Friday, December 20, 2019

Washington, Wall Street, Tech, and Table Stakes: Predictions for 2020

With the end of a decade fast approaching, CAPTRUST experts take on the unenviable task of predicting the year ahead—in the markets, the economy, and the retirement industry in general. From the possibility of a recession, an impeachment, retirement reform, and a U.S. election of monumental importance, the crystal ball swirls with 2020 prophecies. Read on to get CAPTRUST's collective take on the year ahead.

It's an unenviable task, to predict the future. But with the decade fast approaching its close, CAPTRUST experts take on the duty of predicting the year ahead—from Washington to Wall Street to the retirement industry in general—we've been scoping out the waters, just for you. With the possibility of a recession, an impeachment, retirement reform, and a U.S. election of monumental importance, the crystal ball is swirling with 2020 prophecies.

It's going to be a wild year. So, hold on tight, and let CAPTRUST's collective wisdom be your guide.

Prediction: Political and economic uncertainties increase volatility.

"There are many flavors of uncertainty right now, and that is going to play out in market volatility in 2020," says CAPTRUST Chief Investment Officer Kevin Barry. One potential uncertainty is the winner of the next presidential election. "A Democratic presidential win—whoever the candidate is—would induce more uncertainty into the markets because a new leader could enact new laws or regulations that could help or harm certain industries and companies."

But overall, the economy is doing well, and that helps the incumbent get reelected. "In past presidential elections when an incumbent is running for reelection, volatility is lower because an incumbent candidate typically wins," says Barry. The markets do not like uncertainty, but investors see reelection of the incumbent as a somewhat less uncertain outcome, which is good for the economy and good for investors.

There is also the question about the possibility of a U.S. recession. Recession fears are overblown and simply reflect an instinctive sense that time is nearly up; the current economic expansion is now the longest in U.S. records dating back to the 1850s. Base case, we think that time is not going to run out on us in 2020.

As for the stock market, Barry says, we're up more than 20 percent for the year right now. But what is important to understand is that during any given year, investors should expect a market pullback of as much as 10 or 15 percent.

"This year, the stock market has been well behaved; investors have seen nice returns with only a few scares early in the year," says Barry. "Our biggest pullback this year was about 7 percent. That's lower than average, and we think that volatility will return to average levels in 2020."

Further, as stock market indexes cross into the next decade at or near record levels, Barry sees a market shift underway. Over the last 10 years, growth stocks have outperformed value stocks. But over the past year, we have begun to see hints of a reversal in fortune. Next year, the pendulum could swing the other way, favoring value stocks.

Barry suggests two possible reasons why this trend could continue. First, if the economy strengthens, we could see large industrial companies with strong fundamentals start to outperform growth companies. He doesn't expect this to happen in the near term.

The second reason is flows. The idea is that, at some point, investors' money will start to flow into value stocks because they are so cheap compared to growth stocks. When that happens, value stocks should outperform growth. But Barry cautions investors about getting too far ahead of the curve, since growth's historic outperformance could continue. When this shift happens, however, it will come from flows, not fundamentals.

There are a few pieces of the future economic puzzle that are a bit more certain.

First and foremost is the Phase One Deal with China on trade. According to the Office of the United States Trade Representative, the deal requires structural reforms and other changes to China's economic and trade regime in the areas of intellectual property, technology transfer, agriculture, financial services, and currency and foreign exchange. President Trump said negotiations will begin for a "Phase Two Deal immediately," instead of after the 2020 presidential election.

Barry expects the deal to provide a modest boost for U.S. economic growth next year but still holds some skepticism that the world's two largest economies will succeed in resolving more deep-seated trade disputes, leaving the situation open to ongoing tensions.

Prediction: Industry leaders, policymakers, and other stakeholders move needle on retirement reform.

Retirement reform is set to unfold in 2020. For starters, the Setting Every Community Up for Retirement Enhancement—otherwise known as the SECURE Act—is a far-reaching piece of legislation with more than two dozen provisions aimed at both improving access to and enhancing the outcomes for savers in workplace retirement plans.

As of late December, Congress agreed to a bipartisan appropriations bill. Attached to this spending bill is the SECURE Act piece of legislation. Assuming President Trump signs the bill into law, SECURE would bring about the biggest changes in retirement policy in more than a decade, including allowing unrelated plan sponsors to band together in "open" multiple employer plans (MEPs), changing the age at which participants must take a minimum distribution from 70 1/2 to 72, and adding a safe harbor for plan sponsors offering annuities in their retirement plans.

The Department of Labor (DOL) will be busy in 2020 regulating this landmark piece of retirement legislation as the industry eagerly awaits the opportunity to employ these much-needed enhancements to the system. But that's not all the primary regulator of retirement plans has cooking in 2020.

In late October, the DOL published proposed electronic disclosure regulations. If finalized, the regulation will offer plan sponsors additional options for electronically providing plan-related disclosure documents and information to plan participants, beneficiaries, and other required recipients. The proposed rule could lead to a dramatic expansion in the use of email to furnish retirement plan communications.

Lastly, the DOL is working to reprise the vaunted yet controversial fiduciary rule in early 2020—well, sort of.

When the DOL's 2016 rule was foiled by the federal court system in 2018, the retirement industry was left in a bit of a lurch. Many industry players had overhauled their service offerings and business models to comply with the DOL rule—only to find themselves operating in noncompliance with a rule that no longer was (not to mention out of pocket the money spent to comply).

Overall, our sense is that the DOL's reprise of its fiduciary rule will be focused on finding more permanent fixes for the temporary prohibited transaction exemptions it put in place last year.

At this time, all signs point to the DOL's updated rules dovetailing nicely into the Securities and Exchange Commission's (SEC) advice-reform package, which was finalized in 2019. The SEC's Regulation Best Interest—or Reg BI—requires broker-dealer representatives to act in their clients' best interests when providing advice, in much the same way as registered investment advisors. Reg BI also attempts to improve investor education; it requires more plain language, concise, and complete investor disclosures from both brokers and investment advisors.

As we near the June 30, 2020 compliance deadline for Reg BI—and given our expectations for the DOL fiduciary rule reboot—plan sponsors should prepare themselves for the impact of these rules. Our expectation is that all parties serving the plan participant—recordkeepers, plan sponsors, and advisors—will interact with each other and plan participants a little differently when the dust settles.

It is worth highlighting, however, that before the SEC's new rule can take effect, it must clear a number of legal hurdles, including a pending effort in Congress to prevent the regulatory agency from ever enforcing it.

Whether the DOL and SEC enhancements covered above end up being 2020 game-changers remains to be seen, but these are not the only industry forces driving significant change. Technology and innovation are slated to alter the retirement landscape in a variety of ways.

Prediction: Tech creates transformative new opportunities and risks.

In recent years, technology innovation has transformed the financial system, reshaping how many Americans save for retirement. Income calculators, plan sponsor portals, gamification, peer comparisons, and on-demand education services are just a few of the technologies being deployed to encourage people to save more, invest better, and improve outcomes. And according to Scott Matheson, CAPTRUST's defined contribution practice leader, the pace is only accelerating.

Big Data is a big deal, he says. With the help of machine learning and artificial intelligence, recordkeepers and other plan service providers can automate and individualize retirement planning and transform insights into recommended actions. Thanks to these technologies and a ballooning amount of data available on participants, "the retirement planning process is taking on a new level of precision and is becoming much more user friendly," says Matheson.

He also believes that managed accounts will increasingly gain popularity as a qualified default investment alternative (QDIA), perhaps in combination with target date funds, because they are not only age appropriate but are individualized through the incorporation of demographic data. This typically includes location, account balance, Social Security estimates, age, pension benefits, outside savings, savings rate, gender, salary, and sponsor match.

By including some or all of this additional data, the managed account provides a high level of customization but does not require a high level of participant involvement, if any. Matheson adds that recent QDIA innovations are taking the best of target date funds and managed accounts by using a target date fund for younger investors and automatically shifting to a managed account when an investor reaches a specified age—one where customization is more valuable.

So whether it's an app that checks in to make sure participants are saving, managed accounts, or calculators that include projected healthcare expenditures, technology can play an important role in helping plan participants, says Matheson. However, access to these sophisticated tools requires plan sponsors and recordkeepers to share participants' personally identifiable information, such as dates of birth, Social Security numbers, and account balances, with third-party service providers.

While these tools are valuable because they streamline participant services and deliver more attractive and cost-effective solutions, sharing data also poses risks. As a result, the retirement industry is intensely focused on the issues of data privacy and cybersecurity. As a matter of fact, according to PLANSPONSOR.com, the cybersecurity threats that accompany new technology are so pervasive, lawmakers have asked the Government Accountability Office to examine the cybersecurity of the U.S. retirement system.

While CAPTRUST experts predict cybersecurity challenges will unquestionably continue for plan sponsors, so will the benefits of technology and innovation, including new analytical insights into the changing demographic of the U.S. workforce.

Prediction: Plan sponsors grapple with demographic shift in workforce.

Demographic change in the workforce is not news; workforce changes driven by population shifts are inevitable. And yet they always seem to sneak up on us.

In 2020, plan sponsors will be grappling with how best to support their older and more-diverse employee populations. "It's going to become more critical than ever that wellness and benefit programs reflect the evolving realities of workforce demographics—specifically, the needs of a generationally varied workforce," says Matheson.

But as the five generations currently in the workforce age, Generation Y (more familiarly, millennials) will represent a critical focus for plan sponsors as they comprise an increasing proportion of the working population. Millennials face daunting financial headwinds, such as lower traditional labor force participation, lower real earnings, less access to standard employment benefits, and a much higher debt level than predecessor generations.

Plan sponsors can expect this to come through employee preferences around health insurance, retirement benefits, and paid time off—and most importantly, what many consider to be perks becoming valuable benefits. This includes things like flexible work hours, student loan forgiveness programs, a more casual dress code, or in some extreme cases, the ability to bring a pet to work.

While it may seem like semantics, our experts say today's workforce sees a noteworthy convergence of benefits and what have traditionally been called perks, and it all matters in future recruitment and retention. So there you have it: The collective predictions of our CAPTRUST experts for retirement plan sponsors, participants, and the retirement industry in general in 2020. While the crystal ball is a little hazy at present, we're feeling optimistic about the year ahead thanks to a sound economic footing and long overdue retirement reform.

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