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Issue no. 10



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Evolving alongside the new regulatory regime

The political realm continues to have an outsized influence on the retirement industry. Whether it's through the passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act 2.0, or through the Department of Labor's (DOL) final letter on the inclusion of environmental, social and governance (ESG) factors, we are constantly reminded of the regulatory influence on how we are able to best provide retirement outcomes to our clients. Nonetheless, our mission to help steer plan sponsors and consultants toward best practices, and help provide long-term solutions through the difficulties we all face, remains paramount in our minds.

In this issue of *next*, we'll explore topics making news in the defined contribution (DC) world. First, we examine the current state of the fixed income marketplace, looking at what questions plan providers should be asking their asset managers now that yields have climbed and market volatility has somewhat fallen. Next, we dive into the latest report from the TIAA Institute, looking at their groundbreaking research on how participants' knowledge around just how long their assets need to last them into retirement affects their saving habits, otherwise known as longevity literacy. Providing lifetime income remains a top priority for us and educating participants on just how to make assets last through the decumulation phase is vital to this effort. Third, we revisit the DOL's latest ruling on ESG in 401(k) plans, analyze how this ruling differs from our expectations and examine what we hope is the final word on this otherwise hot political topic. Finally, we go through the SECURE Act 2.0 and look at the top provisions that will have an impact on plan sponsors and participants in the coming years.

We are in a period of rapid regulatory change for the retirement industry, but one constant is the role of a fiduciary. This issue of *next* aims to bring together the right insights, resources and people to offer meaningful education and clarity.

Your Nuveen Team

INVESTMENT CORNER

*Do retirement savers
need to adjust their*
**fixed income
allocations?**





Fixed income normally has a relatively consistent role in retirement accounts, especially target date funds. It is a conservative allocation that generates income, and sits opposed to equities, which are designed to have more capital appreciation and be higher risk.

But, as we covered in our last edition of next, this year has seen elevated levels of volatility across multiple asset classes. With the U.S. Federal Reserve hiking rates at an unprecedented rate fixed income price returns have been severely impacted. As such fixed income returns have been broadly negative alongside equities, despite elevated yields.

With our macroeconomic call for a mild recession next year, we also expect spreads to widen and defaults to marginally climb as more troubled companies are unable to refinance their debt at the yield levels that are now demanded by the market.

So, what does this mean for the ongoing role of fixed income in retirement plans? And what questions should plan sponsors be asking of their asset managers to make sure that they are properly positioning for an environment that hasn't really been seen since the mid-1990s.

Yields are very attractive now

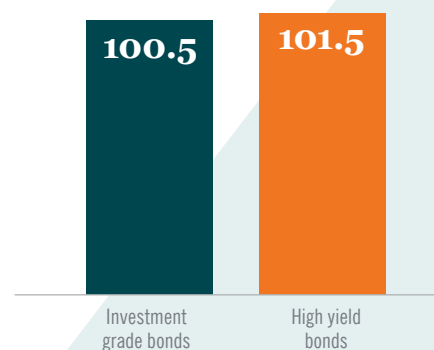
One thing that has to be stated early, and will occur throughout our commentary on fixed income, is that yields are now at levels that are very attractive for asset allocators. It was not long ago that we were diving into our asset allocation models to calculate the exact mixture of public and private assets, and below investment grade corporate debt or structured products, that were needed to bring a portfolio's yield up to 4/5% levels.

Now? U.S. Treasuries are essentially good enough if a simple yield target is all an allocator needs. The Bloomberg U.S. Aggregate Index, a common broad fixed income benchmark with a majority allocation to Treasuries, currently yields over 4.5%.

While most retirement portfolios should be focused on relatively low-risk sectors within fixed income, again to focus on income generation and to try and insulate the portfolio from future volatility. There is definitely an argument to be made that a fixed income asset management team that is able to stretch slightly across fixed income asset classes, perhaps with an allocation to preferred securities or to even just higher quality corporate debt, could gain even higher levels of yield.

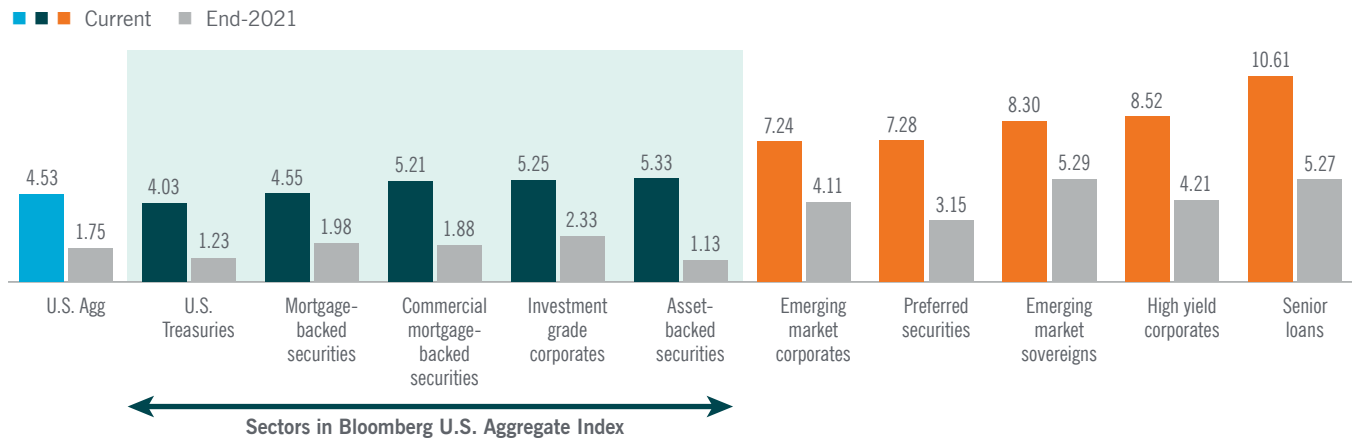
We also believe that interest rates will be range-bound in the near term before declining in the second half of 2023, and we forecast that risk premiums may widen further over coming quarters, providing an even more attractive entry point.

Figure 1:
Income as a portion of total return (%)



Data source: Bloomberg, L.P., 30 Sep 2022. Past performance does not predict or guarantee future results. Chart shows the percent of annualized total return derived from coupon return (as opposed to price appreciation).

Figure 2:
Yield to worst by fixed income sector (%)



Source: Bloomberg LLC; J.P. Morgan; ICE BofA. Data as of 5 December 2022.

Representative indices: **U.S. Agg:** Bloomberg U.S. Aggregate Index; **U.S. Treasuries:** Bloomberg U.S. Treasury Index; **ABS:** Bloomberg U.S. Asset-Backed Securities Index; **MBS:** Bloomberg U.S. Mortgage-Backed Securities Index; **CMBS:** Bloomberg U.S. Commercial Mortgage-Backed Securities Index; **Investment grade corporates:** Bloomberg U.S. Corporate Investment Grade Index; **Preferred securities:** ICE BofA Fixed Rate Preferred Securities Index; **Emerging market corporates:** J.P. Morgan Corporate Emerging Market Index; **High yield corporates:** Bloomberg U.S. Corporate High Yield Index; **Emerging market sovereigns:** J.P. Morgan Global Diversified Emerging Market Index; **Senior loans:** J.P. Morgan Institutional Loan Index

Past performance is no guarantee of future results. It is not possible to invest directly in an index.



But what about the recession?

However, our base case, as outlined in our 2023 GIC outlook, is that if the U.S. enters a recession in 2023, it should be relatively mild. The economic growth outlook faces higher uncertainty and stronger headwinds than it has in recent years, but fundamentals are ultimately supportive and will help the U.S. economy avoid a deep recession. The underlying strength of the consumer remains a firm positive for the economy and should help insulate much of the economy from a more severe downturn brought on by tighter financial conditions.

We do see a risk that sharply reduced monetary and fiscal policy support will reduce growth and inflation in coming quarters. Overall though we expect the 10-year Treasury yield to end the year around 3.75%.

When examining the corporate bond market, we do not expect defaults to rise to levels seen in more severe recessions, partly because corporate interest coverage ratios remain at surprisingly elevated levels.

So, despite the higher cost of financing that will hit most corporate balance sheets as debt comes due,

we believe that many companies are in a robust enough state to be able to weather the storm.

Therefore, over the medium term, we expect that strong fundamentals will help limit the damage to spread sectors and we favor a modest overweight to IG credit and the higher quality segments of high yield, floating-rate loans and preferreds.

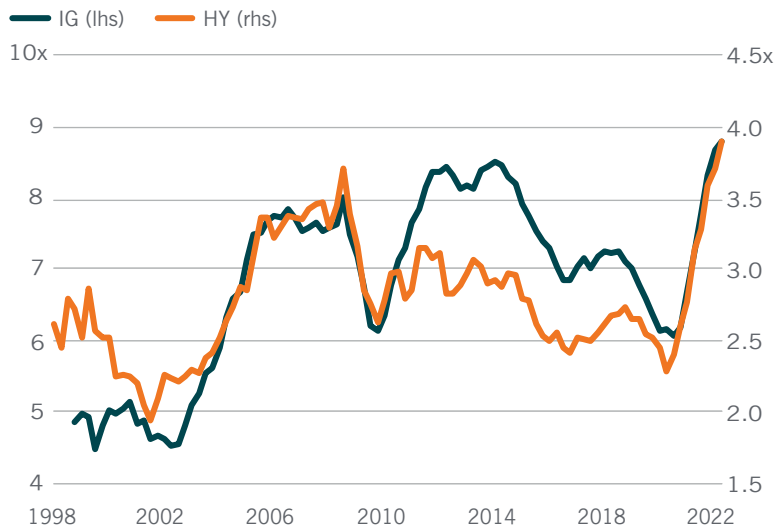
We also believe that both the dollar and long-term interest rates have peaked for this cycle, as the market increasingly looks forward to future economic weakness and eventual rate cuts.

Positioning fixed income in 2023

There will be attractive entry points for emerging markets and long-duration assets in the quarters ahead. And while emerging markets may not be particularly suitable as a significant allocation for a portfolio focused on target date liabilities, it could still be useful if the underlying asset manager has the capacity to reach into more esoteric fixed income asset classes as ultimately diversification remains critical.



Figure 3:
Corporate interest coverage ratios (%)

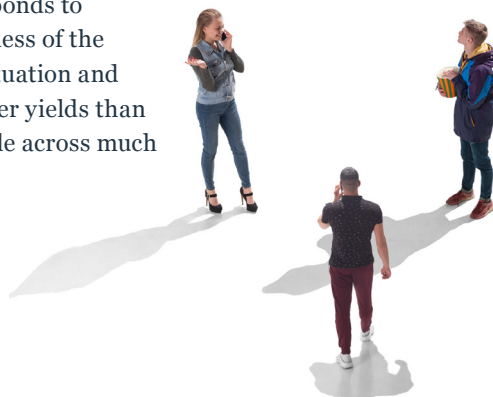


Source: Bloomberg L.P., 30 Sep 2022.

We believe that a portfolio with a focus on credits with durable free cash flow and solid balance sheets across a wide range of sectors is a robust approach through an economic downturn. Diversified strategies with higher rate sensitivity look attractive. We expect to increase risk in our fixed income portfolios over coming quarters as valuations improve.

The duration positioning of a portfolio is another consideration. While we have been generally short duration over the last year, we are now starting to move further out along the curve. Especially for investors that focus on buy-and-hold strategies simply moving further out on the duration curve to the 7–10-year part of the corporate market could bring yields over 5% without taking on significant additional risk.

If an investor is positioned in higher quality investment grade bonds, while there may be some negative price returns through a recession, it would be possible to hold the bonds to maturity almost regardless of the underlying economic situation and to see significantly higher yields than would have been possible across much of the last decade.



What to ask your fixed income asset manager

In this peculiar environment, with higher yields a very tempting place to park assets, while at the same time recession risk looms, it might be worth asking your fixed income asset manager some questions as to how they view both the macroeconomic environment and their underlying portfolio positioning.

- 1** Are your fixed income managers adequately allocated to pick up the yield of the underlying Aggregate Index, targeting high quality Treasuries and some corporate exposure, or are they stretching into non-core allocations to pick up additional yield?
- 2** Do your managers have sufficient flexibility and cash allocations to effectively allocate within and across fixed income sectors as rates change through this relatively uncertain environment?
- 3** Are the target date fund portfolios appropriately exposed to duration?
- 4** Do your fixed income managers have a track record of high upside capture and low downside capture ratios?
- 5** Do your managers have the experience, resources, scale and market presence to manage fixed income assets effectively in all market environments?



PARTICIPANT ENGAGEMENT

Longevity literacy promotes understanding the need for lifetime income

Financial literacy remains a key area for research¹

The TIAA Institute-GFLEC Personal Finance Index continues to be a significant resource in examining financial literacy levels among U.S. adults and how that relates to their financial well-being, including retirement readiness. This year, for the first time, the study included specific research on longevity literacy, i.e., knowledge of how long people tend to live in retirement. The overall findings show us that as with financial literacy, retirees with strong longevity literacy were more likely to plan and save for retirement while still working compared to those with poor longevity literacy, and they tend to experience better financial outcomes in retirement.

To highlight how much of a challenge this can be, according to the Society of Actuaries, for a 65-year-old couple, there is a 50% chance that one of the two will live to be 93 years old, and a further 25% chance that one will make it to 97. The data shows that one-in-three men, and one-in-two women who are currently in their mid-50s, can expect to live to be 90 years old.²

While overall life expectancy in the U.S. has fallen from its peak, there is still a lengthy and growing period of retirement that people need to be prepared for. The covid pandemic has been a significant driver of the negative trend in U.S. life expectancy in 2022, pushing overall life expectancy at birth to its lowest level since 1996. The other primary driver has been the ongoing opioid crisis. Life expectancy peaked at 79.9 years in 2020 for women in the U.S. and 74.2 years for men.³



One-in-three men,

and



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The lack of retirement savings across the general U.S. population and coming retirement crisis have been a focus for TIAA and Nuveen for some time, and this new research highlights how expanding education efforts to include longevity literacy should be a major focus for stakeholders.

The table shows that people with higher levels of financial literacy are more likely to be planning and saving for retirement and to be confident about their retirement income prospects. The same holds true among those with strong longevity literacy compared to those with poor longevity literacy.

their savings too quickly when they reach retirement.

The study shows that women tend to have better longevity literacy than men—they are more likely to know life expectancy at age 60 and less likely to underestimate it compared to men. This is very interesting given that a consistent finding over the first six years of the P-Fin Index is that financial literacy among women tends to lag that of men. This dual reality should be factored into retirement planning conversations and communications with women, particularly in light of our research

Percent of P-Fin Index questions answered correctly

	All	25% or less	26% – 50%	51% – 75%	76% – 100%
Saving for retirement on a regular basis	72%	54%	59%	78%	90%
Saving for retirement is unconstrained by debt payments	67%	61%	58%	68%	78%
Have tried to determine how much to save for retirement	47%	25%	38%	51%	68%
Confident about saving an adequate amount for retirement (among savers)	73%	73%	68%	71%	81%

Source: TIAA Institute-GFLEC Personal Finance Index (2022)

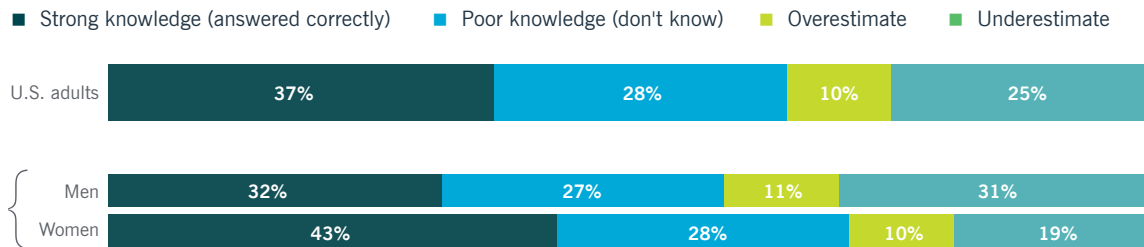
It is important that plan sponsors have financial literacy programs as part of their ongoing human resources programs, to educate employees to make sure that they are taking advantage of all the options available to them. Employees that are not saving simply may not be aware of the options available to them, such as company matching, which could have a significant benefit in building retirement assets.

Regarding longevity literacy specifically, the study found that over half of U.S. adults either do not know or underestimate how long people tend to live in retirement. This is a significant share of the population that may well be underprepared for retirement. Without a clear understanding of how long retirement might last, they may not be saving enough throughout their careers, or they could spend

showing that women have a gap when it comes to retirement savings. This savings difference is a result in part from women having more gaps from employment due to primary caregiver responsibilities, but it's those responsibilities that lead in part to their better longevity knowledge.

One area of the study focuses on retirement readiness and longevity literacy, and perhaps unsurprisingly, finds that those who are more proficient in longevity knowledge are more future-focused and able to better plan for retirement. There is an interesting correlation that could appear between those who are most future-oriented and those with strong longevity knowledge. This is a potential audience segment that should appreciate the great benefit of securing lifetime income through annuitization.

Knowledge of life expectancy for 60-year-old men/women in the U.S.



Source: TIAA Institute-GFLEC Personal Finance Index (2022)

The study shows that financial literacy, knowledge of longevity and retirement readiness are all linked. This should not be a surprising outcome for anyone with knowledge of the retirement industry. Laying out the stark data that highlights just how much work remains to be done in educating people at all stages of their careers on how long retirement savings might need to last, how to save properly throughout a career, and the interaction of savings, quality of life in retirement and overall readiness is a valuable study. With only a third of U.S. adults showing a strong knowledge of longevity, more work must be done to help participants prepare for the length of retirement that they face, and to be prepared when it does arrive.

How this ties into lifetime income

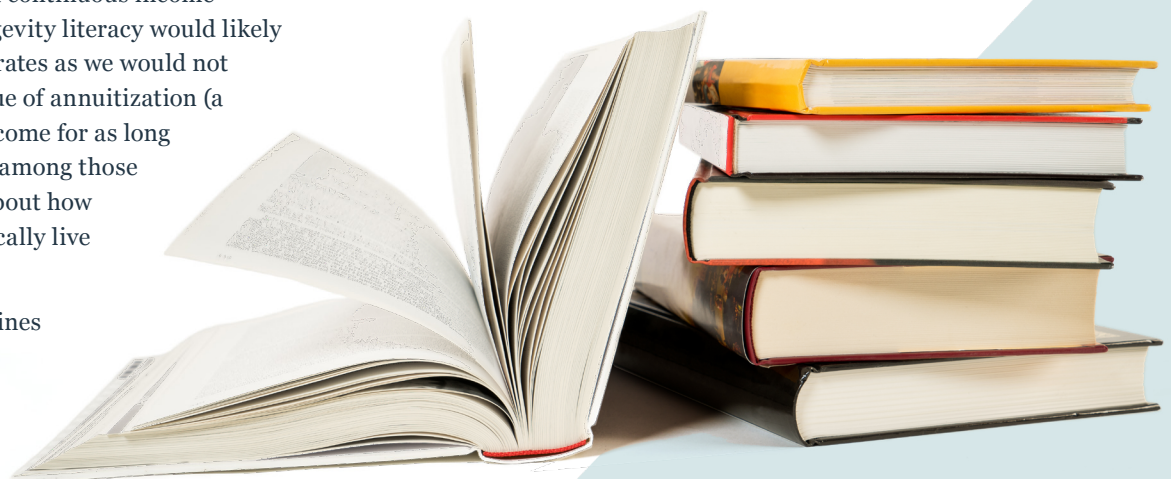
As we've written in prior editions of *next*, guiding participants toward an understanding of how to make sure that their retirement savings will last is a key goal for plan sponsors. We believe that one of the best ways to do this is through the inclusion of a guaranteed lifetime income product within a retirement plan that annuitizes retirement assets into a continuous income stream. Improving longevity literacy would likely increase annuitization rates as we would not expect the primary value of annuitization (a consistent stream of income for as long as you live) to resonate among those with poor knowledge about how long they could realistically live in retirement.

The study further examines financial outcomes in retirement. 83% of retirees with strong longevity literacy

have lifestyles that meet or exceed pre-retirement expectations, compared with 63% of those with weak literacy.

Educating participants about life expectancy is key as it can help tie together the conversations of just how long retirement could last, and how to make sure that retirement assets are sufficient to last through that period. These studies can also help educate younger employees, for whom retirement is a distant prospect, that the balance of working life and retirement life is shifting ever longer toward more years in retirement, so savings need to be built early and often to allow for a steady deaccumulation phase.

Our research into providing lifetime income specifically identifies longevity risk as an area that can be mitigated by the inclusion of an annuity within retirement planning. We'd recommend building financial literacy programs, and looking to include guaranteed lifetime income within a plan to ensure that participants can make their savings last their retirement, no matter how long it is.⁴



FIDUCIARY PERSPECTIVES

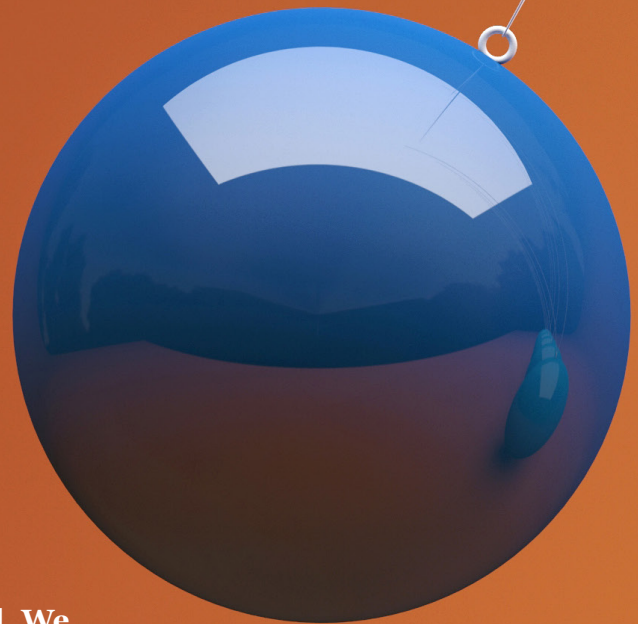
ESG in retirement plans: Clarity but no certainty after DOL ruling

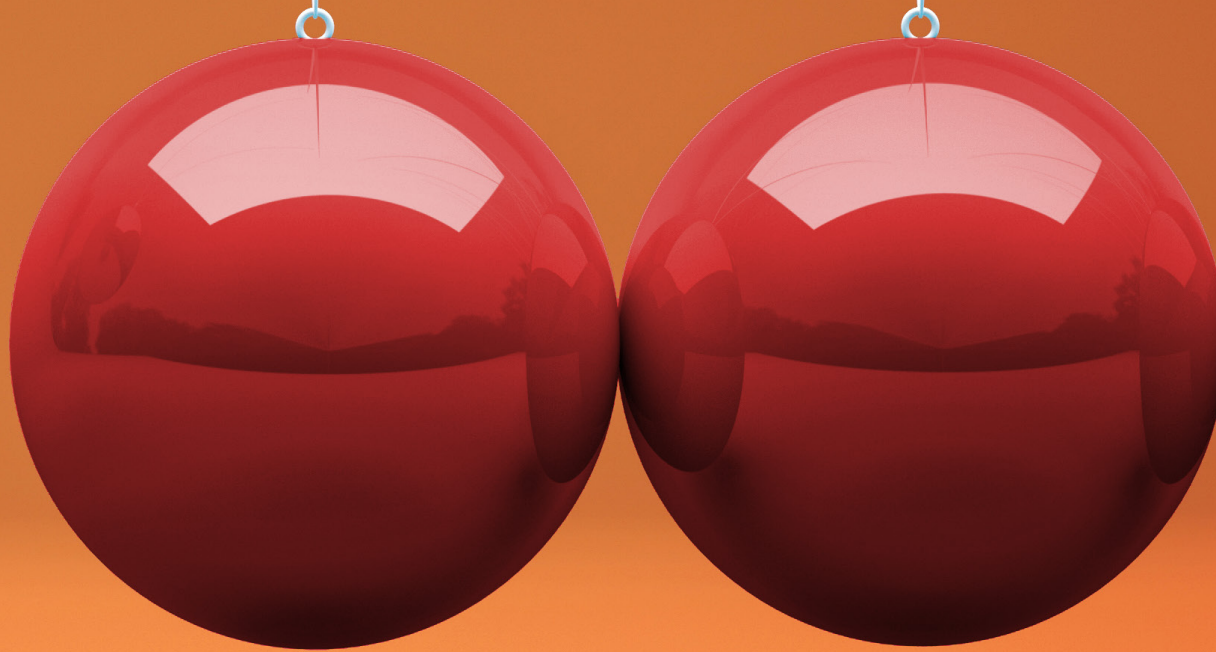
As we discussed in an edition of *next* last year, there were a number of key themes that we were looking for in the DOL's final amendments to the so-called ESG Rule. Now we have the final text, and it is more neutral than the version the DOL originally proposed. We appreciate the DOL addressing the issue but there are remaining uncertainties around the regulation and impact on employers offering RI in their retirement plan menus.

This more neutral approach is arguably a good thing. A more neutral ruling from the DOL hopefully reduces the likelihood that this particular rule becomes an endless ping pong ball of policy that bounces back and forth with every change of administration. With any luck, a more neutral ruling will give some regulatory certainty to this area and unlock the potential of ESG products to find their way into more investment menus.

What's in the rule?

As of January 30, 2023, the final rule that was released back in late November 2022 is now in effect. The rule, called "Prudence and loyalty in selecting plan investments and exercising shareholder rights" directs the federal government to identify and assess policies to protect savings and pensions from the threat of climate-related financial risks. One of the most important





factors to be reminded of is that the new DOL ruling still retains the core focus on the duties of prudence and loyalty. But it does give consideration into the growing movement in asset management, and society as a whole, that the economic effects of climate change are risk factors that are often worthy of consideration in the type of long-horizon investments such as those contained within retirement plans. The rule defines risk-return characteristics more broadly, and explicitly includes the consideration of ESG factors as potential elements for fiduciaries. Below we examine some key changes between the draft and final rules.

There are five key elements to the DOL's final ruling:

1 The interpretation of the *duty of prudence* is largely unchanged, but generally more neutral than in the initial proposal.

The final text removes the explicit endorsement of ESG as being material factors. The final rule therefore affirmed that a fiduciary's determination with respect to any particular investment must be based on a risk and return analysis, but such analysis may include the economic effects of climate change and other ESG factors if the plan fiduciary determines that they are relevant, or material.

2 The *duty of loyalty* language in the final ruling is similar to the initial proposal.

The DOL interpreted that in considering the duty of loyalty it would be contrary if the plan sponsor subordinated interests of participants to other objectives. There was also language to reiterate that plan sponsors should not sacrifice investment return or

take additional risk to invest in things that could harm retirement goals. However, from the proposal they took out specific examples of material ESG factors, as we suspected they might, to broaden the ruling.

3 *Tie-breaker tests* include substantial changes from the previous version of the rule.

Tie-breaker tests, as we wrote in our article last year, were one of the more contentious sections of the proposed rule. Under the 2020 version of the DOL rule there was a challenging concept that if a plan sponsor couldn't decide between two "economically indistinguishable" options, they could consider ESG. But this standard was almost an impossibility to reach and was unnecessarily restrictive.

However, the final rule says that a fiduciary is now permitted to consider "collateral benefits" to select between two alternatives for the plan that both "equally serve" the needs of participants. We view this new language as being fundamentally much more open as it shifts the emphasis away from hard economic standards. There are many ways that two investments could equally serve the participants, and the rule doesn't specifically call out factors such as return or risk, etc.

4 With regard to *proxy voting* the ruling reiterates the fiduciary duty to vote proxies, unless there are undue burdens of voting.

It also makes it clear that it does not impose a uniform methodology for determining participant preferences but leave this to the discretion of fiduciaries. We view this as being a more traditional, neutral approach.

5 The final rule also clarifies that *QDIAs* are not treated differently, with the same overall level of tests being applied to default investments as to others on the menu.

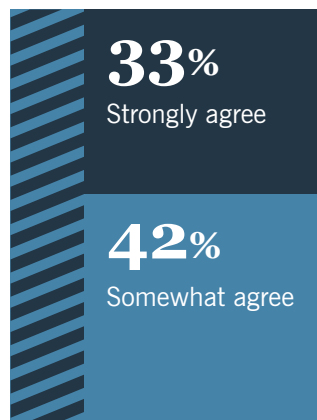
This is important as it potentially allows for sponsors to select ESG options for QDIAs as long as they can show that the selection is otherwise financially prudent.

State vs. federal environment

One large area that remains to be developed is the vastly mixed environment that exists regarding ESG on a state-by-state basis. Despite the DOL taking steps to clarify policy at a federal level, there exist a myriad efforts at the state level to penalize companies that are viewed as

75%
of employees agree:

"Employers who have responsible investments on their retirement menu care about my retirement outcome."



Source: Nuveen Seventh annual responsible investing survey⁴

too ESG-friendly (or vice versa in "blue states"). Despite some political certainty being granted at the national level by the DOL, state-based developments are keeping the topic of a fiduciary's responsibilities in the context of ESG investments in flux as party control has the potential to oscillate regularly.

It must also be said that while the DOL clearly tried to present a more neutral final rule so as to head off potential political back-and-forth, that plan was always going to be an uphill battle. In the middle of December, a number of House Republicans introduced a joint resolution to nullify the final ruling. While the resolution has little chance of passing while Democrats control the Senate and White House, the intent to keep the rule in the political realm remains clear.

Participant preferences

The final rule from the DOL also permits fiduciaries to consider participant preferences in their investment selections, with a statement saying that such considerations are not in breach of the duty of loyalty. This, as we demonstrate below, could have useful repercussions for taking into account clear employee preferences for ESG options in retirement plans.

In Nuveen's seventh annual responsible investing survey, we interviewed over a thousand investors for their views on responsible investing.⁵ Our survey continued to find strong support among employees for companies that offer RI options on their retirement menus. Seventy-six percent agree that employers who have RI on their retirement menu care about their personal retirement outcomes, with 95% of millennial and Gen Z employees agreeing with that statement.

We also found that most investors agree that having RI options on their retirement plan garners greater loyalty to their companies. Sixty-nine percent say that having RI options makes them feel good about working for their employer and 60% say it would make them

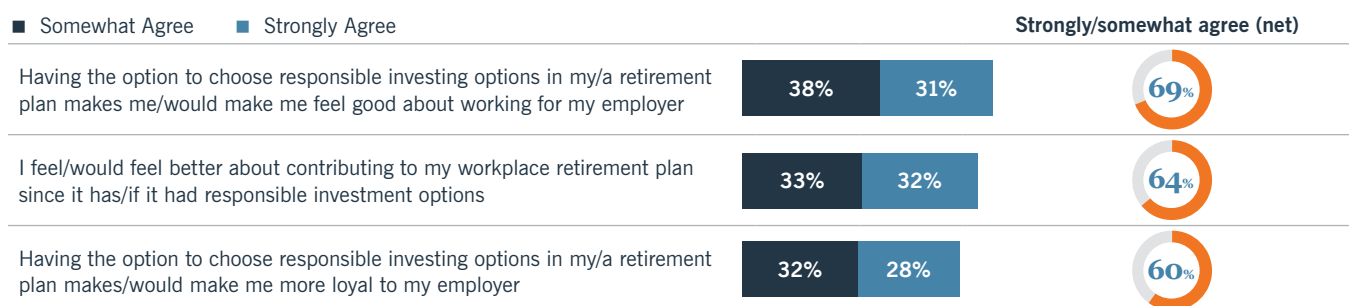


more loyal to their employer. Our survey also found that 91% of millennial and Gen Z investors agree that having RI options on their retirement menus would make them more loyal to their company, highlighting just how important this area of retirement planning and investing can be to younger employees. These numbers broadly speak to a significant number of employees who want their retirement plans to better reflect their personal values. These results also suggest that including RI options on retirement menus can be a way to encourage employee retention and increase overall employee satisfaction.

Even with the extensive survey response indicating that employees feel greater loyalty to their companies when they offer responsible investing retirement options, our survey found that one in four employees do not have any responsible investing options on their retirement plan today.⁶



Impact of employers offering RI on their retirement menu



Source: Nuveen Seventh annual responsible investing survey⁴

ON THE HORIZON

SECURE Act 2.0: Our top four most- anticipated provisions

The long-anticipated SECURE Act 2.0 became law on 29 December 2022, although implementation of many of the Act's provisions will take some years as yet. In anticipation of the new Act, we have been watching its development through Congress, and below we examine our top provisions and the impact we look forward to them having.



1. Auto-enrollment and auto-escalation

One of the most significant provisions in the new SECURE Act is the mandate for autoenrollment for most newly established retirement plans beginning after 2024. The new provisions provide that newly eligible employees are automatically enrolled at a contribution level between 3% and 10% of pay. There is also an automatic provision to lift employee contributions by 1% per year until they reach the level of at least 10% of pay being contributed, with a limit at 15%. Existing plans are exempt from this provision.

While employees can opt out of the auto-enrollment and escalation, we believe that having these options turned on by default will help get more employees into retirement plans.

Certain employers are exempt, such as those with fewer than 10 employees, those that have been in business less than three years, and government and church employers.

Our view

We have long advocated for autoenrollment to ensure that employees are contributing early and consistently to their retirement plans. Autoenrollment is a great way to ensure that employees are signed up for retirement benefits and gaining the benefit of eligible company matching.

2. Student loans can be matched

One of the other more significant provisions relating to employer contributions is that, starting in 2024, employers can match employee student loan repayments, as though they were contributions made to retirement accounts.

This is an important provision for early in a career, when a significant number of employees cite their inability to balance loan repayments, high costs of living and relatively lower earnings at that stage in their career as main reasons as to why they are not contributing to retirement accounts. More broadly, the Act allows for an employee to designate their company matching to be assigned to a ROTH account, giving employees more flexibility in the tax treatment of their employer contributions. This is, however, optional for employers to allow. These after-tax Roth contributions, if left in a retirement plan for five years, are distributed tax free.

Our view

Allowing employers to treat loan repayments as though they were retirement account contributions, and gaining company matching against those should help get more employees into their retirement accounts at an earlier age, which can have major benefits at later stages in the career due to the compounding effects of early savings.

3. MEPs/PEPs

One of the more curious by-products of the first SECURE Act left 403(b) plans unable to participate in pooled employer plans (PEPs), which have become a staple in the 401(k) space thanks to their ability to tie together multiple smaller employers. Multiple employer plans (MEPs) were allowed for 403(b) plans, and we have seen significant growth in this space, but the provision that requires the employers in a MEP to have a common nexus is one that has held back growth. SECURE 2.0 allows PEPs in the non-profit space, which do not have such a provision for a nexus point, and as such we see significant demand for growth in this space across the 403(b) market.

This will make the 403(b) market start to look more like the 401(k) market, with PEPs being a market for growth to tie together smaller employers that have not historically had that nexus point. But we also see certain lessons that the 401(k) market could learn from their non-profit counterparts.

MEPs have been a significant driver of embracing lifetime income in their solutions. Part of this is related to how MEPs are ultimately sold to their members. An association that is set up as the nexus is selling the MEP solution to the individual schools, hospitals, etc. within the plan. The association therefore has to find something of value to bring to the members to make the MEPs offer something that they should consider. Bringing together the other parties to lower costs and reduce complexity is one area, but the inclusion of lifetime income can be a major product differentiator for the MEP provider, and we have seen them using this as a way to drive inclusion in the plan.

Our view

We think that PEPs may soon start to take notice and see the inclusion of lifetime income solutions within their plans as a method of differentiation and a way to drive inclusion. There is also great potential for 401(k) plans to embrace certain aspects of MEPs as well, as characteristics of MEPs that help promote guaranteed lifetime income could see more uptake in PEP plans.

4. Changes to emergency savings, hardship withdrawals and sidecar accounts

There are two key provisions related to emergency savings vehicles and hardship withdrawals contained within the new Act. The U.S. is one of the few countries that allows those saving for retirement to withdraw assets early in cases of financial hardship. This is something of a double-edged sword. In times of economic stress, such as the current inflationary environment, it can be useful to give employees the flexibility to access their retirement savings to help them avoid undue financial hardship. However, the risk is that assets are not replaced in time or sufficiently, so the long-term benefits of continued savings and compounding are lost, ultimately leaving the employee in a worse position when they reach retirement age.

The provisions in the new Act are designed to help allow for emergency access but in a relatively limited way. This provision does not put particular emphasis on the plan sponsor to verify that the amount being withdrawn is actually being used for an emergency, or that the amount withdrawn equals the expenditure incurred by the emergency, potentially leaving it somewhat vulnerable to abuse, but the dollar amounts should be small enough to prevent major ramifications to retirement savings.

The hardship withdrawal provisions have also been broadened to allow participants to self-testify that the amount being withdrawn is for specific hardship needs, such as those incurred by a natural disaster. The provisions also align 401(k) and 403(b) hardship withdrawal rules.

Other significant provisions

- **529 rollovers:** One additional provision that is of interest allows for unused funds in 529 plans (an account specifically for qualified educational expenses) to be rolled over into a Roth IRA. It is perfectly possible for there to be leftover funds in a 529, if a child gets a scholarship or college is cheaper than expected, and this provision allows the funds to be transferred into a Roth IRA in the same name as the beneficiary of the 529 plan. There are some limitations, including that the limit is \$35,000 in the beneficiary's lifetime, the account must have been open for at least 15 years, and that it is still subject to regular Roth contribution limits, among other limitations. However, we believe that this may help encourage 529 plan pickup, knowing there is more flexibility with any leftover funds.
- **RMDs:** The continued increase in the RMD age was again a feature in SECURE 2.0. As workers keep retiring later and living longer, we see the increase in RMD age as a benefit for those who can keep saving later in life. We view provisions that allow investors to keep their assets within retirement plans as long as they would wish as generally positive, and see the elimination of RMDs from Roth accounts as a further positive.
- **Catchup limits:** The increase in catchup contributions for employees aged 60-63 is again a positive, allowing those who can afford it to continue contributing increased amounts in the later years

of their working life. The Act also requires (from 1 Jan 2024) that catch-up contributions made by participants over the age of 50 go into a ROTH account. This will add an additional burden on plan sponsors to begin offering ROTH accounts if they currently do not do so.

- **CITs in 403(b):** While progress was forecast to be made with the passage of SECURE 2.0 in allowing CITs to be included in 403(b) plans, the provisions to correct the parts of regulation were not included in the final Act. It appears that CITs are still not allowed to be a part of 403(b) plans, despite industry enthusiasm. We hope that the regulation is eventually amended, allowing for equal treatment of CITs in 403(b) plans, as they continue to be a popular and low-cost investment option in 401(k) plans.

Why this matters

We believe that it is crucial for plan sponsors and employers to have a deep understanding of the continually shifting regulatory and legislative environment around retirement planning. While some of the provisions of SECURE 2.0 are enacted immediately, the effective dates vary and go out several years, allowing for proper planning to take place. Being able to answer the questions an employee has about their retirement savings, how much they can contribute and on what basis, and what investment options are available and why are areas that have been proven to be very important for employees. Retirement benefits are increasingly viewed as an integral component of an organization's total benefits package or an employee financial wellness strategy. As employers commence their annual plan reviews, they can work with service providers to understand how they can help implement best practices related to student loan repayments, participant communications and engagement plans, financial wellness tool upgrades and investment vehicle availability.

"Sidecar accounts" are another development that should help to alleviate some financial stress on employees and prevent them from dipping into retirement funds prematurely. The Act permits plan sponsors to offer short-term emergency savings accounts as part of a defined contribution plan that must be funded post-tax with Roth contributions and are capped at \$2,500. Employees must be able to make withdrawals from these accounts at regular intervals and they do not require repayment. These accounts have particularly broad rules on what constitutes eligible withdrawals.

Our view

We hope that educating participants on the value of remaining fully invested within retirement accounts would hopefully help prevent early withdrawals that could negatively impact ultimate retirement savings. General support of emergency savings is wise; whether it's based on education and informing individuals how to create out-of-plan emergency savings, or tools to help free up funds, those can all contribute to financial resiliency for emergencies. We do appreciate though that in particular times of financial hardship the pool of capital that is built up within a retirement vehicle is a tempting resource to help alleviate particular stresses. Balance needs to be sought while ensuring longevity of investments and continued contributions, so as to not jeopardize retirement savings but allow for flexibility.

**For more information,
please visit us at nuveen.com**

Endnotes

- 1 For full results of the report, please visit: tiaa.org/
- 2 SOA.org
- 3 CDC.gov
- 4 Any guarantees are backed by the claims-paying ability of the issuing company.
- 5 Nuveen commissioned The Harris Poll to conduct an investor survey to further enhance the company's leadership position among investors, the media, customers, prospects, and the broader investment community. The investor survey was conducted online within the U.S. by The Harris Poll on behalf of Nuveen between 18 July 2022 and 1 August 2022 among 1,003 investors who met the following criteria: U.S. resident, age 21+, \$100,000 in investable assets (excluding 401(k) or 403(b) accounts or real estate), primary or joint decision-maker for household financial decisions, and currently working with a financial advisor.
- 6 Responsible investing incorporates Environmental Social Governance (ESG) factors that may affect exposure to issuers, sectors, industries, limiting the type and number of investment opportunities available, which could result in excluding investments that perform well.

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