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Good afternoon everyone, and welcome to today's webinar, the Quarterly Industry Insights with a focus this quarter on law firms. We'll kick off the webinar and we'll transition to Mike Hudson, who's overseas our institutional retirement plan practice. Mike.

Thanks Greg. Welcome everybody. My name is Mike Hudson, retirement practice leader here at captrust, and thank you for making time Today. We provide consulting services to over 200 law firms around the country, and we thought it would be interesting to give you a glimpse into what are some of the things that they do on a quarterly basis. What are some of the standard things that we review? Think about the markets, think about the industry, their own plans, and then kind of phase two of our discussion too, what are some of their goals, challenges? I'll give you a little bit of insight there. We've got several that are going through law firm mergers, acquisitions. They're thinking about terminating cash balance plans, starting new ones. Some are even thinking about adding additional plan under the non-qualified title and then just attracting and retaining great talent changes in leadership through retirement, new leadership, how that changes the thought process, retirement specific and take all it away.

How do they make sure that they've got a great retirement benefit overall? So I'm joined today by a couple of friends and colleagues. I'll start with Kevin Fieldman. He's a leader in our investment research team and he's based in Chicago. Next up, Ellen Martel, partner at the firm, retirement focused just an industry pro, also located in Chicago, and then Evan Melcher partner at the firm retirement focused in our Atlanta office. Collectively, this number hurts my feelings a little bit, but collectively the four of us have close to 120 years of experience talking about what we're going to do today, advising retirement fiduciaries. And then our clients collectively are about 50 clients. Many are partnerships, law firms like we'll talk about today, representing over 20 billion in client assets. So we'll start. The first piece will be a glimpse of what a review looks like, but also the questions that derive from our committee members. And then we'll get into more of the what are things that we're hearing specific to some law firms about goals, concerns, and even optimism about certain things, and quite frankly, some things in the industry that they're not that worried about right now. So I'm going to hand it off to Kevin Fieldman and we're going to start with a little glimpse of what an economic update looks like.

Okay, well thank you Mike, and good afternoon everybody. Thanks for taking the time to join us. Greg, if we can go to the next slide. So this is typically how we start. The majority of our reviews is really setting expectations and reviewing the market and more importantly, reviewing it in a way that it really ties into the conversation we'll have eventually talking about the investments within the lineup, either DC plan, DB plan, cash balance plan, and how this market impacted those investments. So we started this quarter, this is actually looking at the back of 2023. So you can see 2023, a really nice rebound from 2022. So the way this chart's laid out is the stripe lines are the quarter port, quarter performance, the solid lines or the year to date performance. The 2023 performance you can see was a solid rebound after top 2022, but it wasn't a smooth ride.

We had a lot of ups and downs throughout the year. If you think back to a year ago, most experts were talking about net if we were going to have a recession, when we were going to have recession and how long it was going to last. And that really led to surprisingly a rally in the marketplace because the market anticipated the Fed was going to have to start cutting rates due to recession, which is a benefit for risk assets. Clearly that didn't happen. Second quarter was kind of flat, and that third quarter got really volatile When the market started to believe the fed's directive that they were going to hold interest rates longer, higher, we weren't going to see a recession. So we had a big sell off in the third quarter, specifically in September and into the fourth quarter in October, the one quarter in the middle of October, all of these assets were actually negative. So you can see really the rally we had in the fourth quarter when the market started to see that we weren't going to have recession, the Fed started talking about cutting rates in 2024, and we saw that big rally in 2024. And the nice thing about this rally was it really benefited almost all participants in all types of plans.

So bonds and equities were both strong, which provided really robust performance from target date funds, which I know for most plan sponsors that's becoming the largest asset in your plan, especially a younger employees there. So it was really a good year for target date employee investors and the decline in long-term rates, long-term rates coming down, especially in the fourth quarter, was really a tailwind for any cash balance or pension plans. Those decreasing rates, if you're in a traditional pension plan, is going reduce your liability. Then cash balance plans, you're starting to get earnings at a risk free rate of return. We'll talk more about that a little bit later in the presentation. And then higher shorter term interest rates continue to provide strong yields for money market funds as well as additional options for cash balance plans committee. So that's

one of the things we'll talk about today is a lot of our cash balance plans really the decision of, hey, you can now get 5% in a short-term treasury with zero risk and where does that fit?

And a lot of that depends on where they fit in their plan cycle and so forth. So again, we'll talk more about that in a little bit. And then for the first two half months, first two, half, two and a half months of this year, we've continued to see a strong market for equities. SP 500 is up over eight, international stocks are up over four, although rising long-term interest rates have been a little headwind for bonds. So we have seen a little bit headwind for bonds as bonds have decreases as we've seen a rising interest rates. So that's kind of how we present this start to tie it into what are the big assets, what are the big things the committee looks for. So I'll pass it on to my colleagues to see if anyone has anything to add in terms of how they've been presenting this page this quarter.

And one of the things I thought my clients thought were interesting is that I think this just really highlighted that it's really important that you consider it's the time that you spend in the market, not timing the market with most economists predicting a recession last year and yet you've got us equity returns up over 26%. For those that try to maybe time the market, it can be a fool's errand and obviously they would've missed a huge market run up.

I'll add to two the volatility that Kevin mentioned in October, with everything being really negative to the last seven weeks, a hard run, some of the committees were asking us if we would think about helping them craft pre-retiree planning for their senior employees because they made a mistake between October and December could have really impacted retirement. The other is some that we don't already do it for, we're asking us to maybe present to partners. So they understood that if they moved to treasuries before the end of the year, they didn't get that big runup, but they also missed the volatility. So still a good decision for trying to get modest returns with minimum risk, but it did lead to some partner presentation just so folks understood the thought process throughout the year.

And I saw a lot of committees talking about the fact that partners weren't as vocal with their cash balance of single digits compared to their 4 0 1 Ks of double digits, which tend to have more equity exposure because in committee and partnership and partners minds was the memory of 2022 when you were very thankful for your cash balance plan that generally is more conservative and investment posturing than your 401k.

Great, that's great. Let's go to the next page. So we talk a little bit, we start the review looking backwards, and then we go and look forward in terms of economic outlook. So this is a page we develop every quarter. It's our headwinds and tailwinds, headwinds, what's pushing the economy forward, tailwinds, what's impeding the economy and these things change. So that's one of the things that we always stay up to date in terms of what's going on and what's changing since we're again a week and a half away from the end of the first quarter of the year. Talk a little bit about summarizing this page in terms of how we relate this to our clients. And the first thing I think this page, and if you talk about the US economy general, the biggest surprise is just the overall resilience of the US economy.

As I said earlier, a year ago, the prediction was for recession and the debate was just when it was going to happen and how long it was going to last. We've clearly gone through that. We continue to see growth. We had positive GDP growth of over 4% in the third quarter of last year, over 3% in the fourth quarter. And we're trending for GDP right now to watch the trackers between two and a half and 3% here in the first quarter of this year. So really unexpected growth and resilience in the US economy and really the things we talk about and what we're watching from an investment group, there's a few items that are really pushing that. The first is the labor market. So the US labor market continues to be exceptionally tight. February, we passed 25 consecutive months of under 4% unemployment. That's something we haven't seen in well over 50 years, and that's a benefit to the economy because the US economy is about two thirds or 70% made up of consumer activity.

So people have jobs, they're getting paid, they're getting paid, they're spending money, they're spending money that's driving the economy. So that's been one of the big things that we've watched and it's something we're watching closely. There are some signs of maybe some cracks in the labor market, maybe things slowing down a little bit or loosening up a little bit. Not to the point that we would see at this point a big jump in unemployment, but something we monitor because that's a big factor and that's been a big factor what's driven the resilience of this economy. And that ties to the second thing we really track is the US consumer. As I said, the US consumer continues to spend, it was a very strong year in 2023. Retail sales almost at every point of measurement exceeded expectations. We had stronger holiday season than anticipated. So the consumer literally opened up their pocketbooks in 2023.

Although again, there are some things that we see some red flags on the consumer, first of all is for consumers at the lower end of the income spectrum,

they've spent the majority of, or all of their stimulus money they've received the first part of this decade through the pandemic. So we're seeing savings decline. And the other thing we've seen is we've seen credit card debt for the first time in US history go over a trillion dollars. So people are using credit to fund a lot of the spending that occurred in 2023. So that creates some concern, something we're watching very closely. Does the consumer get to the point where their credit card debt tax them out and they have to reduce their spending because they just can't take on any more debt. And then in the worst case scenario, if we do have a slowdown, does all that debt further exacerbate the impact of that slowdown because people now have maybe higher unemployment, lower wage growth, and they have all this debt of service besides having to fund their day-to activity.

So that's something we're watching really closely that'll have a big impact on where the economy goes, especially as you go through the rest of 24 and 25. Which then ties to the third thing that's really driven. This is inflation. So we had everyone knows about the big inflationary rise we saw kind of coming out of the pandemic and the reopening of the economy. We've clearly come down from that peak was about June of 2022 was when inflation peaked. So we're on a deflationary path. The question becomes will that path get us close to the federal reserve's target of 2% inflation? So we've seen a little bit of this year some stickiness in inflation, the last first two inflationary reports in January and February. So there's concerns about are we going to be able to keep inflation trending down to that 2% path? And that ties directly into the Federal Reserve in terms of when are they going to start to cut interest rates.

So they announced in December they were done raising rates, they would start cutting rates. The market anticipated that we would see six to seven cuts this year. The fed kind of telegraphed three cuts in their meeting in December. The market's now come around to that thinking three cuts in 2024. But the big question is when is that going to happen and then what's that going to drive it? And if we still see the stickier inflation go through as we go through into the spring and summer, does the Fed start to dial back on those cuts as well? Could we see fewer cuts and so forth? So the Fed is meeting today and tomorrow they release their report from the meeting tomorrow, and then Jerome Powell does his press conference. What the market's going to be watching is they released what's called the dot plots. So that's where the Fed puts their projections for interest rates over and academic growth over the next two to three years.

So the market will watch very closely to see if there's been any change between December and March based on the data we had for January and February. And

then the other thing really I think that makes this year a little bit unique is from a geopolitical standpoint, we do have the wars in Ukraine and the Gaza Strip that have been reported on, but also this year is a huge year for elections across the globe. So 50% of the world's population, 60% of the world's GDP will be participating in election and election in some sort in 2024. So we had Taiwan, Pakistan, Russia was earlier this week, India's coming up in April. We had the US election, we have Mexico has the big election, and then Canada and Great Britain are both required to have elections by early next year. So those could be pushed into this year as well.

And then the European Union is reelecting their parliaments as well. So a lot of elections, a lot of looking for signals in terms of what that's going to do from a global trade standpoint and so forth as we go through, especially into 25 and 26. So again, we kind of give you a good overview in terms of what we're looking at, how that might impact the market. And again, I think it really sets the stage well for the rest of the reports that we would be presenting to you as a client. So again, I'll see if any of my panelists have any comments or anything else that they can communicate to clients based on this page.

I would just add the job market, even though wage growth is slowing a bit, it remains an area of concern with our clients, our law firm clients of attracting and retaining especially staff level talent. And so that was a discussion that came up.

And Kevin, I'll just click on the economic soft landing if you want to go to the next page. Greg. I think what's interesting, and with the clients we're thinking a lot about this year, obviously with the low unemployment that you mentioned, it just shows how quickly these things are changing and how we have to stay on top of it with our clients. So just take you back last year, and as we said, most economists were predicting a recession this year and as late as November of last year, the probability was still around 63% of economists that predicted within the next 12 months that we drop into a recession. Fast forward to February, we're now at 32% of economists predict that we'll enter a recession in the next 12 months. So that's obviously coming down really quickly. And with that, so are expectations on what's going to happen with the Fed funds rate.

And so in thinking about where the rate is currently at 5.4%, it's obviously up way up from where it was a couple years ago, near zero. And the fed was telegraphing that they expected to cut rates a couple of times, as you mentioned Kevin, down to 75 basis points or so, down to 4.6. But the market was expecting 3.9 and quickly with the feds. I think comments and stickier inflation we're back closer,

the market's back closer to that 4.6, but now some are thinking that maybe we won't get cuts even as soon as June and maybe we won't go to three cuts, maybe we'll go to two cuts. So depending on what happens with rates, it's going to drive a lot with respect to equity and fixed income returns, which has an impact on not only the defined contribution investments in our law firm client plans, but also in terms of the cash balance plan returns and investment strategy.

Yeah, thanks Evan. Thanks for that. And again, we have multiple slides like this that really back up everything we've talked about on the headwinds and tailwinds to really give you more detail depending on the client. Sometimes we get into it, sometimes we'll just kind of leave it for them to review on their own. But I think there's a lot of information to really make the ideas that make you comfortable as a committee in terms of making decisions and knowing that you have the information you need to make the proper decision for your plan and your plan participants. But it's not only economic information that we provide. We also do industry topical spotlight. So give you an idea of what's happening in the industry, not just the legal industry, but also in the overall 401k retirement plan industry. So if we can go to the next slide, and I think Evan, you were going to touch a little bit about some of the things that we're telling our clients about cybersecurity.

Yeah, so with our quarterly topical spotlights, we usually highlight a couple of areas of focus that our plan sponsors are thinking a lot about, and we have a series dedicated within that on fiduciary training. And this quarter we talked about cybersecurity best practices. So if you think about it, I mean there's like 40 trillion in the retirement system. It's a huge pot of money and criminals are getting way more creative. So I think we're kind of on the cutting edge and on the cusp of challenges that could exist within the space. So it's really important that plan sponsors pay attention to cybersecurity and what's being done to protect participant accounts. So in 2022, the Department of Labor dialed into this and they said, okay, we're going to release some guidance for plan sponsors. And there's three areas of focus. One, we want the record keepers to take certain actions and to answer 12 questions related to how they're protecting participant data.

There are things that we want the plan sponsors to do, and then there are also things that fall on the participants to do. And so we're reviewing this with our clients and do have a couple of key takeaways and ideas. So if you're on the call today, and maybe you haven't seen this or thought about this before, a couple of things that you might consider. In a lot of cases we're having the record keepers come in and present to the committees, talk about what they're doing to help

protect participant accounts and to fight off these cyber criminals, it's really important that you as a sponsor review the cybersecurity audits that are done. Typically these audits are done by a third party audit firm and they will release a summary of the reports in what's commonly called a SOC report. The gold standard is a SOC two type two as it relates to cybersecurity.

And so you can request these documents from your record keeper and review them and make sure that the controls are in place and any gaps are addressed. Also, one of the simple things you can do is to track the number of participants in your plan that are web registered. And the record keepers can help you identify this and track it over time. If the participants aren't web registered, it's easier for someone to come in and steal their account or their information. So it's really important that you track help get them web registered. They can set up dual factor authentication and help protect their accounts. And then one last area that it's really helpful to understand is what are the participant guarantees that the record keepers will put in place in case there are losses associated with a cyber breach? So understanding if there's any actions that participants need to take to protect themselves in order to qualify for those guarantees is also really important. So those are just some of the areas that we're focusing on with cybersecurity and we would encourage plan sponsors to continue to focus on this area.

Another topical spotlight we covered with clients is on the next slide, and it pertains to the safe harbor IRA. So small balance, four outs are nothing new. Many of you probably have this feature in your plan, but Secure 2.0 allowed you to bump that up from a balance of 5,000 for terminated participants to seven. And I'm going to guess a lot of you have plan sizes where you may have a custom plan document where you've had to change the limit up to 7,000. It just spurred a good conversation of what is this feature and how are we monitoring it? At captrust, we partner with our clients and committees and generally have it on our fiduciary calendar to review the IRA provider selected that will take the forced out accounts and invest them for participants. So you're making that decision with the fiduciary hat on, you need to understand who that vendor is and if it's with your record keeper document why that's the case, it shouldn't just be the default and understand those fees and what those investment selections are in the IRA, especially that default. So really high level another way where we've helped our clients navigate a quick turn in secure two oh that went effective at the beginning of the year and having a fiduciary calendar to keep us on track ties back to that documentation that protects you in your fiduciary roles.

We also have some predictions for 24 that we go through in our topical spotlight. A lot of information on this page, but we've been talking about in the defined contribution space and thinking of your participants more of using that 401k for a decumulation or retirement income. And that's a very big topic. I know Mike kicked off on a few of our high level industry observations in the way we've been talking to partners, associates and staff. So just thinking forward, our dedicated defined contribution team has individuals focused on decumulation or retirement income solutions that can be very complimentary to cash balance or be a sole solution for those employees or participants in the plan that don't have cash balance, for example. So a lot of information, but this is a general summation of our dedicated team and best thinking in the industry and in particular for law firms.

Hey Kevin, you also did a webinar on 2024 predictions as well, right? So that was kind of a deeper dive on some of these topics and there were some other areas that you covered. Also, maybe do you want to recap some of the high points from the 2024 predictions webinar?

Sure, yeah, thanks Evan. So we did do an webinar if you are interested. We did that in early February, so if you are interested, please reach out. We can send a link to that if you're interested in watching that. But we did go a lot more in depth and I think there were really three themes that we can summarize this page and really got into on that webinar that I think are the biggest things that plan sponsors, especially legal clients, law firm clients are really focusing on this year. So the first is really the continued market turbulence. We talked about where we are from the economy, we talked about some of the unknowns, some of the concerns that are going on for this year. So really the market turbulence in terms of how it's going to affect your defined contribution plan, more specifically how it might affect your defined benefit plan or your cash balance plan in terms of managing through that.

So I think that's one of the things that committees really are concerning themselves with. Another one from market turbulence is a lot of people, for the first time in most people's careers, money markets are actually yielding more than stable value funds. So if you have a stable value fund, you're probably under yielding what you would get in the money market. So if we've had a lot of conversations with clients about that in terms of we think that's a short-term phenomenon, long-term, we think stable value is the right place to be. But we've had a lot of committee conversations about how they handle that, how they address that, how they address participant questions on that. I think that really

ties into what we're seeing as a second major issue, and that's really more plan sponsors looking to add or increase financial wellness programs for all employees across the entire employee spectrum.

So really giving those people at the newer employees, giving them the education they need to make the right decisions about getting into the plan, allocating their money as you get to a mid-career employee, how do you handle now that you have a nice balance now that you're starting to maybe start to look at retirement, what types of, how do you want to handle your portfolio for that? And then for those senior employees who are close to retirement, your higher earners, making sure that they get the type of information they need and really a financial wellness program based not just on what they have in their plan, but something that can tie into their overall financial picture. So spouses income or plan outside investments, partnership shares for partners. So how they really look at all that from a holistic standpoint and look at making sure they have the right allocation, right risk return profile to help them get to where they want to go from retirement.

And then the third thing I think we continue to see, we're talking to a lot of committees about, especially our law firm clients, is really with the never ending string of fiduciary lawsuits. More and more plan sponsors are looking at outsourcing more of the fiduciary liability. So adopting a 3 38 relationship to where they hire an investment manager. So the investment manager makes the actual investment decision. So the committee makes the decisions in terms of what asset classes they want to offer within the plan, but then it's the investment manager's responsibility to fill that with the best in class funds at the lowest possible cost and then make replacements when need be and just notify the committee rather than having the committee have to sit through or go through a comparison of different funds and make a decision on fund A, B or C, a 3 38 relationship.

The investment manager comes back and says, we replaced investment A, here's why we did it. We replaced it with investment B, here's why that was selected. So you have all the information you need, you still have the fiduciary responsibility to monitor your investment manager, but you take all of the investment fiduciary responsibility and you put it on that investment manager. So that's something we've seen a lot of and interesting over the last few years. We've seen a lot more bigger clients adopt that model because of the concern of all the fiduciary lawsuits that are out there and really is a way to try to provide a little bit more protection to the plan and to the participants. So that was kind of a brief

summary of what we talked about. Again, there's a lot more information. We'd be more than willing to submit anyone who wants to see it a link to that webinar so they can listen to the whole thing themselves. But I think that now I'll turn it over to Mike who needs to talk a little bit more about, we'll talk a little bit more about our specific law firm experience and what we've heard from clients in meetings this quarter.

Thanks, Kevin. Go to the next slide, Greg. I think we'll shift as I started the meeting off, we wanted to do two things, kind of give you a glimpse of what a review feels like and then what are we seeing and hearing what I'll label, what are law firms saying are impacting them, their industry, and what are their thoughts, what are they going to do about it? I thought it would be good just to give you a little glimpse of our exposure in this space. We're going to start giving you opinions and shared thoughts that we hear. I thought it would be good to hear, but it's 240 plans, just shy of 30 billion in assets. 30% hire us for employee financial wellness and advice to compliment what the record keepers do. So there's some limitations with how far the record keepers can go and sometimes they want more 40% for discretion where they've outsourced that investment piece to CAPTRUST and 42 or AM law clients.

And then all the plan types spread across the client base. We see them all, certainly the 401k profit sharing is with all of 'em. And then there can be legacy pension plans, newer can be market rate, cash balance, and then in some cases there's foundations and even corporate reserves involved. We have 40 different record keepers in our story is we help people fix what they have so the record keeper can stay and we'll make it the best it can be. These are the top few that have the plans. And if I had to pick across the board, empower Fidelity, Schwab, Vanguard probably have 80% of all this exposure here. And if I had to think about trends, it's definitely financial wellness. It's definitely more 3 38. And it's interesting, the committees are probably on one side or the other, there's not much in the middle. They're either a committee that absolutely loves investments and they'll never outsource that because I enjoy talking about it.

And then others are, Hey, you do that. It's not what we do, just do it for us. So we see both of those. And I will offer with this experience, anybody attending the call today, if there are questions that you have, we've got studies on plan design, we've got studies on plan design for cash, balance plans, what are they trying to accomplish with a financial wellness program that's outside of the record keeper. So no strings attached to shoot an email or a phone call. If you've just got a couple questions on something that your firm's thinking about and you'd love to know

how others have decided, have thought about it, things that lessons learned, just reach out and we'll get that handled for you. So Evan, I think you're going to start us off phase two of our discussion today.

Yeah, I'd love to just tee up a discussion since we're finishing up our client reviews. We've had an opportunity to talk to a lot of clients about some of the current issues they're facing as law firms and just how they're addressing those issues. So I thought maybe I would kick it off and maybe toss it to Ellen and ask her what are some of the issues you're hearing about impacting law firms and how are they addressing 'em?

Thanks Evan. I know we brought up a few items overall, but I think the merger and acquisition activity, we've definitely seen our clients out there either acquiring or being acquired, which I know we've all experienced, and I made the comment earlier as well. It's about retaining, retaining and attracting talent that really seems as a high priority and how benefit design can help in the communication of benefit design. Because if you have a really rich plan and some great features and they're not understood or communicated effectively, they aren't appreciated. So how we can assist in not only structuring and overseeing an excellent retirement plan, be it participant directed or cash balance or traditional defined benefit, but helping our clients explain that and articulate that to overall employees.

Awesome, thanks. Some of the things that I heard also this quarter were interesting. A lot of the times we're leading investment discussions, but you'll hear conversations that are just happening in the industry. And so I think it's just helpful insight. So one of our clients for example, was talking a lot about mental wellbeing and offering counselors onsite in the building to help with their firm's mental health and wellness, tying that back and making sure that their employees were healthy mentally and physically and financially. Also, I heard some interesting conversations around alternative fee arrangements. So given the growth and competition in law firms, looking outside of the traditional billable hour structure and exploring some alternative fee arrangements I thought was also interesting. And then tying into your comment about attracting and retaining talent, some of the firms are looking at doing lateral team recruitment and plugging some gaps maybe or building out in some strength areas inside of the practice doing some succession planning. And then one other area maybe Mike, I would ask you to comment on, we're hearing some interest, I think some of the legal conferences in exploring AI and how that might impact the legal industry.

Yeah, sure. So I think all the committees are talking about, we talked earlier about cybersecurity, so that's one for sure. And then ai, everybody's talking about it's very early, very early. I think I went back two or three quarters. There was unknown fear, is it going to do what we do now? It's kind of shifted to most or very positive that's going to add efficiencies to their practice. Will it help in preparing for cases? Can it do searches and gather data? I know similar for us and we're in a partner structure as well, we're excited about what it's going to do for us with investment research, the mundane things that are very manual to do now in regards to monitoring and reviewing funds. It's not done yet for us, but it will be able to do things that take us days, it'll do it in minutes.

So we're excited. And I think that the shift that I hear with our law firm clients is that now more positives that they think about for efficiencies, quickness, thoroughness, even reviewing briefs and things like that that maybe take a human today can be done that way and lead to increasing margins. Candidly, and I will add one thought before we leave mergers. I work directly with 10 law firms and touch another 15. I looked this morning, more than half are going through an acquisition or have been acquired. If it's a big firm acquiring a smaller firm, not a massive deal because you're going to inherit the larger firm's benefit package, but probably four or five that I'm working with were merger of equals. There is a controlling, but there's similar size. Then you really lead to going down the pike of kind of who, how do we meet in the middle?

And it's all over the board from menu, construction plan design, thoughts on risk and cash balance views on sector funds. So I think it has been interesting. I find our role being more and more sharing what are these other 200 plus doing and coaching these committees that are now 50 50 old firm, new firm. Sometimes when you see these combinations, you see leadership retire. So we see new leadership. So there really are, if you think about an algebra equation, we've got five or six different letters in there that you're trying to manage. So that's been interesting for sure on that. Evan, I'll hand it back to you.

Yeah, I think we've heard a lot of that too. What about, you mentioned mergers at law firms, what about mergers? Mike with some of the record keepers, because certainly we've seen a lot of consolidation there that's impacting our law firm. Clients

Really have, and this is really across all our client types, but there have been some massive, first of all, hard to make money in record keeping. So if you don't have another avenue to make a profit margin, you should exit. And there are some

really big names that have exited in the last year or two, two and a half from Wells Fargo, mass Mutual, Prudential. Most people don't think about it this way, but Vanguard exited the record keeping business. They sold the record keeping business to a tech company. So these are big massive companies that have thousands of plans. Then you get, I've got one myself that you got two mergers of equals that have two different record keepers that were both acquired. So let me add another letter to that algebra equation, so that for sure creates some complications. I think the end result will be these plans are getting a good scrub. It's led to some RFPs. It's led to some discussion about stable value versus money market. But all good things for sure.

I would just add Evan and Mike, that consolidation has also caused record keepers to talk about other services that at times can be confusing to our clients and what they can offer at the different ends of sophistication. Some are truly a benefit or a lot of them are self-serve and not what they're branded to be and potentially have an additional cost, which from the Department of Labor has to be clear. You have to understand what your participants are paying and are they reasonable. So that consolidation has had some waves throughout the service offering from record keepers.

Evan, I'll just add to that. One of the things we've seen too is a lot of times some of these record keepers who've gotten out of the business had proprietary managed account programs that were acted as QDIA, so now they're moving to a new record keeper. Those are being changed or abandoned. So a lot times in a lot of conversations with our clients in terms of A-Q-D-Q-D-I-A standpoint, so do you stick with the new record keepers manage account or you go to target date funds either to something in between. So that's another big conversation we've had, especially with these mergers on the record keeping side in terms of revisiting that conversation, making sure they have the right product in place for their participants.

Awesome. Really good insights guys. So why don't we just pivot a little bit and talk about some of the benefits that our law firm clients are offering and some of the changes that we might see there. So I'll just kick it off and talk from the defined contribution perspective. Kevin, you already mentioned money market, stable value, and I think that's a real common conversation that we're having with our clients. I would say in some of the other areas that we're hearing from clients, I'll kind of lump 'em into a couple buckets. One is how do we get more money into the plan? And so there's a lot more conversation around after tax contributions in plan Roth conversions and other ways to creatively get more money into the plan

specifically for some of the higher earners and some of the partners. And then the second area is maybe how do you remove money from the plan?

And so there's a lot of conversations related to secure 2.0 and some of the new withdrawal provisions that are allowable as optional provisions. And I think in general, if I'll just kind of characterize the comments from several of my committees and I think in general they want to be compassionate and caring for their people and help them access their money if they need it. So if you think about some of the provisions like the natural disasters provision or birth or adoption provision that they want to create flexibility if they can, but also they want to balance that with understanding that the retirement plan's focus is an accumulation in a retirement vehicle. And so I would just say in general, the response from a lot of my plan sponsor clients has been, let's just take a wait and see approach. Hardship is always an option that's available for people if they need it, but maybe not be the leader in the house here in adding some of these withdrawal provisions. What about Ellen, from the non-qualified plan perspective? What are you hearing from some of your law firm clients looking to get a little more creative?

I work with some of my law firm clients on non-qualified plans referred to as partnership owned life insurance or poly plans. A simple way to think of them as a super Roth where you can make partners can make after tax contributions, but remove, there are no limitations like a Roth and you can take that money out in the future without paying any taxes. We partner with our clients in helping structure the unique investment portfolio because it is an insurance, a life insurance strategy, the options or the investment choices are very unique. So that has been a growing area of interest and really starting in the 100 and now I think getting a little more traction and some of our clients aren't even aware of it, so it's something to help them be aware of and let them know we have an expertise on the investment side.

Awesome, thanks Ellen. So definitely a unique strategy. So we've got the DC plan, we've got after tax contributions and Roth, we've got cash balance plan, then you've got this kind of super Roth with partnership owned life insurance to explore. So lots of different creative ways to help law firm clients get more money into the plan and save more on a tax preferred basis. I thought we could spend a few minutes talking about cash balance since I don't think there's probably ever been a better time to start a cash balance plan or consider your plan design. Maybe I'll toss it, Mike, to you to just kick us off here. What are you hearing from your clients about cash balance and what they're doing right now?

Yeah, so to my prior comments, if we're not focused on plans merging record keeping, that would be topic one. Topic two is cash balance. If you think about it, it's typically the bigger, the biggest deferral that the higher earners are making. The higher earners are probably leadership and they all lost money in 2022 because the markets were all negative. So it's of mind. And then very soon after that we've got this opportunity that Kevin mentioned to get this risk-free return with treasuries north of 5%. So all of a sudden it's how do we fight back those losses, but how do we lock in these guarantees? Many of our clients did some kind of hybrid of that, some blocking into the treasuries, some market exposure to earn back. What they lost now is what do we do now? It's still some blend of treasuries. I think they all thought in December as treasuries matured and most of 'em are in treasury ladders three months, six months, nine months, 12 months.

So we've got liquidity through contributions and maturities for withdrawals and we model that out. So we'll know how many people over 59 and a half, we'll know the history of who likes to take their money. So we'll be able to model out cash flow along with the actuaries. But where do you go from here? I think the second is we're finding out that many of the partners in these plans just don't understand how they work or why they're in them. It's been mandatory for most. So we've been asked to do a little bit more education and support the committees in educating and then lots of terminations. I heard a quote, it's probably been 15 years ago from White Price Waterhouse at a conference that said, look, the reason you start a cash balance is so you can terminate it. And the audience was silent and the meaning was the quicker we can terminate it, we can give back the investment control to the individual.

And I think if you're on committees, the crooks on this call, you've heard it, a 45-year-old higher earner can't figure out why we're targeting 5%. Somebody who's 65 and close to retirement thinks it's great. It's more about risk management. So we're always thinking about how do we help them think through liquidity. And then when you do that, we also want to understand there's three stages of a cash balance and which one are they in because that'll impact how you have conversations. Stage one is capital preservation. I'd call that the first 18 months you cannot start a plan and lose money because the compounding will never catch up. And there's guarantees about capital back at retirement. Phase one, phase two is growth. How do you grow in those middle years? And I'd say year five to six is liquidity. If you've got actual bonds that you hold one of the mature, some of our clients like alternatives and there's limitations on distribution, so kind of all around those. But if it's not merging plans and plan designs and things like

that, it's been cash balance really heavy the last couple quarters. And I'll be curious if you're hearing similar things.

I am, and to Evan's point, I have a client going through a plan, went through a plan closure at year end and is in the first quarter here opening a new plan. And I think our committees that we work with on a quarterly basis when we meet, but throughout the year I think they really understand it and the benefits and time and time again though even with high earners and partners, life is busy. So for them to stop and really think about the benefit package and how the cash balance works in tandem with the 401k, they need a reminder and they need some clear concise communications. And again, committee members are busy. So if we can help draft the language or the message. And kind of tying back to record keepers, since we do have a smaller subset, I think we all know there are certain vendors that are shining as experts that understand the nuances of working with law firms from cash balance to the brokerage window and the 401k, but also looking at total benefits when it comes to retirement and not having disjointed reporting but getting that message cohesive and even in maybe in one portal to look at.

Those are some I think top of mind as we've switched here in an interest rate.

And I also think the last point I'd make is when you are talking about risk mitigation, if it's early in the cash balance plan or even later liquidity, having the option in your 401k plan to roll that over at 59 and a half into the plan for current employees. That's just a very big plan design decision that's easy. Where now you've preserved your capital in the cash balance, you made some money, you have more upside in the 401k, you can roll it into the 401k. So those are a few topics that I think are front and center with client discussions. Evan, what are you seeing?

I think that's consistent. I think one of the things that's also been interesting for some of our plans is looking at the actuarial services that are offered. So for example, historically you've got an annual interest crediting rate, but some of the actuaries have been able to create solutions that allow for monthly or even daily interest crediting rates. And so that creates a little more flexibility when you've got partners that leave midyear and just allows you to get a little more creative. And obviously when you're looking at a market rate plan, making sure you have the right plan design is important. And so when you're doing these termination restarts, it gives you an opportunity not just to restart with the same plan feature and give people a distribution option, you're actually looking at new fresh plan

design features that could allow you to make the plan more attractive for other partners that may not have been enthusiastic about participating in the past.

And Evan, before we leave Cash Balance, you said it earlier and I agree, every law firm we have that does not have cash balance is looking at it really for a couple reasons. Most even through this economic volatility, no matter what their focus is as a firm have done financially pretty well. So there's an appetite to defer more for the higher earners, but also there's a belief that taxes could rise. So the tax deferral. So that's for sure if anybody's thinking about whether you start one, if you don't have one before you engage an actuary and have to spend money, spend five minutes on the phone with one of us, there's a math equation based on demand deferral demand, the appetite to defer versus the tax savings versus the cost of the plan. And there's a little metric in there if you hit that metric, you should do it. If you don't, you don't do it. But we'll tell you for free before you have to engage somebody for 10 grand to say don't do it or do it. Okay. So I'll give it back to you. I think for if there's anything else on cash balance on the next up is financial wellness and advice.

I was just going to reiterate the cost as well. Looking at daily valuation of your cash balance and having an actuary provider a portal, that's great, but it tend to have a price tag that goes with it. And sometimes is that the intent of the cash balance plan to look at performance. So it's understanding your audience and objective.

Great point Ellen. So I guess as we're kind of wrapping up here, did want to talk a little bit, Ellen, you touched on how do you communicate holistic benefits? And so just in the context of advice and financial wellness and making sure people make good informed decisions, can you talk a little bit about how you're seeing law firms communicate these total rewards to their participants?

Yeah, I think we've all mentioned the players and how the portal or the platform offered by the record keeper and the 401k tends to have some features, but that's really not holistic and independent nor the total picture of the individual. I love, I've had some committee members say, geez, I'm logging in and it tells me I'm not nearly ready to retire, but it's just looking at one small component of their total retirement picture. So how do you get everything talking? So I think we are all well aware that financial wellness, but across the spectrum of sophistication is needed and financial literacy continues to be an issue and overall engagement. So there are a lot of ways that CAPTRUST that we work with our clients to offer that independent solution. We're not the record keeper who's saying roll it over to an

IRA, we have one of those, but it's taking a step back and trying to figure out or not really figure out, but communicate again all the benefits that are offered at the company, at the law firm and showing that holistic approach that's continue to be a prevalent front and center.

I can tell you even from plan design and like said this, we have lots of benchmarking and happy to provide that information for anyone interested in the call. I was surprised, for example, how many questions came in from law firm clients on the news that IBM was doing away with its match and essentially opening a cash balance plan. And some of the questions were, well, are we getting credit for our 401k plan? Maybe we don't even need our 401k plan. That's a bit extreme, but it tells you and Evan plan design needs to be revisited and make sure it's the right fit. But you can have the best plan design on cash balance. You can have the best funds to offer in your 401k at the lowest costs, but if no one really understands it or only clicks on it once a year, it's the best kept secreted at the firm. So financial wellness or having that customization can really bridge that gap.

And Ellen, one of the things I keep hearing too from the law firms is I heard this recently from one client, our partners have access to advisors in most cases, but what about our staff and associates? I mean, what can we offer them to make sure they're getting unconflicted advice without the fear that they're going to get sold something? And so I think that that's an important consideration for plan sponsors for our law firm clients that are out there as you're polling your participants about what benefits they want more than ever, they're talking about financial advice, financial wellness. And so more and more plans are adding those types of solutions to make sure people have a resource to help them make unconflicted investment decisions that are holistic and take into consideration all the different plans.

I think the last point,

Go ahead Alan.

Oh, sorry Mike. I just wanted to reiterate, record keepers are out there saying our financial wellness platform and our vendor team researches so many of the record keeper out there and we showed the statistics. It really is a self-service and in some ways it's not synonymous, which the way we would call financial wellness and true unbiased advice across the spectrum of trying to get people in the spot they need to be. But I've talked too much back to you, Mike.

No, I think it's all really good. I think to Evan's point, we have a number of law firms that give their associates and staff the seven and a half percent profit sharing contribution to make the testing work for other plans. And many of them don't contribute because they think it's enough. So we've been engaged to help drive the savings there. And I'll share this too, if you Google financial wellness, there's no definition. It's one of these terms we put out there that nobody knows what it means and it's something different to everybody at a 30,000 foot, just so you could put some shape around it. It's saving, borrowing and planning at each life stage. So at 25, it's helped me figure out a budget, helped me save for my first home and helped me pay back my student loans at 62. It's helped me figure out how to turn my lifetime of savings into income, helped me think about buying the retirement home. But our number one topic for 36 years that every age and income is budgeting. It's just different based on your life stage and it's at the household level. To Ellen's comments earlier, our vendor partners have some great tools and technology we'll never have, but it's just focused on one balance. So Ellen, Evan, Kevin, anything else before we kind of wrap this up?

No, I hope we gave some data points for our attendees to consider. Thanks for,

And I agree. I hope this was worth your time. If it drew questions, reach out. We're happy to answer questions And again, thanks again. We will follow up with everybody with the recording of this session and also follow up and send you a sample of our quarterly review so you can get a feel. Kevin went through it quickly. We touched on pieces, but just so you could see what that is. But again, thank you again, everybody. Take care.

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