Public Sector Retirement News & Views | Q2 2021

ACTIVE CHOICE USEFUL IN INCREASING PARTICIPATION AND PARTICIPANT ENGAGEMENT

Traditionally, retirement savings plans are marketed to employees, who are encouraged to contact an adviser and enroll in the plan to start saving. Employees may choose to meet with an adviser, attend a seminar, and/or talk to other employees; when the employee takes this initiative they often complete the enrollment process and are on their way to saving for their retirement. Other employees may be overwhelmed by the information, reluctant to start, or they don't fully understand the benefits offered by the plan. When this happens, employees think "I'll look at it again someday" – but "someday" often never arrives. These employees find themselves far behind in their financial retirement preparedness later in their careers.

One strategy that employers can use to help motivate employees to overcome this inertia is Active Choice. Multiple Behavioral Finance studies have shown that implementing Active Choice in a benefits enrollment process results in increased participation in the program.

How does Active Choice work? Employers can start with the benefits enrollment process. For voluntary benefits, such as the deferred compensation plan, information about the plan is included along with the information about other benefits – in the benefits "packet." To complete the benefits enrollment process, employees are required to make decisions about their participation in each and every benefit. They can make the choice to participate, and follow that by making their contribution and investment decisions. Or, they can make the decision not to participate. Either way, they are actively choosing what action they will take.

Enhanced Active Choice takes the strategy a couple steps further. When using Enhanced Active Choice, the options participants must consider are worded in such a way that the employee must acknowledge the potential outcomes of choosing to save or not to save. For example, options for new employees might be worded this way:

- ☐ I understand the importance of saving for my retirement and I would like to enroll in the Deferred Compensation Plan. Please have a representative contact me. Yes / No (circle one)
- ☐ I do NOT choose to participate in the Deferred Compensation Plan to save for my retirement. I understand that I may not have sufficient income in retirement or I may have to work longer, if I do not take advantage of this important benefit.

Active Choice should not be limited to new employees. Plan sponsors can include program information in annual benefits enrollment materials. By doing so, employees have a regular reminder of the program and are required to affirm their participation decision. The following option may be added to the above, to address current participants:

- ☐ I understand the importance of saving for my retirement and I am already participating in the City's Deferred Compensation Plan. However, I would like my representative to contact me to review my account.

Active Choice is a proven tool to help motivate employees to save for their retirement. Contact your NFP advisor today if you would like to explore this for your plan.

COVID-19 IMPACTS FINANCIAL BEHAVIOR AND RETIREMENT SAVINGS

Two interesting surveys have recently been conducted by some of our partners in the retirement savings industry. Both studies focused on how the COVID-19 pandemic has impacted financial behaviors, attitudes, and retirement savings planning. Empower's study, "In Uncharted Waters, Savers Keep Both Hands on the Tiller" surveyed over 2,000 U.S. residents employed full-time or retired. Lincoln Financials' study, "COVID-19 Sentiment Study: A Special Focus on Race and Ethnicity" surveyed over 4,000 adults from different ethnic groups in proportions representative of the U.S. population.

Key findings from the Empower study indicate that many Americans have lost confidence in the future economy and are more committed to taking control of their financial needs. Women, who work in industries that have been hardest hit by the pandemic and/or are primary caregivers to children in the home, are the most pessimistic. Parents reported a higher cost of learning from home, yet they hope the pandemic will lead towards a reset on college costs and some level of student loan forgiveness. Respondents indicated that the pandemic has helped them clarify their relationship with their money, causing them to look at what they can actually control: financial planning for their future. Fifty-two percent of respondents said they would seek more expert financial advice, and first-generation Americans were more likely than other groups to do so. To minimize future worry about their finances, 83% reported increasing their savings. The desire for financial stability ranked highly, with respondents indicating that their top life goals included saving more for retirement and paying off debt – tying at the top of the list with their New Year's resolution to exercise more.

Findings from the Lincoln Financial study had some similarities to Empower's findings, primarily that Americans are taking more responsibility for planning for their financial future. Lincoln's study, however, focused on differences between ethnic groups. The study found that minority consumers' financial wellness has suffered more negative impacts, and thus have seen a higher percentage of minorities increase their planning efforts. African Americans and Hispanics have been most impacted and reported the highest level of anxiety about their finances. The two groups reported different worries, however; African Americans tended to worry about simply making ends meet, while Hispanics worried about their level of knowledge to be able to successfully manage their money. Like the Empower study, Lincoln found that the pandemic caused an overall shift in personal financial philosophy – a move back to basics, by spending less, saving more, and building an emergency fund. Finally, Lincoln found that Asian and African Americans were most interested in financial planning support, education and advice, with Asian Americans preferring to do their own research, and African Americans more likely to seek the advice of industry professionals.

How can you, as a plan sponsor, address these findings in your own plan? You can start by reviewing your employee education plan, to make sure it includes topics such as basic budgeting and establishing a personal rainy day fund; information about the various benefits offered by your provider and how to access them; and how to research investments offered in your plan. Further, you can work with your provider to establish a schedule for them to be on-site, so that your employees have easy and convenient access to financial planning professionals. Many plan sponsors also show their support of their employees by allowing them to meet with their representative during the workday. Such strategies may help employees alleviate some of their anxiety, knowing that their employer cares about their financial well-being and their future.

The full report for the Empower study can be found here[1]; the Lincoln report can be found here[2]. NFP wishes to thank both companies for providing this useful information and insights in these challenging times.

[1] *https://www.empower-retirement.com/empower-insights/uncharted-waters-savers-keep-both-hands-tiller*

[2] *https://newsroom.lfg.com/content/1222/files/lincoln_consumer_sentiment_tracking_race_final.pdf*

PRACTICAL TIPS FOR SUCCESSFUL PLAN MANAGEMENT

Seasoned plan fiduciaries know that they have a number of fiduciary responsibilities in their roles overseeing the plan. While there are different approaches to carrying out these duties, the fact that they must be addressed and documented does not change.

Plan fiduciaries may benefit from having established structure to guide how they will carry out their responsibilities. Such structure may take the form of a committee charter, which will include a statement of purpose of the plan; identify where committee members come from within the organization; describe how members are appointed, re-appointed or removed; state the terms of service; define expectations for meeting attendance; and describe how decisions are made. Having committee members with staggered terms is helpful for preservation of overall committee education and knowledge of the plan. Having committee members that come from different areas of the organization helps bring a diversity of backgrounds and opinions when considering various plan issues. This structure and the attributes in committee composition can offer some of the best protections of the fiduciaries, as well as the plan participants.

Documenting committee actions is a very important tool to demonstrate how the fiduciaries are addressing their responsibilities. Meeting minutes, or executive summaries, are the most common form of documentation. Minutes should include a description of issues before the committee, what information was considered, and the committee's decision. Minutes should also list all committee members and others in attendance at the meeting. Complete minutes and documentation of committee decisions also offers protection for the plan fiduciaries.

Fiduciary education is imperative for committee members, so that they understand their responsibilities and know how to address them. Education can come in the form of formal training programs presented by advisors, seminars, newsletters, meeting discussions led by experts in topical areas, or other formats. Committee members and others with plan responsibilities should be trained in their basic fiduciary responsibilities, legal and regulatory requirements, how to manage their responsibilities, trends in the industry, the provider selection process, and investment education.

NFP offers clients various tools to meet their fiduciary and educational needs. Your NFP advisor can create your Fiduciary Diagnostic™, a tool used to outline plan management responsibilities, document how they are being met, and identify any gaps in compliance responsibilities. NFP also offers our proprietary 457 University, an educational program covering the history of defined contribution plans, education in the subject areas described above, and practical examples and strategies for meeting governmental fiduciary duties. Please contact your NFP advisor if you are interested in exploring the Fiduciary Diagnostic™ or the 457 University for your plan.

WASHINGTON REPORT

Securing a Strong Retirement Act 2020 (aka, Secure 2.0), Remains on the Table

In our last newsletter, we reported that a bipartisan bill, Securing a Strong Retirement Act 2020, had been introduced in the House. There has been little movement so far, but NFP's contacts on Capitol Hill and at NAGDCA report that the bill is still very much alive. Provisions important to retirement plan sponsors include:

- Elimination of the 1st month rule (governmental plans)
- Increasing the age for Required Minimum Distributions (RMD) to age 75 (RMD was increased to 72 in the Secure Act in late 2019)
- Increasing the catch-up limit to $10,000 for age 60 and over
- Allow a person whose total assets are less than $100,000 to be exempt from RMD
- Safe harbor to correct administrative mistakes (e.g., those found in an audit) – currently the safe harbor is 180 days; this bill increases the correction period to 9-1/2 months.

It is encouraging to know that these proposals have wide bipartisan support in Congress. NFP will continue to monitor these and other proposals affecting retirement savings plans and will keep you informed of how your plans may be affected. Please contact your NFP advisor if you have questions.

About NFP

NFP is a leading insurance broker and consultant that provides employee benefits, specialized property and casualty, retirement, and individual private client solutions through our licensed subsidiaries and affiliates. Our expertise is matched by our commitment to each client's goals and is enhanced by our investments in innovative technologies in the insurance brokerage and consulting space.

NFP has more than 5,800 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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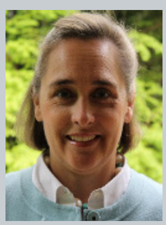
Barbara A. Healy is a governmental practice leader affiliated with NFP Retirement/SST Benefits Consulting and works with public sector and non-profit educational institutions. She has over 35 years experience exclusively assisting public sector plans, school districts, credit unions and other non-profits 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.