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Inside This Issue

- 401(k) Day is September 10, 2021!
- Great Challenges Teach Important Lessons
- Retirement Assets Grow, But Are Some Being Left Behind?
- The DOL's Rollover Guidance - The Opportunities & Challenges
- First Ever DOL Issued Cybersecurity Guidance
- Legislative Highlights

401(k) Day is September 10, 2021!

The Plan Sponsor Council of America (PSCA) encourages you to celebrate 401(k) Day by promoting your retirement plan. It's a day to help your participants focus on their finances in a fun and encouraging way. Three bingo cards, each with a variety of tasks and resources with financial wellness strategies, will help participants take a moment to Refocus, Revive, and Reset their finances.

The campaign includes a guidebook explaining ways to use the materials. The materials include a flyer, poster, email/internet banners, bingo cards and badges. Instructions for the players provide explanations of concepts such as debt, credit, budgeting, and saving in retirement plans.

Use the campaign for 401(k) Day on September 10th this year, or anytime throughout the year that works best for you.

Access the campaign here

As always, we encourage you to take advantage of Pentegra's Building Blocks for Retirement and SmartPath™ tools to remind participants of 401(k) Day!

Be sure to follow our retirement readiness conversation on social media under the hashtag, #TalkAboutRetirement

Great Challenges Teach Important Lessons

Here Are Some Emerging From 2020

On the surface, retirement readiness did not suffer significantly in 2020, according to a close examination of the 1.1 million participants in 1,076 plans reviewed for a recent white paper by John Hancock.

Of course, the market experienced significant dips in the first quarter of 2020, but results were broadly positive the rest of the year. Overall, year-over-year retirement readiness was down fewer than two percentage points — concerning, but not devastating.

The paper, John Hancock's State of the Participant 2021, examined data for the year ending September 30, 2020, digging deeper to see how participants reacted to 2020's challenges. The information may help plan sponsors shape ongoing communication efforts.

Lesson: Don't panic

Among the key results was that very few participants moved money out of equity investments. Those who did, moving their money out of stocks and into a cash equivalent, unwittingly locked in their losses. Participants who took a wait-and-see approach, on the other hand, found their account balances returning to levels at (or even above) where they were immediately prior to the lockdowns.

There is a lesson here for ongoing plan communications: even when the unexpected occurs, panic-driven decisions are seldom best.

Among the participants studied for the paper, very few took money from their 401(k) plan accounts using the provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Just 3.4% of participants took a distribution, and even fewer (0.15%) took a COVID-related plan loan. On average, distributions were $20,768 and loans were $16,699.

Lesson: Look at individuals, not just statistics

Although the numbers of participants taking money from the plan were low, the impact on the individuals could be significant. The report calculated the net effect on potential retirement savings at -13% for a participant in his or her 30s; had they not taken a distribution, the projected balance at retirement was $895,403, compared to $779,242 with the distribution.

Another key takeaway from the research is a reminder to look at participant behaviors, not just account balances. By figuring out which participants are most impacted by the pandemic, plan sponsors can offer targeted help to get them back on track.

Lesson: Aim high

In a year of dramatic changes, it's encouraging to see that some things remain stable. One thing that has not changed is receptiveness to automatic plan features. In fact, don't be afraid to set a default contribution rate higher than the typical 2% or 3%. According to this research, plans that set their auto enrollment default contribution rates lower tend to have higher opt-out rates. The 2021 report shows that 14.2% of employees opted out when the default contribution rate was set at 2%, but when it was set at 7% of pay, just 1.6% opted out. The opt-out rate hovered around 9% for most other default contribution levels (1%–8%). Higher default contribution rates can help aim employees toward greater retirement security, so it's a strategy worth considering.

John Hancock's State of the Participant 2021 can be viewed here: https://tinyurl.com/JH-2021-State.

Retirement Assets Grow, But Are Some Being Left Behind?

More than a year after the start of the pandemic, you may be pleased with the overall growth of the assets in your company's retirement plan. After all, more assets generally mean better prospects for retirement security for your valued employees. But according to a recent triennial survey of wealth held by Americans, some may not be enjoying growth to the same degree as the overall population — nationally and at your company.

The Employee Benefit Research Institute (EBRI) examined data from the Federal Reserve's Survey of Consumer Finances (SCF) for the year ending 2019. True, that's pre-COVID-19 and thus doesn't account for the impact of the virus. But EBRI's analysis, published in their March 2021 Issue Brief, reveals real disparities facing minority families as they strive to save for retirement.

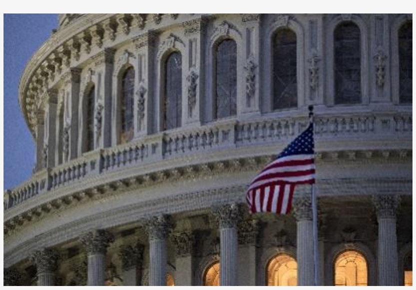
Summarizing the retirement landscape in general, the information shows that 18.2% of families had an active participant in both a defined contribution plan and a defined benefit plan. While just 15.8% of families with an active participant in an employer-sponsored retirement plan had only a defined benefit plan in 2019, 66% of those families had an active participant in only an employer defined contribution plan, up from 37.5% in 1992.

The importance of individual account plans as a source of wealth for American workers has grown over the years. In 1992, the average account balance for families with money in individual account plans was $79,262. By 2019, the figure had risen to $258,453. The money within these accounts has become the main source of assets for Americans investing in them, accounting for 68.3% at the median.

Individual account plan balances play a large role in overall wealth, too. Those families who have balances in individual account plans have a much higher net worth than families without one. Median net worth in 2019 was $284,050 for families with individual account plan assets, compared to $35,460 for families without.

EBRI's Issue Brief points out that families headed by someone whose race or ethnicity is in the minority are generally less prepared for retirement when preparation is based on their retirement assets. The gap between families having white, non-Hispanic heads as compared to minority family heads has persisted since at least 1992, according to the SCF. Not only were the minority-headed families much less likely to have an individual account plan, the amount of assets held within them was much less. Still, when families with minority heads did have individual account plans, they tended to contain a larger proportion of their total financial assets than those of white, non-Hispanic-headed families.

EBRI's Issue Brief is available here: https://tinyurl.com/EBRI-SCF-2019 and from there you can view the full analysis.



The DOL's Rollover Guidance - The Opportunities & Challenges

At the end of 2020, the Department of Labor (DOL) adopted a rule that reinstates the five-part test to determine what is or isn't considered "investment advice" and implements a new prohibited transaction exemption that expands fiduciary advice to include rollover recommendations. In alignment with the SEC's Regulation Best Interest Regulation, the new DOL rule, PTE 2020-02, *Improving Investment Advice for Workers & Retirees,* went into effect on February 16, 2021. However, advisors have until December 20, 2021, to comply.

What Does This Mean?

The rule and its exemption give retirement advisors the opportunity to continue working with their clients (who are plan participants) through retirement and not just to retirement. However, the DOL's new interpretation that rollover advice may constitute fiduciary investment advice compels financial services companies to reconsider how they provide rollover advice to qualified plan participants.

In fact, the new rule prohibits a fiduciary from receiving fees resulting from advising plan participants to roll over plan assets to an IRA unless an exemption applies. This exemption can be made if the financial institution and investment professional involved provide investment advice that satisfies the DOL's Impartial Conduct Standards, including:

- A best interest standard
- A reasonable compensation standard
- A requirement to make no materially misleading statements

The rollover advice rationale and that the advice given was in the participant's best interest must be documented and provided to the participant. This rollover advice must also be part of an ongoing relationship or at the beginning of an ongoing relationship that an individual has with a financial advisor.

Why This Is Important

- **The Significant Rollover Opportunity**
  - According to the Investment Company Institute, the mutual fund industry trade organization, rollovers from employer-sponsored retirement plans have fueled the growth in IRAs. As of mid-2020, six in 10 traditional IRA–owning households indicated that their IRAs contained rollovers from employer-sponsored retirement plans. Among households with rollovers in their traditional IRAs, 81% indicated that they had rolled over the entire retirement account balance in their most recent rollover.
- **Documentation & Disclosure Is Key**
  - Rollover considerations can be complex. From investment options, fees, clients' liquidity needs, and participants' current and future financial situations, there are many factors to consider. While some firms have implemented a rollover suitability questionnaire to ensure they cover all these issues with participants, all advisors need to document in writing the rationale behind the rollover recommendations they are making. Having an organized rollover approach is key.

— For example, investment professionals should evaluate whether the assets should be left in an employer sponsored plan (if permitted) when considering fees, investment options and the level of service that will be available. Once this evaluation has taken place, proper documentation is required to state why the rollover recommendation is in the individual's best interest.

Innovative Rollover Solutions

Yannis Koumantaros, CFO of ABG member Spectrum Pension Consultants and co-founder of an innovative fintech IRA company, GROUPIRA, sees robust demand for his fintech firm's rollover IRA program from both plan sponsor clients and financial advisor partners. "Rollovers are now the biggest trend we are seeing among the clients we serve. This comprehensive rollover program is a proactive way to help our plan sponsor clients cut costs and our advisor partners grow their business," he said.
Providing innovative and practical solutions like this is an important priority for Pentegra. Whether you are a plan sponsor or a financial advisor working with plan sponsors, consider Pentegra your resource as we move forward in 2021. Contact your local Pentegra representative to learn more.

First Ever DOL Issued Cybersecurity Guidance

On April 14, 2021, the U.S. Department of Labor's Employee Benefits Security Administration (EBSA) issued cybersecurity guidance for employer sponsored retirement plans. This is the first ever issued guidance for plan sponsors, plan fiduciaries, recordkeepers, and plan participants to implement best practices around cybersecurity to protect retirement benefits.

What's At Stake

Nowadays, plan sponsors are outsourcing many of their administrative duties to a third-party service provider. The third-party service provider typically utilizes an electronic recordkeeping system and the internet to store and aggregate employee data. This creates a potentially vulnerable environment for hackers to gain unauthorized access to accounts and participants' personally identifiable information (PII).

As of 2018, EBSA estimates that there are 34 million defined benefit plan participants in private pension plans and 106 million defined contribution plan participants covering estimated assets of $9.3 trillion. With this large number of plan participants potentially at risk, proper protection and safeguards are necessary.

DOL Best Practices & Guidance

The Employee Benefits Security Administration has included the following best practices for service providers who store and are responsible for employee data and plan fiduciaries who hire those service providers.

The guidance includes three sections:

I. Tips for Hiring a Service Provider

Plan Sponsors should hire service providers who have strong cybersecurity practices in place. PII is stored and maintained on their systems, so it is important to understand how they mitigate risk and ensure this sensitive data is protected. A few key tips include:

- Discuss with your service provider their information security standards, policies, and audit results.
- Compare these documents to what other service providers have in place to ensure your provider offers the best protection.
- Find out if there is an insurance policy and a cybersecurity guarantee in place that would cover losses caused by cyber-attacks and identity theft breaches.
- Learn if your service provider has experienced a security breach and if this has materially impacted their organization.

II. Cybersecurity Program Best Practices

Plan Fiduciaries are responsible for protecting participant data and mitigating cybersecurity risks. EBSA has prepared the following 12 best practices that plan fiduciaries should follow when selecting a service provider:

1. Have a formal, well-documented cybersecurity program.
2. Conduct prudent annual risk assessments.
3. Have a reliable annual third-party audit of security controls.
4. Clearly define and assign information security roles and responsibilities.
5. Have strong access control procedures.
6. Ensure that any assets or data stored in a cloud or managed by a third-party service provider are subject to appropriate security reviews and independent security assessments.
7. Conduct periodic cybersecurity awareness training.
8. Implement and manage a secure system development life cycle (SDLC) program.
9. Have an effective business resiliency program addressing business continuity, disaster recovery, and incident response.
10. Encrypt sensitive data, stored and in transit.

11. Implement strong technical controls in accordance with best security practices.
12. Appropriately respond to any past cybersecurity incidents.

III. Online Security Tips

These tips are for plan participants and beneficiaries who check their retirement accounts online. The following tips provided by EBSA will help reduce the risk of fraud and loss to those accounts:

1. Register, set up, and routinely monitor your account online.
2. Use strong and unique passwords.
3. Use multi-factor authentication.
4. Keep personal contact information current.
5. Close or delete unused accounts.
6. Be wary of free WI-FI.
7. Beware of phishing attacks.
8. Use antivirus software and keep apps and software current.
9. Know how to report identity theft and cybersecurity incidents.

Vigilance Is Key

Recently, there has been more litigation around cyber-attacks across all industries. While there are few notable cybersecurity lawsuits against retirement plans, there is no reason to say this cannot happen in the future. Most of these cybersecurity cases surface due to negligence issues. Now is the time to be prepared and on full alert.
These best practices will help shed some light on how to mitigate these risks and protect sensitive data. It is important for participants and plan sponsors to take the necessary precautions to prevent these attacks. The Acting Assistant Secretary for the Department of Labor's Employee Benefits Security Administration, Ali Khawar, stated on April 14th, "The cybersecurity guidance we issued today is an important step towards helping plan sponsors, fiduciaries, and participants to safeguard retirement benefits and personal information."

We Can Help

Cybersecurity concerns continue to be at the forefront for plan sponsors as hackers refine ways to acquire private information criminally. Your local Pentegra representative is available to you as a resource for any questions you may have on any cybersecurity issue.

Legislative Highlights

Senators Chuck Grassley (R-Iowa), Maggie Hassan (D-New Hampshire), and James Lankford (R-Oklahoma) introduced a bill named the **Improving Access to Retirement Savings Act**. This proposed bill will extend retirement plan choices to nonprofit groups and provide incentives to encourage small businesses to offer their employees a viable plan. Recently, there has been a big push for legislation that provides a call to action when it comes to retirement savings.

This proposed legislation would provide the following enhancements to workplace-based retirement plans:

- Extend retirement benefits to employees of nonprofit organizations by providing them the same access to pooled employer plans (PEPs).
- Small businesses who join a multiple employer plan (MEP) can take the small employer pension start-up credit for their first three years in a MEP.
- Offer a grace period to correct reasonable errors administering automatic enrollment and automatic escalation features when enrolling into a MEP. Errors will need to be corrected within nine and a half months of the end of the year in which the mistakes were made.

This proposed bill will help both employers and employees when it comes to retirement benefits. Employers can offer and facilitate a cost-effective retirement plan. Employees can participate in a retirement savings program that will give them the tools to successfully prepare for retirement. Senator Grassley stated, "Government should be doing everything it can to help Americans save more of their own hard-earned money so they can retire with peace of mind and independence."