Public Sector Retirement News & Views | Q3 2020

CARES ACT

In late March, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law. NFP advisors have been in communication with plan sponsors to review the retirement-related provisions of the Act and options for defined contribution plans. Briefly, the provisions are:

1. Allowing withdrawals up to $100,000 for qualified individuals, with the option for the participant to pay the withdrawal back or to pay tax over a three-year period.

2. Increasing plan loan limits to $100,000 or 100% of their account, whichever is less.

3. Allowing qualified individuals with existing loans to delay loan repayment for up to one year.

4. Waiving required minimum distributions (RMD) for 2020.

It is important to note that, except for the RMD waiver, all the provisions are optional for plans to implement and are offered to qualified individuals only. The definition of qualified individual was initially very strict, but in IRS Notice 2020-50 the definition was relaxed. To be considered a qualified individual under the revised / current definition, a qualified individual includes:

- a participant, spouse or dependent who has been diagnosed with COVID-19;

- a participant who has experienced COVID-19-related adverse financial consequences as a result of any of the following situations occurring to the participant, their spouse, or a household member:

  - being quarantined, laid off, furloughed or having work hours reduced;

  - being unable to work due to a lack of childcare;

- closing or reducing hours of a business they own;
- having wages or self-employment income reduced;
- having a job offer rescinded or start date delayed.

It is important to note that the Act does not require plan sponsors to verify whether a participant meets the definition of qualified individual, but allows for participant self-certification. Individuals must meet the qualification requirements in order to obtain favorable tax treatments authorized by the Act and plan sponsors and providers can help those considering making withdrawals by providing the IRS' definitions and related guidance.

If a plan decides to offer any of the optional provisions (items 1, 2, or 3), NFP recommends that the plan's governing body officially vote on the items and document the decision in meeting minutes. Additionally, the plan document must be amended to reflect the provisions, but governmental plans have until 2024 to finalize amendments.

This is a brief summary of the retirement-related provisions of the CARES Act, and certain provisions have additional important requirements. If you would like greater detail about the Act and your options and responsibilities, your NFP advisor is available to discuss with you.

COVID-19 and the Impact on Retirement Savings

The Transamerica Center for Retirement Studies recently issued its 20th annual survey of workers and their attitudes towards and preparation for retirement. The overall goals for the study – one of the largest and longest running of its kind – are to illuminate emerging trends, promote awareness, and help educate the public. Over 5,000 workers from different demographics were surveyed in late 2019, regarding their financial well-being, visions and expectations of retirement, savings / planning / preparations for retirement, and the role of employers in helping employees save and prepare for their later years. A supplemental survey was conducted in 2020 to assess how the effects of the pandemic may have changed the initial survey results.

Key findings and the pandemic's effects include:

- Workers across all demographics are at risk of not saving adequately for retirement. While this was true long before the pandemic, the risk appears to have increased with job layoffs, furlough, and other pandemic-related economic impacts workers have endured.
- Almost one-fourth of workers say their confidence in being able to achieve a financially secure retirement has declined since the pandemic began, and one in five workers has used their retirement savings during the recession.
- One-third of workers had taken loans or withdrawals from their retirement accounts prior to the pandemic, which can severely impact their ability to achieve long-term growth. Another 22% of workers have or are planning to take withdrawals due to the pandemic.
- Attitudes generally are positive towards retirement, with most workers expecting less stress, travel, and spending more time with family. Many workers expect to work past age 65 and transition to retirement. After the pandemic, most expect to work further past 65 in order to rebuild retirement savings.
- Workers continue to highly value retirement benefits, with 80% saying this is a major factor in their decision to accept a job offer or not. Most find auto-enrollment appealing and would use auto-escalation if offered. A majority of workers (two-thirds) wanted education and advice, and would be motivated by a plan that is easier to understand.

A similar study by Magnify Money found that during the pandemic, 47% of workers have stopped or reduced their retirement savings, and as many as 30% have withdrawn an average of $6,757 – primarily for groceries and living expenses.

To read the full Transamerica report, click here. For the Magnify Money report, click here.

NAGDCA Conference – status

The annual NAGDCA conference is scheduled for October 4-7, 2020, in Seattle, Washington. The association is monitoring guidelines from CDC and local health officials, and expects to make a determination about whether to hold an in-person or virtual conference in mid-July. Registration is open, and fully refundable up to September 4.

Collective Investment Trusts Growing in Governmental Plans

Collective Investment Trusts (CITs) have been the fastest growing investment vehicle within retirement savings plans over the past seven years[1], with 62% of asset managers believing that their clients will shift from mutual funds to CITs[2]. CITs are allowed for 457 plans, they are not yet allowed in 403(b) plans – however, as reported in our last newsletter, legislation has been introduced to make them available for all plans.

While CITs have traditionally only been available to large and mega-sized plans, NFP's national presence, with over 1,740 plans and more than $220 billion in assets, as of January 1, 2020, allows our clients exclusive access to a suite of active, passive and asset allocation CITs.

Active	Benchmark Index	Score[3]	Share Class[4]	Expense Ratio	CUSIP	Savings Compared to Mutual Funds[5]
Large Cap Growth Fund (ClearBridge LCG)	Russell 1000 Growth Index	8	I1	0.29%	97182V248	55%
Large Cap Value Fund (Putnam Equity Income)	Russell 1000 Value Index	10	I1	0.29%	97183K381	47%
Mid Cap Growth Fund (BlackRock MCG Equity)	Russell Mid-Cap Growth Index	9	I1	0.45%	97182E527	40%
Small Cap Growth Fund (Victory RS SCG)	Russell 2000 Growth Index	10	I1	0.59%	97181N361	58%
Small Cap Growth II Fund (AB Small Cap Growth)	Russell 2000 Growth Index	10	I1	0.59%	97182E220	29%
Small Cap Value Fund (BMO Disciplined SCV)	Russell 2000 Value Index	10	I1	0.40%	97181N296	52%
Small Cap Value II Fund (American Century SCV)	Russell 200 Value Index	10	I1	0.54%	97182E444	40%
International Stock Fund (PIMCO RAE International)	MSCI ACWI ex U.S.	10	I1	0.32%	97182U109	37%
Core Bond Fund (Lord Abbett Total Return)	Bloomberg Barclays U.S. Aggregate Bond Index	6	I1	0.21%	97183J566	43%
Core Plus Bond Fund (Prudential Total Return)	Bloomberg Barclays U.S. Aggregate Bond Index	8	I1	0.34%	97182D594	13%
ESG (Pioneer Balanced ESG)	NFP Custom Benchmark	TBD	I1	0.33%	TBD	51%

About NFP

NFP is a leading insurance broker and consultant that provides employee benefits, 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 5,400 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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1. *DST Systems, Inc. "Collective Investment Trusts - A Perfect Storm." 2017.*
2. *CerulliAssociates. TheCerulliReport 2016.*
3. *As of 3/31/2020.*
4. *Additional share classes available with 0.25% and 0.50% revenue sharing for each active CIT. Please contact your NFP investment advisor for CUSIPs and additional information.*
5. *Compared to* lowest cost share class of mutual fund equivalent for each investment option.