

Defined Contribution Guidance: Coronavirus Update

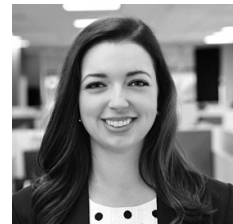
March certainly came in like a lion (though whether it came out like a lamb is debatable). The continued spread of the coronavirus pandemic led to sharp and steep sell-offs in both the bond and equity markets as investors fled to cash. An array of fiscal and monetary stimulus aimed at staving off a global recession followed suit.

In the U.S., the Federal Reserve initiated two emergency rate cuts, effectively lowering the Fed funds rate to 0%, and deployed a series of tools to provide liquidity to the market. From a fiscal policy perspective, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed by President Trump, providing \$2 trillion of stimulus in the wake of unprecedented levels of unemployment; an additional stimulus package is likely to follow in the coming months.

With so many looming unknowns, what can plan sponsors do to best support defined contribution plan participants? First, it's important to remember that we've been here before and generally see strong rebounds after steep sell-offs; the chart below shows extreme down days and the longer-term returns that followed:

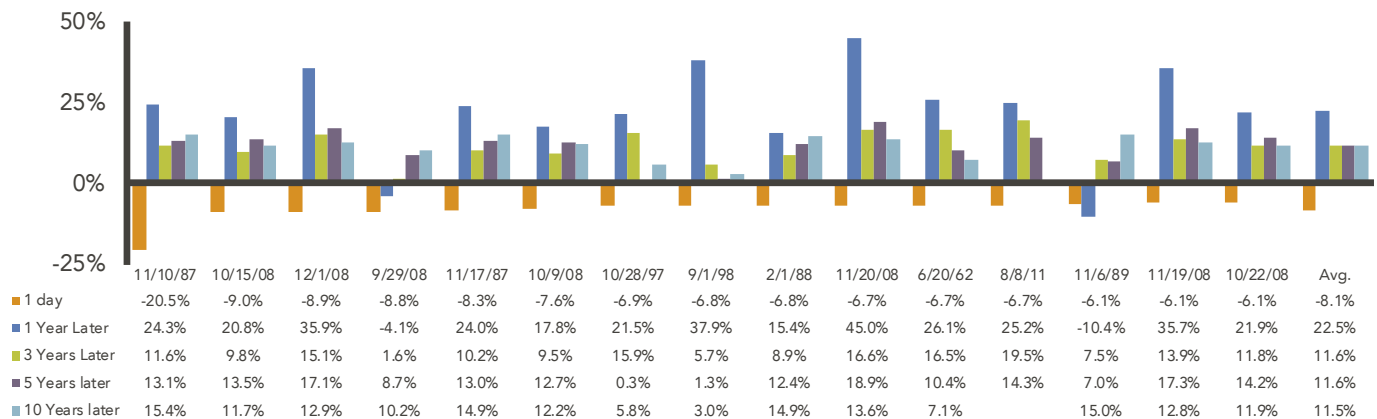


Linsey Schoemehl Payne
Vice President



Stephanie Osten
Vice President

Exhibit 1: Strong Returns After Steep Sell-Offs



Sources: Bloomberg, First Trust

Early data from recordkeepers indicates that most retirement plan participants are staying the course and have not made changes to their investment allocations.¹ This is consistent with participant behavior exhibited during previous times of market distress.²

REBALANCING

Following the longest bull market in history, participants not utilizing balanced or target date funds may have found their allocations to equities were higher than their initial targets. When markets then reversed course at the end of February, these increasingly risky portfolios likely failed to provide the desired levels of downside protection. This scenario stresses the importance of regular portfolio rebalancing; rebalancing at least once a year helps mitigate portfolio risk and allows the participant to take advantage of the age-old investment advice to “buy low, sell high.”

Portfolio rebalancing is easier said than done. Low levels of participant engagement and the emotional hurdles associated with rebalancing, especially in times of market stress when participants fear further losses, means many participants fail to take advantage of this investment tool. Plan sponsors can support participants by working with recordkeepers to enable automatic rebalancing if available. If automatic rebalancing is unavailable, targeted communications reminding participants to review and adjust their allocations may be appropriate. In either case, the recordkeeper’s website and call center can be helpful in providing support and guidance to participants. Marquette’s [Rebalancing Position Paper](#) provides additional perspective.

PARTICIPANT ACTIVITY

While recordkeepers are seeing minimal participant-directed investment changes, they are seeing an uptick in inquiries about loans, hardships, and withdrawals. Participants are seeking guidance through various channels: recordkeepers reported an increase in mobile app utilization and web traffic in addition to call center volume. This aligns with recent trends showing that participants increasingly prefer digital channels of communication.

Plan sponsors can support participants by working with recordkeepers to develop targeted communications based on plan-specific needs. These communications can be as simple as reminding participants of educational resources offered on the recordkeeper’s website.

▣ Pre-Retirees

Research shows that participants over fifty are more active in managing plan assets versus younger participants. Pre-retirees are likely to be more engaged and more active in making changes; these participants are also likely to have had larger balances exposed to equities and less time to recover from the recent downturn. Plan sponsors might consider sending communications to participants over fifty reminding them of their ability to make catch-up contributions, as well as any other additional retirement planning resources that are available to them.

CARES ACT

As noted earlier, the CARES Act (the Act) aims to provide financial support for individuals in part by establishing special rules for retirement funds. Marquette’s recent [Legislative Update](#) provides an outline of the main relief areas of the Act; the pertinent provisions for plan sponsors are summarized below:

- **Retirement Withdrawal Penalty Waiver*** – Qualified individuals may take up to \$100,000 for coronavirus-related distributions from an eligible retirement plan. Distributions under this provision are exempt from the 10% early withdrawal tax and instead subject to income tax, which can be repaid over three years. Alternately, participants can repay the distributions to any eligible retirement plan over three years.

- **Increased Retirement Plan Loan Limits*** – For plans that offer loans, the Act doubles the current loan limits to the lesser of \$100,000 or 100% of the participant’s vested balance for the next six months. The Act also provides relief for individuals with outstanding loans with payments due in 2020; these participants can delay loan repayments for up to one year.
- **Suspended Required Minimum Distributions** – Lastly, the Act suspends required minimum distributions for 2020; participants may still take distributions if they so choose.

*Marquette supports adoption of these changes, especially for plans with a participant base that has been adversely impacted by the coronavirus through layoffs, furloughs, and exposure to high COVID-19 concentration areas.

While plan sponsors may utilize the provisions of the Act immediately, these changes will require plan amendments by December 31st, 2022; government plans have two additional years.

CONCLUSION

Retirement balances will certainly be impacted by the coronavirus pandemic but plan sponsors can take small steps to help participants act prudently in the days that lie ahead. Regularly making participants aware of tools and resources available to them under their respective plans is consistent with fiduciary best practices. As it relates to the current market uncertainty, Marquette recommends the following steps for plan sponsors:

- Consider targeted communications for plan participants, particularly pre-retirees.
- Reach out to recordkeepers for a summary of plan rules regarding loans and hardship withdrawals.
- Familiarize themselves with the applicable provisions of the CARES Act.
- Review and update plan documents as needed.

The coronavirus pandemic is a rapidly evolving situation as it relates to both personal health and to global capital markets. As such, Marquette will continue to monitor the landscape and issue updates for investors as necessary. Please do not hesitate to contact us directly if we can be of further assistance or answer any specific questions. ■

¹ Sources: T. Rowe Price, Vanguard

² Source: Vanguard, 2009 (“Flight to safety? Market volatility and target-date funds”). The analysis of participant behavior observed that only 16% of participants traded in their retirement account in 2008; pure target-date investors were even less likely to make changes to their portfolios.

PREPARED BY MARQUETTE ASSOCIATES

180 North LaSalle St, Ste 3500, Chicago, Illinois 60601
CHICAGO BALTIMORE MILWAUKEE PHILADELPHIA ST. LOUIS

PHONE 312-527-5500
WEB MarquetteAssociates.com

The sources of information used in this report are believed to be reliable. Marquette Associates, Inc. has not independently verified all of the information and its accuracy cannot be guaranteed. Opinions, estimates, projections and comments on financial market trends constitute our judgment and are subject to change without notice. References to specific securities are for illustrative purposes only and do not constitute recommendations. Past performance does not guarantee future results.

Marquette is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Marquette including our investment strategies, fees and objectives can be found in our ADV Part 2, which is available upon request.

About Marquette Associates

Marquette Associates is an independent investment consulting firm that guides institutional investment programs with a focused client service approach and careful research. Marquette has served a single mission since 1986 – enable institutions to become more effective investment stewards. Marquette is a completely independent and 100% employee-owned consultancy founded with the sole purpose of advising institutions.

For more information, please visit www.marquetteassociates.com.