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REMEMBER THE BLIZZARD OF ’78?
THANK YOU POLICY FORUM DEVELOPMENT TASK FORCE!

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Chris Byrd, Wex Health
Jeanne de Cervens
Michael Doshier, T Rowe Price
Bob Doyle, Prudential

Kris Haltmeyer, Blue Cross Blue Shield Association
Joe Healy, PIMCO
Tom Johnson, Retirement Clearinghouse
Melissa Kahn, State Street Global Advisors
Gary Koenig, AARP

Chantel Sheaks, U.S. Chamber of Commerce
Mike Skinner, T Rowe Price
Michael Sowa, LGIMA
Jana Steele, Callan
Aron Szapiro, Morningstar

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On the week of June 29th, EBRI will offer its traditional spring Policy Forum in a nontraditional format — via a series of webinars. While we would love to see you in person — and hope we will see you in healthier times in December — EBRI wants to deliver timely, valuable content in a manner that is safe for our community. We plan to offer compelling speakers addressing policy implications in a post-pandemic world. We’ll be discussing retirement, health, and financial wellness issues within the prism of the times.

Register now!

Full Agenda

Presentations

- **June 29**: CARES Act: Implications for Retirement Security of American Workers
- **June 30**: The New Landscape: COVID-19’s Impact on Defined Benefit Plans
- **July 1**: Coming out the Other Side of COVID-19: the Social Security Advisory Board’s Vision for a More Secure Retirement System

Forum Location
Virtual!

Register Here
John Doe

Click this button to raise your hand.

We will contact you through this chat window so that you can communicate your question(s) to us. Please note that you will be muted throughout the meeting.
TODAY’S AGENDA

• An evaluation of the CARES Act provisions’ potential impact on retirement income adequacy.

• How employers might help workers rebuild their retirement assets and avoid unnecessary access.

• Plan sponsors’ considerations around the CARES Act.
CARES Act: Legislation and Guidance
Withdrawals and Loans

Penalty Free Withdrawals:
CARES Act allows penalty free distributions of up to $100,000 from a defined contribution plan or IRA for distributions made after the date of enactment and before December 31, 2020 for individuals who:

- Are diagnosed with COVID-19;
- Have a spouse or dependent who is diagnosed with COVID-19;
- Experience adverse financial consequences because of being quarantined, furloughed or laid off, have work hours reduced, or are unable to work because of lack of childcare; or
- Experience a closing or the reduction of hours of a business owned or operated by someone diagnosed COVID-19

Amounts may be paid back over a three year period. A person also may elect to spread the income tax implications over three years.

Loan Modifications:

Any loan made to an individual who meets the above requirements for the 180 day period starting after the date of enactment may be up to the lesser of $100,000 or the present value of the nonforfeitable account balance. In addition for any individual who meets the above requirements, any loan repayment due starting on the date of enactment to December 31, 2020 may be delayed by one year and the loan will be reamortized.
RMDs, Pension Contributions, Delays

**Required Minimum Distributions**
- Required minimum distributions for 2020 would be waived for defined contribution plans and IRAs

**2020 Required Minimum Contributions and Benefit Restrictions**
- A plan sponsor may delay a required quarterly minimum contribution due during calendar year 2020 until January 1, 2021, subject to interest from the original due date at the “effective rate of interest for the plan for the plan year which includes such payment date”
- An employer may elect to treat the plan’s adjusted funding target attainment percentage for the last plan year ending before January 1, 2020, as the adjusted funding target attainment percentage for plan years which include calendar year 2020 for benefit restrictions

**DOL Authority to Delay Reporting**
The CARES Act amends ERISA Section 518 which allows the Secretary of Labor to postpone certain reporting and other ERISA requirements to include “a public health emergency declared by the Secretary of Health and Human Services.” Although this delay allows DOL to provide reporting and disclosure relief and possibly allow PBGC to provide a delay for premium payments and other reporting, it does not address the excise tax and penalties under the Internal Revenue Code.
CARES Act: Regulatory
IRS CARES Distributions/Loans FAQs

• IRS intends to issue further guidance and referenced Notice 2005-92 for guidance on the tax favored treatment of distributions and plan loans under the Katrina relief
• Acknowledges that CARES Act distributions and loans are optional — plan sponsor may offer either, neither or both
• IRS is reviewing public comment to expand who is a qualified individual
• Plan administrator may rely on an individual’s certification that the person is a qualified individual
• A coronavirus-related distribution is any distribution to a qualified individual from 1/1/2020 to 12/30/2020 regardless of whether the plan sponsor designates it as such
• A plan or IRA must report a coronavirus-related distribution on Form 1099-R (even if repaid within the year), and the IRS expects to provide additional reporting guidance
• The IRS “anticipates” an eligible retirement plan will accept repayments. BUT, if a plan does not accept rollovers, it is not required to change the plan to accept repayments. MEANING: If the plan accepts rollovers, it must accept coronavirus-related repayments.
• If a distribution is repaid, the individual must file an amended return to claim the refund
Notice 2020-1 — Notice and Disclosure; Loans and Distributions

• For CARES Act loans and distributions, the Notice provides good faith reliance on amending the plan for loans and distributions if the plan is amended by the last day of the first plan year on and after January 1, 2022.
Important Disclosures

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Expiration Date: August 31, 2020
POLLING QUESTION

PLEASE SHARE YOUR THOUGHTS
CARES Act: Implications for Retirement Security of American Workers
EBRI Policy Forum: June 29, 2020

Jack VanDerhei, Ph.D.
Research Director
Employee Benefit Research Institute
Washington, DC
vanderhei@ebri.org

The information contained herein is not to be construed as an attempt to provide legal, accounting, actuarial, or other such professional advice. No part of this material may be used or reproduced without permission in writing from EBRI-ERF.
Outline of the presentation

• Scope of the study and previous research
• Brief summary of the simulation model
• Results
• Summary and future work
Impact of COVID-19 and CARES Act on Retirement Income Adequacy

  – Simulated the AGGREGATE impact on retirement income adequacy metrics based on assumptions with respect to:
    o Investment results
    o Participant behavior
    o Plan sponsor behavior
    o Unemployment
  – Currently working on a follow-up to show CONDITIONAL impact on participants

• Today’s presentation: CONDITIONAL impact of the CARES Act on retirement income adequacy
  – Assuming maximum utilization of provisions under four different scenarios
    o Both plan sponsor and participant
EBRI’s Retirement Security Projection Model (RSPM)

• Accumulation phase
  – For current 401(k) participants ages 25-64, simulates balances from 401(k) plans and IRA rollovers originating in 401(k) plans at age 65
    o 401(k) participant behavior based on individual administrative records
      ➢ Annual linked records dating back to 1996
• NB: this version of the model does NOT include the retirement/decumulation phase

For a list of approximately 50 studies using RSPM please see: bit.ly/ebri-rspm-new
Today’s analysis

- Scenarios analyzed
  - One-time withdrawal with no payback
  - One-time withdrawal with payback over three years
  - “Extra” loan with dollar for dollar offset for loan payments against employee contributions
  - Withdrawal every ten years with no payback

- Results
  - Medians of reduction in retirement balances at age 65 as a multiple of pay broken out by:
    - Age
    - Age-specific salary quartiles
    - Age-specific initial account balance quartile
    - Replacement rate proxies
Median reduction in retirement balances as a multiple of pay at age 65 for employees taking full withdrawal (up to $100,000) in 2020 with no payback

by current age

by age-specific salary quartile

by age-specific initial account balance quartile

Median reduction in retirement balances as a multiple of pay at age 65 for employees taking full withdrawal (up to $100,000) in 2020 with three-year payback*

* With the exception of those taking the withdrawal after age 61

Median reduction in retirement balances as a multiple of pay at age 65 for employees taking new
loans (up to $100,000) in 2020 with dollar for dollar offset against employee contributions* for
new loan payments

by current age

by age-specific salary quartile

by age-specific initial account balance quartile

* to the extent possible
Median reduction in retirement balances as a multiple of pay at age 65 for employees taking full withdrawal (up to $100,000) in 2020 and every ten years thereafter with no payback

by current age

by age-specific salary quartile

by age-specific initial account balance quartile

Median reduction in retirement balances as a multiple of pay at age 65 for employees taking full withdrawal (up to $100,000) in 2020 with no payback: only participants age 30 and younger

by replacement rate proxy and salary quartile

<table>
<thead>
<tr>
<th>Replacement rate proxy (percent)</th>
<th>Lowest</th>
<th>Second</th>
<th>Third</th>
<th>Highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>50-60</td>
<td>-5.7%</td>
<td>-10.4%</td>
<td>-8.9%</td>
<td>-5.5%</td>
</tr>
<tr>
<td>60-70</td>
<td>-11.1%</td>
<td>-22.9%</td>
<td>-22.6%</td>
<td>-8.6%</td>
</tr>
<tr>
<td>70-80</td>
<td>-8.0%</td>
<td>-12.6%</td>
<td>-13.9%</td>
<td>-8.2%</td>
</tr>
<tr>
<td>80-90</td>
<td>-7.4%</td>
<td>-9.2%</td>
<td>-9.6%</td>
<td>-8.1%</td>
</tr>
<tr>
<td>&gt;90</td>
<td>-9.8%</td>
<td>-11.7%</td>
<td>-12.1%</td>
<td>-12.5%</td>
</tr>
</tbody>
</table>

## Median reduction in retirement balances as a multiple of pay at age 65: Worst-case assumption vs. preliminary aggregate

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Worst-case assumption</th>
<th>Preliminary aggregate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees Taking Full Withdrawal up to $100,000, no payback</td>
<td>-20%</td>
<td>-0.43%</td>
</tr>
<tr>
<td>Employees Taking Full Withdrawal up to $100,000, with 3-year payback</td>
<td>-2.3%</td>
<td>N/A</td>
</tr>
<tr>
<td>Employees taking new loans up to $100,000 in 2020 with dollar for dollar employee contribution offset against new loan payments</td>
<td>-5.9%</td>
<td>-0.03%</td>
</tr>
<tr>
<td>Employees Taking Full Withdrawal up to $100,000, every ten years, no payback</td>
<td>-54%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: EBRI Retirement Security Projection Model® version 3653 and PSCA, CARES Act Snapshot - June Follow-up
Future work

• Future EBRI publication: AGGREGATE impact of the CARES Act on retirement income adequacy
  – Waiting for requisite data on plan sponsor and participant behavior
POLLING QUESTION
PLEASE SHARE YOUR THOUGHTS
CARES Act: Implications for Retirement Security of American Workers

EBRI Policy Forum

Bridget Bearden
Director, Institutional Marketing
June 29, 2020
Agenda

▪ What we learned about early access behaviors before Covid-19

▪ What we learned about financial well-being during the early days of Covid-19

▪ How we leverage our experience and observations to help participants navigate uncertainty
Early access behaviors before Covid-19
Early access is prevalent, particularly among Gen X and Millennials

Have you taken a loan/hardship withdrawal from your current (or a previous) employer’s retirement plan?

- Millennials - Loan: 30% (23% No, but considering it, 7% Yes)
- Millennials - Hardship Withdrawal: 24% (20% No, but considering it, 4% Yes)
- Generation X - Loan: 40% (13% No, but considering it, 27% Yes)
- Generation X - Hardship Withdrawal: 24% (13% No, but considering it, 11% Yes)
- Baby Boomer - Loan: 28% (13% No, but considering it, 15% Yes)
- Baby Boomer - Hardship Withdrawal: 13% (10% No, but considering it, 3% Yes)

Based on a survey of 1,238 retirement plan participants fielded on the Qualtrics platform in November 2019.

Edelman Financial Engines research.
There are many reasons why participants access retirement assets early

<table>
<thead>
<tr>
<th>Loan</th>
<th>Hardship</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>Mortgage/rent</td>
<td>#1</td>
</tr>
<tr>
<td>#3</td>
<td>Medical expenses</td>
<td>#2</td>
</tr>
<tr>
<td>#2</td>
<td>Credit card debt</td>
<td>#4</td>
</tr>
<tr>
<td>-</td>
<td>Natural disaster</td>
<td>#3</td>
</tr>
<tr>
<td>#4</td>
<td>Major purchase</td>
<td>-</td>
</tr>
</tbody>
</table>

Based on a survey of 1,238 retirement plan participants fielded on the Qualtrics platform in November 2019.

Edelman Financial Engines research.
Many participants regret their decision

How do you feel now about taking the loan/hardship withdrawal?

More than half of participants that accessed assets early said talking to a financial adviser or coach prior to the decision would have been helpful.

Based on a survey of 1,238 retirement plan participants fielded on the Qualtrics platform in November 2019.

Edelman Financial Engines research.
Financial well-being & concerns in early days of Covid-19
Financial well-being at risk for many

How difficult would it be for you to raise $2,000 in 30 days for an emergency?

- All workers: 56%
- Non-savers: 76%
- <$75 HH Inc: 74%
- Millennials: 67%
- Nonwhite: 65%
- Don't have a financial plan: 64%
- Women: 61%

Based on a survey of 1,077 employees fielded on the Qualtrics platform in April 2020.

- 47% agreed they have a lot of financial stress in their lives.
- 38% described their financial situation as poor or just getting along.

Edelman Financial Engines research.
85% of U.S. workers hold some level of concern about the stability of their household income

To what extent do the following aspects concern you given the economic impact of Covid-19?

- Extremely concerned
- Moderately concerned
- Somewhat concerned
- Slightly concerned
- Not that concerned

Based on a survey of 1,077 employees fielded on the Qualtrics platform in April 2020.

Edelman Financial Engines research.
One in three U.S. workers took financial action as a result of the crisis

Based on a survey of 1,077 employees fielded on the Qualtrics platform in April 2020.

Edelman Financial Engines research.

<table>
<thead>
<tr>
<th>Financial actions taken as a result of Covid-19 in early April 2020</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Used up all emergency savings</td>
<td>11%</td>
</tr>
<tr>
<td>Changed investment allocations within retirement accounts</td>
<td>9%</td>
</tr>
<tr>
<td>Stopped contributing to retirement accounts</td>
<td>9%</td>
</tr>
<tr>
<td>Took other financial action</td>
<td>4%</td>
</tr>
</tbody>
</table>
Our approach and message to participants
We help participants navigate uncertainty

- Launched a new, comprehensive participant education program on volatility
- Shared program results with plan sponsors on a weekly basis
- Saw engagement rise throughout the period measured by email open rates, visits to landing page, and in-bound calls
- Delivered content and tools to millions of retirement plan participants to inspire confidence and drive productive actions

Guidance on CARES Act access provisions:
*Understand the implications and consider all options*
Understand the implications…

Distributions

- Tax implications
- Suspended contributions
- Missing out on long-term growth
- Distributions can be paid back

Loans

- Missing out on long-term growth
- Loan repayment
- Penalties and taxes for defaulting on a loan
- Money in 401(k) is protected from creditors and protected from bankruptcy
...and consider all options

✓ Ask lenders and service providers for concessions
✓ Reduce expenses and replace lost income through other CARES Act provisions
✓ Reduce or suspend retirement plan contributions
✓ Use emergency savings
✓ Trim expenses
✓ Home equity line of credit
✓ Personal line of credit
✓ Introductory credit card offers
Preserving retirement savings for when one can no longer work

- CARES Act is not the first policy that has enabled early access to retirement savings
- Policy increasingly appears to encourage access for a myriad of life events
- Such policies could be enhanced by:
  - Employer-sponsored emergency savings provisions
  - Ensuring participants get a second opinion on distribution decisions
Survey methodologies

- Slides 4-6: Based on a proprietary survey of 1,238 retirement plan participants fielded on the Qualtrics platform in November 2019.
- Slides 8-10: Based on a proprietary survey of 1,077 employees fielded on the Qualtrics platform in April 2020.
- Respondent quotas for age and employer size were set to increase representativeness.
- Aggregate data is reported at 95% confidence with a +/-3% margin of error.
Disclosures

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PLEASE SHARE YOUR THOUGHTS
Q&A
TOMORROW’S EVENT

EBRI SUMMER POLICY FORUM WEBINAR
JUNE 30, 2020
1-2 PM

The New Landscape:
COVID-19’s Impact on Defined Benefit Plans

Featuring:

Christopher Bone, former Director of the Policy, Research and Analysis Department (PRAD), Pension Benefit Guaranty Corporation
Jason Russell, Senior Vice President and Actuary, Segal Consulting
Bruce Cadenhead, Partner, Global Chief Actuary, Mercer
Jack VanDerhei, Research Director, EBRI
UPCOMING EBRI PROGRAMS

Members-Only Research Round-Up Webinar – July 15

Savings and Caregiving in the Age of COVID 19, American Savings Education Council Meeting – July 22


COBRA, Chronic Conditions and Spending Webinar – August 4

Winter Policy Forum – December 10

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