***Please note: This is an AI generated transcription - there may be slight grammatical errors, spelling errors and/or misinterpretation of words*.**

Good afternoon. My name is Greg Middleton, Senior Marketing Director for CAPTRUST, and I'd like to introduce today's roundtable discussion. At CAPTRUST, we have the honor of serving nearly 100 of the top insurance firms in the country as their retirement program advisor. Today's discussion will focus on the observations and findings from quarterly reviews which were recently conducted with those clients.

We hope today's discussion will offer an executive summary of the top issues that retirement plan sponsors should be considering, plus an in depth comparison of what other peers are doing for their retirement programs and strategies. Joining me for today's discussions are Sam Kirby, Jeff Lowing, and Mark.

Paul Owen and Andrew Shim. Jeff, Paul, and Andrew are senior financial advisors and principals at CAPTRUST, and Sam is the senior director and leads our investment strategist team within the research department. Their collective focus for insurance industry clients represents 20 clients and over 5 billion in retirement plan assets.

With clients across the country, Jeff is located in our Allentown, Pennsylvania office, Paul is in our Birmingham, Alabama office, Andrew is in our West Des Moines, Iowa location, and Sam is in our Raleigh, North Carolina headquarters. Sam, Jeff, Paul, and Andrew, thanks for being part of today's discussion. Sam, why don't you get things started by discussing our market commentary and topical spotlights.

Okay, great. Thank you, Greg, and I really appreciate the chance to be here with the group today. Um, I was going to take a few minutes and do a, just a quick recap of some of the things we've been talking about with clients this quarter. Uh, if you don't mind, Greg, uh, go into the first, first page of the market commentary.

We are now just a few days away from the end of the second quarter, so I'll also take a few minutes and kind of bring us up to speed and also a little bit of our forward looking, uh, outlook as well. But in terms of the markets in the, in the first quarter, you know, stocks had another very good quarter.

Uh, the S& P was up about 10 percent. U. S. equities, large cap in particular, continue to really lead the way versus the rest of the world. Developed international is up maybe 6%, emerging markets about 2%. We did see negative returns out of two categories, both of which are more interest rate sensitive categories, and that would be real estate as well as core bonds as interest rates rose during the quarter.

If you fast forward to today, You know, U. S. stocks are up another maybe four, four and a half percent. We've seen something now on the order of 30 new all time highs for the S& P so far this year. So it's been, you know, really a strong year. And a lot of that's been driven by the performance of these large mega cap technology companies, you know, the folks who are at the forefront of the artificial intelligence boom.

And we'll talk a little bit more about that. And what some of the market implications are there in terms of bonds, you know, uh, rates have sort of yo yoed this quarter so far. And so the, the total return of the Barclays Aggregate Index, uh, is sort of flat to slightly positive at this point. If we, um, maybe go ahead to the next page, this is just digging, uh, a little bit deeper, sort of what's under the surface.

First of all, in the upper left hand corner, sort of highlighting the best and worst performing sectors, best performing sector in Q1. was communication services. There's a lot of technology there. Folks like Google, Meta, are, are, are in that sector. Um, 16 percent returns in Q1. That's on top of 56 percent in 2023.

So really, you know, continues to be a very strong trend. And we also see that down in the bottom left, where you see the, the highlighted, square or rectangle for large cap growth continues to really Lead the way. So we've seen a fairly narrow sort of market leadership concentrated in these technology, these large technology companies.

And so whenever you see that type of phenomenon of a very narrow slice of the market, really leading the way to this extent, you naturally begin to think about, you know, questions like, hey, are we in a bubble? You know, have visions of 1999 2000. Um, the, the difference this time, you know, that doesn't mean that there, there can't be a, uh, a correction necessarily here, but the big difference now versus, say, 99 2000 is that these companies are backing it up with earnings.

Uh, if you look at last year, for example, the so called, um, Magnificent Seven stocks, these seven big technology stocks, generated something like 40 percent

of the revenue growth in the S& P, And what's more impressive is they delivered pretty much all of the earnings growth in the S& P 500 last year. So again, yes, they, their performance has been, um, sort of outsized, but at the same token, their, their earnings power have been pretty, pretty significant.

Switching over to fixed income on the next page, Greg. Again, this is, this is one of those topics that our insurance company clients in particular really tend to lean into because, you know, clearly from a business perspective, um, it is an interest rate sensitive industry. In addition, of course, to the impact on retirement plan participants, pension plans, things along those lines.

So if we look at what's been happening in fixed income, you know, up at the top, we see the change in interest rates during the quarter. The 10 year treasury yield did rise slightly. That's really been driven by folks recalibrating their expectations for the number of rate cuts this year and the, and the sort of the magnitude of rate cuts that we're likely to see this year.

If we look in the middle of the page, it's sort of core fixed income. Uh, again, bond yields rose. That was almost all driven by treasury yields. The, the credit spread or the amount of compensation that investors demand for taking on credit risk remains. You know, pretty tight. Again, that, that just signifies that investors still have a very strong appetite for corporate bonds.

And then down at the bottom, looking at the longer duration bonds, this would be more akin to what you would expect to see in a pension plan portfolio, where you're trying to hedge volatility and liabilities, or, or, um, uh, you know, volatility in your funded status. Uh, again, in this, um, these longer duration bonds, we saw a loss of about one and a half, 1.

6%. As rates moved up, but the good news for pension plan sponsors, of course, is that that also means that your liabilities likely went down. So when you combine that with the strong performance we've seen out of the equity market. You know, we generally saw funding status improve in the first quarter for our pension plan clients.

Hey, and Sam, um, one thing I just wanted to jump in on, it seems like this page we get a lot, uh, when we're talking to clients in this industry. They're very interested in hearing our viewpoint. Obviously, they have very, uh, informed viewpoints themselves, because yes, obviously, as it relates to the funding of their pension plans, but also as they think about their liabilities on their books that they're offlaying, let's say if they're an insurance company.

So there's a lot of communication around fixed income. We get a lot of good feedback here. We sort of get to hear what they're thinking about as well. And I think what we're finding is, or at least what I'm seeing with my clients would be interested to know, AJ, Jeff, if you are seeing the same thing, the insurance companies have done pretty well.

Now, PNC may be a little bit different because there's been a lot of outsized claims, but on the life insurance side, it's really interesting for, for two reasons, because number one, this is the first time in a long time they've been able to get yield. So they've had to be more aggressive with their allocation overall in their business to hedge those liabilities because there's no yield.

But now that we have yield, that's been a really interesting development. And then, as you just mentioned, secondly, Um, usually insurance companies are pretty conservative, and so they've done a pretty good job about managing those liabilities, but the risk seeking assets they have in their portfolios have done really well.

So it's been, I've seen at least on the life insurance side, there's been really good returns and interesting, uh, strategic decisions, quite frankly, for a lot of these insurance companies. Curious, I don't know, AJ or Jeff, if you would add anything differently, but that's what I've sort of seen in our, across the insurance clients that I deal with.

Yeah, I would agree. The only thing I might add is that, um, there's also for the first time in a while a nice tailwind from a sales perspective for life insurance companies if they're selling annuities because with rates being a little bit higher, their ability to price those annuities more competitively, um, is in a position that hasn't been in for a long, long time.

And so I think, um, for life companies in particular, they really are kind of benefiting on really multiple sides or multiple fronts inside the organization as a result of these higher rates.

All that to say, simply, Sam, I think this is really important. Um, as we talk about this page with our clients, they really like to hear what we're seeing, what we're, what we're saying, kind of our viewpoint of the world, because as you alluded to earlier, everyone thought there was going to be multiple rate cuts at the end of last year, as we head into this year.

And then very quickly it was like, you know, that, that became revised very quickly. And so it's always really good conversation I find with our committees

about what they're seeing, what we're seeing, kind of how we're seeing the world.

Completely agree. And that's probably a good segue to move more into sort of our, our outlook. If we go to the next slide, if you don't mind, Greg. This is a page that we always include in our quarterly reviews. Where we sort of summarize, what are the things that are helping the markets? What are the, what are the things that are, you know, um, headwinds, you know, and I would say that right now we're in overall, what we view as a pretty noisy environment from a data standpoint, an economic data standpoint, and that is making, I would say the Fed's job a little bit harder, you know, over the past few weeks, we've seen some good economic data on the jobs front, higher payrolls, higher wages, but just today.

Uh, we saw continuing jobless claims actually tick up to the highest point in a couple of years. So that would seem to indicate a little bit of a softening. At the same time, we've seen some better news on the inflation front with cooler, cooler numbers there. So taken together, you know, kind of a softening potentially labor market, some cooling on the inflation front, that could open up the door for the Fed to begin some rate cuts.

If you look at the futures market, Um, you know, that the future market is now pricing in a rate cut, uh, you know, a likelihood of a rate cut in, in September. And again, that's a big change from where we were last year, uh, the end of last year when the expectation for 2024 was something on the order of six rate cuts.

So a big, a big recalibration. What we're thinking about today in terms of headwinds and tailwinds, you know, one of the biggest concerns we have or things that we're watching closely is the state of the consumer, uh, which really does appear to be beginning to come under some pressure. You know, we've seen credit card balances climb up above a trillion dollars for really the first time at the same time that credit card interest rates, of course, are sky high.

I saw a stat the other day that. 20 percent of credit card borrowers have actually maxed out their credit cards, and now we're at the point that some of those are falling into delinquency status. So that's certainly a sign of some stress. We've also seen from a retail standpoint, um, you know, consumers moving from more of the luxury to the mainstream or even discount retail.

Big ticket items like automobiles have certainly been hurt by, uh, rising interest rates as well. So that's something we're watching closely. We're watching the level of valuations in the stock market very closely. You know, there's a lot of

optimism about earnings growth on the order of maybe 10, 12 percent this year, maybe even higher next year.

Uh, but valuations are fairly high. And so if that earnings growth fails to materialize, you know, that could lead to some disappointment on the part of, of investors, but again, overall, you know, I think, um, there, there's a lot of, of, um, fundamental strength that remains in this economy. The level and the strength of corporate earnings, I think, is the best indication of that, and there's still a lot of fiscal support coming out of Washington, which has been a big driver.

for sure this year.

And that's probably a pretty good segue into a topic that, um, you know, we've been talking about quite a bit with clients this quarter, and that is the elections. Uh, if we move ahead to the election slide, Greg, um, here we go. So this is a good chart, um, that shows the impact of, of what I meant was mentioning about fiscal support that we've seen this year, which is, uh, fairly common in an election year when an incumbent is running for re election.

So historically, if you go back to 1964, There have been 10 instances where an incumbent has been running for re election. The S& P was positive in all of those years, ranging from 6 percent to as much as 30%, with the average being around 17. That's quite a bit higher than the average in all election years, which is closer to 11 12%.

And the big reason for that is, you know, one of the best things that an incumbent can do to improve their odds of re election is to avoid a recession. And there's a lot of tools of government that presidents can use. Administrations can use to do that. So if we think about what are some of those levers that we could see this year that we've already seen this year, there's the CHIPS Act, there's the Inflation Reduction Act, still, you know, a lot of money left to be spent from those programs.

We've had the student loan relief, uh, you know, resumption of the employee retention tax credit. So these are all things that the administration can do that, you know, to, to help support the economy. And then the last thing here over on the right side of the page is there's this, this, um, this belief or this thought out there that in an election year that the Federal Reserve tends to be less active, uh, for sort, sort of to avoid, um, interfering in the political process, but the data really shows otherwise.

If you look back since 1980, The Fed has either raised or cut rates in all, all years except for one, all election years except for one, and it's a pretty even split between, um, you know, rate hikes or rate cuts kind of split down the middle.

Then maybe I will wrap up, um, with a topic that, uh, we certainly cannot, um, avoid talking about, and that is the impact of artificial intelligence. We go to the next slide. Here we're really thinking in terms of potential economic impacts. You know, this productivity impact. You know, I would say that we're still certainly in early innings in terms of the ultimate impact.

There's a saying, which I strongly believe, and that is that when you have a technology change, Folks tend to overestimate the impact in the short run, you know, a year or two, and they tend to underestimate the impact over, say, the next decade. So I think there's probably something to that. But even so, the, you know, the expectation is that AI could add as much as a half a trillion dollars to GDP through the rest of this decade, and as much as another trillion over the following decade.

Now if you see, you know, if you look at who the beneficiaries have been so far. It's very similar to the, uh, sort of the dot com or the internet, um, you know, the launch of the internet when the early winners were really the technology companies themselves, the Ciscos of the world, you know, now we're looking at the Microsoft's, the NVIDIA's of the world, the folks who are, you know, selling the picks and shovels to the gold miners, um, so to speak.

But the expectation is, and we believe this to be the case. that the benefits will broaden out and it's ultimately something that will benefit, um, you know, most if not all industries and, you know, I'd be curious from the other, um, you know, panelists here, you know, what are you all hearing from clients on this, on this topic of AI?

Maybe I'll jump in first here, but, um, I, I think this is interesting and for, for an industry that is generally viewed as pretty conservative and I think relatively cautious or thoughtful maybe in terms of adopting, uh, you know, change new, new philosophies, new processes, et cetera. It does seem like this is an area where, where the insurance industry is actually moving somewhat rapidly to try to, to take advantage of the potential of ai.

A couple of examples that I've heard from, from clients, um, are around, you know, claims and application processing. So the ability to maybe change the role of the individual, the human, if you will, in that process and allow the technology to at least initially go through the screen and identify whether or not,

um, whether you're talking about, you know, a new customer or a, uh, claim situation, but identify whether or not you have what you need to continue that process, um, which obviously creates efficiencies and ultimately should drive.

Uh, profitability in the long run. I think another area that's really interesting, um, especially on the property and casualty side, uh, we have one insurance company here in Des Moines that I know has actually, um, embraced kind of AI in the context of, uh, weather predictability. In other words, they're trying to take, you know, historical weather patterns, pair that with kind of current recent trend, along with potential for what's coming down the pike, and they can actually, to a certain extent, predict down to the neighborhood, the likelihood of certain types of storms coming through an area.

So hail, wind, tornado, etc. and are using that in their rating process or their pricing process. In other words, they know that we've obviously seen an increase in storm activity here recently that has big impact on capital reserves, on expenses, and so to the extent that they can get in front of that and make sure that those customers that are at the most risk of experiencing those losses, they're Um, are paying appropriate levels of premium, not as a follow through or as a reaction to something that has happened, but instead in anticipation of something that may happen, I think is a really interesting way to use this type of technology, and again, if it can be done accurately and efficiently, could be, outsider's perspective, a game changer for the insurance industry as they think about how to rate certain parts of the country in light of what is, I think, somewhat clearly a changing weather pattern.

That's really interesting. And, you know, I think we're certainly going to be keeping our ears open as, as we go out, continue to meet with clients across all, you know, industries about how, you know, some of those use cases that, that you just talked about. Well, Sam, just real quick, just to add on to that. I mean, I think, you know, when you look at this and AJ just pointed this out really well, there's, there's two levels, right?

There's a lot of data, um, that has to be crunched in numbers. Right. And so it's going to make everybody more productive just because you can do more, you've got more data sets. But then when you get down specifically, think about like if, if you have kids, you know, teenagers have higher, uh, rates than someone who's got a, a good, long, clean driving record.

There's so many more data points that you're able to collect. And this is in all phases of life, but specifically as it relates to insurance, people's behaviors. Certain times of the day when they're more apt to speed and getting collisions.

You think about this too, when you go to any major metropolitan area, there's cameras on every type of light and street, stoplight and street, so they understand Now they're able to grab data to see how many people are kind of pushing it when the, the light is effectively going from yellow to red.

So. pink, if you will, when people are pushing that, there's just an infinite amount of possibilities that they can now weave into their models to be more predictive. And so that's what we hear when we're talking to clients about that. On the life insurance side, yes, there's factors such as, um, diet, but that's a broad brush as to there's certain, you know, people that are always going to be healthier and eat, so it's not really geographic.

But there are just, uh, reams of data that they can collect to make those models more precise, to be able to, as AJ said, kind of, uh, fairly, if you will, rate, um, risks, and then charge proportionally for them. So when we talk to our clients, that's something that they think it actually will help their bottom line, not just because it will reduce the workload, increase efficiencies, but also be able to help them make, better calls, if you will, on what those risks are.

And so I just thought it was fascinating having a discussion with, uh, with a, uh, committee member about the data patterns in traffic lights and how many traffic lights have cameras and how much data that's collected from the Department of Transportation and how that's fed back to the insurance sort of consortium.

It was really a fascinating 15 to hear this, uh, discussion. Uh, individual talk about that. So I can only imagine that this is going to further, again, increase, quite frankly, the bottom line for these insurance companies.

I think that's a great example. And, you know, even in our industry, thinking about retirement, um, you know, I think it's so important to get the right message in front of planned participants at the right time to compel them to take the right, you know, the best action or the best next step for them, whether it's Uh, looking at our allocation or looking at their savings rate and, and to your point, Paul, you know, the availability of more data and the ability to, to, um, to crunch that data to potentially get that right message to that participant at the right time could, you know, really make a difference.

Uh, so sort of, that's probably a pretty good segue to move into, to our more topical areas as it relates specifically to retirement. You know, every quarter we produce, you know, eight or 10 topical spotlights. That are sort of current and relevant to our clients retirement plans specifically. So, uh, maybe with that I'll

turn it over to The other panelists to talk through some of those topics this quarter.

I'll kick us off here guys so I think the first one here is an interesting discussion just generically, but even more so for for the insurance industry, but um, you know if you think about 401k plans they've been immensely successful At helping people save money for retirement Um, and when you look back even more recently to the somewhat recent introduction of, of automatic features, automatic enrollment, automatic escalation, it's really taken what was already a successful model and even, you know, supercharge it that much more.

I think what's interesting is that the regulatory kind of tone lately, um, is somewhat clear that the, the Department of Labor wants, uh, the, the typical participant, there are exceptions to this statement for sure, but the average American worker. To really feel like, and in some cases, even be encouraged to continue to utilize these plans, not just while they work, but even post retirement.

In other words, they shouldn't feel like they have to move to a different vehicle potentially to be able to meet their retirement income goals. And so, because of that, our industry, the retirement industry, is really at the forefront of trying to solve this kind of retirement income problem or question, and that is how do we make these plans not only great accumulation vehicles where we can help people save, but also great distribution vehicles where they can get the same benefit of Cost efficiency and due diligence governance oversight from a fiduciary committee, um, as they enter kind of the retirement phase of their life as well.

And so, uh, this slide is busy. I won't go through all the details and the X's, but I think the intent here is to demonstrate a couple of things. One, there certainly are different kind of, um, needs. Or goals, potentially, that you're trying to solve for. And that's identified down the left hand side of our chart there.

And then as you go left to right, there are different tools available to solve for those needs. So, for example, if you're simply trying to make sure your people have what they need to retire and efficiently and kind of, um, you know, in an effective way manage your workforce, then, you know, tools like, uh, participant advice through an advisor like CAPTRUST or a managed account tool that you could partner with your record keeper or your advisor to offer your people, or certainly a target date fund that's going to glide down their risk and kind of target a specific retirement age.

Um, all could be successful tools to meet that need. But if ultimately you're trying to solve for longevity, which is this idea that there's always a risk that I could outlive my money, then I think we have to start to kind of wander into more insurance based products like annuities. And that's where I think this becomes an interesting opportunity for, for your industry, for the insurance industry, because so far, um, we have not found the solution that will work efficiently and effectively at providing that guaranteed income option inside the walls of, of a 401k plan.

And so to kind of bring this back to the discussions that we're having with, with our insurance company clients in particular, Life and annuity clients, they've really perked up when we start to talk about this idea of income and think about how they can take their products and potentially tailor them both broadly to just the industry as a whole.

But I think even perhaps more interestingly, very specifically to their plan. Um, I have one client that already today offers a proprietary annuity inside their 401k plan, uh, to their participants. Now, to be clear, that comes with it a ton of fiduciary oversight and compliance kind of regulation and process.

You need to be very buttoned up in kind of how you oversee, uh, proprietary products in a 401k, but I think the, the The kind of short answer is that it is, it is optional or is available. It is something that you can do. And if you have the right team, the right advisor, kind of the right committee members all working in tandem, um, it could be a great solution for, uh, for your employees first and then potentially or ultimately maybe even broader than that.

And a second example I would give is, is another client, another annuity, uh, life insurance annuity company client, um, went through a year and a half process of evaluating that very question. And where they got is they wanted to offer a proprietary annuity to their participants, so one of their own annuities, but the record keeper couldn't actually administer it.

And so I think that's the kind of second half of this discussion is there is, there's what we want to do, what we're trying to solve for, but then just from a service and a technology and administrative perspective, We do need the record keepers in the world to kind of really step up and accelerate their research and development in this area so they can meet those needs, those requests to help this kind of discussion continue down the path that at least at CAPTRUST, we think it probably needs to go down.

So, um, Jeff, Paul, I don't know if you have anything additional to add to that, but I think this is an interesting discussion and really does meld what we do at CAPTRUST with what each of you do as members of the insurance industry. Yeah, I think you're spot on AJ. I mean, you can even take a step further now and probably Sam, you could attest to this too.

You know, you see a lot of money managers out there trying to get those annuity products into targeting funds, right? So you're looking at that asset class where, you know, it's getting, you know, 80, 85 percent of the cash flow. So, um, it just seems like to be that natural progression to say, hey, are we able to slap something on?

I think, um, Kind of the challenge of it is, is, is doing it in a cheap fashion. I think, AJ, probably when you're able to put a proprietary option in there, we all know that newies can be very expensive. Um, You know, that sometimes the one factor that might give committees a pause, like, do we want to add this extra expense, uh, or expense out there for, for, for folks?

Um, you know, it's a little interesting when you kind of look at, you know, kind of the custom targeted fund solution that's available on TIA's platform. And kind of how they've been able to make something like that work. Um, it really gives when you're kind of talking about solving for longevity, um, aging.

I think that's where everything's moving right now, right? Like all the studies are, people are worried about outliving their money. We all know, um, the five benefit plans. Um, it's not really a growing segment of the marketplace. And a lot of people more and more are just really kind of wanting that, that ability to have that lifetime income piece.

Um, And be able to kind of get it on the back end. I mean, we've seen other products out there where the annuity piece was built into the investment product and you kind of say to yourself, all right, you want to be as lean as possible through the accumulation phase. And don't want to have as much cost there, but then now on the back end, how do you get into something that is pretty cost effective, um, at the participant level, um, that can provide that lifetime income?

Um, and I think kind of interesting to see. Where this conversation is going to go in the future with, with, um, targeted funds, um, and, and how we might see some additional choice come out to the, uh, to the marketplace there, but definitely something that you hear in a lot of committees talk about that, uh, you know, participants are kind of raising that concern of having that option to have that lifetime income stream.

AJ, a question for you, and this is just, it would be, I think, uh, enlightening to understand there is a lot of fiduciary risk, and that's one of the things that has sort of prevented plan sponsors as well as record keepers not being able to actually do the things that we need them to do, but how did your client get over sort of that initial hurdle of, hey, there's a lot more fiduciary oversight here if we're providing a proprietary product.

Help, help us kind of Enlighten us on the thought process on how they came to that point were able to kind of overcome that objection to then want to do more. Yeah, it's a great question and it definitely was a process. I mean, it didn't happen overnight. It took some time and there had to be buy in from several different levels of not only the organization, but also even externally.

For example, they had to get their ERISA council comfortable with the idea, first and foremost, because their general council was just unwilling to implement something if they didn't have the left.

And so I think that, um, I think it was a process. I think ultimately what got them comfortable is that they, they did build out a very specific and structured way that they're going to benchmark their annuities against the marketplace and do that on a consistent and regular kind of pace or basis, if you will.

So in other words, the advice that we gave them is that you're going to do this. You need to treat it like any other investment we have in the lineup. Meaning that you can't see that, that option through the lens of this is our product, or rather this is one of 22 or 23 investment options that we offer our participants.

And if at any point in time it becomes clear that whether because of expense, because of potential financial issues in the organization, because of their competitiveness in terms of the guaranteed income portion of it, If at any point in time, those things were no longer competitive, then as a committee, they had an obligation to take action and take that investment option or that option out of, out of the plan.

Thankfully, to this point, we haven't had to do that. They've been competitive. I think the interesting thing is that the, the individuals that are on our committee do have the ability to influence the competitiveness of their product. And so I do think if we ever got to a point that there was concern, um, one of two things would happen.

Either they would make sure they enhance their product enough to be uh, market competitive, therefore they're comfortable from a fiduciary perspective

and or we just choose to remove that option and obviously freeze any existing accumulations that have been started because that's the challenge with annuities, right, is you can't just map the money out like you can a mutual fund and move it into something different.

What's in there, what's been purchased to a certain extent kind of has to stay there. And so you almost have to just stop at that point and then potentially find something new going forward.

Greg, maybe move us forward to the next topical spotlight unless there's additional comment on income. So I think it's the second spotlight, I'll maybe start us off here as well, um, is around Roth and plan conversions. And again, interesting discussion right now for a couple of reasons. Uh, Secure 2. 0, which I'm confident you've all probably had discussions about internally.

Does have a number of provisions in them that are that are focused or aimed at Roth and so it's clear that from a legislative perspective this is A topic or a design that is of interest and a priority for, um, for the regulatory and legislative parts of our business. Um, I think the second part of it though, is that we do have potentially, uh, some, some tax cuts that are set to expire here in 18 or so months now.

And so this idea of finding the right time. of kind of when you pay your tax is a relatively new and I think rapidly growing part of kind of the financial planning, uh, industry within, within financial services or the advisory work world. And so, um, for our clients, we've been having discussions with them about Roth and plan conversions for a while.

Most of our clients offer it. Very few of their participants use it, but I would say that to the majority of our clients in Des Moines do at least make it available. Um, I think it is an interesting idea for a couple of reasons. One, you certainly can, if you're So relatively young pay at what is a perhaps more attractive rate as opposed to a what tax rates will be in the future.

Um, to if there is interest in this idea of making Roth or employer contributions, Roth contributions, you can achieve that through a Roth in plan conversion, whereas most record keepers are not ready to implement that piece of the SECURE Act yet. Even though technically it is available today per the law, administratively I don't know of any of the at least a major record keepers that are at a point to actually be able to implement that.

And so this is a bit of a workaround if you as an organization or if you have people that are interested in this idea of kind of taking their employer their matching contribution or profit sharing contribution and allowing a participant to receive those dollars in Roth form as opposed to in traditional pre tax form.

So again, I think interesting conversation. I think timing is really important right now with both Secure Act as well as potential tax cuts. And we are seeing more and more, um, at least interest in having discussions around whether or not Roth end plan conversions make sense, both at a plan as well as at a participant level.

You know, AJ, one thing that I would tack on is, is that, and again, just thinking about this, working with several life insurance companies, um, life insurance obviously is the insurance, but then of course, if you use it as a, as an investment, there's some definitely, uh, preferred tax treatment with that. And so anytime you talk about taxation and trying to, you know, think about the future and really humanize it for the folks that are, they're in the community meetings that we're having, you know, it, it, The typical sort of, uh, I guess first thought is, well, gosh, why would I want to, you know, do a Roth, you know, in plan conversion, potentially pay a bunch of taxes.

However, when you take that out and say, well, you know, people are more willing to have expenses, i. e. paying taxes, while they have money and while they're making money during their working career, and then they understand Hey, you know what? This money effectively, once I do that, this money, when I pull this out, it's growing tax referred.

I'm not paying taxes on it again, because I think the number one fear is people running out of money, but the people that know that they have enough, they're not exactly sure maybe what that is, but they know they have enough. Then their number one fear becomes inflation and taxes. And to the extent that they can't control inflation, they absolutely control their taxes.

And so that's one thing from a, just a personal planning perspective. When we talk to a lot of our committees, and again, I just feel like the insurance, uh, um, clients that we have understand that because they understand The tax preferential treatment of insurance is already ingrained in their mind. And so you start talking to them about, hey, listen, can you put yourself in a more advantageous position from a tax perspective now and setting yourself up to the future?

This has gotten quite a bit of conversation with our committees, because when you think about all the sources of income that people will receive, qualified

monies, after tax monies, potentially pensions, any kind of, you know, CERT planned, etc. All of that really comes into taxation and cash flow management.

And so because of that, we've seen a lot of conversations around this. And again, for whatever reason, I think it's the insurance industry's sort of ears really perk up here. And again, it's probably because they understand and they're, they're dealing with. The preferential tax treatment of insurance when you're thinking of that as an investment perspective, but I would 100 percent agree with you and for those who may not have thought about this and sort of had that first sort of reaction of, well, why would I?

Why would I, you know, spend a bunch of money and pay the taxes now to do the conversion? Think about that on the backside, right? No one is wants to pay the taxes when you have the money and you're able to do that. It could be a really smart strategy from a tax flow and cash management perspective down the road.

So it's gotten definitely a lot of buzz. Um, From what, for what it's worth from, from a handful of my clients.

All right, guys, thanks so much for, for going through the market commentary and topical spotlights before we transition into industry, uh, specific information or focuses or challenges, we wanted to just share, uh, some brief stats about our experience with the insurance industry. So we've got, uh, roughly 138 different retirement plans or asset pools representing 34 billion in assets.

Uh, about 20 percent of those clients have hired us for some form of employee advice, and then almost a quarter of hired us for some form of discretion. We work with a 30, uh, or more Record keepers or providers, the top 10 or 12 are listed there. And then our experience across either the different retirement plans or non retirement plan assets are listed there.

So again, just a broad array of experience with insurance industry clients and what their needs are. Based on that, now that the reviews are complete, uh, I'll ask, uh, Paul and A. J. and, uh, and Jeff, what's, uh, what's top of mind about, uh, your clients and their organizations for, for 2024?

Paul, you want to go first? Sure, I'll, I'll kick us off. Um, again, I'll go back, and I think we kind of alluded to this earlier. The fact that we now have real yield, uh, again, when Sam was talking about fixed income and sort of that, that, uh, you know, where we are and the fact that we can actually get real yield.

I think a lot of our clients particularly are looking at how they've been hedging their liabilities and how they're possessing their assets. And just like an individual, uh, these companies have had to take more risk. They've had to look, um, you know, a little bit far and wider, if you will, on how they hedge those liabilities.

Because, you know, when, when you have, you know, uh, going back a couple of years. The overnight borrowing rate from the Fed at zero. Well, obviously you look what that does to the 10 year treasury, which is a bell weather, which sets rates for all kinds of borrowing lending around the world. There's just not a lot when you compare that to inflation.

So you have to do something different. So I think one, one of the things that we have seen is how. Uh, insurance companies are repositioning their underlying portfolios. Where are they utilizing, uh, sources of additional capital? Um, is this a time, uh, quite frankly with their own pension plans? Uh, for those that have pension plans, and a lot do as it relates to just the benefits.

Do they change the design of the plan? Do they make, uh, are they going, moving up, if you will, the glide path with how they're allocating assets towards an LDI portfolio? So, so to me, again, zooming back out, it's a repositioning of assets for their business. And then number two is, as we think about, Related to the benefit plan, how are they executing on strategy with respect to particularly their defined benefit and cash balance plan, which a lot of them have converted to and have multiple transits and liability.

Those are the two things that, again, in the most recent reviews, That we're hearing our clients talk about Jeff or AJ. I don't, I don't know what you guys would see, but those two kind of jumped off the plate for clients. Yeah, that kind of the relooking at the DB has been a by product of what you just talked about, Paul, when he kind of looking at, you know, kind of the interest rates on the, you know, corporate side and, um, you know, obviously.

With the rates being high, you know, we've seen a lot of pension plans go from not looking all that great to being in really, really good shape. And, you know, going back to Sam's comment, right? Um, hire for longer. The longer part of that might not be as long as we originally thought. Right? So there's going to be this, this pivot eventually where those rates come down.

Um, and obviously that's going to be a, um, a bit of a headwind. To overall funding status and also I, I kind of look at, you know, we've been doing a lot more kind of asset liability studies, you know, miling that out a little bit more

heat map looking at those things. Um, and really just trying to get ahead of it to just say, you know, are we really kind of positioned in the right way now?

Or do we maybe need to make small tweaks going forward? Um, but, you know, this is also, you know, a good time when you're kind of anchoring that, that LDI strategy. Right. And how, why that's in there. Um, but yeah, definitely seeing, um, you know, the focus on what's happened with, with, with interest rates and really what you just got highlighted, Paul, the by product of taking out some of those things that, um, insurance companies looking at for their own investment portfolio.

And kind of bring in a lot of those, you know, questions, concerns down to the pension plans and saying, hey, we're in a really good funded status right now. Um, the 2 that I work on right now are soft frozen. So there's still benefit accruals in there. Um, and it's, you know, do we look to go to a glide path or, you know, do we look to maybe just make tweaks from that allocation standpoint?

So, um, I think as we kind of move through the rest of this year, and depending upon what happens overall market wise, and, you know, Sam kind of, you know, Alluded to, you know, the big linchpins that kept us out of recession where the consumer and the government spending the government spending is probably not going to taper off that much.

Um, we know there's gonna be a lot of liquidity pumped in, but, you know, the people on this call, the consumer, that's, you know, 90 percent of that GDP folks, you know, might pull back and, you know, the, you know, we might go from a no landing to possibly talking about, you know, the R word again here, um, you know, at some point in 2024.

So. Yeah. And AJ, I don't want to, uh, there's one thing I wanted to comment on just really quickly. The other thing I think that is not lost again on our insurance clients, because again, they typically have a pretty sophisticated or certain parts of obviously the company have a certain sophistication from an investment perspective.

They have to, they have to align assets to match liabilities. But I feel like we've sort of been lulled to sleep. in 2023 and thus far in 2024, that the numbers are off the page. It's like, wow, equities, look what they're doing. I think the reality is across the board, unequivocally, because of debt, because of slowing demographics, as you look out at those capital market assumptions going forward, those five to seven year projections.

It would be hard for folks to really come back and say, Oh, yeah, you know what, we're going to experience the next 15 years are going to be just like the past 15 years where you had this massive amount of stimulus. And so I do think that it's not only the repositioning of the fixed income. But it's also a resetting, kind of a downward setting, if you will, of expectations long term as to what risk seeking assets are doing.

So I think there's committees that are exploring things, uh, alternative asset classes, private credit, private, you know, deals, things like that to mitigate some of the volatility that we've seen with the equity market. So it's not just on the fixed income side. And again, I think we can all, if we just read the headlines, we can kind of be lulled to sleep like, hey, AI equities are going to go up, up and forever.

But a lot of our insurance companies realize that just again, demographically where we are, the de globalization of the world, quite frankly, um, that's an inflationary environment. And then the debt levels, not only in the U. S., but across the world, those that, the debt to GDP levels. Those are actually increasing, which is going to put more pressure on risk seeking assets.

So Jeff, when you were talking about, you know, doing a lot of asset liability modeling, yes, it's a lot of heat maps, but it's also, we get questions about what do you think about this asset class? What are you guys doing in your discretionary portfolios? How are you viewing the world, you know, from an alternative asset perspective?

Those are things that, again, I feel that committees are really leaning in on and really want to hear from. So, so I just, I wanted to point that out too. I know a lot of insurance companies are thinking about that, but there's tools in the tool bag that we may be pulling out that we haven't used as much of in the past as we sort of go forward in this new world with more inflationary, de globalized, higher debt.

That's just something I think also committees are very, very acutely aware of, particularly in the insurance industry. I think that's great. I think maybe just what I would add from a kind of a crossover benefits as well as kind of just broad industry perspective. So, um, I think an interesting conversation I've had recently with a couple of property and casualty companies, again, with the background being that it's been a challenging couple of years, three years now with claims activity, uh, the impact on capital reserves, et cetera.

One around deferred comps specifically, non qualified plans specifically is, uh, if you choose to finance your program, which I think the majority, it's not a significant majority, but the majority of plans do, uh, what you own actually can have an impact on your risk based capital charge. In other words, the assets that you own as an organization certainly does have an impact on, um, how much reserve capital you have to hold, even though that asset is specifically designed to offset a benefit program.

And so making sure that, um, those companies that have interest that have those programs are looking for ways to maximize capital, minimize reserve impact, is looking at alternative funding sources like iPoly, insurance company owned life insurance, um, looking at a swap type solutions where you don't necessarily own the asset on your books, you kind of.

outsource that to a third party, but you get the same benefit from a hedging perspective. So I think some of those types of discussions could be interesting, especially if you're dealing with RBC risk based, risk based capital type of challenges. The second thing I would mention, and this I think is an interesting discussion, is we have had a couple clients also talk to us about, um, helping what I would call kind of the extreme ends of their organization from a financial wellness perspective.

So, um, insurance companies often have pretty low turnover, which means you've got a lot of people at one end of the organization that likely have been there a long time. They've got great benefits programming. They likely have relatively high to potentially very high salaries. And so certainly you want them to feel good about their exit from the organization.

But selfishly, you also want to make sure that they do exit the organization as, as quickly as, as you can get them to, uh, again, from a, from a cost perspective. And so when you offer financial wellness, uh, solutions like CAPTRUST certainly can, we can actually target those folks, have those conversations, help them understand where they're at from a savings perspective so that you can gently start pushing them towards retirement.

And it doesn't feel like corporate action where it's like, Hey, thanks for the 30 years, but we need you to leave. But instead it's about, Hey, you've done a great job saving. Look with all the things we've done to help you save. It might be time for you to consider making that transition into retirement.

The other extreme though, is on the kind of beginning end of the employee population, where you're bringing in all these young people that are excited

about the organization, excited about all those benefit opportunities, and just making sure that they really can appreciate all the things that you're doing for them.

And maximize those benefits as well. So driving that engagement, making sure they're maximizing their match if there's one available, making sure they're taking full advantage of HSA, just all of those types of things that you do to really help those folks get off, off to a good footer, a good start from a savings and kind of benefits perspective.

So, a little bit bar built, not to ignore the folks in the middle, we certainly help them as well. But I think from a targeting perspective, we've had a couple clients say, hey, help us with these folks at the end, but then also really help us with these individuals that are just coming in to the organization.

Is our clients asking you about financial wellness? And do you think, and I mean this, like, do people understand and do they have, in your experience working with clients, do they have a good sense as to what it is tactically they want to do? Or is it more broadly like we need to do something financial wellness?

Because I feel like there's a challenge. Everybody knows about it, but then Do you have committees and clients that are really dialed in on exactly what buttons to push and what, what, what actions they want to see happen? It's a great question. I think financial wellness is a buzzword. I think if you're in HR, you're probably talking about financial wellness because that's what you're, supposed to talk about based on the stuff that you read and at the conferences you attend.

Um, I would tell you our committees, it's interesting. So, finance usually has very specific goals. Obviously, they're cost driven. Um, HR usually has different goals, um, may not be as cost driven. But I think if, for us, if we can start with just understanding what their goals are, the beauty of a good financial wellness program is that you can kind of customize and tailor that.

To meet their needs. So, so my opinion, what we do with our clients is we typically start with just a conversation, not about the solution, but rather about the problem. What is it you're trying to solve for? What does that population look like in terms of number of people, geographically where they're located, et cetera.

And then once we have a good sense of kind of who we really want to target and what the message is, what the goal is that we're trying to achieve, then we can start to talk about how to build that program and how it makes sense, whether it's onsite or virtual or, you know, through technology, et cetera.

And so I think it probably depends on the client to a certain extent, Paul, but definitely some are more, um, maybe engaged on that topic than others. It's probably a good way to maybe put a bow on it. Jeff, the same kind of with you, or maybe ask the question in a different way. If somebody doesn't have a really good sense as to what they want to do from a financial wellness perspective, they just know they need it, what are the things that you're really trying to dig in and target and help them to accomplish?

Well, one of the unique things is, um, one of my existing clients sunk their teeth into, um, the Secure Acts ability to match on student loan repayments. Um, and as they kind of looked across their demographic, they had a lot of people that were in that bucket. Um, so even though the plan did have auto enrollment and, um, Wasn't like too high of an op that rate.

They did kind of uncover a need within their organization that said, Hey, this is something that could be really great from a recruiting and retention tool. Um, and have kind of moved down the path of, uh, getting that set up within their plan. So I thought that was kind of, um, unique as we went through the last couple of review cycles here that, uh, it was something where they were like, this would be perfect because we have a lot of people within our organization.

Who are struggling with, um, uh, student loan debt right now. And they were kind of, uh, really kind of searching for a solution there. That's a great one. And I, AJ, I think you were talking about on the younger population and some wellness bugs. I mean, you know, there's a war for talent and these are highly intellectual businesses.

And so those are the challenges that we, I agree that, that we see people trying to solve for. And it's unique, but, but that is, that's a really good one, Jeff. You're right. There's, there's a lot of young people that are coming out with that. And it's something that a lot of clients are asking about. Thanks for mentioning that.

That was really good. Greg, I think we're almost at time, but I was going to ask, is there any, are there any closing thoughts or comments that you guys wanted to share about this recent cycle of reviews and your conversations with your clients?

Like, we got most of them out. That's awesome. So, um. At a high level, uh, for everyone there, I just wanna make sure that you all, um, first we want to thank you all for, uh, attending it. Uh, if you have specific questions for, for Sam or for Jeff or for Paul or, or or aj, their information's on the screen right now.

It'll also be available in the follow up email. In that email, you're gonna get, um, the summary of the topics that were discussed today. Plus a broader overview. Sam and the rest of the panelists pulled out a few of the high level concepts to focus on from the quarterly review materials. We'll include all quarterly review materials so you can get a sense of all the topical spotlights and the different ways that we approach that.

And again, if you have any questions or want any additional discussion or feedback, please feel free to reach out to any of the panelists today. We appreciate you spending time with us on this topic. Have a nice day.

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