Please note: This is a transcription so there may be slight grammatical errors.

Hello everyone, and welcome to today's webinar, What's on the Menu for Your Retirement Plan? I would now like to introduce Pete Ruffel Manager 2 of defined contribution at CAPTRUST.

Pete Ruffel:

Thank you Nikki. Good afternoon everyone. We appreciate you making the time to join us as we discuss defined contribution plan investment venues. Our conversation will cover a range of topics, starting with some of the basic tenets of the DC investment menu and finishing with some of the perspective on the lineup of the future. Now, there are different schools of thoughts on how to design, support, and monitor a retirement plan. But our goal is to give you some actionable takeaways today, so that you can continue to build upon your successful retirement program. As Nikki said, my name is Peter Ruffel, and I'm a manager of CAPTRUST Defined Contribution Solutions Team. My primary focus is developing our services and solutions to address the needs of our non-discretionary practice.

Joining me today are three CAPTRUST colleagues, Matt Patrick, Ellen Martel, and Lorice Bianchi. Matt and I are literal neighbors in both job function and office location as we share a wall. And he is also a manager in our Defined Contribution Solutions Team. But instead, Matt is charged with developing our services and solutions for our discretionary practice. So make Matt 338, Pete 321. And for those of you familiar with CAPTRUST approach of adding like-minded firms to bolster our client impact, Ellen and Lorice are a manifestation of just that. Lorice joined us from Portfolio Evaluations in 2021, and has worked with institutional plan sponsors for over 20 years.

Ellen also joined us in 2021, but from a firm called Elwood Associates, and brings with her over 25 years of investment advisory services experience. Both Ellen and Lorice were integral to their previous firm's defined contribution practices, so we're fortunate to be able to tap into their client consulting experience and expertise. They are certainly keeping our pencils sharp around here. With all that being said, Ellen, I'm going to come to you to kick us off. So let's start with laying some groundwork, since we're talking about investment venues, in a sentence or two, how would you describe or characterize what a retirement plan investment menu is?

Ellen Martel:

Sure. Thanks, Pete. I think simply put, a menu is an offering of investment choices and solutions to assist participants in retiring with dignity.

Pete Ruffel:

Awesome. Yeah. I think it's always great to take something that seems complex and simplify it. We do it so often when we're trying to describe to our significant others what we do on a daily basis. So I think that's great. Thanks for doing that. So Lorice, jumping off of that, I think a lot of people have different goals of what their retirement program's supposed to be. But can you describe some of what those goals might look like, and what plan sponsors are trying to solve through their investment menu?

Lorice Bianchi:

Sure, absolutely. So I think if we think about plan investment design menu, we think about historically it was more about accumulation. So thinking about how do you build up those assets to go into retirement? So more of what people typically hear as buzzwords of retirement readiness. Historically it's been focused on building a menu to solve for accumulation and for choice, giving participants choice. I think the conversations we're having with plan sponsors now have turned a bit, and the conversation is focused more on decumulation, and looking at how the participants are going to look after retirement. And so, what are their income type of needs? So we're solving more for the need, as opposed for the choice. And so while the first part is still important, the second part is getting a bit more attention moving forward.

Pete Ruffel:

That was great, thank you, Lorice. All right. Again, setting the scene a little bit, I'm going to do a little rapid fire question. I'm going to come to each of you. So let's each of you mention one thing. Let's do one commonly found investment category in a retirement plan menu. Matt, I'll come to you first.

Matthew Patrick:

I'm going to go with capital preservation options, so your cash alternative.

Pete Ruffel:

Okay. Capital preservation. Ellen, what about you?

Ellen Martel:

Well, Matt took mine, so I'm going to do asset allocation. Since the Pension Protection Act of 2006, it allows us as plan fiduciaries to select an asset allocation solution strategy as the default. So a balanced fund, a target date fund, a managed account. But by far target date funds are the dominant solution that's utilized by plans overall.

Pete Ruffel:

Okay, cool. Lorice, what about you?

Lorice Bianchi:

So, I think I'm going to aim to keep us out of any type of litigation, and I'm going to say passive index funds. So low cost index options. So we don't ever have participants coming back saying that we didn't give them the ability to build a diversified low cost portfolio.

Pete Ruffel:

Yes, okay, that makes sense. I'm going to take the flip side of that coin. I feel like you got to have some active managers in there as well. Because there's certainly plenty of participants who are looking for that. So okay, we're laying the groundwork a little bit more. Ellen, maybe this question's for you. Let's see. In your mind, or what you're seeing in the marketplace today, how many investment options is good practice? It becomes overwhelming?

Ellen Martel:

I'd say generally you see 15 to 20 choices if we look at the broad marketplace for defined contribution. Now, at CAPTRUST we have so many different types of clients, that we can peel the onion a little further. And if we look at the larger market space, that's where you see the numbers to start to shrink. And that's, as you said before, more evolutionary. And behavioral finance is showing us that more choice actually doesn't come to better outcomes. It actually confuses participants generally speaking. Of course, there are many factors that every employer has to assess for their specific and unique circumstances. So that 15 to 20, but to give you just a data point, if you look at plans with say 5000 or more participants, you start to see 15 or less be a more typical. And I point that out as some of those plans tend to lead some of the evolution as there are tending to be more early adopters.

Pete Ruffel:

Got it, nice. So, 15 to 20 sounds like a sweet spot, that Goldilocks zone. Anytime I'm talking about this, I always think about when I'm flipping on Netflix and I'm trying to pick something, there's so many different options there. I just fall back to the show I've seen already 100 times. So, thank you, Ellen. So, you mentioned a few different factors there about that might influence that. Let's talk about that for a second. So why are investment menus different? What are some of those influences? And Matt, maybe I'll come to you first with an influence in mind.

Matthew Patrick:

So, one influence historically, and is still certainly true today has been the plan provider that you've selected to offer your retirement plan. That's been one of the things that's driven not only just the structure of your investment menu, but also the actual individual options that make up your menu. And there's a couple things to consider in that regard. One would be just like how open and flexible is the platform that you're on. We've started to see that broaden out more so over time, but there's still a wide disparity between some platforms that have a lot of asset managers with different strategies, and you're free to move around. And some that are more restrictive, where you might have less options or there's more cost penalties for leveraging some that are not on the more restricted menu.

So that's something to monitor and think about as you're designing your investment menu. The other one that's always there would be, you have plan providers that either have an asset management arm or are affiliated with asset managers, and there are incentives from a cost perspective for adding some of those investments to your plan menu. And the offset would be you have lower record keeping costs. So that's always enticing, certainly with cost being so top of mind for people today. And then I guess the last thing I would highlight would be, we're starting to see a bit of an evolution in the record keeping space, where cost has come down significantly over the last decade or so.

And so, plan providers are having to rethink the way that they structure their business model. And they're partnering with asset managers and offering more limited platforms. But that's how they can offer lower administration costs for plan sponsors, is by limiting that menu and partnering with those asset managers to do so. So again, the trade-off being lower costs but more restrictions. So those are some of the influences that you have to weigh in terms of which record keeper you're selecting.

Pete Ruffel:

Okay, great. Thanks, Matt. Ellen, let me come to you next. What's another influence that you think influences different investment menus?

Ellen Martel:

I think an obvious one is demographics. What is the population you're trying to serve? As I said before, target date funds are the dominant QDIA or defaults in many plans. Department of Labor is clear, you have to look at demographics to make sure they're aligned to that asset allocation glide path. But then setting your core line up the index as Lorice said, or active as you said, Pete, you've got to understand do you have a young population? Are they focused on accumulation? Or maybe if you really look at the analysis of your demographics, you may realize that half the plan assets are with the older population of your workforce. The number of people is much lower, but you are trying to help them solve for decumulation. So you will have a different view. And I think a good obvious young population, if you have auto enroll, maybe all the new assets and new contributions are going to the target date. So you could have a barbell approach.

Pete Ruffel:

Great. Yeah, absolutely. Lorice, coming to you last, again, I apologize. I'm going to mix you in first here in a few questions. But what's another influence that that's coming to mind for you?

Lorice Bianchi:

Well, they're taking a lot of the good ones. But I think I'll take Ellen's comment and stretch it just a little bit, and look at it from an industry perspective. So, either the industry that you're in could have, again, will have different demographics for participants. But certainly from an organizational perspective, if there's specific corporate culture things or specific organizational beliefs or goals, that can be implemented via the plan investment lineup. And so I think, just to stretch what she said just a little bit, it's not just the demographics, it's also just the organization itself, and what are beliefs and goals of the organization? And make sure that those objectives align with what participants have as an investment choice.

Pete Ruffel:

Got it, makes sense. And I think that's the beautiful thing about DC Investment menus is that, so often we want to really cater it to the employees and the organization itself, because that matters a lot. It matters a lot to the retirement outcomes for those participants. So we captured a few influences there. We said record keeper influences, Matt talking a little bit about that, open architecture dynamic and how that might be shifting a little bit. Ellen, you talked about demographics, really going back to some of that ideas of accumulation versus decumulation. Where are your participants, what there ages are, what their needs are? And then Lorice mentioning industry and how that might look different.

I think we've talked in the past about what maybe a blue collar organization might look like versus a white collar organization might look like. I think you could argue another impactful influence is market conditions, and we're living one that's really unique right now. And Matt, I know you've done a lot of work for the firm on capital preservation. You mentioned it earlier, and how it's relating to maybe this inflationary market, this higher interest rate market that we're in today. Can you talk to us a little bit about how that market influence might be changing or influencing what plan sponsors are looking for out of their capital preservation investment?

Matthew Patrick:

Sure. It's certainly an interesting market condition for these types of funds, and has changed the types of questions that we're hearing, and I think the type of work that plan sponsors are doing, looking at the cash alternative in their plan. Like I said at this stage, we're coming out of a period where stable value funds, which are an option that are uniquely available to qualified retirement plans, have performed very well relative to money market funds. There are some structural reasons for that. But I think from a high level they're meant to mirror some of the benefits and stability of a money market fund, but can purchase some longer dated bonds, 2 to 3, 4, 5, up to 6 year bonds in these portfolios. And historically that has provided a yield advantage. So you've been able to get the stability of money market and have a little bit higher yield.

And that's really the pitch for stable value relative to money market. As we've seen the fixed income market evolve and the Federal Reserve looking to combat inflation, the short term bonds have seen their rates rise very quickly, and continue to outpace more intermediate term bonds like stable value historically purchases. So, long stretch of stable value outperforming. And now in a very relatively short period you have money market out-yielding stable value for the first time, which opens the question for, if I have stable value, is that still the right option? Should I be looking to add money market? Do they go well together? And I think those are all very fair questions and probably are good things to at least consider even if you're not going to take any action on what your plan is doing currently. Office lights kicked off there.

But I think from our perspective, we spend a lot of time looking at that, and we still certainly believe in the long-term benefits of stable value like we have in the past. So I think if you have stable value in your plan, we're not advising people to do anything different in that regard. I think that's still based in a like, we do think longer term bonds will yield more than shorter term bonds over the long term. So I think that value proposition is still there. But it's certainly fair to look at money markets now from a plan sponsor perspective and say, "Should these find a place in my investment?" And I'd be curious for Ellen and Lorice, for your experience and what clients are asking, and how you all are navigating those conversations?

Pete Ruffel:

Yeah. Ellen, why don't we come to you with that? What are you seeing or hearing from your clients in these, looking back on 2022 and looking forward?

Ellen Martel:

Well, in 2022 clients, and I think participants really appreciated their capital preservation option if it was stable value or money market. Because that was the only positive performing option generally speaking, the shock of rates rising so quickly. But really from a standing as fiduciaries with our committees and clients, no reaction. I mean, we're-

Ellen Martel:

... committees and clients, no reaction. We're setting a menu with a long-term view. We've talked about a lot of the factors we've already mentioned. So, this just says we're telling plan participants stay the course. You have longevity, you know what your overall objective is. The same is for plan fiduciaries. Don't react. We don't think you have anything missing. I think it's just the continued education as new solutions and options come out that just take time to digest anyways. So, stay the course, no change, didn't really see any panic from a client standpoint.

Pete Ruffel:

Lorice, what about you? What did you see? What are you hearing?

Lorice Bianchi:

Yeah, I think Ellen hit the nail on the head. We haven't seen any reaction, I think staying the course. If anything, the conversations have been around just interest rate movement and what does that mean for fixed income in general, or what does that mean for other things within the plan. But we haven't seen any specific movement as it relates to the idea of you're setting these strategic goals from a design perspective and let's stick with them.

Pete Ruffel:

Great, great. I know it's-

Ellen Martel:

[inaudible], on the inflation front, some participants that tend to be vocal, and I'm talking a handful - because of inflation, it was hard to hide from inflation, the news of inflation, the feds action to fight inflation. A few participants saying, "Can't we have a gold fund? Can't we have a commodity fund?" Things that would never be appropriate in the actual lineup, some of those questions boiled up. And again, that's just an education discussion not to entertain sector specific funds. I think generally that's not serving the whole population. But it does just bring to light one other consideration in long-term retirement planning - inflation is a risk, and we hadn't seen it for so long that investors forgot.

Pete Ruffel:

Yeah, I think that's a good point. I think some of those sector specific funds can be tough to use as an average participant might navigate some of the unknown risks with that. I know commodities is one of those types of asset classes that has a significant amount of risk year-to-year, so you might find yourself chasing returns in gold, a precious metal, that's a tough one to navigate as well. But you do that historical train of thought of these are the inflation hedging asset classes, we need them, but there are other means to do that. You don't have to fall to that trope of a hedging purpose through those asset classes.

So, we certainly see those asset classes from time to time in investment menus and we try to definitely coach our plan sponsors to think about different ways to combat inflation through other tools, but they're out there still and it's certainly a good point. Those are definitely aspects that are coming up.

I want to make sure I call out Matt. Matt helped put together some of the topical spotlights that we did for this past quarter that we're talking about - money market versus stable value, doing a good job of zooming out to give some perspective of some of the things that Matt talked about, which is that excessive returns relative to money market over a long period of time. And now we're seeing that inverted yield curve effect where that's not the case. But again, long-term proponents for what stable value is and what it can add to retirement plan menu.

Okay, let's tweak. Let's go to something else here. So, when the market isn't an influence, say the market's working as intended, maybe it's not in the news so much, how are you approaching investment menu design? How are you reviewing investment menu designs? How are you telling whether or not it's working, if it's successful?

Lorice, maybe I'll come to you first to talk about how you from time to time talk to your clients about your investment menu.

Lorice Bianchi:

Well, I appreciate not having my answer stolen this time, but I'll talk a little bit about - I think Ellen sort of talked when she touched a little bit about sector specific funds, a lot of times we as plan sponsors like to figure out what others are doing. So, sometimes it's the benchmarking data. It's looking at benchmarking data to see how many investment options do we have relative to how many investment options typical plan sponsors have.

It's looking at overlap. Is there overlap between the strategies that we didn't realize was necessarily there? It's talking to plan sponsors about is there a gap in the plan? So, it's really taking a look at various industry stats, taking a look at what the plan looks like from a holdings perspective, a return correlation, just making sure that we don't have any unknown overlap with the plan and really we don't have any gaps in terms of what we have from an offering perspective.

Pete Ruffel:

Got it. Maybe listening to some of those vocal participants as well, like Ellen mentioned. Ellen, what about you? What other things are you doing to keep on top of your clients to review their investment menu?

Ellen Martel:

I think being a good fiduciary partner and having a prudent process and one of those steps, if it's every one to three years, benchmark your plan. Just have it on your calendar. It doesn't mean you have to take action, but you don't know what you don't know. As Lorice said, what are others doing doesn't mean you have to jump on that bandwagon. And I think too, you proactively hear it from CAPTRUST, from our topical spotlights or your advisor, but just looking at industry sources and seeing the trends, and maybe it's I don't want to be an early adopter or you're just starting to see some trends percolate. So, that all ties back to fiduciary process and document it.

Pete Ruffel:

Yeah, I'm seeing a question in the chat that I want to make sure that we get to because I think it's topical. We said benchmarking twice there. So maybe, Matt, you can list off what are some of the benchmarking data that is available out there, whether it's public or subscription-based or et cetera?

Matthew Patrick:

Yeah, there are a few different sources that we lean on and I think the plan sponsors could also lean on for this type of information. So, there are a few broad ones out there. I think the plan sponsor Council of America is one of the most widely known ones, but they do some very broad surveys of just the retirement plan space in general, and their surveys are fairly comprehensive.

They expand far beyond just investment selection, the menu, but a section there is dedicated to some of this, like how many investment options, what types of investment options. And that's a good look from a very high level just what are retirement plans, specifically defined contribution plans have in general in their menus? And so, that's a good place to start, just be like, are we checking the major boxes and anywhere that we differ, do we feel okay about being different in that regard?

If you want to drill down a little more specifically, you can get into the record keeping side. So, record keepers really have really good information and data on all the plans on their platform. And so, if you think about some of the larger record keepers out there, we're talking about thousands of plans and of many different plan sizes and different industries. So, that would allow for a little more targeted comparison if you wanted to go that route, and that should be accessible to you through your relationship manager with your plan.

And again, you could look at just every plan on their platform, but also by industry and by plan size and really give you a better look for what are peers similar to me doing, and again, do I feel good about anywhere that I'm different than peers?

And then I guess the last resource that you could lean on would be your consultants. I know that's certainly an area that is coming up more. We're answering a lot more questions and we're starting to track that information a lot more closely over the last few years to see how are the allocations shifting within plans between different types, and that would also cover some of how many funds, what types of funds. And so, we've got a lot of that. I know a lot of other consultants are working on that as well.

Pete Ruffel:

Ellen, you and I have talked about benchmarking data before, and I know you have some thoughts on it, so I'd love to hear what you're thinking when you hear benchmarking data.

Ellen Martel:

Like I said, benchmarking, great fiduciary process, but like any data, take it with a grain of salt because you're looking back in time. And that's where we're coming from. In these benchmark surveys, if you want to see, for example, retirement income or decumulation, like you said Lorice, there's nothing in there because we were waiting for Secure Act to pass, which was in 2019, and then we had the pandemic. So, these surveys are capturing past behaviors.

It's really, I think not cutting edge research in where plans are going. So, good fiduciary process, but if you want to think of the future, you can look at other research to help guide those premises as well.

Pete Ruffel:

Yeah, I think a good point to make on that regard is PSEA didn't start surveying plan sponsors for the use of target aid funds till about 2012. Fidelity, BlackRock, they really started pioneering some of those strategies in the early '90s, mid '90s. PPA that you mentioned, Pension Protection Act, which gave us QDIA and auto enrollment - that didn't come to pass till 2006.

So, just so much time before that now becomes sometimes considered table stakes. You said dominant in the QDIA space today. So, yes, sometimes that data might not necessarily give you the full next steps, what the roadmap might look like for the future, but a good pulse check for where we're at today, what we might need to do.

Lorice, anything you wanted to add on the benchmarking data? Otherwise, I might hop to the next question and go straight to you on self-directed brokerage. Let's do that.

Lorice Bianchi:

Yeah, nope, I think we pretty much covered it.

Pete Ruffel:

Okay, cool. So, it's hard to talk about investment menus today or what DC investment options are available without potentially thinking through self-directed brokerage accounts. Ellen mentioned vocal participants. This is sometimes could be potentially a solve for that. How does this SDBAA influence core menu decisions when you're talking to potentially a client about consolidating their investment menu? Does self-directed brokerage come up?

Lorice Bianchi:

Yeah, it does. I think historically we've had so much more focus on self-directed brokerage for the highly engaged participant. It was for those that wanted to step out of the plan and were highly engaged or had a specific, as we touched on before, maybe it's a corporate culture or a view, that's what self-directed brokerage was used for. We're definitely having the conversations more frequently with clients as plan sponsors are looking to consolidate that investment menu.

So, I can use an example of a couple weeks ago, we were talking to a plan sponsor who is doing just that. They came over with a very large menu of investments without a real reason for why that plan had so many investments. And so, we talked about consolidating the lineup, and self-directed brokerage is used as one of those options where if we get participants to come back and if there are vocal participants about essentially consolidating that lineup, that's an option we can use for them.

You've consolidated funds for a reason, those have very low utilization. So we don't anticipate that being something that we'll need to add, but it certainly can get folks comfortable with the idea of consolidating the lineup. There is this other option to offer a self-directed brokerage window, and I think that gets them a little bit more comfortable. I think we know participants haven't really complained when the lineups have been consolidated, but it's certainly something that from a plan sponsor perspective, knowing that you have that potential, it's really giving the self-directed brokerage window a different feel.

Pete Ruffel:

Yeah, it makes sense.

Lorice Bianchi:

And solving for the loud participant.

Pete Ruffel:

Yeah, it's funny, so often when I'm meeting with clients and we're potentially proposing a fund change or an asset class change, whether it's a removal, consolidating the menu, the first thing that I typically hear is, how many participants is this impacting? Who is this affecting? It's almost that question before you talk through the investment thesis piece of it first. So, certainly self-directed brokerage account can potentially help with that impact.

Ellen, anything that you wanted to add from what Lorice was saying about self-directed brokerage accounts?

Ellen Martel:

I think we've touched on it, but the utilization tends to be low. So, even if you think you're solving for X, when you go back and look a year later or on your benchmark review, it really tends to be low.

Now of course you can caveat with certain industries like law firms, it tends to be very high where these are individuals that have outside assets and may want to pivot on their retirement objective with the 401(k) plan. So, it's not for every fiduciary. You have to assess if it's right for your organization [inaudible] said.

Pete Ruffel:

Great. I want to talk about, we used some buzzwords already. We mentioned decumulation, so let's play this game a little bit. Let's talk about a few more of these. There's one solution that I find compelling at least on paper and I find very interesting, which is dynamic QDIA. Sometimes you'll hear it as dual QDIA.

Matt, I know you've spent a lot of time educating some of our clients and our advisors on this topic, and you've definitely been integral to some of the launch of this with some of the managed account partners that we work with. Can you tell us a little bit about how you've seen this implemented and maybe some roadblocks, if there are any?

Matthew Patrick:

Yeah, I think the way you framed up the target date conversation around it was being workshopped in the early '90s and it took all the way to the mid 2000s before we saw more full adoption. I feel like managed accounts in general are going through a similar journey and this dynamic QDIA or dual QDIA is a component of that that's I think good in concept. I think people understand the concept, but they're just some of these hurdles in terms of getting plan sponsors comfortable or feeling good about it from a regulatory perspective. So, we can hit on some of those.

In terms of what it is, it's a combination of target dates and managed accounts at its simplest level. The idea around a managed account is trying to get a more custom solution at the participant level within your defined contribution plan. So you're looking at some of their age, their salary, how much are they deferring. You can even extend it to including outside investment accounts or what some of their goals are. And it's almost like a wealth solution, but a light version of that within a retirement plan where it's a little more broad, but trying to.

Matthew Patrick:

... Version of that within a retirement plan where it's a little more broad but trying to be more custom at the individual level. And one of the areas of feedback on that is for younger investors in a plan. How different can the asset allocation and advice actually be for someone who's just starting out in their career? Pretty much everybody needs mostly equity portfolio and you should save as much as you can afford to save early on. And so that's the idea around blending them together is acknowledging that yes, early on in your savings journey, people aren't all that unique in terms of what they need. But as you progress towards retirement, everybody's story starts to diverge some and you have different needs in terms of what has your life journey been and where does that leave you in terms of your retirement savings? What are your goals in retirement?

And those stories can be meaningfully different. So by combining them you can have the consistent approach at the front end with the target date and then you pick an age where everybody that's defaulted into the target date would then automatically default over into the managed account and get that more custom experience. So when you lay out the simple, at the front end, more custom as you approach retirement, I think conceptually it makes a lot of sense. It knows what it's trying to do and it does resonate with people when you tell the story. Some of the things that trip people up is items like defining that age to have people convert over. There's still challenges with reporting and monitoring a managed account solution in terms of a lot of these will have tens or hundreds of portfolios that you need to evaluate at the individual level, which can be a real bear for plan sponsors because it's not reasonable to go one by one in a meeting and see how is every portfolio doing and do I still feel good about it?

So that's a challenge that managed account providers are trying to combat as well. And then I think the cost piece can't be ignored either, particularly with the way that a lot of people have moved towards passive options on the target date side. You just see that if you wanted to move and default someone from a passive solution over to a more expensive managed account and get that custom experience, that can give people some pause. And that's another reason that the plan sponsors are at least considering their options before moving ahead with that.

Pete Ruffel:

Great. I want to hear from Ellen and Lorice to see, like I said, I find it interesting in paper, but how is this translating into client meetings? So Ellen, maybe I'll start with you.

Ellen Martel:

Sure. I mean I would take a step back and clients I think have to even assess, I think Lorice said this before, "What should we do with retirees? What's our goal with retirees?" I mean simply put, should they stay or should they go? From a cultural standpoint, some plan sponsors haven't even vetted that out. And overall that's a cultural question because there are benefits to having those retirees stay but all the points Matt laid out are very significant considerations as well.

Pete Ruffel:

Lorice, anything you would want to add there?

Lorice Bianchi:

Yeah, no I would add that I think the conversation is happening. We haven't yet had folks that are moving in that direction, but certainly this type of conversation is what we anticipate having more in the future in regards to what are the goals, what are the complications, and what are the fiduciary implications that we have to think about.

Pete Ruffel:

Yeah, I think that's all good and I'm interested to see how it plays out in the future. It's going to be something that I keep my eye on, but another thing that seems to be arguably a hotter topic right now, we've said the decumulation a few times, what about retirement income? And Lorice on the hot seat again because I'm going to come to you first. You mentioned it earlier when we're talking about goals with an investment menu. What are clients asking for? What are clients interested related to retirement income today?

Lorice Bianchi:

So I think when we think about retirement income, I'm going to go back to using one of those buzzwords, but I think it's part of an overall financial wellness conversation. So you can't have one part of the conversation without the other. And so certainly I think folks are looking at retirement income, and I think that's another place where they're not ready to be first movers necessarily. So nobody's ready yet to make that additional... Not nobody but folks aren't ready yet to make that additional fiduciary step. But when they are, the conversation is happening in the context of overall financial wellness.

So looking at the accumulations the second time, I've tripped over that same word, looking at it in terms of what else are we doing for our participants? So looking at debt management, certainly with SECURE 2.0 there's a lot going on that is part of the overall wellness conversation and I think retirement income sort of slides into what are we doing for the participant as a whole? And because sometimes you can get muddied with the big picture, I think that's why we haven't seen as much movement yet, but it's certainly part of every plan sponsor conversation we're having.

Pete Ruffel:

No, that's great. I think we've said it before, this idea of potential solutions first before products and we're certainly hearing a lot about products right now. Ellen, what about you? How are you approaching the retirement income conversation?

Ellen Martel:

All the things we've talked about, but I think it really does boil down to it's a communication hurdle because you already have some things in your plan that do address decumulation. Retirement income does not mean guaranteed. It does not just mean annuity, it means stable value, it means money market. It means in your target date fund suite, you have a glide path. There are funds for people who are in retirement, they can stay in your plan. So how do we go from, "Get in your plan safe," to now how do we draw down? And Lorice, you said it before, I mean this decumulation is a pivot overall on the entire industry. So let's boil it down to partner with our record keeper and touch the participant and talk to them in a way to delineate these two viewpoints. And then we can talk solutions and strategies because dynamic QDIA, and Matt, we've done all this research, but I guarantee the average participant would have... Right over their head, have no idea what you're talking about. And investment committees would need that education. So how do we expect the average employee to figure it out?

Pete Ruffel:

No, I think that's great. It's definitely been an interesting journey and I think one thing that you made mention there that I want to reiterate, there's not an exact definition for what retirement income looks like and when you said it earlier, this idea of what an investment menu is helping participants retire with dignity. I mean some type of wind down feature that helps them do that is certainly what we think is a need. Certainly if you look at retirement readiness of many Americans, there seems to be some type of gap there and this seems to be an idea, but it has many different looks, whether that's folded into a target date fund, something that's out of plan distribution.

We're going to see a lot more iterations to come so continuing to challenge our clients and ourselves to understand what's out there and what's the best fit for our participants is the first thing that we should be doing. So I want to move to another thing. Ellen you said, and I hear this often too, clients want to be evolutionary but not revolutionary. In this litigious world that we live in with retirement income defined contribution plans, it's understandable why some sponsors don't want to be first to market with a new approach. But again, you said it, caution stifles change. So maybe give us one thing that you're challenging some of your clients to consider as a next future addition to a retirement plan.

Ellen Martel:

Sure. So I touched on it before. We all know inflation was front and center and is front and center with what's going on in the capital markets. You can have a sector fund like REITs in your plan or in the bond side, you can have treasury inflation protected securities. However, there are complexities and the correlation to inflation isn't as tight as the names may indicate. You're not truly getting the private real estate market. You're not truly getting inflation or consumer price index with tips. There's interest rate risk. So within the defined contribution space, we have seen strategies of multiple approaches to inflation or what the Morningstar category's real asset funds. And these are funds that combine treasury inflation protected securities, commodities, gold, real estate with REITs and they roll it up into one overall fund that the participant isn't making the calls on these underlying strategies that have different risks.

You said it before, Pete, sector funds or gold fund or commodities have a lot of volatility that really could be difficult for a participant, and I'm talking a general broad population, to understand. So having this roll up of real asset strategies out there, it's something that clients are interested in and a good discussion. The evolutionary, the larger plans tend to have some of these multi-manager strategies and are more willing to adapt strategies like real assets. So I'd say it's in the early innings, but a very interesting topic, and I will caveat, it's just timely that inflation went up. This wasn't a reaction to what was happening in the markets. This is a long-term view. Retirees have to be concerned about inflation, period, if it's 1%, 3%, or where we are today.

Pete Ruffel:

That's great and it is interesting that Morningstar has their own real asset category as well, so something that we'll be looking at and how it fits into a DC menu for sure. On that same vein, Matt, I know you've been working on something with the team with an eye on the future. Can you tell us a little bit about what's in the workshop today as a solve for something that might be a need in the future?

Matthew Patrick:

Yeah, I think some of this leans on what Ellen was just highlighting around the benefits of rolling strategies into a single strategy. I think there's a few things that tie into lineup consolidation and then even some of the record keeper influence that we highlighted in. That's all the genesis of something that we're seeing more of, which is this multi-manager approach being offered in more areas of the defined contribution market. So custom funds in general is not a new concept and historically has been more of a large market item as Ellen mentioned, but it is an idea that we see starting to come down market and some of the structures changing to make them more accessible to medium size and smaller size plans. And there's been some creativity to use that type of structure to solve a few different items that come up and give plan sponsors headaches.

Historically if you do just want a custom solution, there's a benefit to, say, I can set the parameters and that tends to still be a larger market. You're launching a custom strategy. What we're seeing more of that Pete was alluding to is this fund to fund structure where you have a single fund, then underneath you are combining different investment strategies and it doesn't necessarily have to be... There go my lights again. So we're doing well today, but it doesn't necessarily have to be a mix of different inflation strategies. We see people combining, let's say, just strictly in the large cap equity space and you can mix and match large value and large blend and large growth managers within there and offer that in a single vehicle that would then be offered at the plan level. And that is looking to address a couple of items.

One is that lineup consolidation, and we're starting to see more people crave that where it's like we had an era where you had several hundred investment options, it slimmed down to that 15 to 20 that we've highlighted a couple times, and some people are still saying there's a step to go further and slim it down even more to make the choice simple and make it as easy as possible so you get the highest level of participation in the plan and it does that. If you go from let's say one large value and one large growth to one single large cap option and you do those types of consolidations across the menu, you slim it down even more. There's the value of mixing and matching different strategies, which is something that we don't do a ton of now because in order to do so in your menu, you'd have to have a larger number of funds and that does introduce how does the participant choose and how do they mix and match appropriately?

So you're eliminating that piece and giving whoever's managing the fund a little more flexibility to pick funds. And then shifting to some of that record keep revolution that we highlighted before, we're seeing a lot more administrative costs put on the actual fund change process. Again as a symptom of overall record keeping costs coming down, there's a lot more restrictions around... You can do one fund change project a year or you pay for every single fund change project or maybe you cover something like all of the mailing costs. So there's a real incentive to limit the number of changes that you're doing at the investment menu level within the plan and this type of structure, if you have the fund to funds approach, once you get it set up, you can change the managers out underneath of that larger vehicle structure. And A, you can do it faster because you don't have to go through a participant notice period, but also because the fund isn't changing at the plan level, you don't have some of those other fund change costs associated with it.

So you can see how that type of structure would solve a few of the headaches that we're seeing pop up for plan sponsors. Again, with all these, it's not without questions around what is the history of the person running them. You introduced having to select a trustee or custodian for the assets there. So there's still a lot of considerations, but that's at least something that plan sponsors that are looking to be forward-looking are at least considering that type of structure and making a definitive call one way or the other like, "Is this right for me now or is this something to just keep an eye on moving forward?"

Pete Ruffel:

Okay. All right. So streamlining investment menus through almost asset class CITs, making choices easier for participants, and benefit being administrative costs could potentially be lowered since you will be able to make changes underneath the hood that might not solicit the need for communication to participants. Okay, that sounds good. Let's go to the client experience. Ellen and Lorice, I know you both work with the larger market plans, billion dollar plus, streamlining investment menus is obviously not a new concept, but do singular asset class options seem to be resonating with...?

Pete Ruffel:

But do singular asset class options seem to be resonating with some of your clients? Are any of your clients using them today? And Ellen, I'll come to you first.

Ellen Martel:

Yes, I'm going to geek out here and be like it's such an efficient way. And we know it's applicable to the big market because from a cost standpoint to have your own custom roll up portfolio. But Matt just laid it out nicely as we're starting to see it go down market, there's just so many benefits and it's a simplification of instead of all the equity choices that tend to be typical, thinking more of capital appreciation and capital preservation. And then you can focus on or start communication and accumulation and decumulation. So less choice is more. The efficiencies are there and it really is a benefit at the end of the day to the plan participant. Generally speaking, so there are some industries that know our people need more choice because X, Y, and Z. So flexible on it. But it's really nice to see it's not just a benefit for the mega market, it's starting to make the movement downward.

Pete Ruffel:

Larice, what about you? What are you seeing?

Lorice Bianchi:

Yeah, so I think there are a lot of benefits to it. We're not seeing it as much in our client base yet. I think it's conversations. I think if we think of some of the potential hurdles that folks are talking about, typically there's a conversation with an Arisa council, Arisa councils in the meeting. We have questions on when we think about it's a perfect trajectory from what we saw from just regular collective investment trusts from the investment managers. Those were always for the larger plans and those have come down market. So you're seeing that same trajectory with these sort of asset-based classes. I think it's just a conversation. I think Ellen made the point earlier in the webinar about communication. So it's educating plan sponsors as to what it would feel like. So the lack of a ticker used to be something that was such a deciding factor for folks not to want to necessarily go into a collective trust versus a mutual fund.

But once you have the education regarding the history from the performance history and the ability to have some type of performance history, I think a lot of it goes to communication and explaining that yes, you can still see performance from a participant perspective. People worrying about proprietary funds versus anything else. So there are little hurdles here and there, but certainly it's the conversation for the future. Because as we saw CITs or collective investment trusts coming down market for minimums, you are also seeing a lot of these other trends from a consolidation perspective. You always have those outliers to Ellen's point, right?

We've got financial companies that say no, we're going to be able to pick our own finance or our own underlying investments. But certainly it is ripe for certain plan sponsors. Absolutely, for simplicity's sake.

Pete Ruffel:

Got it. That makes sense. And I think, Matt, you were talking about it earlier, this idea that custom funds or you often hear the moniker of white labeled funds, something that is custom to a specific plan. They're participants, you can even have your company name in there and you mentioned it, their costs that are associated with having a product like that and for a plan that call it is $25 million, $50 million. That is a high hurdle to get past because there's trustee fees, custodial fees that fold into that expense. But when you're in a larger market plan space, those costs fold really nicely in and you don't feel that weighted expense ratio like you would in a smaller market plan. So that's where you go from potentially a white labeled product specific to one plan to maybe an asset class LIT that could fit more neatly, like Larice was saying, coming down market more effectively.

So bringing that solution that was for larger market plans could potentially bring down into the mid core market, if you will. That's great. So for the sake of time, let's end off with something a little bit more crystal ball. So Larice, going to ask you to hit on something. Okay, I'm putting you on the spot. So you said it earlier, you said it earlier, we've been solving for choice in many ways and now we're trying to solve for needs. If you're dreams scaping something that's solving for participant needs, what does that look and feel like? Give us some characteristics of what that looks and feels like.

Lorice Bianchi:

It's my crystal ball and eight ball. I'm dating myself by saying eight ball here. You know, shake it and you decide what the future is. I'd say the future is cloudy based on that. But if I have to think about what the criteria are when we look at participant behavior, it's got to be simple, right? Inertia is the enemy at this point, right? It's got to be simple. People don't really move. It's got to be tech driven to some extent based on the world we live in. I joke that my kids know technology way better than I do. So if we think about what we're solving for, that is necessity moving forward because everything's got to be done quickly and mobile. I think at the same time it's got to be interactive. So it's got to nudge people. It goes back to that inner chef factor.

And I think this is going to sort of counteract everything I've just said. So I'm complicating it here. It's got to be holistic. So you have to look at things that we didn't look at before. People are living longer, women are living longer than men. You have to take a look at all the different medical costs and things like that from a holistic perspective. So if we're thinking about what has to go into it, it's sort of all of those factors wrapped into solving or some type of solution that can do all of that. I don't know where it is, but those are the factors that we need.

Pete Ruffel:

After this meeting, I'm going to go to ChatGPT with that answer I'm going to type in exactly what you said and we'll see what it comes up with. I think there is something there. Nikki, why don't you pull up the takeaways and we'll go through that before. We'll flip over to some Q&A with the time that we have left. Great. So a few things that we talked about today, and I'm going to hit through them rather quickly. So number one, we talked about benchmarking your investment menu. Ellen mentioned periodically this idea of doing it one to three years. We made mention that data's not changing dramatically. So if you're doing it more on the three-year period, that's totally fine. You're not going to see a totally dramatic different landscape, if you're doing it for every one year.

But it's always nice to maybe take a 30,000 foot view and look at your investment menu than rather just looking at its investment performance quarter over quarter over quarter. Using some of the publicly available data that we mentioned through PSCA, Vanguard's How America Saves, or even your service provider's data. Matt mentioned this also, your consultant might have data that you could access as well. I know here at CAPTRUST we do look at a lot of our internal information and can provide our clients with benchmarking information and the aspects that you should consider, like Larice had mentioned, participant usage and investment overlap, the number of investment options available. Just taking that moment to rethink of what's working, what could be tweaked. Number two, we talked about this idea of some new tools that are out there. And then falling back to how long it took for target day funds to get a big shelf space.

Ask your service provider and your investment consultant to educate your committee on what new solutions or tools may be available or being developed. It's the one thing I love about working with Matt is when we're talking to third parties, his first question is always, "Okay, what's next? What are you doing next?" And I think it's important. It's not a function of okay, we want it. It's let us understand what's out there and what's being developed and how does that challenge the status quo. And understanding what's out there is hugely important. So we want to make sure that we're challenging our clients to do that as much as possible. And number three, investment menu decisions should be made with the outcomes focus first. We talked about this a lot about participant behavior, nudges, outcomes. That is so essential I think to guiding some of the investment decisions.

There's plenty of value in making a decision based off a risk return alone and certainly as a fiduciary, Arisa is expecting you to do that. But there are plenty of other lenses to look through to understand whether or not what change we're making is going to positively impact participants. So those are the three takeaways that we want to make sure that we're leaving with you today. With the time we have left, I'm going to open it up to questions. I'm going to override Ellen and Larice's and Matt's calendars in case we need to go along, if there's anything in there, I'm not seeing anything just yet.

So it sounds like we might be doing a fantastic job, but I will leave it open for a few more minutes. There was one comment that was related to stable value previously that I'll make mention, which we do in general have a propensity to recommend stable value as a capital preservation vehicle. But there is always caveats to that. It's not always a free lunch. Competing funds is an aspect that participants have to deal with, equity wash provisions. So that's something to call out as well. So I'll just make mention of that. Certainly whenever we're doing a capital preservation education with our client, it's talking about the different types, different vehicles, and the pros and cons of each. That's so essential to that conversation.

All right, see if there's anything else. A minute or two more. Ellen, Larice. Matt, anything that we maybe skipped over that you're thinking of that you want to hammer home a little bit more so? Feeling good?

Matthew Patrick:

Yeah, it's a constantly evolving space so I think we've hit a couple times. Just feel free to ask questions. Ask us, ask your retirement plan provider. I mean, there's a lot of different resources out there. I think just keeping a finger on the pulse of what's going on out there because it can change quickly in terms of what the focus is. The markets change, new solutions come to market to address those. So feel free to ask questions because it's always interesting.

Pete Ruffel:

Great, and-

Lorice Bianchi:

It's a fiduciary decision, a lot of these things that you're making. So keep in mind when we start to talk that sometimes the product comes first and it shouldn't come first. And so sometimes keep that in mind as a plan sponsor that it's okay to stop and understand the genesis behind why the product was created and what it's trying to solve for from a fiduciary perspective.

Ellen Martel:

And maybe I just end with change isn't bad. It doesn't mean that something was broken. And it also doesn't mean you're doing a disservice to participants. Larice, I heard you say it a few times. Generally speaking, when we go through big changes like this with clients, the reaction is diminished and you might hear from a handful of very highly engaged participants. But going through changes, massive changes with large plans, that 5,000 and up participants, the call center generally is crickets. And you can ask your record keeper partner the same question. They'll tell you that across the broad spectrum of clients. So change isn't bad, participants are looking for assistance, and you're a fiduciary and we act in a fiduciary capacity as well.

Pete Ruffel:

Great. There's one question that I want to hit on that we got in the chat. Are you benchmarking and I think it's for planned participants that are leaving at the time of retirement. And Ellen, maybe I'll come to you with this, which is just I know I've seen some of the reports that you've looked at looking at planned demographics and getting a sense of what percentage of participants might be moving out post 65.

Ellen Martel:

Yes. So that is something when we're talking retirement income that we bring to clients and that's deep dive into the demographics and even taking the participants who are retired or of retirement age, looking at active versus terminated and seeing what the behavior is. And that was my comment. Before you even talk or run into retirement income, whatever that definition is, you've got to understand what your mission is as a plan sponsor and what are you trying to solve for.

Pete Ruffel:

Awesome. I think that's great. Well, let's leave it there. Nikki, I know we have one last slide that we have to flip too, but I just wanted to thank my panelists once again. I appreciate them willing to hop in this and be a part of it. It's been great and want to thank everyone for making the time this afternoon to be here. As a reminder, what Nikki mentioned at the beginning, this is being recorded. If you've registered for the event, you'll have an email link to the recording 24 to 48 hours after the event. But if you have any other questions and please feel free to reach out. I think in the presentation itself, it has all of our emails. So Matt Patrick is the person you want to ask those questions to. You can leave everyone else off of that. Thanks again for your time, sincerely. We appreciate it. Take care.