



## What 2024 Could Hold for Retirement Plan Sponsors

Like many years before it, 2023 presented a surprising set of wins and trials. So far, recession expectations have not materialized, and the U.S. economy remains resilient, with easing inflation, a robust labor market, strong housing numbers, and high consumer spending. Faced with this continued strength, the Federal Reserve may have finally finished its rate-hiking cycle, and investor confidence has increased accordingly.

As we look toward 2024, the retirement industry seems poised for another year of growth and evolution. Questions about plan design and financial wellness are likely to take center stage against the backdrop of legislation, regulation, and litigation that have become constant companions to retirement plan sponsors over the years. The good news is employees seem to be happier.

“As an industry, we have been talking for years about the shifting contract between employers and employees,” says [Scott Matheson](#), CAPTRUST institutional group managing director. “The unusually tight labor market has increased employees’ bargaining power, as evidenced by this year’s labor strikes and wage increases. But also, research shows that American workers, overall, are feeling satisfied with their jobs and their employers.”

According to data from [The Conference Board](#), 62.3 percent of American employees say they’re satisfied or highly satisfied with their work. This is a 36-year job satisfaction rate high—one that seems to be driven primarily by increased flexibility and better benefit packages.

“Retirement plans and financial wellness programs are a big part of job satisfaction and employee retention,” says Matheson. “Plan sponsors are paying attention to what employees want and shifting their plan menus and benefit packages where they can. That’s a trend that will likely continue next year and beyond.”

Presented with optimism and humility, here are five other trends the CAPTRUST team predicts will strengthen in 2024.

### **Prediction One: Discretion Continues to Rise**

In 2024, CAPTRUST predicts a continued rise in discretionary plan management across qualified plans. As investment management grows increasingly complex, retirement plan sponsors are more commonly leveraging discretionary relationships to take some weight off internal teams. While investment advisors have long assumed the role of 3(38) investment managers for pension plans, these services have now become increasingly common among defined contribution plans too.

“We’re still seeing a continued rise in both 3(38) investment manager relationships and 3(16) discretionary plan administrator services,” says [Jennifer Doss](#), CAPTRUST defined contribution practice leader. Sponsors have found that outsourcing investment and administrative decisions allows internal teams to focus on broader issues, like increasing participant engagement and improving retirement readiness, while allowing experts to manage day-to-day plan responsibilities.

Of course, outsourcing carries risks as well, and sponsors are still accountable for vetting and monitoring any hired fiduciaries as part of the sponsor’s own fiduciary responsibility. Although hiring and regularly monitoring discretionary providers can limit a plan sponsor’s fiduciary responsibilities, outsourcing does not exempt a sponsor from its fiduciary duties to monitor those service providers and ensure the fees are reasonable.

In the defined benefit space, a discretionary investment manager is often referred to as an outsourced chief investment officer, or OCIO. “The OCIO relationship is more common among defined benefit plans, but we still field plenty of questions from sponsors about how it works,” says [Grant Verhaeghe](#), institutional portfolios practice leader at CAPTRUST.

In 2024, Verhaeghe predicts, plan sponsors will drive meaningful conversations about best practices for OCIO and 3(38) relationships. “The industry is just now beginning to develop uniform standards around performance track records so that plan sponsors can more easily screen and select an investment advisory firm,” he says. “It’s likely these standards will increase both scrutiny and efficiency.”

#### Additional Resources:

- [The Discretion Decision: 3\(21\) vs. 3\(38\), What to Know About Annuities, and Cybersecurity in Retirement Plans](#), *Revamping Retirement* podcast, episode 29
- [Investment Advisor vs. Investment Manager? No Contest. \(Really!\)](#)
- [The Surprising Benefits of a 3\(38\) Fiduciary](#)
- [OCIO for Pension Plans](#)

## Prediction Two: SECURE 2.0 Takes Flight

In 2024, the retirement industry will face another wave of regulatory and operational changes related to the SECURE 2.0 Act, which passed at the end of 2022. A few mandatory SECURE 2.0 provisions go into effect in 2024, including the removal of required minimum distributions (RMDs) from Roth accounts in employer plans, and exemptions for certain automatic portability transactions.

Thankfully, the Roth-only catch-up contribution rule that was slated to go into effect in 2024 was delayed until January 1, 2026.

Six additional, optional provisions also become effective in 2024. This includes the much-anticipated student loan provision, which allows employers to provide retirement contribution matches for student loan repayments, and two emergency savings provisions. Throughout the year, recordkeepers and plan sponsors will also be preparing for 2025 effective dates.

“What we’re learning from conversations with recordkeepers is that a lot of vendors are still waiting to hear what their clients want before they commit to building the infrastructures for optional provisions,” says Audrey Wheat, CAPTRUST manager of vendor analysis.

Wheat says recordkeepers are also taking part in the outsourcing trend. “Several are using or planning to use secondary vendors and partners for implementation,” she says. “Amid the broader trend of recordkeeper consolidation, many vendors are now leaning into their strengths and partnering with specialists to optimize efficiency.”

The CAPTRUST vendor analysis team conducted interviews with 12 major recordkeepers to understand which optional provisions firms are planning to support. In general, recordkeepers plan to support a small number of optional provisions with in-house services but outsource support for most of these provisions via a third party. For instance, 54 percent of respondents indicated they will use a third party to support provision 110.

For these recordkeepers, outsourcing may also help reduce the cost of SECURE 2.0 implementation. This is key since many provisions will require recordkeepers to undergo a systematic or technological update to implement and could be costly. At the moment, however, most recordkeepers are not planning to pass that cost to sponsors via outright fees. Only 4 percent indicated that a fee would be charged for implementation, with 41 percent indicating no additional charges and 45 percent still undecided.

The overwhelming majority of recordkeepers also noted that they’ll make optional provisions available on an opt-in basis. The exception was provision 304, which updates the dollar limit for mandatory distributions from \$5,000 to \$7,000. In this case, 31 percent of recordkeepers said they would automatically update and allow sponsors to opt-out.

Recordkeepers and plan sponsors are still awaiting guidance on other provisions, which may come to



life in 2024.

In the defined benefit space, sponsors are likely to see updates or modifications to Interpretive Bulletin (IB) 95-1. First issued by the Department of Labor (DOL) in 1995, IB 95-1 describes the fiduciary standards for selecting an annuity provider for a pension risk transfer. SECURE 2.0 requires the DOL to seek public comments on IB 95-1 and recommend possible modifications to Congress by the end of 2023.

“At a minimum, it is reasonable to assume some new guidance will come into play here,” says Verhaeghe. “For example, we could see a review of insurance company ownership structure or performance track record become part of a new bulletin.”

Lastly, the retirement plan industry will be watching to see how the DOL’s proposed fiduciary rule changes play out. On October 31, 2023, the DOL issued proposed changes to the definition of *investment advice* under the Employee Retirement Income Security Act (ERISA) and to class-prohibited transaction exemptions for investment advice fiduciaries. CAPTRUST expects a final rule in the second half of 2024 and expects it could have significant impacts on service providers’ participant interactions and tools.

Additional Resources:

- [Understanding the SECURE 2.0 Act](#)
- [SECURE 2.0 Opportunities for Plan Sponsors](#)
- [Student Loans with Candidly](#), *Revamping Retirement* podcast, episode 57
- [SECURE 2.0: A Recordkeeper’s Perspective](#), *Revamping Retirement* podcast, episode 49

### **Prediction Three: Financial Wellness Gains Definition**

Financial wellness and advice have become hot topics of conversation. In 2024, the CAPTRUST team predicts that they’ll gain steady momentum as core employee benefits, especially as sponsors learn about the interplay between advice and participant outcomes.

“Financial wellness programs benefit participants by improving their financial literacy and confidence,” says [Chris Whitlow](#), CAPTRUST senior director of advice and wellness. “Since they also improve plan participation and increase employee contribution rates, they’re a boon to plan sponsors as well.” Data from [HR Professionals and Ernst & Young](#) shows that companies with financial wellness programs in place saw increases in employee retention (56 percent), well-being (50 percent), and productivity (46 percent).

However, what remains unclear is how plan sponsors are defining *financial wellness programs*. Broadly speaking, financial wellness benefits include any offering that reduces financial stress or increases financial confidence for employees. This could include direct financial assistance, health savings accounts (HSAs) or flexible spending accounts (FSAs), financial literacy tools and training, tuition reimbursement or student loan repayment, access to financial advisors, nonqualified deferred



compensation plans for highly compensated employees, profit-sharing or stock ownership plans, and more.

As ADP's "[Financial Wellness 2023](#)" study points out, "The breadth of offerings suggests little consensus on the most effective way to address [financial wellness] for employees." One thing companies seem to agree on is that competitive employer-sponsored retirement plans are the first step.

In 2024, as sponsors continue to survey employees about the most attractive benefits, it is likely the retirement industry will develop a more precise definition of financial wellness. And CAPTRUST expects it will become a cornerstone of benefit programs.

"Sponsors are already making thoughtful and future-focused plan design choices, but those mean little if employees don't know how to put them to the best use," says Whitlow. "Financial wellness and advice can help teach employees what to do with the benefit packages their employers are building for them."

Additional Resources:

- [Trends in Advice and Wellness](#), *Revamping Retirement* podcast, episode 50
- [Benefits: A Boon for Employers](#)
- [CAPTRUST's Financial Wellness Solution for Plan Sponsors](#)

## **Prediction Four: Nonqualified Plans Meet Participant Education**

Another trend expected to accelerate is the use of nonqualified deferred compensation (NQDC) plans. These allow employers to offer additional tax-deferred savings opportunities to key employees, typically executives. Unlike qualified plans, NQDCs operate mostly outside of ERISA, so employers can offer them to only a subset of employees with a level of flexibility not permissible in qualified plans.

NQDC plans have become increasingly popular in recent years, with a marked uptick in plans under \$1 million, according to the 2023 "[PLANSPONSOR NQDC Market Survey](#)." The study also showed that total assets in NQDC plans have increased from \$80 billion in 2015 to \$173 billion this year. Data from the DOL and [Government Accountability Office](#) show that 83 percent of S&P 500 companies now offer nonqualified plans. Additionally, NQDC plans have seen an increase in employee participation. These numbers indicate that more companies are now launching new NQDC plans.

“Nonqualified plans are stepping into the spotlight as plan sponsors look for new ways to incentivize retention, reward their key employees, and attract top talent,” says [Jason Stephens](#), CAPTRUST nonqualified executive benefits practice leader. “What will be interesting to watch in 2024 is how plan sponsors integrate nonqualified plans into their financial wellness programs. With so many new plans across industries, we expect that both sponsors and participants will be looking for NQDC-specific financial advice.”

Stephens says executive advice is the next frontier for financial wellness. “Highly compensated employees want financial education just like other employees, so they can optimize their benefits,” he says. “A nonqualified plan can be confusing at first. Participants need someone to teach them about their options and how their plan works.”

Additional Resources:

- [What is a Nonqualified Plan?](#)
- [Crafting a Competitive Nonqualified Plan](#)
- [Executive Benefits for Plan Sponsors](#)

### **Prediction Five: Defined Benefit Plans Revive**

2024 may also see new life breathed into defined benefit plans, a trend driven primarily by economic tailwinds. “Elevated interest rates over the past few years have resulted in more favorable funding ratios, thereby enhancing the financial standing of many private sector defined benefit plans,” says Verhaeghe.

In October 2023, Milliman’s “[Pension Funding Index](#)” showed that despite market losses, the average pension plan funded ratio has improved to 103.6 percent, due in part to an increase in discount rates. This is the highest funded status ratio since 2008, before the global financial crisis.

Verhaeghe says he expects institutional investors will take a fresh look at the potential economic benefits of defined benefit plans, especially cash balance plans. “We also expect that existing defined benefit plan sponsors may look for effective ways to capture surplus. If there’s a surplus, how might they capture it? Also, can and should they pass that surplus from one plan to another? Is there an effective way to restructure benefit programs to take advantage of this trapped asset? Others will look to continue down the path of de-risking to lock in gains.” CAPTRUST expects these and other questions to come forward in client conversations throughout the year.

Additional Resources:

- [CAPTRUST’s Defined Benefit Services](#)
- [Mitigating Pension Plan Risks with LDI](#)



## What's Next

Although it's impossible to predict the unique surprises 2024 will hold, what we can expect is a continuation of persistent trends that have been blooming, bit by bit, over the years. This includes the six trends outlined here, from outsourcing and litigation to plan design and legislation. But it will likely include much, much more.

With that in mind, plan sponsors are urged to keep a keen eye on emerging trends and seize the opportunities presented to adapt and innovate in response to evolving workforce needs. Navigating the labyrinth of legislative nuances, regulatory shifts, and participant demographics requires a proactive stance. And in a landscape often marked by change, it can help to stay focused on what never shifts: Employees will always want their employers to care about them and to help them meet their personal financial goals.