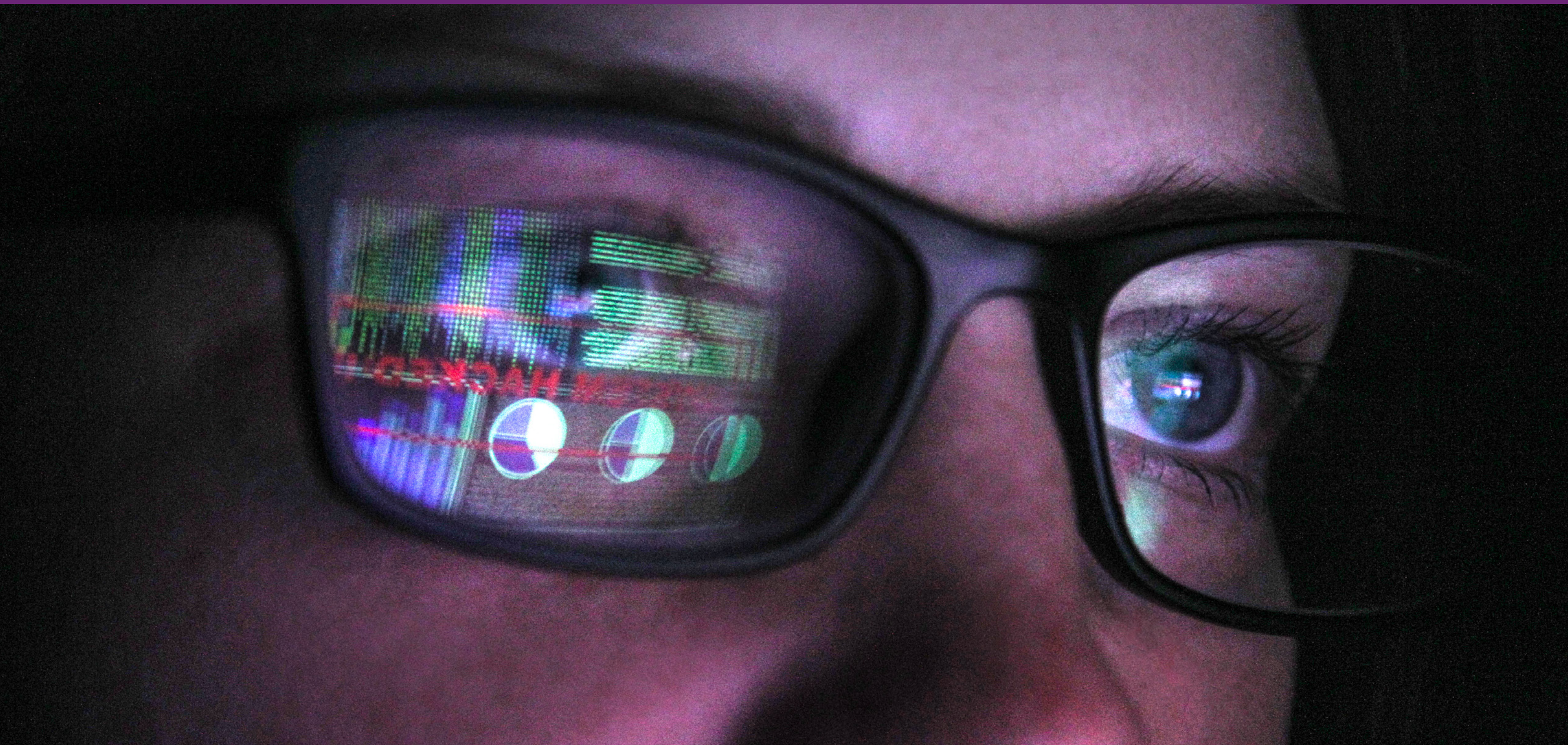
Public Sector Retirement News & Views | Q1 2022



DEPARTMENT OF JUSTICE RELEASES INFORMATION ON RETIREMENT PLAN CYBERFRAUD CASE

Cyberfraud continues to evolve at lightning speed and cybersecurity has never been more important to retirement plans. Most of our retirement plan partners have strong and constantly evolving cybersecurity protocols, but these bad actors – the cybercriminals – are diligent in looking for inroads to rob savers of their retirement income. Unfortunately, this was the case for multiple fraud victims in the Texas Employees Retirement System, where two money launderers worked together to create unauthorized accounts for participants, change bank account information, ultimately withdrawing almost $1 million from unaware member of the retirement system. The two individuals were sentenced to eight and four years in prison, respectively, and required to pay restitution to the victims. Read more about this case here.[1]

In our Q3 newsletter[2], we reported on a three-part series of guidance from the Employee Benefits Security Administration, a division of the Department of Labor. The guidance is directed to plan sponsors, fiduciaries, recordkeepers and participants, and is the DOL's first in addressing cybersecurity. It includes a variety of best practices for plan fiduciaries and security tips for fiduciaries, participants and their beneficiaries.

In addition to the guidance offered by the DOL, NFP also recommends that plan sponsors ask their providers to review both plan- and participant-level cybersecurity and privacy protocols. This can be done at committee meetings (for plan-level) and group education sessions (for participant-level). Given that cyber-crime evolves so quickly, NFP recommends that fiduciaries review cybersecurity at least every two years, if not more.

To access the series of DOL Cybersecurity brochures, click here.[3]

TARGET DATE FUNDS AND YOUR FIDUCIARY RESPONSIBILITIES

Target date funds (TDFs) — which rebalance investments to become more conservative as a fixed date approaches — are a convenient way for plan participants to diversify their portfolios and reduce volatility and risk as they approach retirement, making them an increasingly popular choice. However not all TDFs are created equal and selecting and monitoring them can pose unique challenges for plan sponsors and fiduciary advisors.

TDFs were first introduced in 1994. A little over ten years ago, just 13% retirement plan participants were invested in TDFs. Today, that number has risen to more than 50%, according to a new report from Vanguard, which also estimates that 77% of Vanguard participants will be invested in a single TDF by 2022.

However, the "automatic" rebalancing feature of TDFs doesn't supplant the obligation to monitor funds and educate participants. The Department of Labor (DOL) provides guidance on TDFs in the form of tips for ERISA plan fiduciaries. A fiduciary advisor can help plan sponsors understand the rules and assist with compliance.

DOL's TDF Tip Highlights

- Establish an objective process for comparing and selecting TDFs. Some of the things DOL suggests you consider include: fund performance, fund fees and expenses and how well the fund's characteristics align with your employees' ages, retirement dates and salaries.
- Establish a process for periodic review of your plan's TDFs. If there are significant changes in any of the criteria you considered when you added the TDF – management staff of the fund, performance, objectives – consider replacing it.
- Understand the fund's investments and how these will change over time. Aside from the primary strategy and underlying risk, another important aspect to consider is the fund's "glide path." Some TDFs reach their most conservative state closer to the target date, while others continue to become more conservative as participants move through their retirement years, with the assumption that funds will be withdrawn over a longer period of time.
- Review the fund's fees and expenses. Even small differences in fees can have a large impact on the growth of participants' savings over time. In addition to fees and expenses charged by the component funds held by the TDF, are there additional charges for rebalancing or other services?
- Ask whether a customized TDF that includes component investments not managed by the TDF vendor would be better for your plan. There may be additional costs associated with a custom TDF, but it may be worth it and you should ask the question.
- Develop effective communications about TDFs for your plan participants, especially disclosures required by law.
- Use available sources of information, such as commercially available resources and services, to evaluate and review TDFs as well as any recommendations received concerning their selection.
- Document your process for choosing and reviewing TDFs, including the decision-making process regarding individual investment options.

NFP's proprietary ***TDF Fit Analysis*** incorporates many of the data and review recommendations in the DOL's guidance for evaluating TDFs in your plan. The Fit Analysis takes a custom look at your plan, and in addition to considering the participants' age groups, it also considers their investment style and other characteristics to determine the TDFs that are the "Best Fit" for your plan. The TDF Fit Analysis overview is a good topic for fiduciary education, and your plan advisor can discuss this with you further.

To access the DOL publication "Target Date Retirement Funds — Tips for ERISA Plan Fiduciaries," click here.[4]

NEW YORK CITY RETIREMENT SYSTEM ELIMINATES FOSSIL FUEL HOLDINGS

Three of five pension funds in the New York City Retirement System are eliminating $3 billion worth of holdings in fossil fuel companies, as reported in an article in Pensions & Investments. The plan fiduciaries stated that this move "is proof-positive that environmental and fiscal responsibility go hand-in-hand," and that since "New York City is leading the way toward a clean, green and sustainable economy, and the impacts of the actions we are announcing today will be felt for generations to come."

Plan sponsors, particularly those in the public sector, have long struggled with finding funds that are considered socially responsible, to add to their plan. This move recognizes that while investment returns, fees, and other fund management data are typically the main focus for fund evaluation, a company's environmental impact on the economy may also be an important area for review.

To access the full article, click here.[5]

THE IMPACT OF PARTICIPANT IN-SERVICE WITHDRAWALS

As a plan sponsor, you are keenly aware of the importance of saving for retirement and the setbacks participants can experience if they take in-service withdrawals. Such withdrawals are allowed only under certain conditions, primarily emergency withdrawals or loans. By taking large sums of money from their plan accounts, participants can suffer serious detriments to their savings plans and ability to retire at their desired age.

In Vanguard's recent publication, "How America Saves 2021," they found that during 2020 – surprisingly – participants stayed largely on track for retirement savings. Their study shows that for plan that offer advice – including online tools, licensed representatives, managed accounts –participants usage has grown by 34% over the last five years. Median account balances have also grown, by 30% in the last year alone. This is largely a result of the market growth but is also attributable to participants staying in their plans.

Some experts believe that when emergency withdrawals or loans are offered, participants know that they can, if necessary, access their funds. While retirement accounts should not be considered "rainy day funds," simply knowing that there are options if needed alleviates participants' concerns and can actually result in increased participation and even higher savings rates.

You can help your employees understand the requirements and benefits of offering these in-service withdrawals. You can also help them understand the detrimental effect in-service withdrawals can have on their overall plan for retirement savings. Offering education on how to build their rainy-day fund and how to budget for retirement savings is key to helping them understand their options, and the impacts of each of the choices they face. Your provider can help you by offering group education about basic budgeting, plan withdrawal options and their effects, and how to determine retirement income needs. They can also help by meeting your participants individually to review all their options and help them decide their best course of action given their unique circumstances.

Offering advice and can actually help encourage plan participation. So can offering education about the impact of in-service withdrawals. And helping participants use tools to establish a rainy-day fund outside of their retirement savings account can further help encourage participant savings rates and plan utilization.

To access the full Vanguard report, click here.[6]

WASHINGTON UPDATE

We reported in previous newsletters that Congress is considering two proposals that have many attractive improvements to retirement savings plans. Among the improvements are elimination of the first of the month rule; adding another layer of catch up for participants over age 60; and increasing the age for Required Minimum Distribution to age 75. The proposals are HR 2954, Securing a Strong Retirement, and S.1770, Retirement Security and Savings Act.

NFP closely monitors these proposals and their potential effects on public sector plans. While there has been little movement on these proposed bills, there continues to be wide bipartisan support. NFP will watch to see if the proposals take more shape in 2022 and will keep you apprised of developments as they occur.

2022 CONTRIBUTION LIMITS

The IRS published new contribution limits for 2022:

457 Contribution Limits	2021	2022
Regular contributions	$19,500	$20,500
Over 50 catch up	$6,500	$6,500
Traditional catch up	$19,500	$20,500

About NFP

NFP has more than 6,000 employees and global capabilities. Our expansive reach gives us access to highly rated insurers, vendors and financial institutions in the industry, while our locally based employees tailor each solution to meet our clients' needs. We've become one of the largest insurance brokerage, consulting and wealth management firms by building enduring relationships with our clients and helping them realize their goals.

For more information, visit nfp.com.

NFP GOVERNMENTAL RETIREMENT PLAN EXPERTISE

Bill Tugaw is the governmental plan practice leader for NFP. He has assisted public sector employers in meeting the fiduciary obligations associated with operating their plans for more than 30 years. Bill is a faculty instructor for the International Foundation of Employee Benefit Plans (IFEBP) on public sector 457(b), 401(a) and 403(b) plans. Bill is frequently invited to lecture on employee benefits, post-employment health plan options, requests for disclosure and requests for proposals. Bill is co-author of two books: *Deferred Compensation / Defined Contribution: New Rules / New Game for Public and Private Plans,* and *Defined Contribution Decisions: The Education Challenge.*

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Barbara A. Healy is a governmental practice leader affiliated with NFP Retirement/SST Benefits Consulting and works with public sector and non-profit educational institutions. She has over 35 years experience exclusively assisting public sector plans, school districts, credit unions and other non-profits with their retirement and pension plans. Barbara has earned an MBA degree in finance from DePaul University. She passed the CFP® designation from the College of Financial Planning, the Certified Funds Specialist designation, the Chartered Mutual Fund Specialist designation, the Certified Retirement Administrator designation, and the ASPPA TGPC designation and the AIF designations.

Margaret Pierce is a governmental practice leader responsible for new business and client retention for NFP's Governmental and non-profit practices. Margaret provides over 20 years of experience in the retirement industry working at Smith Barney, TIAA and American Century Investments before joining NFP. Margaret earned her Bachelor of Science from Boston University and her MBA from the University of Massachusetts-Amherst. She passed the Accredited Investment Fiduciary Auditor (AIFA) and Certified Financial Planner (CFP®) designations.

Mindy Harris is a governmental practice leader that advises on best practices and industry trends for plan administration and development, and provides legislative and best practices education to clients. Mindy works with record keepers in her clients' plans to establish and manage performance standards for plan services, providing reports and advice to clients about their record keepers' work towards meeting the performance standards. Mindy graduated from Portland State University with a Bachelor of Science degree in business administration, concentrating in financial management and accounting. Mindy also passed her CRC and CRA designations from InFRE.

1. https://www.nagdca.org/wp-content/uploads/2021/08/NIGERIAN-MONEY-LAUNDERER-SENTENCED-TO-PRISON-FOR-DEFRAUDING-TEXAS-EMPLOYEES-RETIREMENT-SYSTEM.pdf
2. https://f.hubspotusercontent40.net/hubfs/6743242/NFP/Q3 21 News and Views.pdf
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4. https://www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/target-date-retirement-funds.pdf
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6. https://institutional.vanguard.com/content/dam/inst/vanguard-has/insights-pdfs/21_CIR_HAS21_HAS_FSreport.pdf