



2023 EMPLOYEE BENEFIT PLAN CONFERENCE

THURSDAY, JUNE 15TH



OUR SPONSORS



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- Virtual: If you need CPE credit, please participate in the interactive polls.
 - Survey & Certificates will be sent from LCVista to your email after the event.
 - Please fill out the survey, your feedback is appreciated!
- Presentation materials and the recording will be sent out after the event to all attendees.
- Questions? Email Marketing@whitleypenn.com

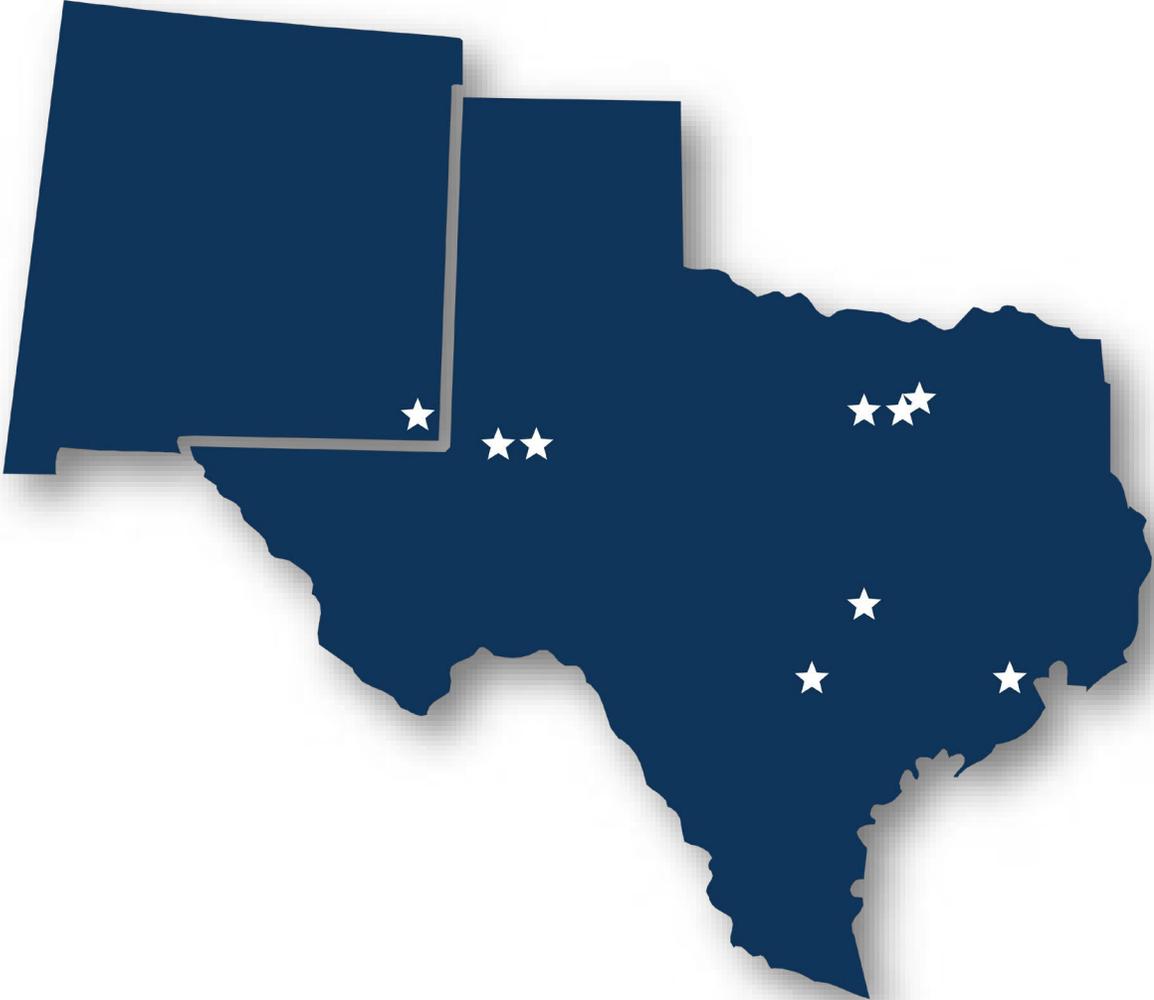
**CHEERS TO 25 YEARS
OF THE
EMPLOYEE BENEFIT PLAN CONFERENCE!**

Thank you to our sponsors and speakers!



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Industries

- Agriculture
- Construction
- Employee Benefit Plans
- Energy
- Estate & Gift Planning
- Family Office & High-Net-Worth Individuals
- Financial Institutions
- Healthcare
- Manufacturing, Distribution & Logistics
- Nonprofit
- Private Equity & Investment Funds
- Professional Services
- Public Sector
- Real Estate & Construction
- Restaurant, Entertainment, Retail & Hospitality
- Technology
- Transportation
- Veterinary

Our Services

■ Audit

- Corporate
- Public Sector
- Risk Advisory Services

■ Consulting

- Strategic Consulting Services
- Transaction Advisory Services
- Forensic, Litigation and Valuation Services (FLVS)
- Wealth Management (WPWealth)
- Client Accounting & Advisory Services (CAAS)

■ Tax

- Federal
- State & Local Tax (SALT)
- International Tax



INTERNATIONAL AFFILIATION

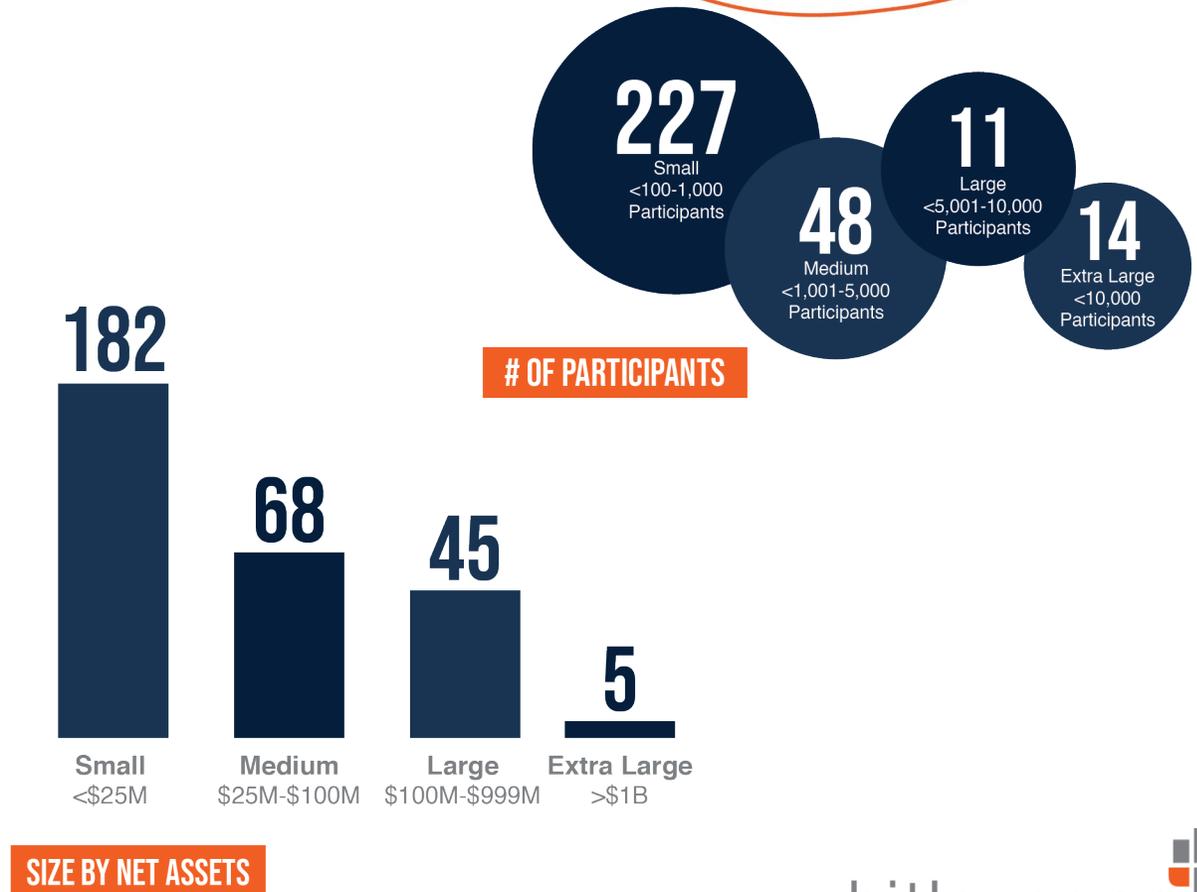
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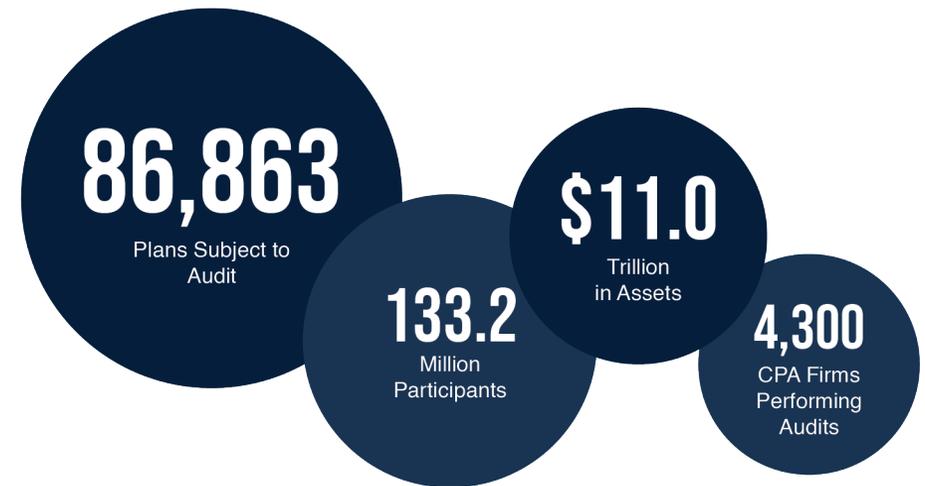
Our Employee Benefit Plan Practice

More than
300
Total Number of
Plans Audited

- 237 Defined Contribution - Limited Scope
- 21 Defined Benefit - Limited Scope
- 12 Defined Contribution - Full Scope/ SEC 11-K
- 13 Defined Contribution 403 (b) and 401 (a)
- 5 ESOP
- 3 Defined Benefit - Public Sector
- 2 Defined Contribution - Full Scope/ Non-SEC
- 5 Health and Welfare
- 2 Defined Benefit - Full Scope



Our Employee Benefit Plan Practice



(Based on 2020 Form 5500 Data)

Credit: Michael Auerbach, CPA, Chief Accountant in the Office of the Chief Accountant with DOL's EBSA Division

Break

Break



CAPTRUST



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What approach do you recommend plan sponsors follow when trying to determine the most effective plan design for their participants and budget?



**Should I be concerned about whether my
Company's 401(K) plan is safe from hackers
and other cyber thieves?**



How often do we need to review our Investment Policy Statement for our 401(k) Plan?



**Audience Question: Has your recordkeeper
reached out to you about SECURE 2.0?**



**Is it possible to entirely eliminate/outsource
our fiduciary liability?**



Question for auditors- What is the most common type of error you see when auditing 401(k) plans?

As of January 1, 2022 (date is very important)—our plan had 150 employees who were eligible to contribute to the 401(K) plan but only 75 employees actually had an account balance, and 15 former employees had an account balance. Do we need an audit with our 5500 for 2022? Will the answer be the same or different for 2023? Can we adopt the new rule early?



**Are there any evolving trends
in QDIA's?**



**What challenges do you foresee in
communicating with 401k participants
in the future?**



**How often should our plan committee
meet and who all should be included in
the meetings?**



Who “owns” our retirement plan’s Investment Policy Statement?



**What are the latest trends you see in
Financial Wellness and Advice?**



What is the difference between a late deposit and a missed deferral and how do I fix each one?



**What are the latest trends you see in
Financial Wellness and Advice?**



We did not manage to get our Cycle 3 restatement signed by July 31, 2022. Are we in trouble and what do we do now?

**JOIN US FOR NETWORKING IN THE
MANDALAY FOYER!**



Accounting, Auditing, & Compliance Update

SECURE 2.0

Adam Rhodes, Partner, Whitley Penn

Terry Cosand, Partner, Whitley Penn

James Griffin, Partner, Scheef & Stone

25th Annual EBP Conference— June 15, 2023

Topics Covered

- Auditing Updates
- Accounting Updates
- Compliance Updates and Other

Note: Content within the following slides was primarily obtained from the May 2023 AICPA Conference on Employee Benefit Plans



Auditing Updates

Upcoming audit standards

New SAS	Effective for audits of financial statements for periods ending on or after
SAS 142, <i>Audit Evidence</i>	December 15, 2022
SAS 143, <i>Auditing Accounting Estimates and Related Disclosures</i>	December 15, 2023
SAS 144, <i>Amendments to AU-C Sections 501, 540, and 620 Related to the Use of Specialists and the Use of Pricing Information Obtained From External Information Sources</i>	December 15, 2023
SAS 145, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>	December 15, 2023

Auditing Updates

SAS No. 142, Audit Evidence:

- **Effective for periods ending on or after 12/15/2022**
- **Addresses the evolving nature of transacting business as well as the evolution of audit services**
 - **Use of emerging technologies and techniques by both preparers and auditors**
 - **Application of professional skepticism**
 - **Expanding use of external information sources to provide audit evidence**
 - **More broadly, the relevance and reliability of audit evidence**

Auditing Updates

SAS No. 142, Audit Evidence, Key Changes:

- **Expanded guidance on evaluating whether sufficient appropriate audit evidence has been obtained**
 - More broadly focused on considering the attributes of information to be used as audit evidence
 - Attributes of reliable information include accuracy, completeness, authenticity and susceptibility to bias
- **Automated tools and techniques**
- **Professional skepticism**
- **Management specialists**

Auditing Updates

SAS No. 142, Audit Evidence:

- Information may be obtained directly or derived individually or in combination from different sources (management, external, auditor)
- Evaluating audit evidence (relevance, reliability, accuracy, and completeness)
- Controls over audit evidence
- Some examples of audit evidence in an EBP audit:
 - Trust Statements
 - Recordkeeping reports
 - Payroll reports
 - Distribution records
 - Election forms
 - Plan Documents
 - Account statements

Auditing Updates

- **SAS No. 142, Audit Evidence:**
- **Identifying and Evaluating Information to be used as Audit Evidence**
 - Types of information available (personnel file, payroll register, etc.)
 - The forms of information available (oral, visual, paper, electronic)
 - The source of the information (plan sponsor, third-party, etc.)
 - The sufficiency and appropriateness of audit evidence (relevance and reliability)
 - Whether additional procedures need to be considered to substantiate the appropriateness (relevance and reliability) of electronic audit evidence

Auditing Updates

SAS No. 143, Auditing Accounting Estimates and Related Disclosures:

- **Why the change?**
 - **Converge U.S. GAAS with International Standards**
 - **To help auditors appropriately address increasingly complex scenarios that involve accounting estimates**
- **What is changing?**
 - **Enhanced risk assessment that is more specific to estimates**
 - **Audit procedures need to be responsive to the reasons for the assessed risk of material misstatement**
- **Other key concepts**
 - **Application of scalability**
 - **Professional skepticism**

Auditing Updates

SAS No. 144, Use of Specialists and Use of Pricing Information

What is changing:

- AU-C Section 501, *Audit Evidence –Specific Considerations for Selected Items* -Enhances guidance about evaluating the work of management’s specialist
- AU-C Section 540, *Auditing Estimates and Related Disclosures* -New Appendix, “Use of Pricing Information From Third Parties as Audit Evidence”
- AU-C Section 620, *Using the Work of an Auditor’s Specialist* -Enhances guidance about evaluating the work of the auditor’s specialist

Auditing Updates

SAS No. 145, Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement

Objective: To Enhance on the Auditor's Risk Assessment through focusing on:

- Understanding the entity's system of internal control
- Addressing risks arising from an entity's use of IT
- Determining risks of material misstatement, including significant risks
- Consideration of economic, technological, and regulatory aspects of markets and environment

Auditing Updates

SAS No. 145, Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement

Enhances:

- Requirements and guidance related to obtaining and understanding the entity's system of internal control and assessing control risk
- Guidance on addressing the economic, technological, and regulatory aspects of the markets and environment of entities and audit firms

Revises:

- Definition of significant risk
- Requirements to evaluate the design and to determine whether certain controls have been implemented
- Requirements related to audit documentation

Auditing Updates

SAS No. 145, Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement

New Requirements:

- Separately assess inherent risk and control risk
- Assess control risk at the maximum if auditor does not plan to test operating effectiveness of controls
- “Stand-back” requirement intended to drive an evaluation of the completeness of the auditor’s identification of significant classes of transactions, account balances, and disclosures

New Guidance:

- Scalability
- Maintaining professional skepticism

Auditing Updates

In the future

Standard	Effective Date
<i>SAS 146, Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards</i>	Effective for periods beginning on or after December 15, 2025
<i>SAS 147, Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations</i>	Effective for audit of financial statements for periods beginning on or after June 30, 2023
<i>SAS 148, Amendments to AU-C Section 935, Compliance Audits</i>	Effective for compliance audits for fiscal periods ending on or after 12/15/23 (except for the amendments related to AU-C 501 which are effective for periods ending on or after 12/15/22.)

Auditing Updates

Standard	Effective Date
<i>SAS 149, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)</i>	Effective for periods ending on or after December 15, 2026

Accounting Updates

- **Not much to discuss in this area, no major changes for EBPs!**
- **Could be some updates on Actuarial Mortality Tables related primarily to Pension Plans audited- last update was October 2021**

Compliance Update and Other

DOL's Change in Participant Count Methodology

The DOL recently approved changes to its participant count methodology for determining if a defined contribution plan requires an audit.

The guidance is effective for plan years beginning on or after January 1, 2023.

- While there are a number of changes coming for 2023 Plan years as described in detail at [Fact Sheet: Changes for the 2023 Form 5500 and Form 5500-SF Annual Return/Reports | U.S. Department of Labor \(dol.gov\)](#), what you need to be aware of now is related to the participant count methodology changes.
- The counting methodology for determining the 100-participant threshold for certain small plan simplified reporting alternatives, including the conditional waiver of the annual audit. The counting methodology for defined contribution retirement plans, will be based on the **number of participants with account balances** on the first day of the plan year, rather than the current method that counts individuals who are eligible to participate even if they have not elected to participate and do not have an account in the plan.

Compliance Update and Other

DOL's Change in Participant Count Methodology- Continued

Initial thoughts beginning with 2023 calendar plan years:

- 401(k)/Defined contribution plans that only have a few people participating even though > 100 are “eligible” will no longer require an audit.
- If your company has been growing closer to 100 employees, your 401(k)/defined contribution plan may not require an audit as quickly compared to the current rules. The good news is the questions around counts are simplified under the new rules as “eligible” participants has been confusing.
- If you have a 401(k)/defined contribution plan with a final stub/short period audit for 2023, the new rules will be in effect which could possibly eliminate the final stub period audit for some plans.
- The 80/120 rules will still apply.
- Non-defined contribution retirement plans are not impacted by these changes.

Compliance Update and Other

- IRS Compliance Update
- IRS Determination Letters (Individually Designed Plans ONLY)-
 - IRS continues to accept determination letter applications for newly effective plans, terminating plans and merged plans.
- Individually designed program for **403(b) plans** opens June 1, 2023 and will initially span a 3-year period based on the EIN of the plan sponsor (see Rev Proc 2022-4)
- Pre-approved 403(b) Plans
 - Second cycle submission closed April 30, 2023 and IRS will review submitted plan documents between June 1, 2023 and November 30, 2024.
 - Opinion letters should be issued in late November or early December 2024
 - Cumulative Amendments List for second cycle 403(b) plans was published in Notice 2022-8 on Feb 14, 2022

Compliance Update and Other

SECURE Act 2.0 of 2022

- Included as part of the Consolidated Appropriations Act, 2023
- Passed by Congress on December 23, 2022, Signed by the President on December 29, 2022
- Reconciliation of separate bills
 - Securing a Strong Retirement Act of 2022 (House)
 - Retirement Improvement and Savings Enhancement Act of 2021 (RISE) Act (House)
 - Retirement Improvement and Savings Enhancement to Supplement Healthy Investments for the Nest Egg (RISE and SHINE) Act (Senate)
 - Enhancing American Retirement Now (EARN) Act (Senate)

Lots of details to work out between recordkeepers, legal counsel and plan sponsors!

Compliance Update and Other

SECURE Act 2.0 of 2022- continued

- SECURE Act 2.0 contains numerous provisions making adjustments to many areas of the rules governing qualified retirement plans. **This presentation is intended to highlight some of the most significant changes.** There are many additional significant legislative changes in SECURE Act 2.0 that are not addressed, including many related to --
- 403(b) plans, 457(b) plans, SIMPLE plans, SEPs, ESOPs, certain other state and local government plans, and IRAs,
- Changes to ease the ability of plans to offer lifetime income options, and
- Changes to address duplicative or burdensome participant notice requirements.
- And these are just examples!

Compliance Update and Other

SECURE Act 2.0 of 2022- continued

New Plans - Required Automatic Enrollment and Automatic Escalation

- Effective for plan years beginning after December 31, 2024
- New 401(k) and 403(b) plans must now include an automatic enrollment feature
- Automatic enrollment must be at least 3% but not more than 10%
- Percentage must automatically escalate yearly by 1% up to at least 10% but not more than 15%
- Participants may opt out by taking withdrawals within the first 90 days of automatic enrollment
- An employer that first adopts a multiple-employer plan on or after December 29, 2022, will be treated as if the employer had adopted a new plan
- Exempt plans – Existing plans; small employers with 10 or fewer employees; new employers in existence for less than 3 years; governmental plans; church plans; SIMPLE plans

Compliance Update and Other

SECURE Act 2.0 of 2022- continued

Required Minimum Distributions

Required Beginning Date

- Increased to Age 73 effective January 1, 2023
- Increase to Age 75 effective January 1, 2033

Penalties

- Penalty for failing to take an RMD reduced from 50% to 25%
- If correction is made within two years the tax is further reduced to 10%

Effective for taxable years beginning after December 29, 2022

Other Rules for RMDs effective in 2024

Compliance Update and Other

SECURE Act 2.0 of 2022- continued

Catch-Up Contributions

Effective for taxable years beginning after December 31, 2024

- Increased Limit on Catch-Up Contributions for Individuals age 60 to 63
- Greater of \$10,000 or 150% of the regular catch-up amounts for 2024
- Adjusted annually for inflation

Effective for taxable years beginning after December 31, 2023

- Catch-Up Contributions must be made on a Roth basis
- Does not apply to employees with compensation of \$145,000 or less (as indexed)

Compliance Update and Other

SECURE Act 2.0 of 2022- continued

Roth Matching and Nonelective Contributions

Effective for contributions made after December 29, 2022

- Employer matching or nonelective contributions may be made on a Roth basis

Compliance Update and Other

SECURE Act 2.0 of 2022- continued

Matches on Student Loan Payments

Effective for plan years beginning after December 31, 2023

- Matching contributions may be made with respect to a “Qualified Student Loan Payment”
- A “Qualified Student Loan Payment” may be certified by employee and up to the 402(g) limit may be made subject to a match
- Match generally must be made at same rate and to same extent as match on elective deferrals, but pending regulatory guidance may be made on a different schedule
- Employers may elect to apply nondiscrimination testing for elective contributions separately to employees who receive this type of matching contribution

Compliance Update and Other

SECURE Act 2.0 of 2022- continued

De Minimis Financial Incentives for Plan Participation

Effective for plan years beginning after December 29, 2022

- Employers may offer de minimis financial incentives to encourage employee participation in a retirement plan
 - Gift cards; small payments
- De minimis amount and/or form of payment not defined and so will be determined by Treasury/IRS
- The employer must pay the incentive, which cannot be paid with plan assets

Compliance Update and Other

SECURE Act 2.0 of 2022- continued

Increased Mandatory Distribution Limit

- Currently a retirement plan sponsor can distribute a terminated participant's account, without the participant's consent, if their balance does not exceed \$5,000
- SECURE Act 2.0 pushes this to \$7,000

Effective for distributions on or after 1/1/24

Compliance Update and Other SECURE Act 2.0 of 2022- continued

Special Plan Distribution Provisions

Special provisions that plans may provide:

- Emergency withdrawals
- Self-certified domestic abuse withdrawals
- Terminal illness withdrawals
- Federally declared disaster withdrawals
- Self-certification of hardship for hardship distributions
- Payments for Long-Term Care Contracts

Generally avoids payment of 10% early withdrawal tax

Different limits on distributions

Different effective dates

Different potentials for repayment to plan

Compliance Update and Other

SECURE Act 2.0 of 2022- continued

Missing Participant “Lost and Found” Database

No later than December 29, 2024

- DOL will have a database that will allow individuals who may have funds remaining in a retirement plan to search for current contact information for plan administrators
- Envisions plans transmitting information related to missing participants including those who have been paid out in the form of distributions to IRAs
- Time and form of information transmittal to be determined by regulations

Compliance Update and Other SECURE Act 2.0 of 2022- continued

EPCRS & Plan Corrections

- Expansion of types of errors that can be self-corrected through EPCRS
 - Self Correction Program (SVP) expanded to cover any “eligible inadvertent failure”
 - Can be used for “significant” operational failures more than three years old
- Eligible inadvertent failures may be self-corrected prior to IRS audit unless specifically identified in Treasury/IRS guidance if done within a “reasonable period”
- Specific focus on ability to correct failures related to certain plan loan and IRA failures
- **Updated EPCRS Guidance to be Issued by December 29, 2024**

Compliance Update and Other

SECURE Act 2.0 of 2022- continued

EPCRS & Plan Corrections- continued

Auto-Enrollment Failures

- Safe harbor confirmed for correction of certain automatic enrollment/automatic escalation failures
- **Effective for errors after December 31, 2023**

Inadvertent Benefit Overpayments

- Confirms that plan fiduciaries may choose not to recoup some or all of inadvertent benefit overpayments to plan participants (and in fact may not recoup overpayments in certain circumstances)
- **Effective as of December 29, 2022**

Compliance Update and Other

SECURE Act 2.0 of 2022- continued

Plan Amendments

- Plans have until the last day of the plan year beginning on or after January 1, 2025 (i.e., December 31, 2025 for calendar year plans) to adopt SECURE 2.0 amendments
- Plans must operate in compliance with the SECURE 2.0 requirements or the amendment as of the amendment's effective date
- Plan amendments under 2019 SECURE Act, the CARES Act and the Taxpayer Certainty and Disaster Relief Act updated to SECURE 2.0 dates

Questions?



Thank You!



ERISA and ESG: Catching Up to the Swinging Pendulum

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Presented to:

2023 Whitley Penn
Employee Benefits Conference

June 15, 2023

ESG

Environmental

- Waste and pollution
- Resource depletion
- Greenhouse gas emission
- Deforestation
- Climate change

Social

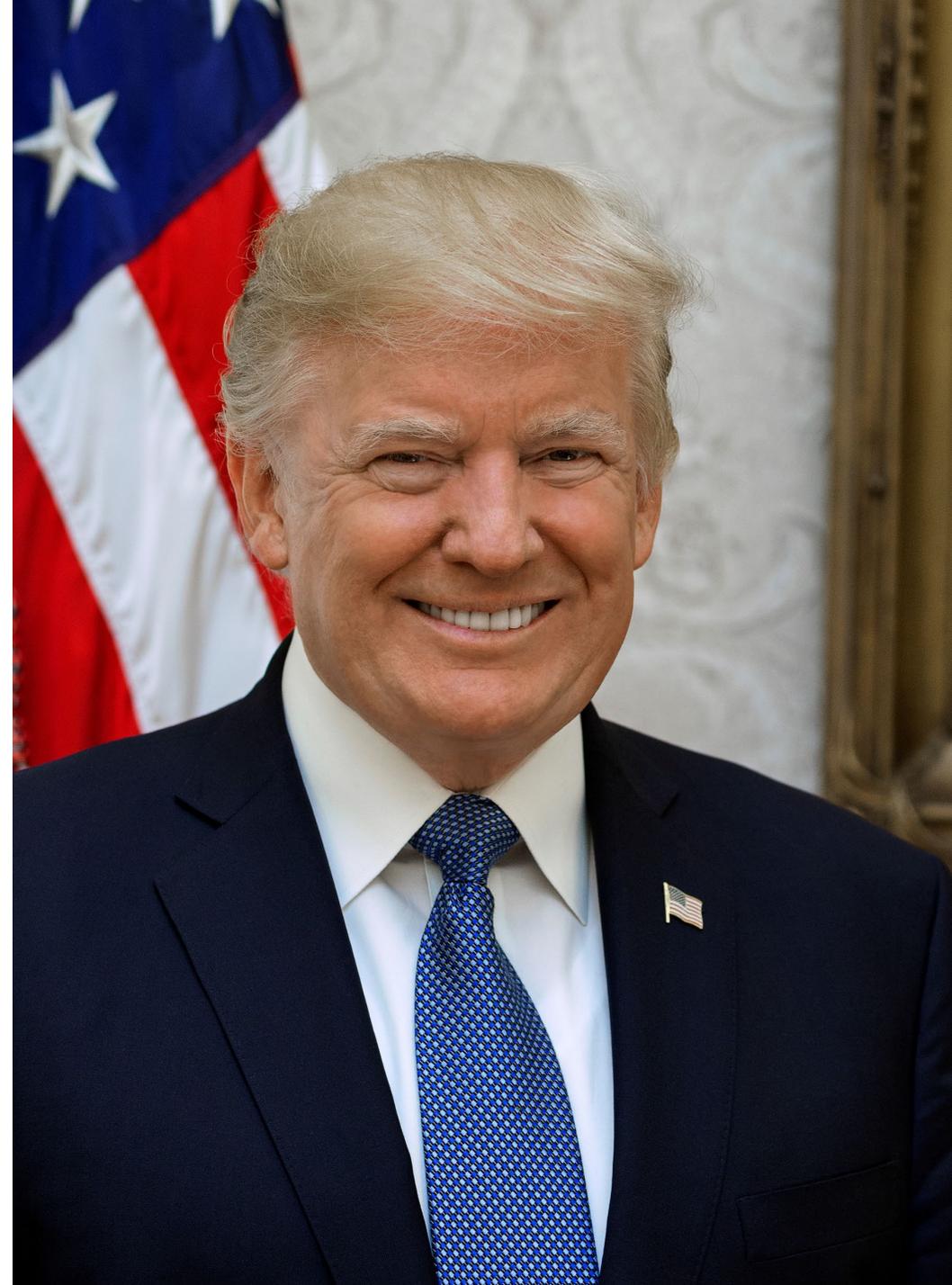
- Employee relations and diversity
- Working conditions
- Local communities
- Health and safety
- Conflict

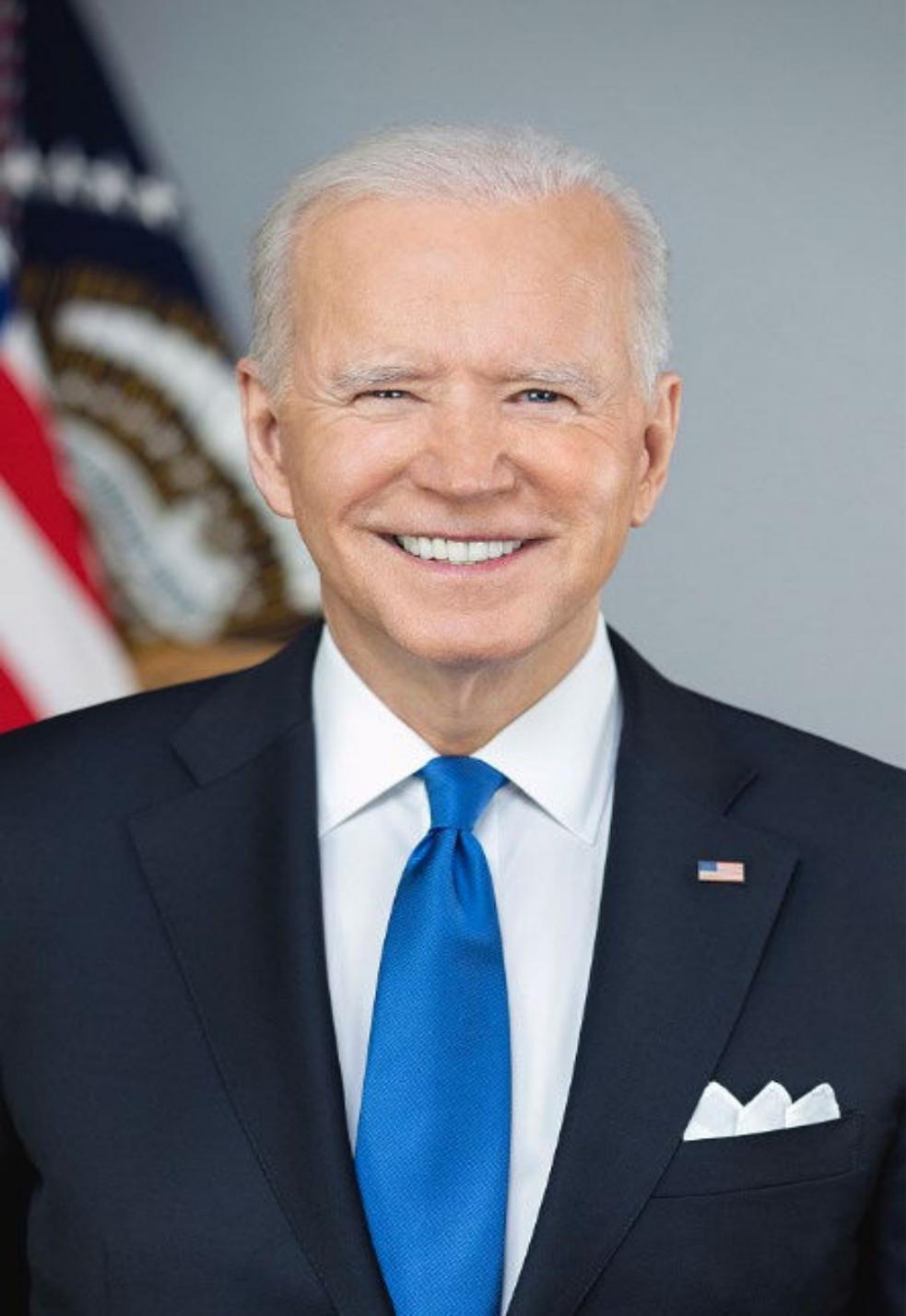
Governance

- Tax strategy
- Executive remuneration
- Donations and political lobbying
- Corruption and bribery
- Board diversity and structure

2020 Final Rules

- Fiduciary Duties Regarding Proxy Voting & Shareholder Rights
 - 85 Fed. Reg. 81,658
 - December 16, 2020
- Financial Factors in Selecting Plan Investments
 - 85 Fed. Reg. 72,846
 - November 13, 2020





2022 Final Rules

- Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights
 - 87 Fed. Reg. 73,822
 - December 1, 2022
- Effective January 30, 2023

2022 Final Rule Highlights

- A fiduciary is permitted, but not required, to consider the economic effects of climate change and other ESG factors on the investment at issue—Prudence (b)(4)
- A fiduciary may consider “collateral benefits” when competing investments equally serve the financial interest of the plan—Loyalty (c)(2)
 - Remove the documentation requirement
 - Remove the “indistinguishable” requirement
 - Add “appropriate investment/time horizon”
- A fiduciary may consider participant preference—Loyalty (c)(3)
- Repealed the ban on use of ESG in QDIAs

(b)(4)—Prudence

A fiduciary's determination with respect to an investment or investment course of action must be based on factors that the fiduciary reasonably determines are **relevant** to a risk and return analysis, using **appropriate investment horizons** consistent with the plan's investment objectives and taking into account the funding policy of the plan established pursuant to section 402(b)(1) of ERISA. **Risk and return factors may include the economic effects of climate change and other environmental, social, or governance factors on the particular investment or investment course of action.** Whether any particular consideration is a risk-return factor depends on the individual facts and circumstances. The weight given to any factor by a fiduciary should appropriately reflect a reasonable assessment of its impact on risk-return.

(c)(2)—Loyalty

If a fiduciary prudently concludes that competing investments, or competing investment courses of action, **equally serve** the financial interests of the plan over the **appropriate time horizon**, the fiduciary is not prohibited from selecting the investment, or investment course of action, based on **collateral benefits** other than investment returns. A fiduciary may not, however, accept expected reduced returns or greater risks to secure such additional benefits.

ERISA Highlights



Plans, Participants and Assets

747,000 retirement plans

2.5 million health plans

673,000 other welfare benefit plans

152 million workers

\$12 trillion in plan assets

Participant Demand for ESG

- Often or exclusively use investments that take ESG factors into account (CNBC, 2021)
 - 33% of Millennials—age 27 to 42
 - 19% of Gen Z—age 11 to 26
 - 16% of Gen X—age 43 to 58
 - 2% of Baby Boomers—age 59 to 77
- 69% of DC plan participants said that they would increase their overall contribution rate if they were offered an ESG option (Schroders, 2021)
- 20% of DB and DC plans consider ESG factors (Callan, 2021)
- 36% of 100+ participant plans use ESG (Morningstar comment letter)
- 5% of 401(K) plans have at last 1 ESG themed investment (PSCA, 2021)

ERISA 403(c)

Use of Plan Assets

The assets of a plan shall never inure to the benefit of any employer and shall be held for the exclusive purposes of providing benefits to participants in the plan and their beneficiaries and defraying reasonable expenses of administering the plan.

ERISA 404(a)(1)

Fiduciary Duties

A fiduciary shall discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries and—

(A) for the exclusive purpose of:

(i) providing benefits to participants and their beneficiaries; and

(ii) defraying reasonable expenses of administering the plan;

(B) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;

(C) by diversifying the investments of the plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and

(D) in accordance with the documents and instruments governing the plan insofar as such documents and instruments are consistent with the provisions of this title and title IV.

DOL Sub-Regulatory Guidance

- **DOL Adv. Op. 88-16A**—A decision to make an investment may not be influenced by non-economic factors unless the investment, when judged solely on the basis of its economic value to the plan, would be equal or superior to alternative investments available to the plan
- **I.B. 1994-01**—a fiduciary may not subordinate the interests of participants in their retirement income to unrelated objectives, but a fiduciary may select an economically targeted investment that serves economic objectives in addition to providing a comparable risk and rate of return
- **I.B. 2008-01**—fiduciaries may not select investments on the basis of any factor outside the economic interest of the plan **except in very limited circumstances**
- **I.B. 2015-01**—increased flexibility to use collateral factors, including ESG factors, in a fiduciary's investment decision-making
- **FAB 2018-01**— limiting consideration of ESG as an economic consideration

Selected Supreme Court ERISA Decisions

- **Fifth Third Bancorp v. Dudenhoeffer**, 573 U.S. 409, 421 (2014)—The term “benefits” in ERISA refers to financial benefits (such as retirement income) and does not cover nonpecuniary benefits
- **Tibble v. Edison Int’l**, 575 U.S. 523 (2015)—A fiduciary has a continuing duty to monitor investments and remove imprudent ones
- **Thole v. U.S. Bank, N.A.**, 590 U.S. ____ (2015)—Plaintiffs had no Article III standing to assert claims for investment loss in a defined benefit pension plan
- **Hughes v. Northwestern University**, 595 U.S. ____ (2022)—courts must give due regard to the **range of reasonable judgments** a fiduciary may make based on her experience and expertise

ESG: Names & Meaning



ESG By Any Other Name

- Environmental, Social and Governance
- Socially Responsible Investing
- Impact Investing
- Mission-Related Investing
- Standing For Something More
- Supporting Societal Change Through Investing
- Sustainability Investing
- Economically Targeted Investing
- People Over Profits

ESG

Environmental

- Waste and pollution
- Resource depletion
- Greenhouse gas emission
- Deforestation
- Climate change

Social

- Employee relations and diversity
- Working conditions
- Local communities
- Health and safety
- Conflict

Governance

- Tax strategy
- Executive remuneration
- Donations and political lobbying
- Corruption and bribery
- Board diversity and structure

Financial Factors Listed In the Preamble

- operating and financial history
- capital structure
- long-term business plans
- debt load
- capital expenditures
- price-to-earnings ratios
- operating margins
- projections of future earnings
- sales
- inventories
- accounts receivable
- quality of goods and products
- customer base
- supply chains
- barriers to entry

Special Interest Groups on Both Sides

FOR USE OF ESG

- International Sustainability Standards Board (ISSB)
- Principles of Responsible Investment (PRI) (affiliated with UN)
- Forum For Sustainable and Responsible Investment
- Net Zero Asset Manager
- Climate Action 100+
- As You Sow

AGAINST USE OF ESG

- Marble Freedom Trust
- CRC Advisors
- Consumers' Research
- Heritage Foundation
- State Financial Officers Foundation
- American Accountability Foundation
- American Legislative Exchange Council
- 1792 Exchange

Litigation and Legislation





American Airlines 401(k) Lawsuit (filed June 2, 2023)

“Many American workers don’t realize that their hard-earned money is being used against them. Firms whose job is to deliver investment returns are instead **weaponizing retirement funds**, public pensions and other investments in pursuit of nakedly ideological goals. It is perhaps the most severe breach of the fiduciary standard in American history.”

Marlo Oaks & Todd Russ, Editorial, [A Historic Breach of Fiduciary Duty](#), Wall Street Journal, May 15, 2023

-
- American Century Sustainable Equity Fund I
 - Artisan Sustainable Emerging Markets Fund
 - Brown Advisory Sustainable Growth Fund
 - Domini Impact International Equity Fund
 - Green Century Balanced Fund
 - Parnassus Mid Cap Growth
 - Parnassus Mid Cap Fund Institutional
 - Parnassus Endeavor Fund
 - Pax Small Cap Fund
 - Pax Elevate Global Women's Leadership Fund
 - PFG BR Equity ESG Strategy Fund Class R Shares
 - Praxis Growth Index Fund
 - USAA Sustainable World Fund

AMG GW&K ESG Bond Fund
Boston Trust Walden Small Cap Fund
CCM Community Impact Bond Fund
Firsthand Alternative Energy Fund
JPMorgan U.S. Sustainable Leaders Fund
Parnassus Core Equity Investor Fund
Parnassus Fixed Income Fund
Pax Large Cap Fund
Pax Sustainable Allocation Fund
Pax Global Environmental Markets
PFG Invesco Thematic ESG Strategy
Shelton Green Alpha Fund

Investment Company ESG Policy Mandates Reflected in Proxy Voting

- Examples
 - Divesting in oil & gas stocks
 - Banning plastics
 - Requiring “net zero” emissions
 - Imposing “diversity” quotas in hiring
- “None of the proposals were supported by management at the targeted companies, and the investment managers’ votes were typically made without the approval, or even the awareness of Plan participants.”

Congressional Action

- H.J. Res. 30 providing for Congressional disapproval of the 2022 Regulations
- House, February 28, 2023, 216-204 in favor of resolution
- Senate, March 1, 2023, 50-46 in favor of resolution
- President, March 20, 2023, Vetoed
- House, March 23, 2023, 219-200 failed to override the President's veto

Message to the House of Representatives

President's Veto of H.J. Res 30

- There is extensive evidence showing that environmental, social, and governance factors can have a material impact on markets, industries, and businesses. But the Republican-led resolution would force retirement managers to ignore these relevant risk factors, disregarding the principles of free markets and jeopardizing the life savings of working families and retirees. In fact, this resolution would prevent retirement plan fiduciaries from taking into account factors, such as the physical risks of climate change and poor corporate governance, that could affect investment returns.
- Retirement plan fiduciaries should be able to consider any factor that maximizes financial returns for retirees across the country. That is not controversial — that is common sense.

Republican Attorney General Litigation

- Utah v. Walsh
- U.S. District Court, Northern District of Texas, Amarillo Division
- Filed January 26, 2023
- 2:23-cv-00016-Z
- 25-state coalition
- Final Rule leaves undefined both
 - E, S, & G
 - Time period
- Considering ESG will complicate and increase monitoring costs
- Final Rule will restrict access to capital
- Allows fiduciaries and investment managers to pursue their own ESG policy preferences

Alleged Defects of the 2022 Final Rule

- Exceeds DOL's statutory authority in violation of ERISA and the APA
 - Arbitrary & capricious
 - Override ERISA's plain text
 - Conflicts with ERISA's undivided loyalty requirements, including the "exclusive benefit" rule and "sole benefit" rule
 - Dudenhoeffer's interpretation focusing on financial benefits and not any nonpecuniary benefit
 - Congress did not leave room for ESG in ERISA
- Major question doctrine
 - Given the sheer magnitude of the assets that the 2022 Final Rule would affect, courts should hesitate before finding that DOL has authority to permit consideration of ESG

Participant Litigation

- Braun v. Walsh
- U.S. District Court Eastern District Of Wisconsin, Milwaukee Division
- Filed February 21, 2023
- 2:23-cv-00234

Causes of Action

1. APA
 - Conflicts with the statutory text and structure of ERISA and decades of case law and is therefore arbitrary, capricious, an abuse of discretion and not in accordance with law
 - Violates Constitutional Separation of Powers because the 2022 final rules exceed DOL statutory jurisdiction since DOL does not have authority to make environmental policy
2. ERISA Statutory Claims, 502(a)(1)(B) and (k)

ESG in the SEC



SEC—Proposed Regulations

- **March 2022—Issuer Rule** The SEC proposed rule amendments that would require public companies to provide certain climate-related financial data, and greenhouse gas emissions insights, in public disclosure filings
- **May 2022—Investor Rule** The SEC proposed ESG-focused funds and firms disclose more specifics about their ESG strategies in fund prospectuses and annual reports
 - Integration Funds
 - ESG-Focused Funds
 - Impact Funds
- **May 2022—Names Rule** Use of ESG in a fund name

ESG Strategy Overview Table

Overview of the Fund's [ESG] strategy	The Fund engages in the following to implement its [ESG] strategy: <ul style="list-style-type: none"><input type="checkbox"/> Tracks an index<input type="checkbox"/> Applies an inclusionary screen<input type="checkbox"/> Applies an exclusionary screen<input type="checkbox"/> Seeks to achieve a specific impact<input type="checkbox"/> Proxy voting<input type="checkbox"/> Engagement with issuers<input type="checkbox"/> Other
How the Fund incorporates [ESG] factors in its investment decisions	
How the Fund votes proxies and/or engages with companies about [ESG] issues	

ESG in the States



Texas Anti-ESG Legislation

- 2021—SB 13 relating to state contracts with and investments in certain companies that boycott energy companies

State Government Entities:

- ERS
- TRS
- TMRS
- TCDR
- TESRS
- Permanent school fund

Texas Comptroller's List
(August 2022)

BLACKROCK, INC
BNP PARIBAS SA
CREDIT SUISSE GROUP AG
DANSKE BANK A/S
JUPITER FUND MANAGEMENT PLC
NORDEA BANK ABP
SCHRODERS PLC
SVENSKA HANDELSBANKEN AB
SWEDBANK AB
UBS GROUP AG



**Don't
mess with
Texas.**



ERISA & ESG: Fiduciary Questions



What does my IPS say about ESG factors, if anything?

Do my committee members need ESG training?

Is my financial advisor up to speed on ESG and ERISA?

Do the investment options offered under my plan consider ESG?

Am I keeping minutes and otherwise documenting my ESG decisions?

Have I considered other ESG and non-ESG options?

Do my fund descriptions and other communications for participants need to be updated to address ESG?

Would it be safer to use passive (index) options only?

Should I add a brokerage option to my plan to allow ESG investing?

Can I safely consider an ESG factor if I believe it would be prudent to do so?

Are my fiduciary decisions different for my DB plan than my DC plan?

Should I take a survey of my participants to find out what their ESG preferences are?

Should I add an ESG fund to my plan's investment menu?

Should I add a faith-based fund to my plan's investment menu?

How do I measure whether an ESG fund that I have selected is meeting its ESG benchmark and its financial benchmark?

How do I respond to a request from a participant to consider ESG factors in selecting the choices on my plan's investment menu?

Is it ok to add an ESG fund if it is more expensive than a similar non-ESG fund?

Is it ok to add an ESG fund if its performance is not as good as a similar non-ESG fund?

STATE OF M&A TODAY

Trends Through Q1 - 2023

June 15, 2023

Presentation Summary

- 32 Slides
- 5 Title slides
- 60 minutes
- 2 min and 15 seconds per slide
- 3 sections
 - State of the M&A Market
 - Trends in M&A due diligence
 - EBP Considerations in M&A
- Goal - Make this a discussion, not a presentation

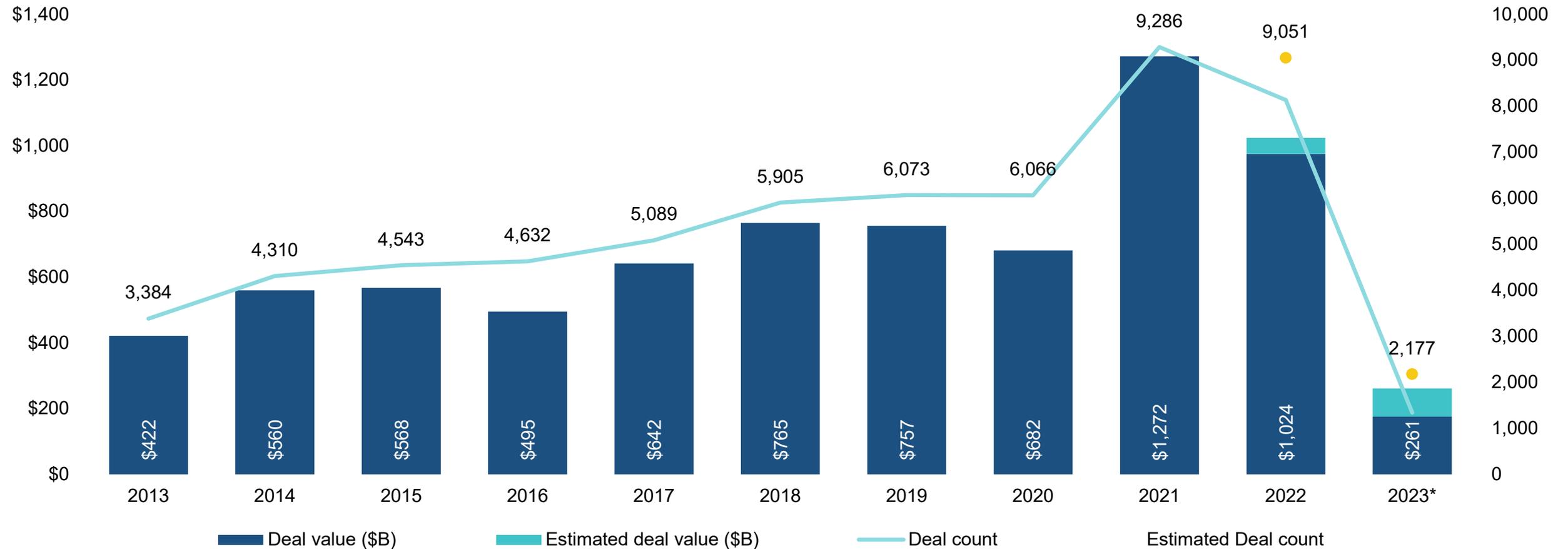
Daniel Boarder Biography

- More than 25 years of professional experience in variety of industries & roles
- Partner & Director of Whitley Penn's Transaction Advisory Services group
- Provides essential consulting services by assisting private equity firms & corporate buyers in evaluating potential acquisition targets
- Provides consulting services to sellers looking to improve value through the due diligence process
- Completed hundreds of transactions, with values ranging from less than \$1 million to over \$1.5 billion



State of the M&A Market

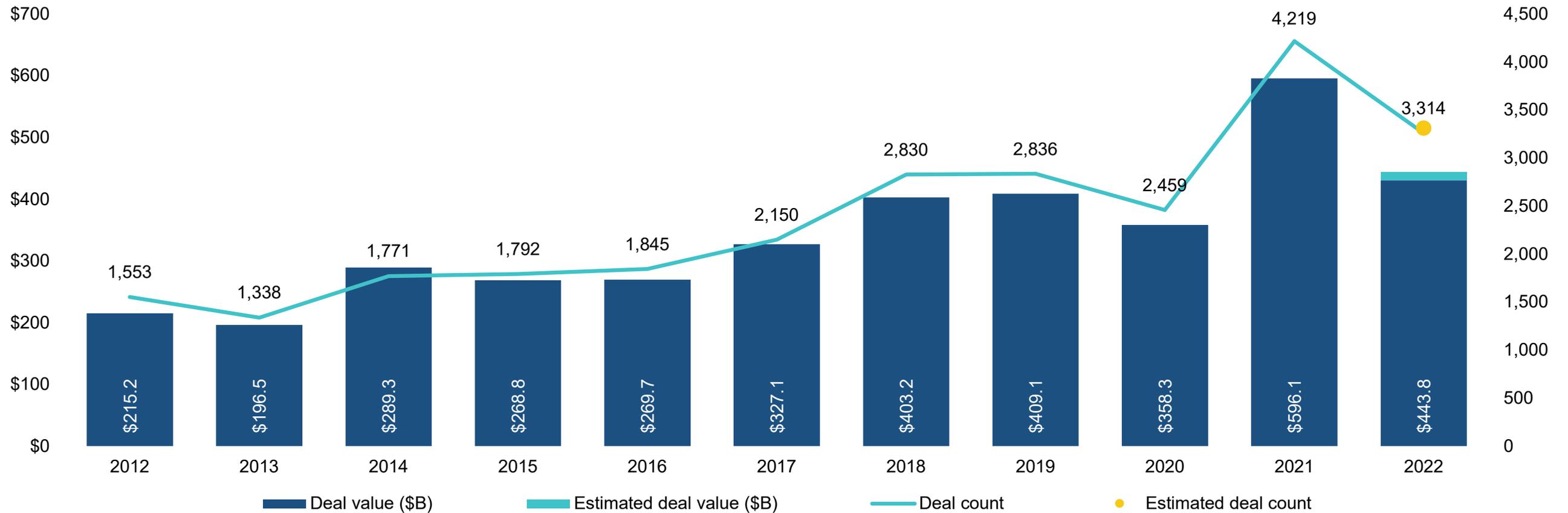
Data provided by PitchBook



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023*
Deal value (\$B)	\$139.7	\$290.8	\$327.9	\$390.4	\$421.7	\$559.7	\$568.0	\$494.8	\$641.9	\$765.2	\$756.8	\$681.7	\$1,271.9	\$974.8	\$175.4
Deal count	1,912	2,783	3,110	3,614	3,384	4,310	4,543	4,632	5,089	5,905	6,073	6,066	9,286	8,138	1,340
Estimated deal value (\$B)														\$49.2	\$86.0
Estimated Deal count														913	837

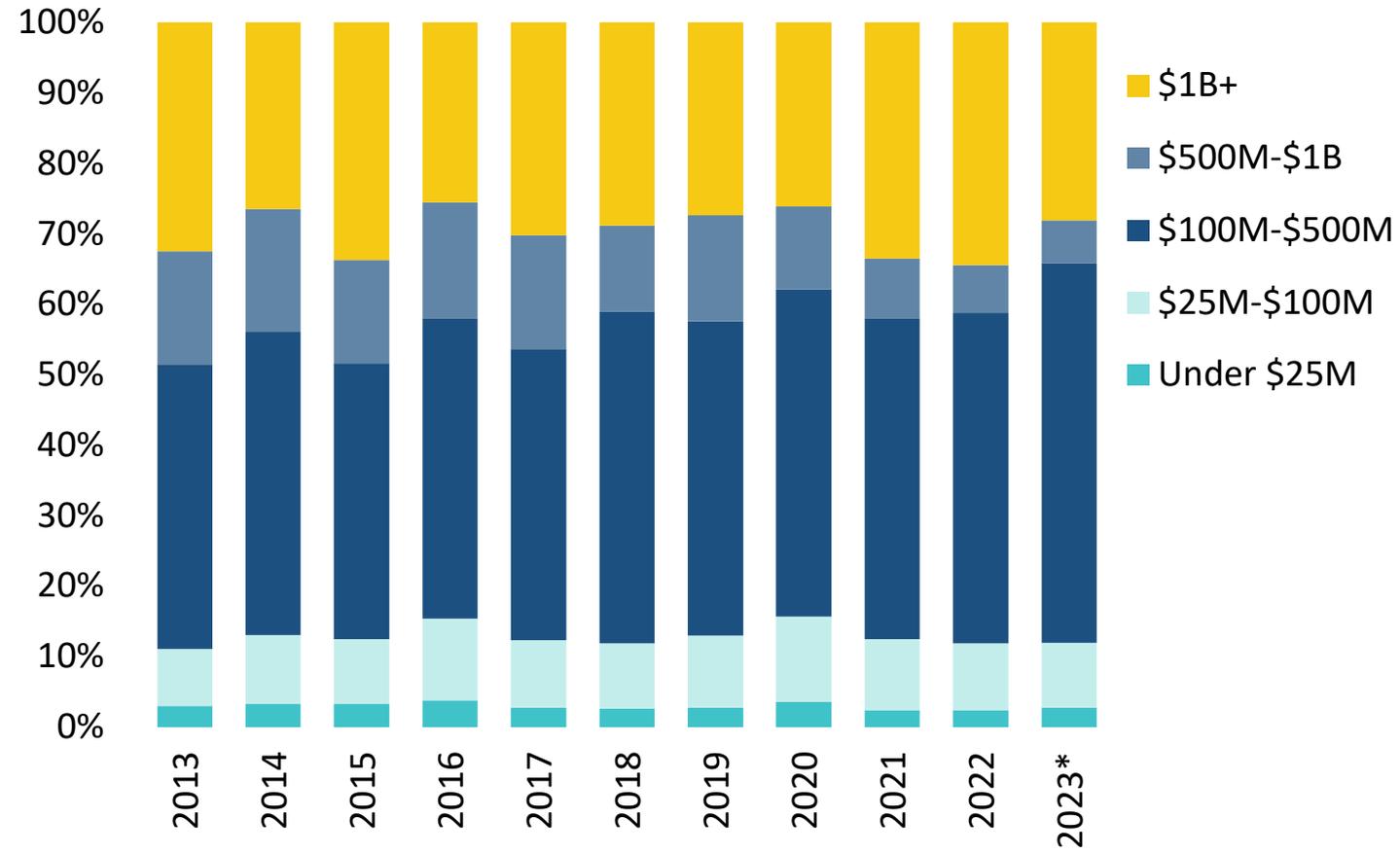
*As of 3/31/2023

Middle-market Deal Activity

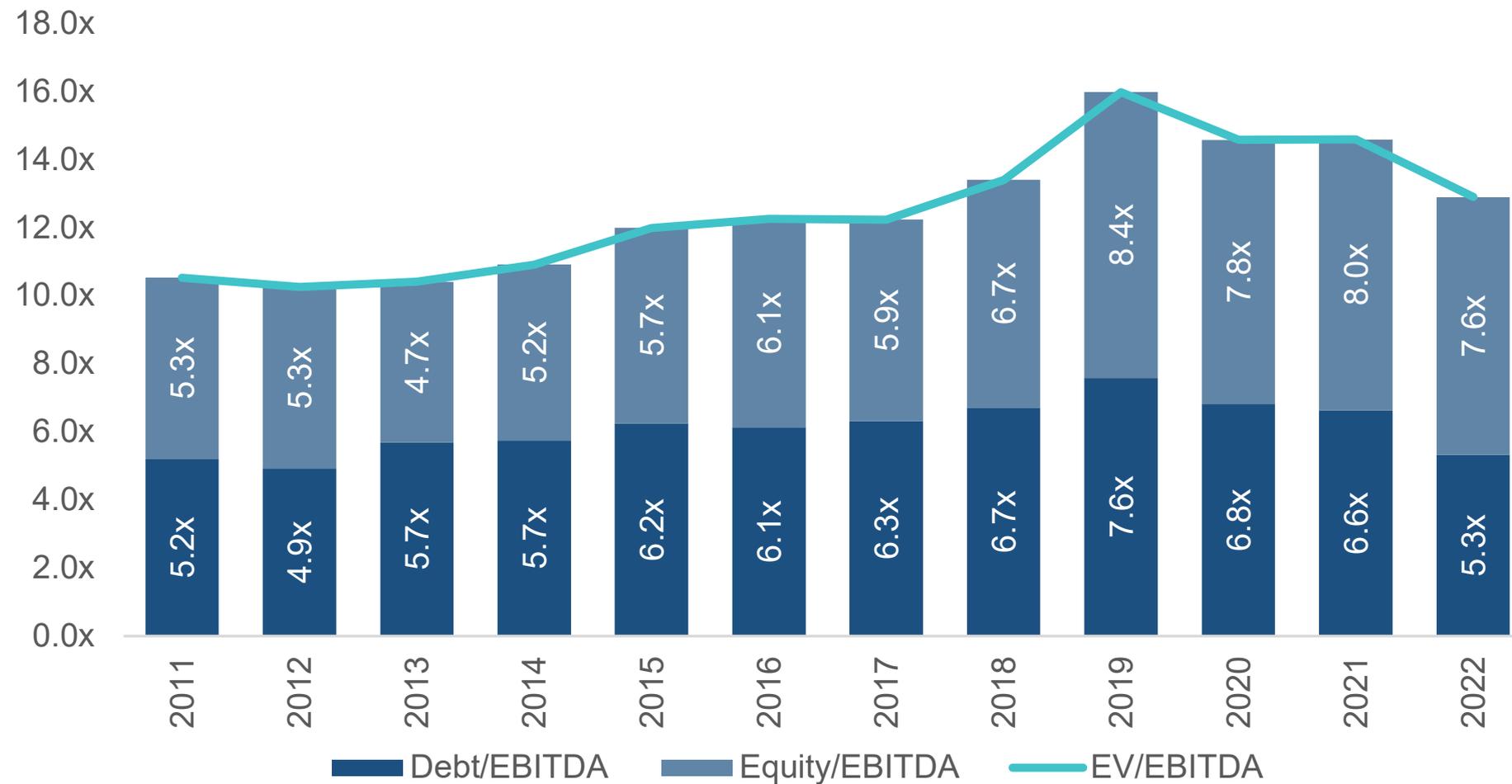


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Deal value (\$B)	\$235.21	\$145.63	\$70.98	\$167.60	\$176.66	\$215.21	\$196.49	\$289.34	\$268.79	\$269.72	\$327.12	\$403.17	\$409.07	\$358.25	\$596.12	\$430.58
Deal count	1,509	1,120	614	1,157	1,230	1,553	1,338	1,771	1,792	1,845	2,150	2,830	2,836	2,459	4,219	3,258
Estimated deal value (\$B)																\$13.23
Estimated deal count																56

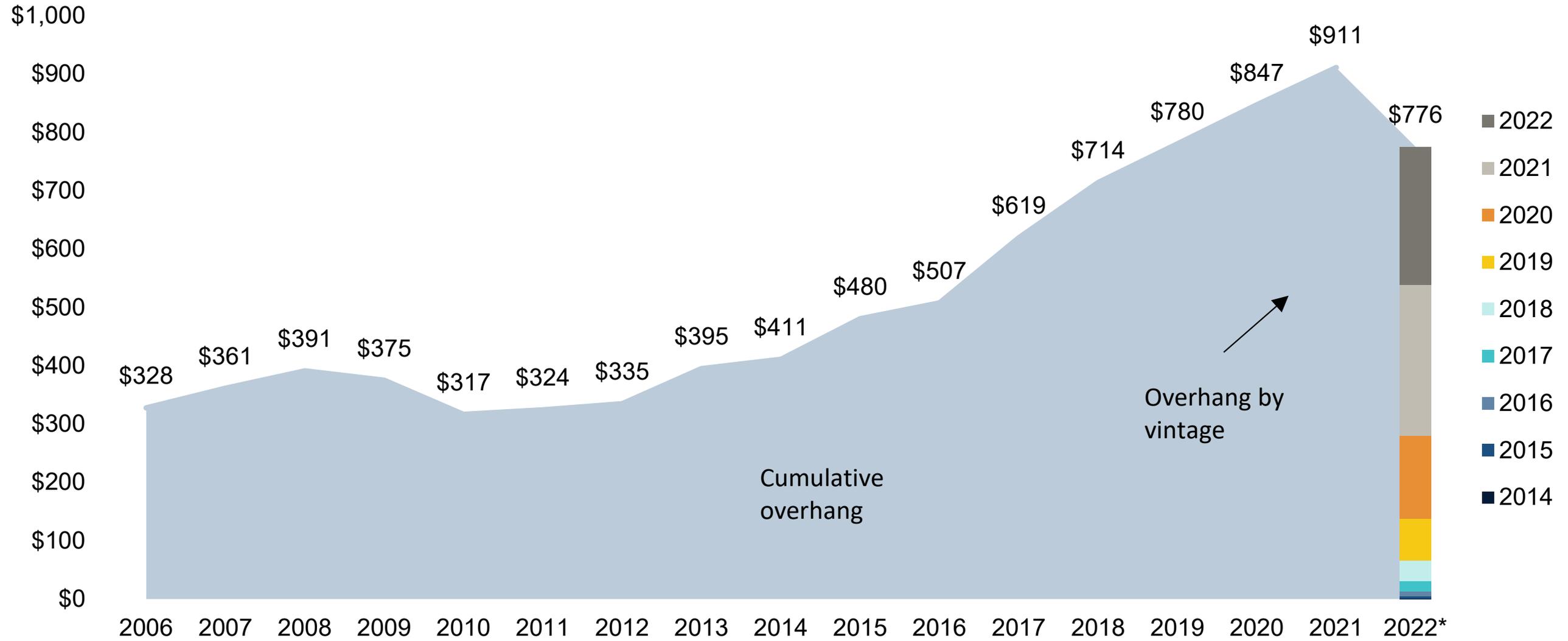
*As of 12/31/2022

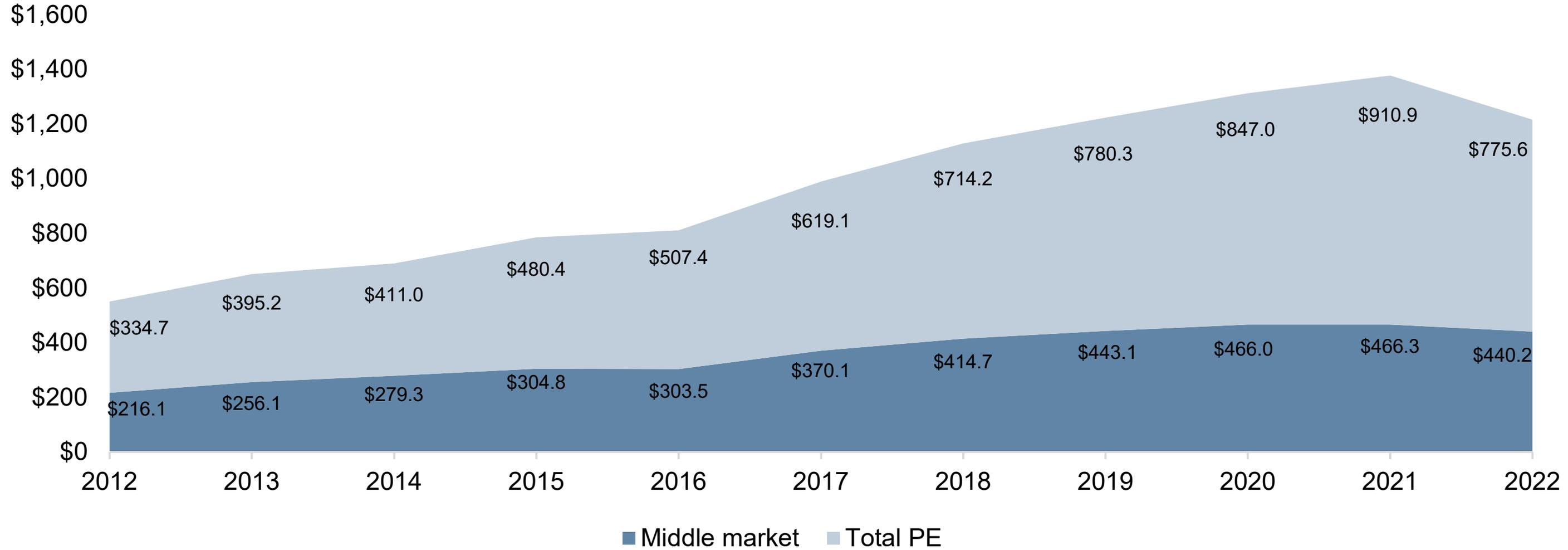


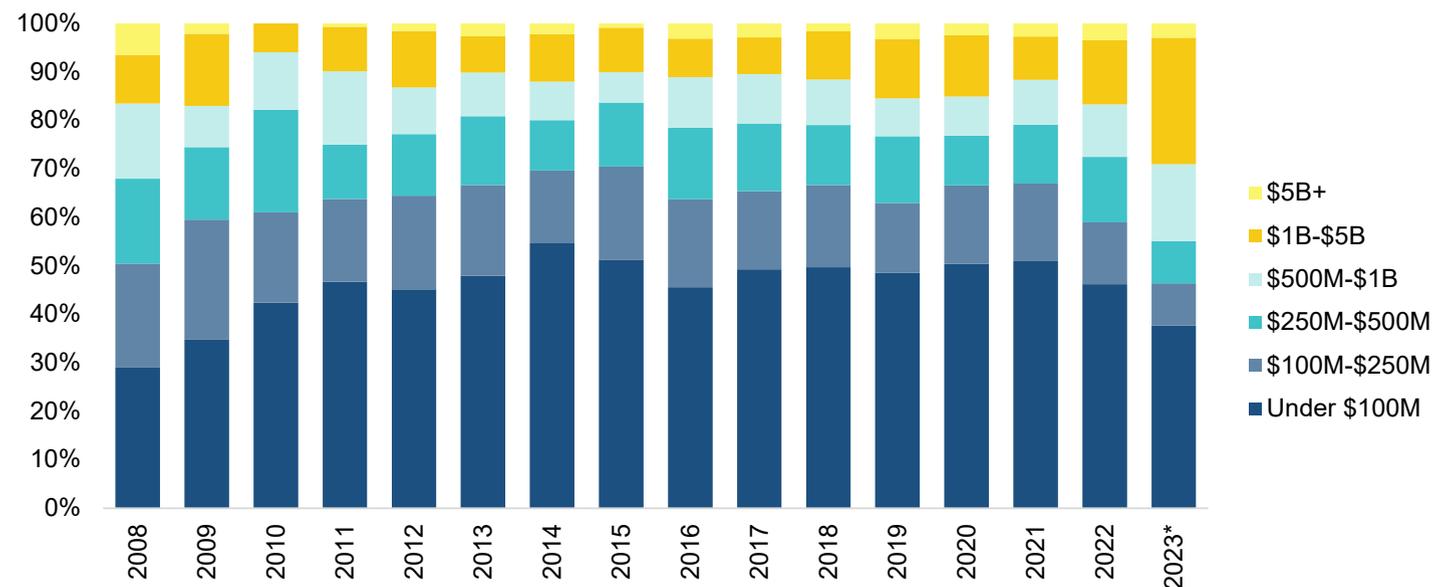
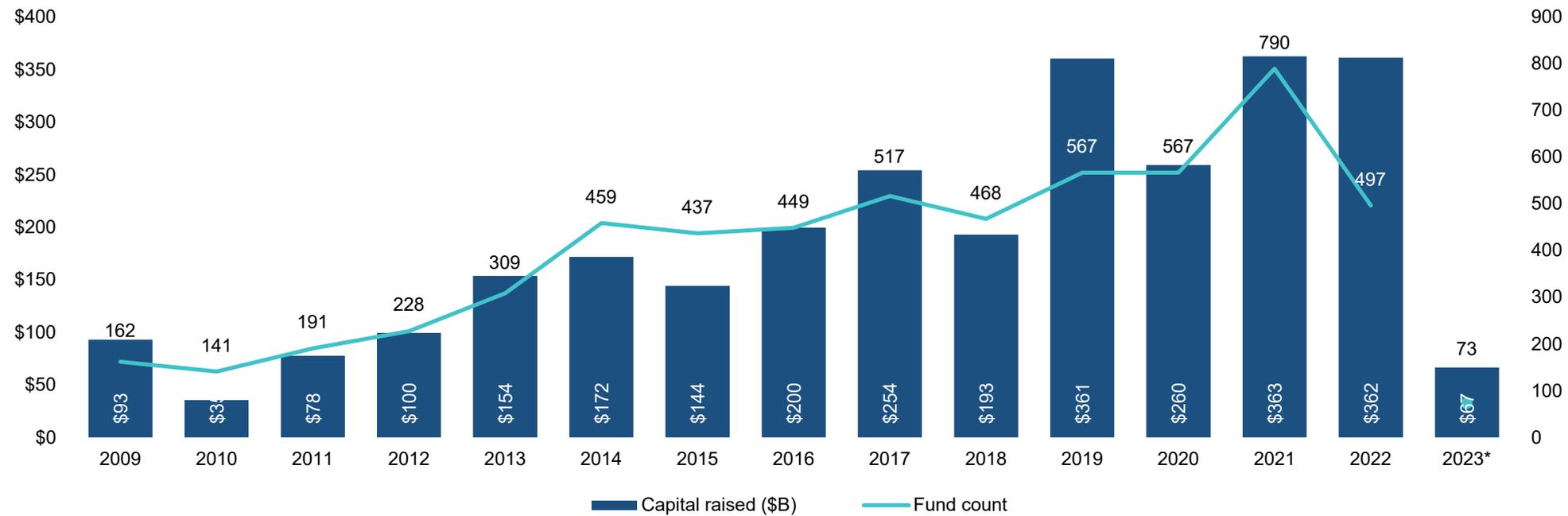
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023*
Under \$25M	\$13.6	\$7.7	\$8.8	\$10.9	\$11.9	\$12.6	\$18.3	\$18.3	\$18.8	\$17.5	\$19.9	\$20.9	\$24.3	\$30.2	\$23.4	\$4.9
\$25M-\$100M	\$46.0	\$22.2	\$26.6	\$33.4	\$38.8	\$34.2	\$54.6	\$52.3	\$57.3	\$61.8	\$70.9	\$77.1	\$82.4	\$128.1	\$92.1	\$16.1
\$100M-\$500M	\$119.8	\$51.5	\$112.6	\$149.1	\$169.1	\$170.3	\$241.3	\$222.5	\$211.0	\$265.2	\$360.4	\$338.1	\$316.7	\$579.7	\$457.4	\$94.6
\$500M-\$1B	\$29.4	\$17.5	\$78.0	\$51.7	\$68.4	\$67.5	\$97.4	\$83.3	\$81.3	\$103.8	\$93.6	\$113.9	\$80.3	\$107.9	\$66.4	\$10.7
\$1B+	\$74.2	\$40.8	\$64.8	\$82.9	\$102.3	\$137.0	\$148.1	\$191.6	\$126.5	\$193.6	\$220.4	\$206.9	\$178.0	\$426.1	\$335.5	\$49.2
Total	\$283.1	\$139.7	\$290.8	\$327.9	\$390.4	\$421.7	\$559.7	\$568.0	\$494.8	\$641.9	\$765.2	\$756.8	\$681.7	\$1,271.9	\$974.8	\$175.4



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
EV/EBITDA	13.2x	13.0x	9.5x	9.4x	10.5x	10.2x	10.4x	10.9x	12.0x	12.3x	12.2x	13.4x	16.0x	14.6x	14.6x	12.9x
Debt/EBITDA	7.5x	7.0x	4.7x	4.8x	5.2x	4.9x	5.7x	5.7x	6.2x	6.1x	6.3x	6.7x	7.6x	6.8x	6.6x	5.3x
Equity/EBITDA	5.7x	6.0x	4.7x	4.7x	5.3x	5.3x	4.7x	5.2x	5.7x	6.1x	5.9x	6.7x	8.4x	7.8x	8.0x	7.6x
Debt %	57.0%	53.7%	50.0%	50.4%	49.3%	48.0%	54.6%	52.7%	52.1%	50.0%	51.6%	50.1%	47.4%	46.7%	45.5%	41.2%



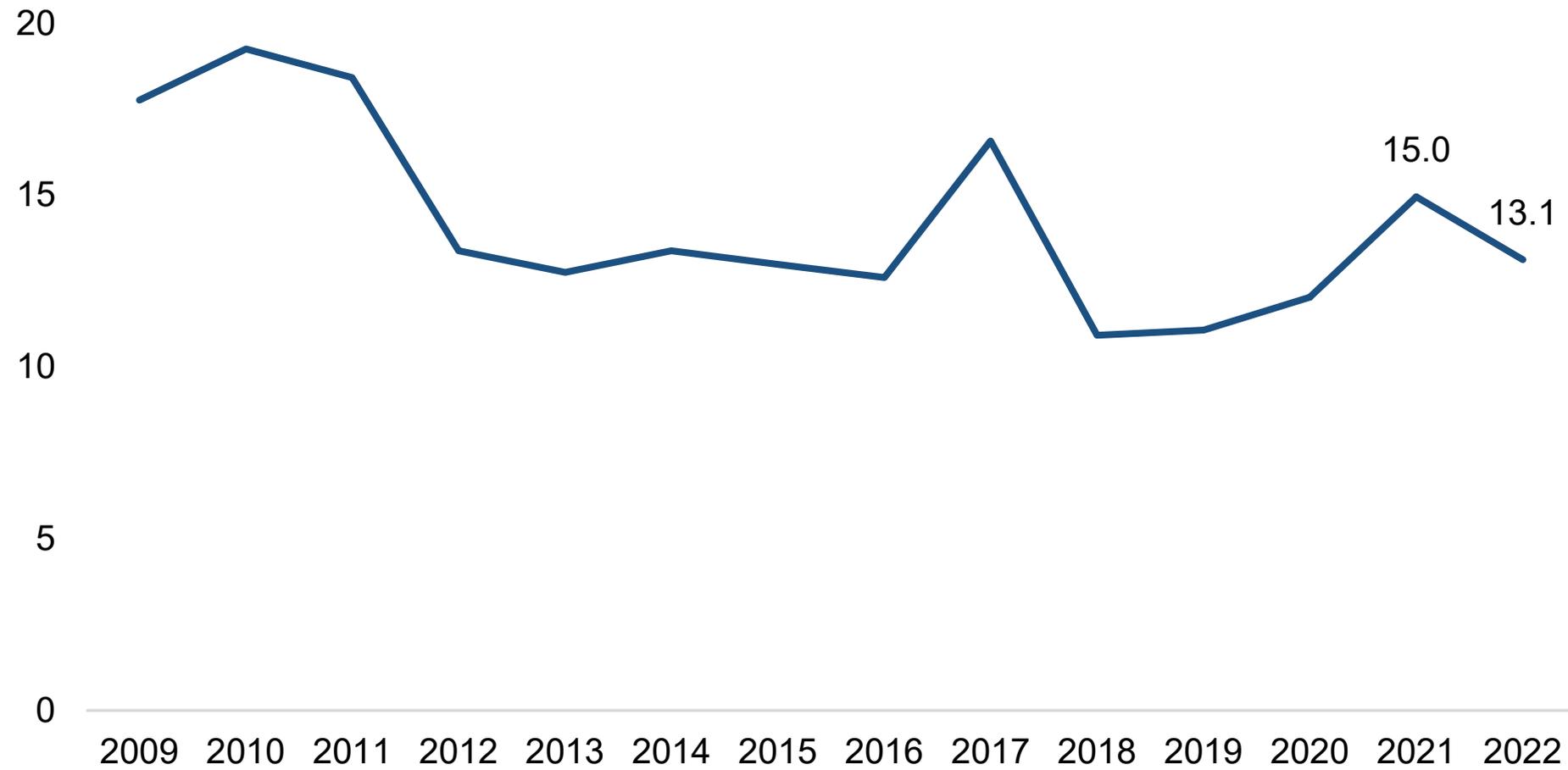




US PE fund count by size bucket

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023*
Under \$100M	58	49	50	71	89	128	200	179	161	208	185	230	231	308	188	26
\$100M-\$250M	43	35	22	26	38	50	55	67	64	68	63	68	74	96	52	6
\$250M-\$500M	35	21	25	17	25	38	38	46	52	59	46	65	47	73	55	6
\$500M-\$1B	31	12	14	23	19	24	29	22	37	43	35	37	37	56	44	11
\$1B-\$5B	20	21	7	14	23	20	36	32	28	32	37	58	58	54	54	18
\$5B+	13	3	0	1	3	7	8	3	11	12	6	15	11	16	14	2

*As of 3/31/2023



Average time (months) to close for US PE middle-market funds

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Buyout middle-market funds	13.5	17.1	17.8	19.3	18.4	13.4	12.8	13.4	13.0	12.6	16.6	10.9	11.1	12.0	15.0	13.1

* As of 12/31/2022

Trends in M&A Due Diligence

Quality of Earnings/ Financial Due Diligence

- Buy and Sell Side Due Diligence
- Quality of Earnings & Cash Flows
- Net Working Capital
- Income Statement Trends
- Balance Sheet Exposures
- Tax Structuring and tax due diligence
- Operations due diligence

Quality of Earnings/ Financial Due Diligence

- Financial Due Diligence
 - Buy Side
 - Sell Side

Quality of Earnings/ Financial Due Diligence

- Quality of Earnings & Cash Flows
 - Value Equation – EBITDA x Multiple
 - Reassures parties that earnings are repeatable
 - Assesses any non-operating and/or out of period revenues and expenses

How do PE Groups Value Companies

$$\text{EBITDA} * \text{Multiple} = \text{EV}$$



$$\text{(Adj.) EBITDA} * \text{Multiple} = \text{EV}$$



Objective (mostly)



Subjective (mostly)

Quality of Earnings/ Financial Due Diligence

- Net Working Capital
 - Net Working Capital is part of the Enterprise Value
 - Need to understand, develop and negotiate an appropriate level of NWC to be delivered at closing

EBP Considerations in M&A

Top 5 Issues to Consider

- Benefit Plan Compliance
- Plan Administration
- Plan Funding
- Plan Design
- Employee Communications

Questions?

Economy in Brief:

Indicators for the Dallas Region

Presented by: **TRUIST** 



Whitley Penn Employee Benefit Conference
June 15, 2023

DALLAS REGIONAL CHAMBER MISSION

Together, with our business leaders and community partners, we will help lead the Dallas Region to become the best place in the United States **for all people** to live, work, and do business.



TOP-LINE INDICATORS FOR THE DALLAS REGION

UNEMPLOYMENT RATE



3.4%

(April 2023)

0.5 points lower than March

TX rate is 4.0% (April 2023)
U.S. rate is 3.7% (May 2023)

*Source: Bureau of Labor Statistics,
preliminary, not seasonally adjusted*

EMPLOYMENT CHANGE



4.4%

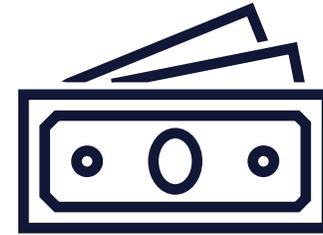
(April 2023)

YOY increase of 199,800 jobs

Total employment is 10.1%
greater than pre-pandemic levels.

*Source: Bureau of Labor Statistics,
preliminary, not seasonally adjusted*

CORE INFLATION RATE*



7.0%

(May 2023)

All CPI items rate is 4.7%

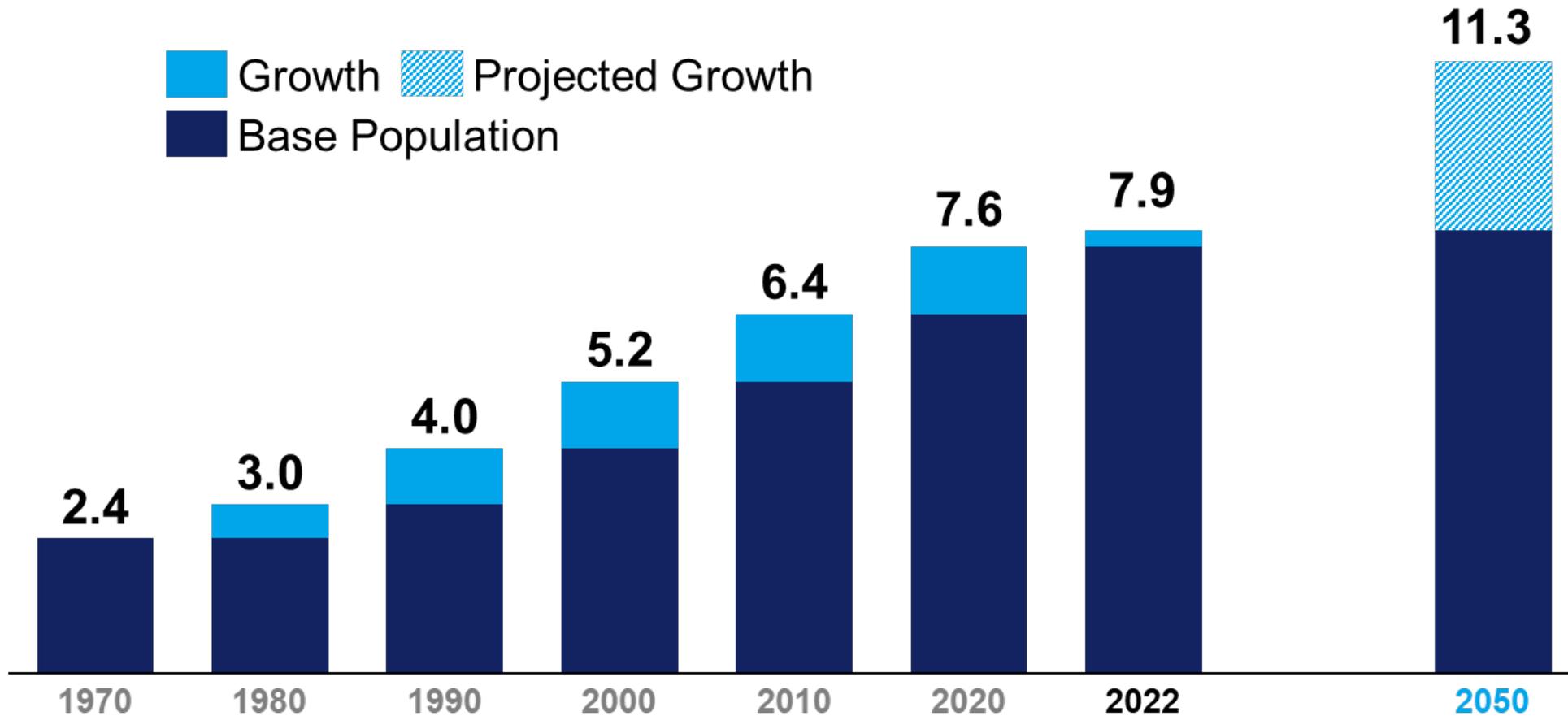
U.S. rates are 5.3% and 4.0%,
respectively (May 2023)

*Source: Bureau of Labor Statistics,
not seasonally adjusted*

dallasregionalchamber.org → Why Dallas → Economic Indicators

POPULATION CHANGE

Annual estimated population change, 1970-2022 and 2050 projections*



POPULATION CHANGE

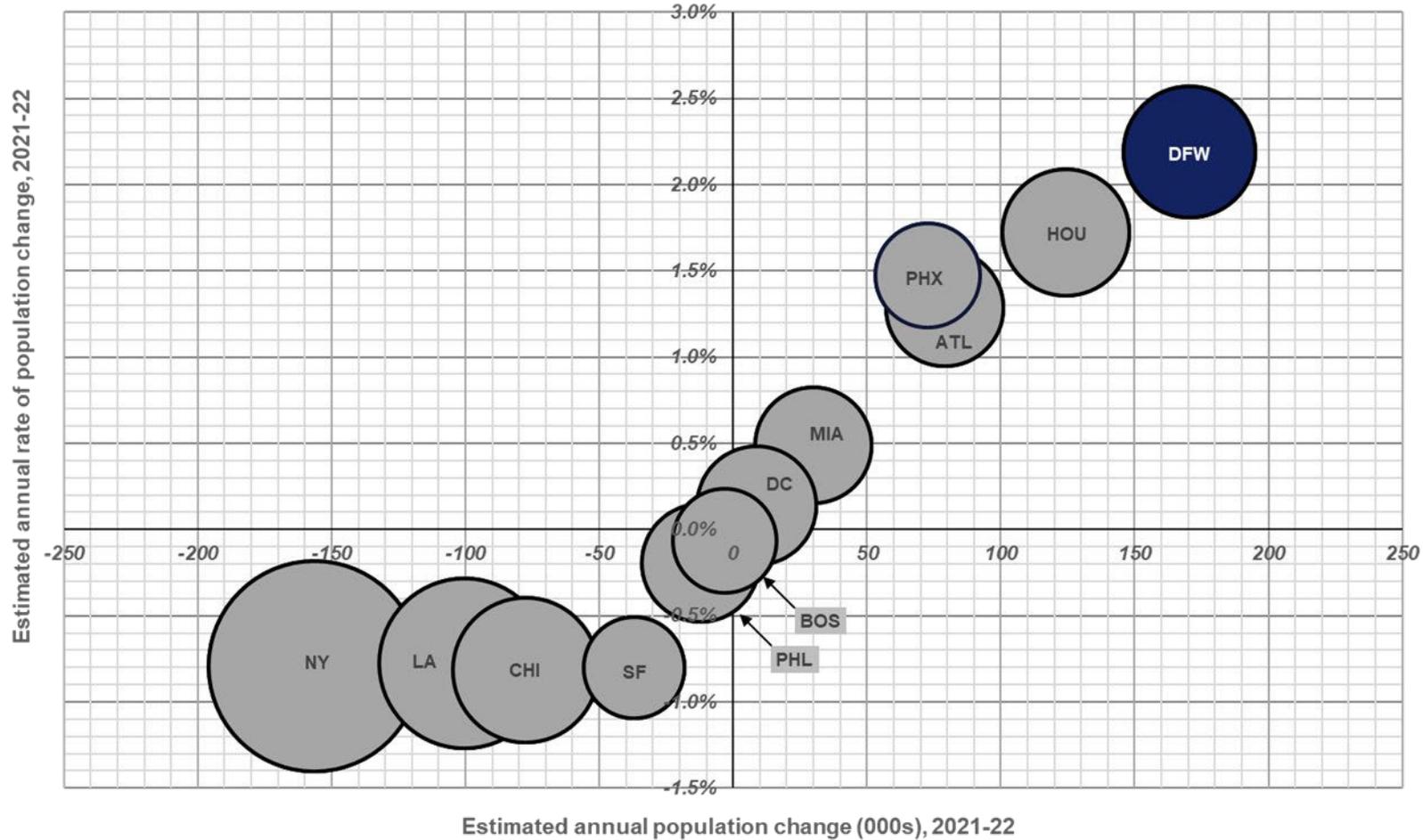
Annual estimated population in 2022 and percent change from 2021

1. New York	19,618,000	-0.8%
2. Los Angeles	12,872,000	-0.8%
3. Chicago	9,442,000	-0.8%
4. Dallas-Fort Worth	7,944,000	2.2%
5. Houston	7,340,000	1.7%
6. Washington D.C.	6,374,000	0.1%
7. Philadelphia	6,241,000	-0.2%
8. Atlanta	6,222,000	1.3%
9. Miami	6,139,000	0.5%
10. Phoenix	5,016,000	1.5%

POPULATION CHANGE

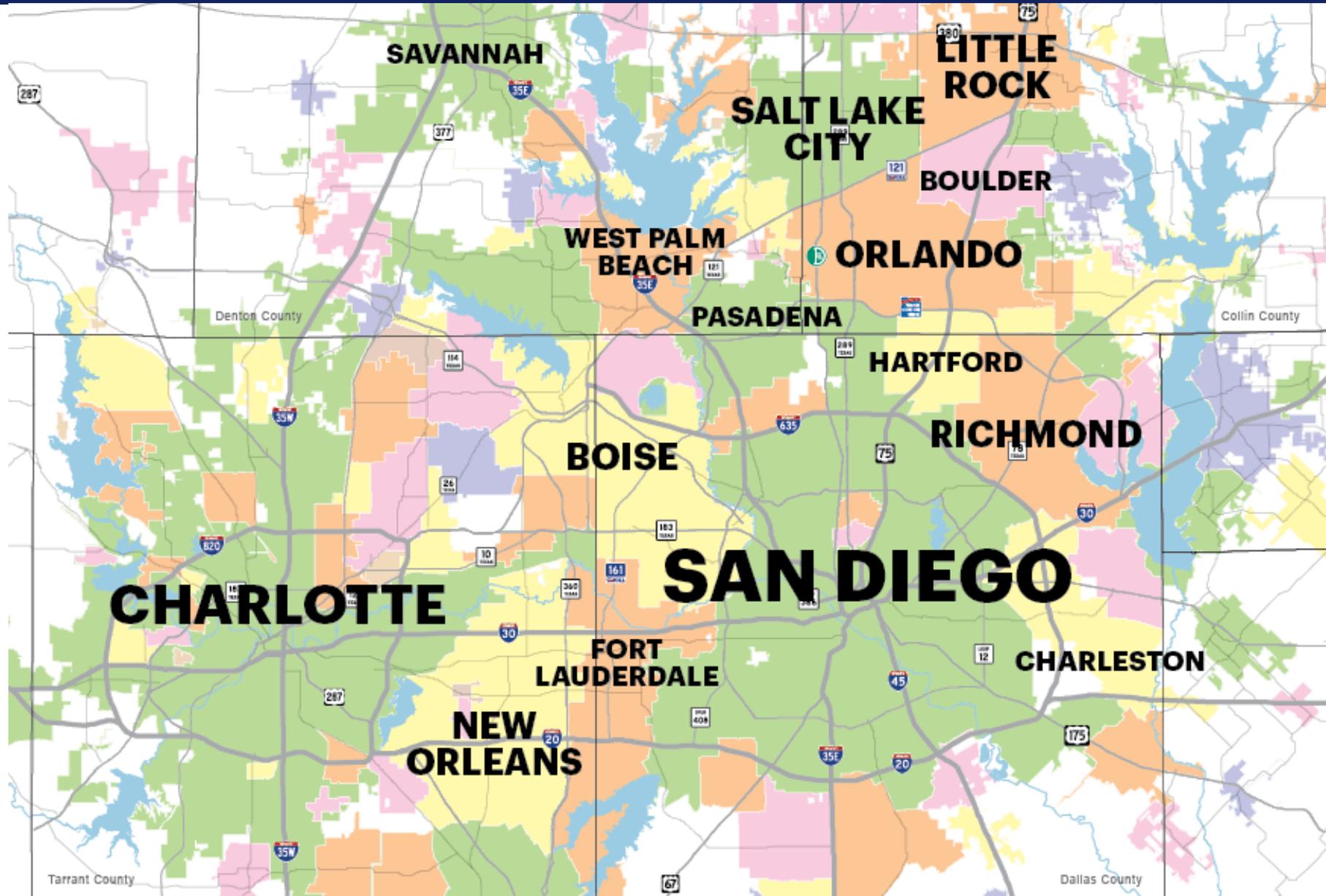
Annual estimated total population, 2021

Annual estimated population change and rate of change, 2021 – 2022



Size of bubble represents estimated total population, 2022

POPULATION IN SELECT DFW CITIES

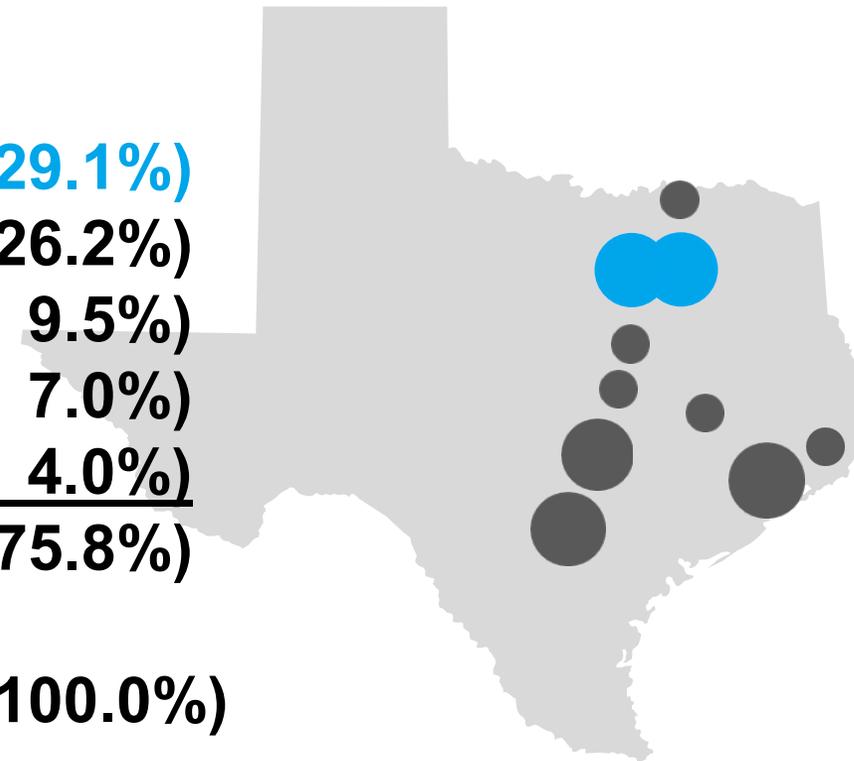


DFW, Houston, Austin, and San Antonio Form the \$1.6 Trillion “Texas Triangle”

DFW’s output would rank 25th as a nation.

2021 Gross Output of Texas Triangle (and % of all Texas)

DFW	\$ 598 billion	(29.1%)
Houston	\$ 537 billion	(26.2%)
Austin	\$ 194 billion	(9.5%)
San Antonio	\$ 144 billion	(7.0%)
5 Others*	\$ 83 billion	(4.0%)
Total	\$ 1,556 billion	(75.8%)
All Texas	\$ 2,052 billion	(100.0%)



The Texas Triangle would rank 14th and the State of Texas would rank 9th.

*Others: Beaumont-Port Arthur, College Station-Bryan, Killeen-Temple, Sherman-Denison, Waco

DFW “Punches Above its Weight”: Population vs Regional Output

**DFW is a
productive
region.**

**DFW Share of
Texas Population**

26.3%

**DFW 7.9 million
Texas 30.0 million**

**DFW Share of
Texas Economy**

29.1%

**DFW \$598 billion
Texas \$2.052 trillion**

DFW’s economy is
boosted by
\$60 billion because
of above average
productivity.

DFW “Punches Above its Weight”: DFW Metro Job Growth Since 2010

Since 2010, DFW **added** more jobs than the total number of jobs today in New Orleans, Jacksonville, Raleigh or Oklahoma City.



DFW leads U.S. metros for job growth since 2010.

DFW “Punches Above its Weight” Beyond Just Headquarters

DFW is strong in
tech and
manufacturing.

DFW Share of Texas High Tech Jobs

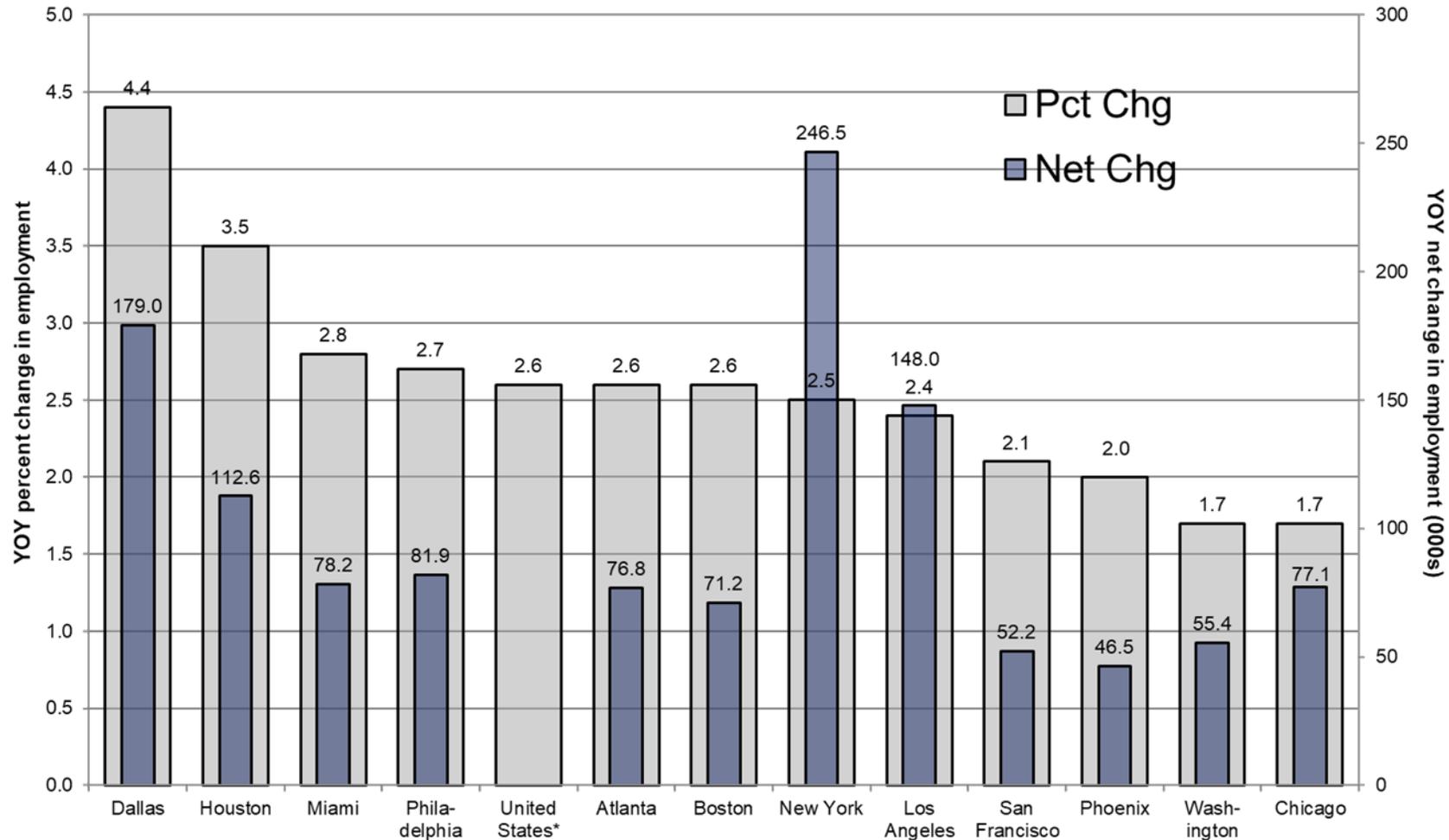
33%

DFW Share of Texas Manufacturing Jobs

32%

EMPLOYMENT BY METRO AREA

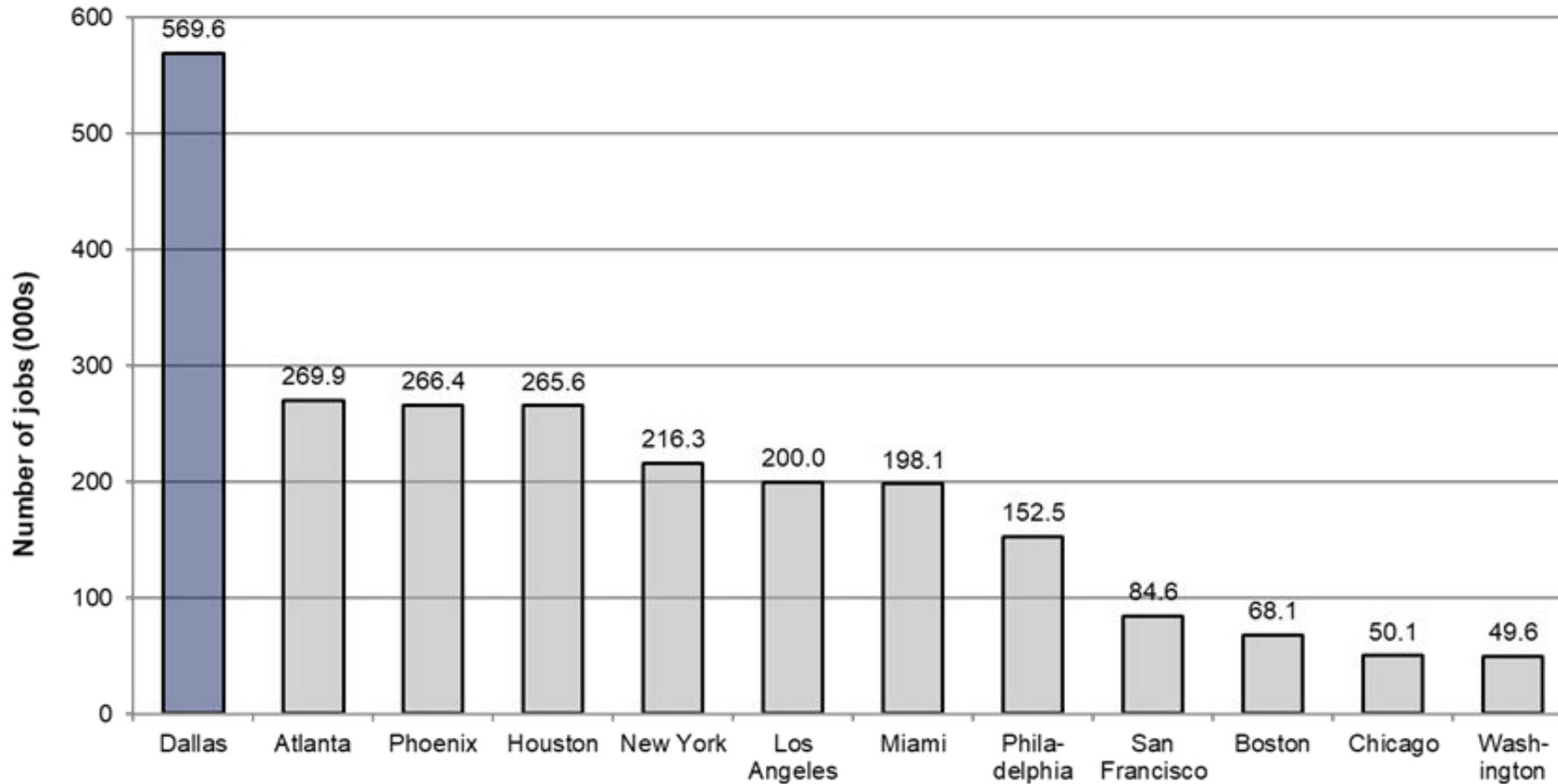
YOY percent change and net change (000s) in employment, April 2023



* U.S. net change not shown to prevent skewing of scale.

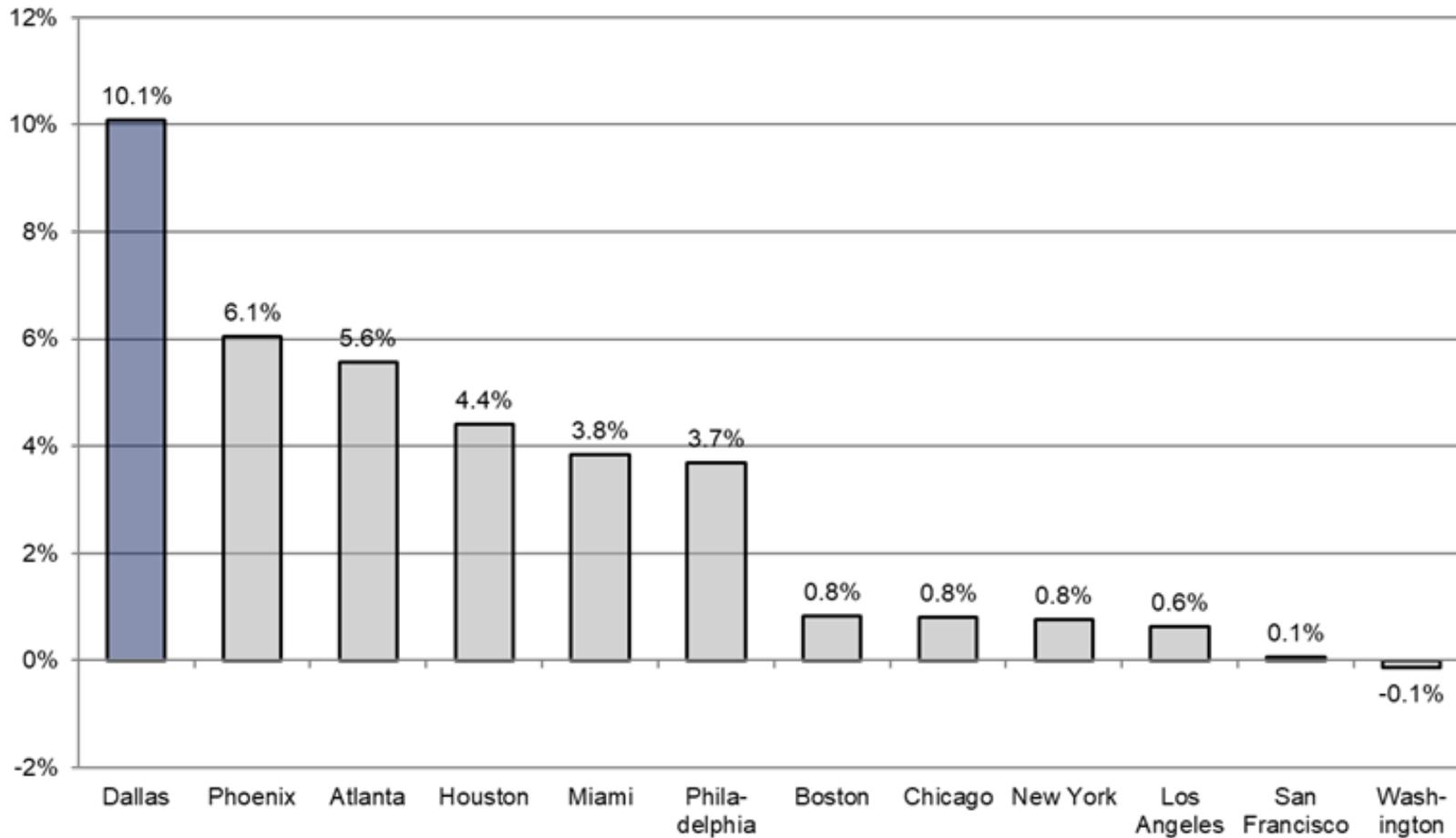
RECOVERY BY METRO AREA

5-year net change (000s) in employment YOY, April 2019 – 2023



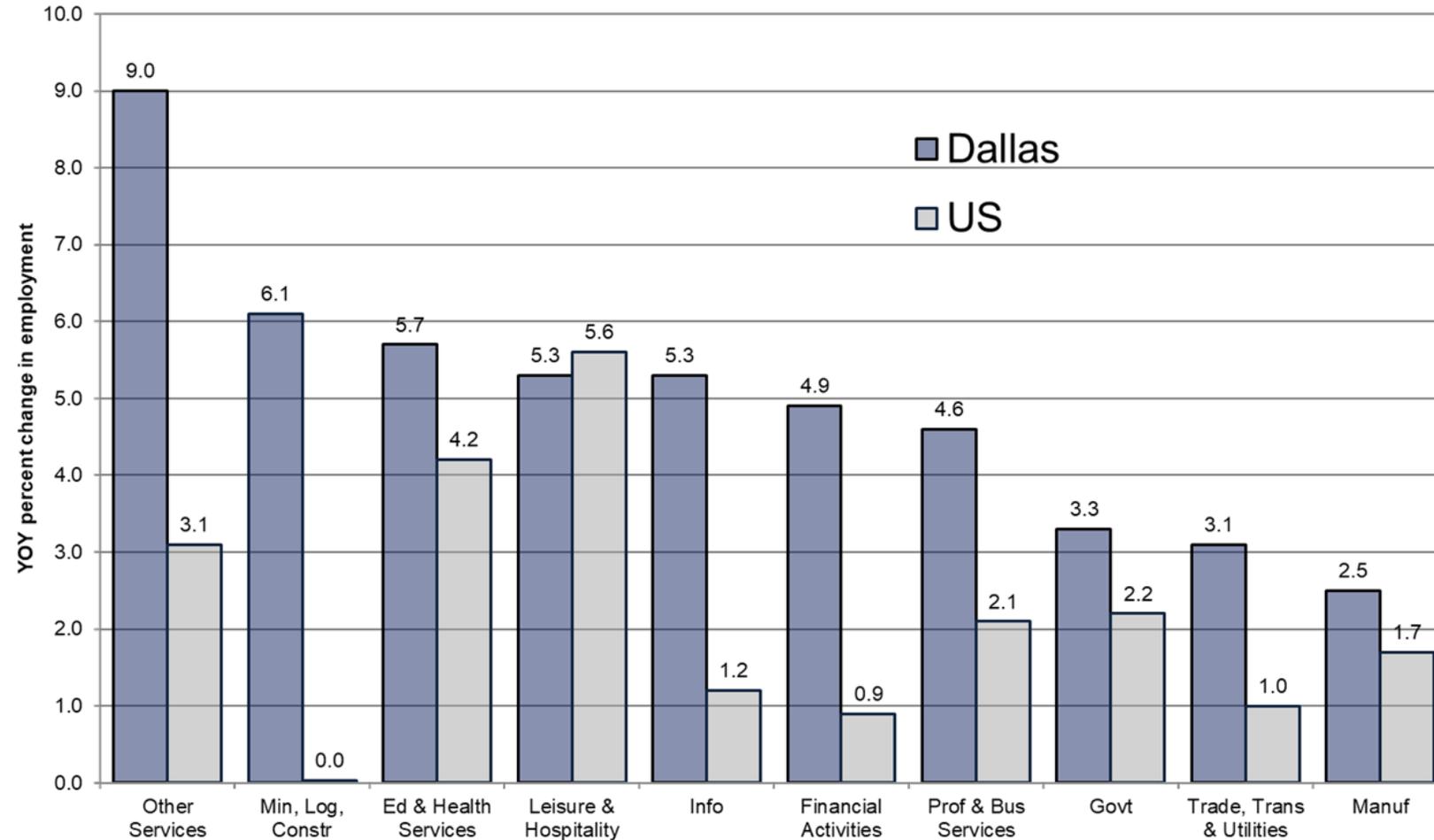
RECOVERY BY METRO AREA

Percent of current total employment beyond peak pre-pandemic employment, April 2023



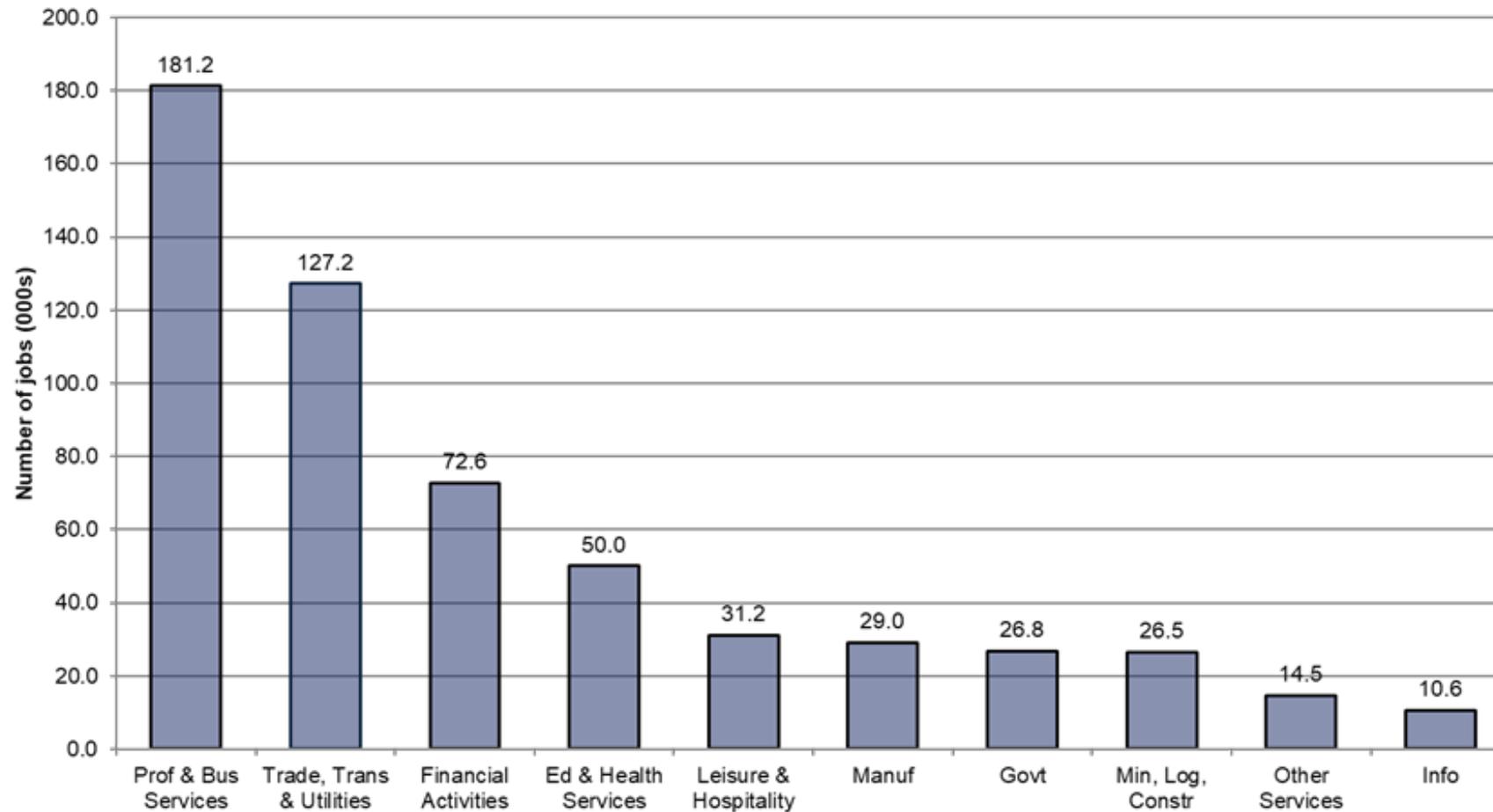
EMPLOYMENT BY INDUSTRY

YOY percent change in employment by industry sector, April 2023



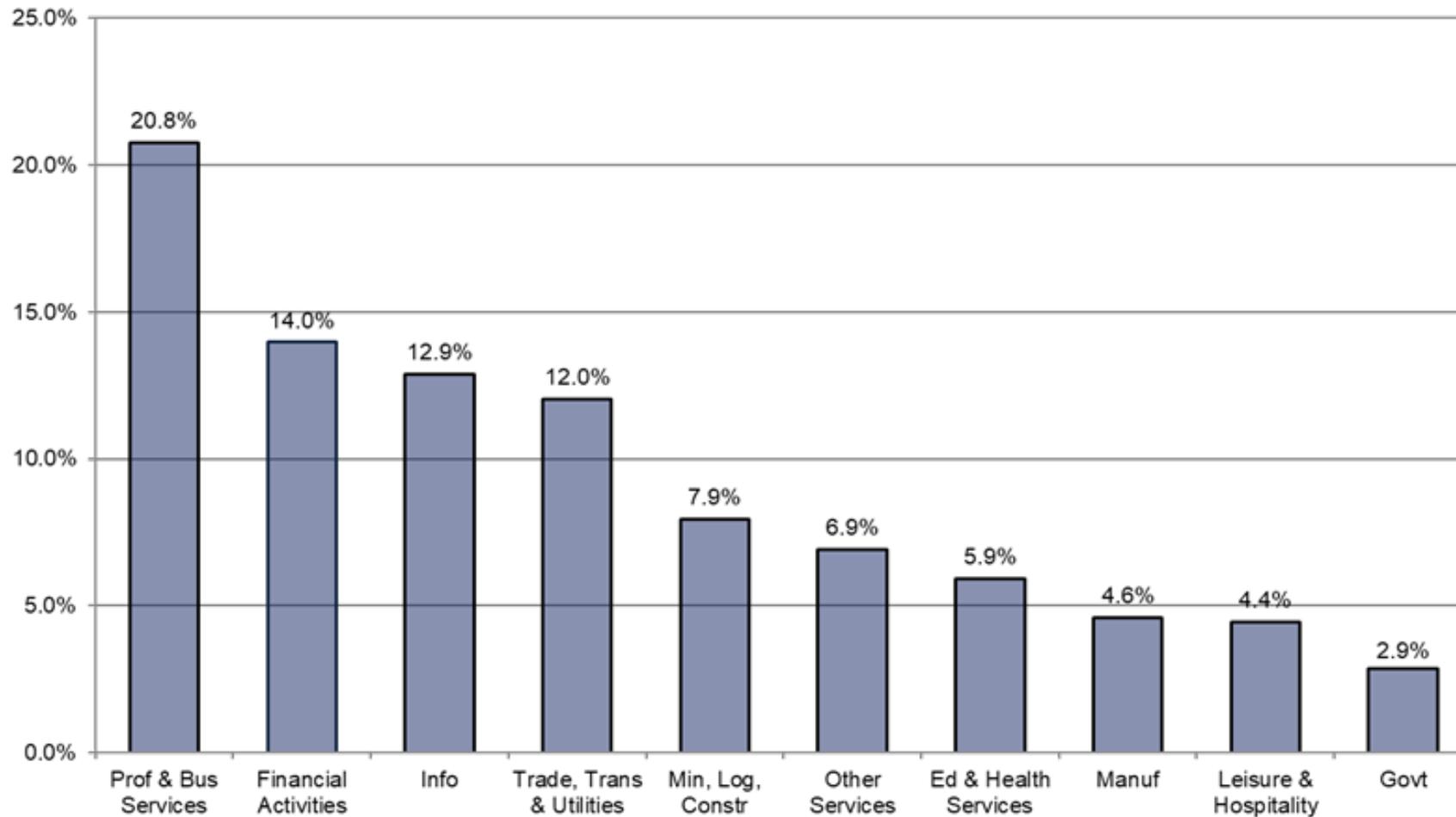
RECOVERY BY INDUSTRY

5-year net change (000s) in employment by industry, April 2019 – 2023



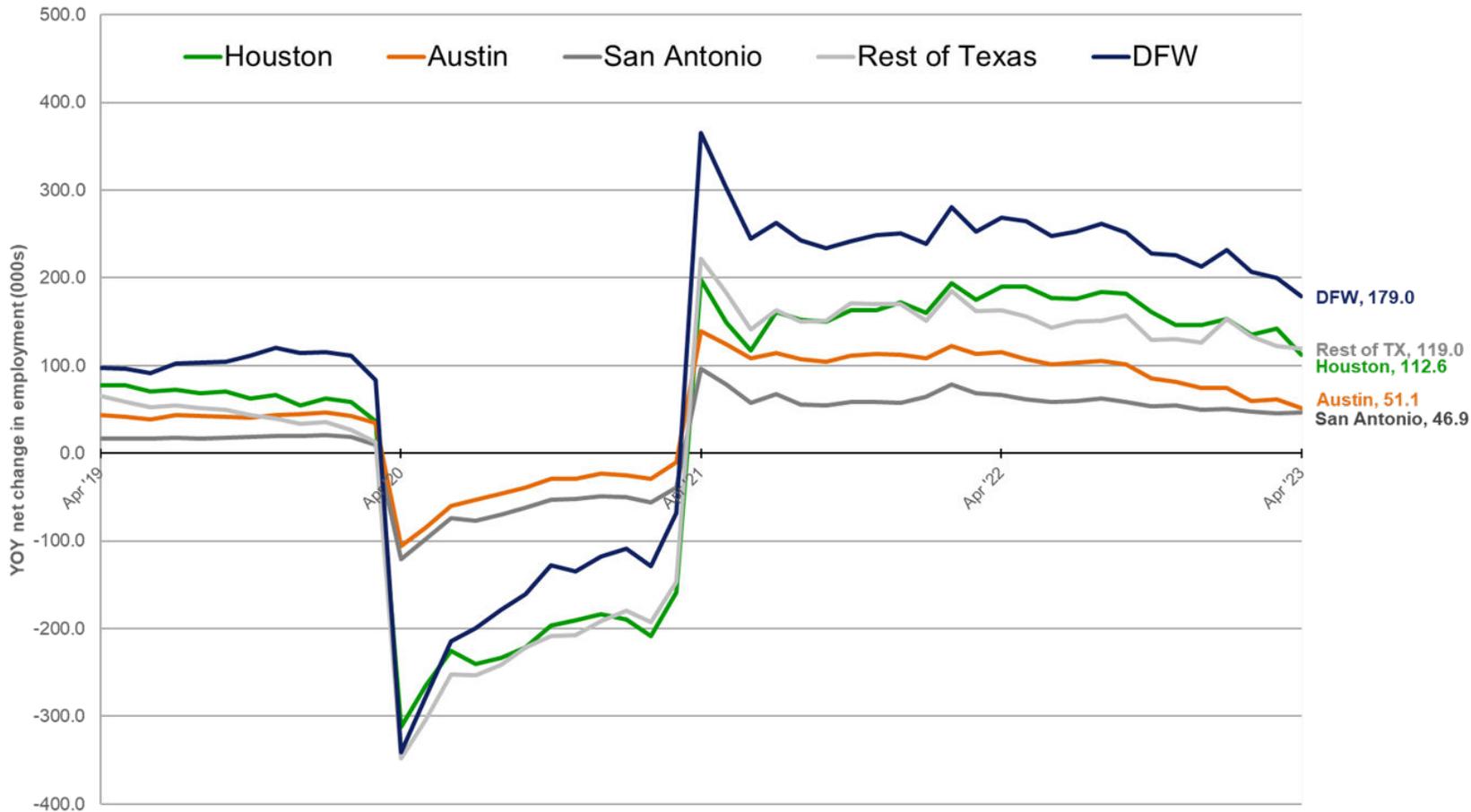
RECOVERY BY INDUSTRY

Percent of current total employment beyond peak pre-pandemic employment by industry, April 2023



EMPLOYMENT BY TEXAS REGION

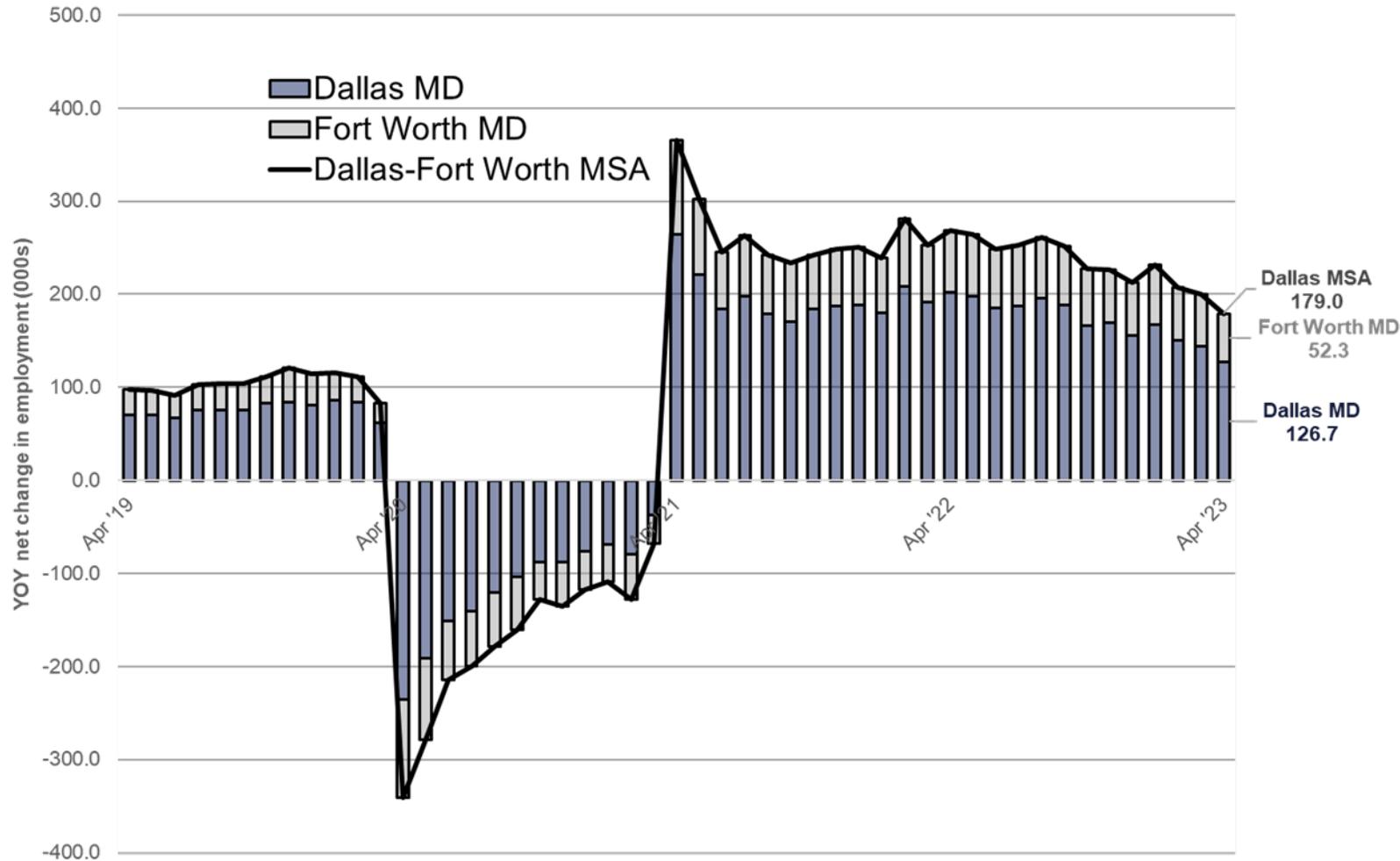
YOY net change in major Texas MSA employment (000s), April 2019 – 2023



% peak pre-pandemic jobs April 2023 vs. Feb 2020	
Austin	114.7%
Dallas-Fort Worth	110.1%
San Antonio	107.3%
Houston	104.4%
Rest of Texas	104.1%

EMPLOYMENT BY TEXAS REGION

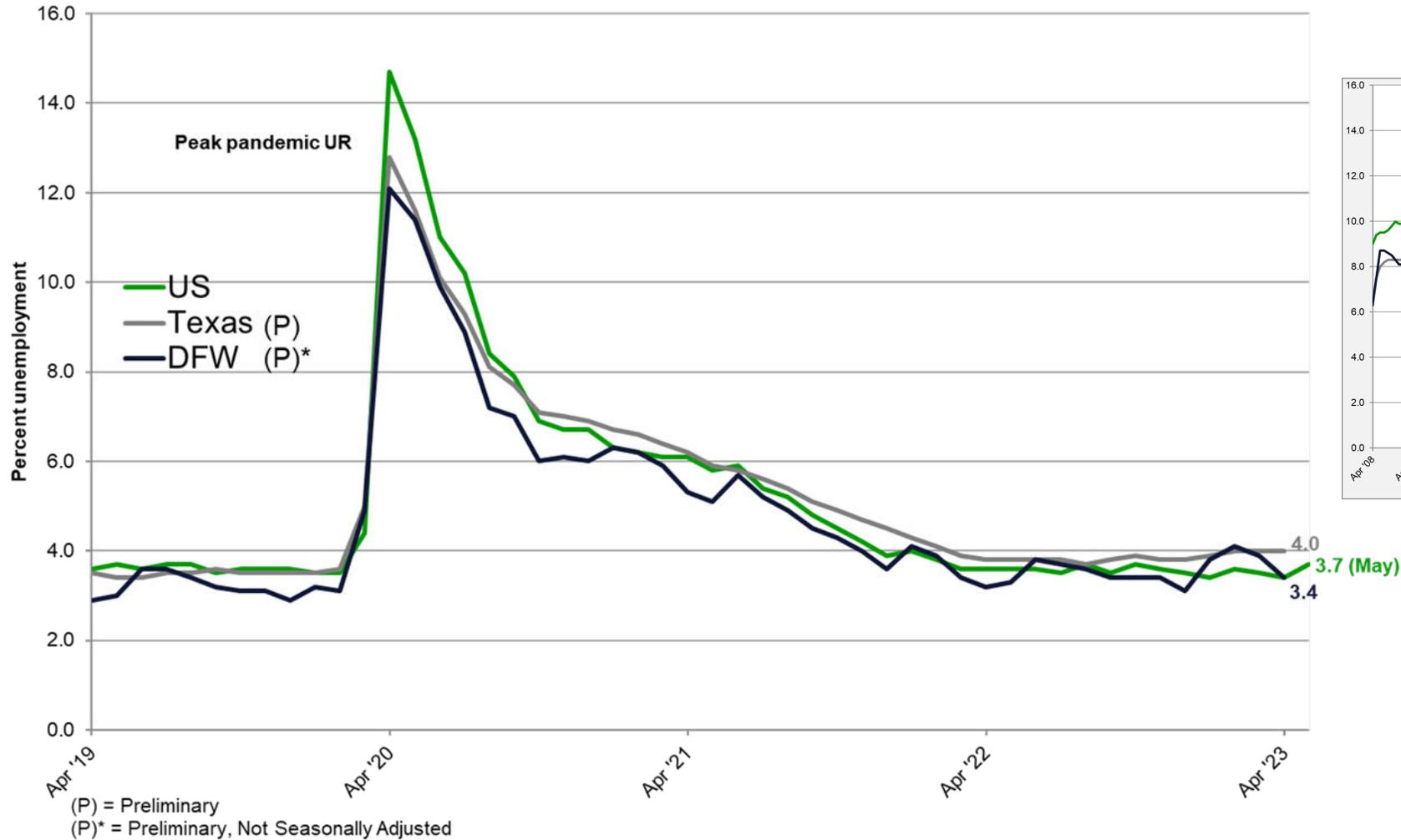
YOY net change in DFW MSA and MD employment (000s), April 2019 – 2023



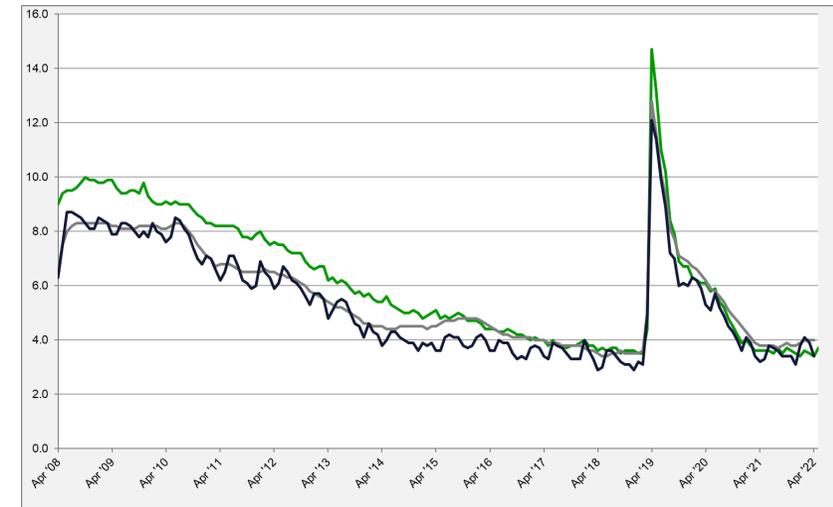
% peak pre-pandemic jobs April 2023 vs. Feb 2020	
Dallas-Fort Worth	110.1%
Dallas MD	110.8%
Fort Worth MD	108.2%

UNEMPLOYMENT RATE

Unemployment rate (U-3), April 2019 – 2023

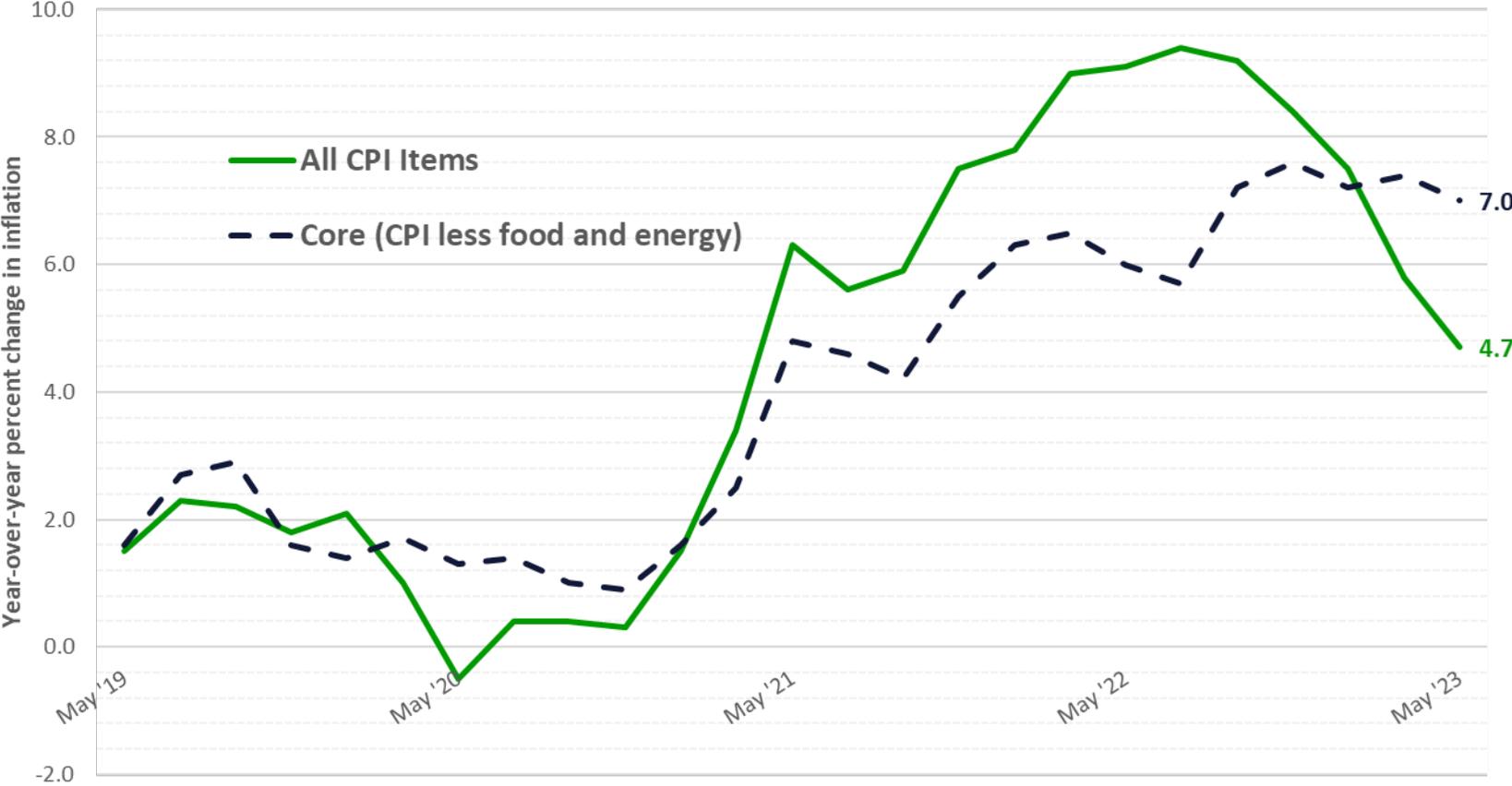


Since the Great Recession



INFLATION

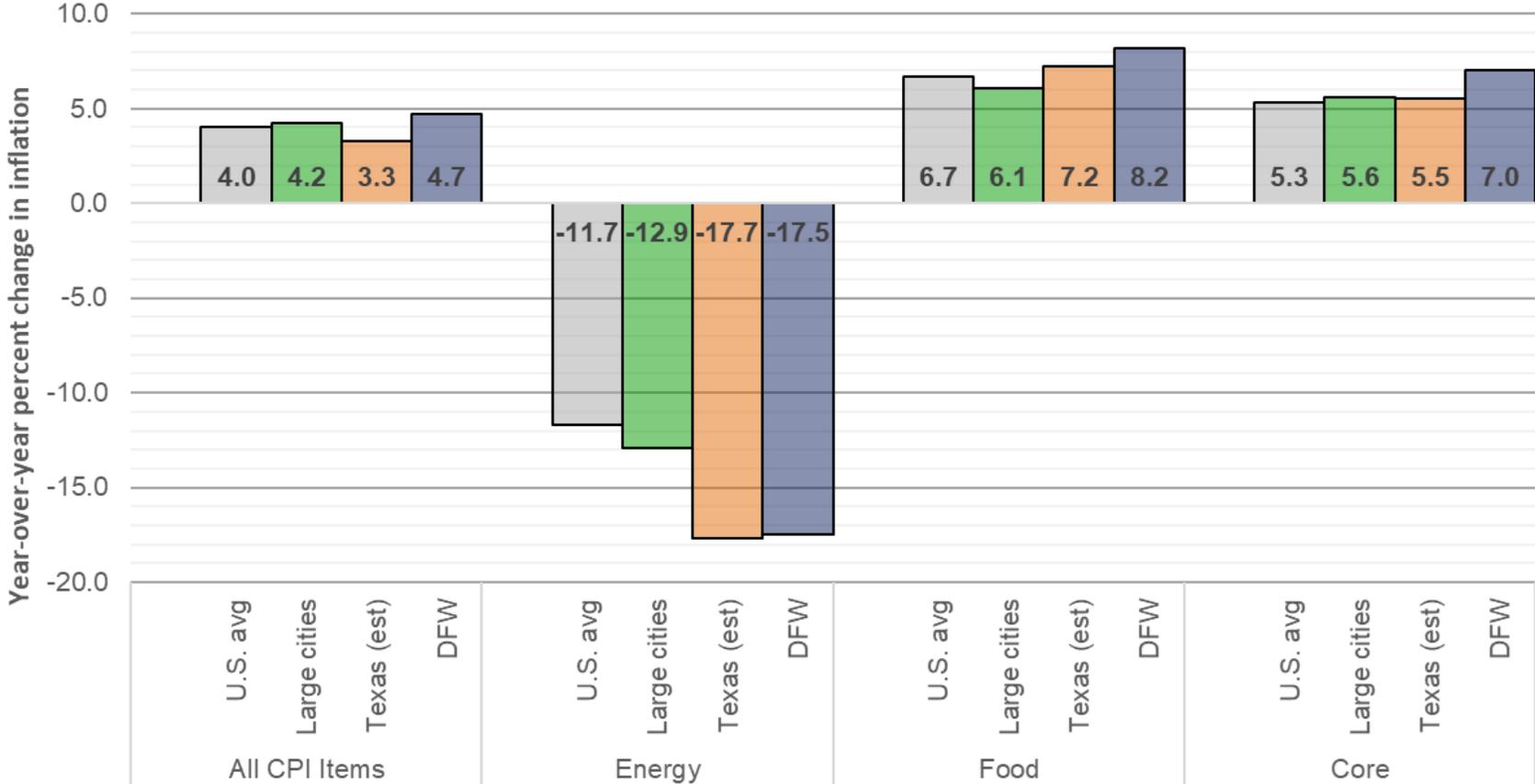
YOY percent change in Consumer Price Index, May 2019 – 2023*



*Inflation data shown for DFW is only available in odd-numbered months.

INFLATION

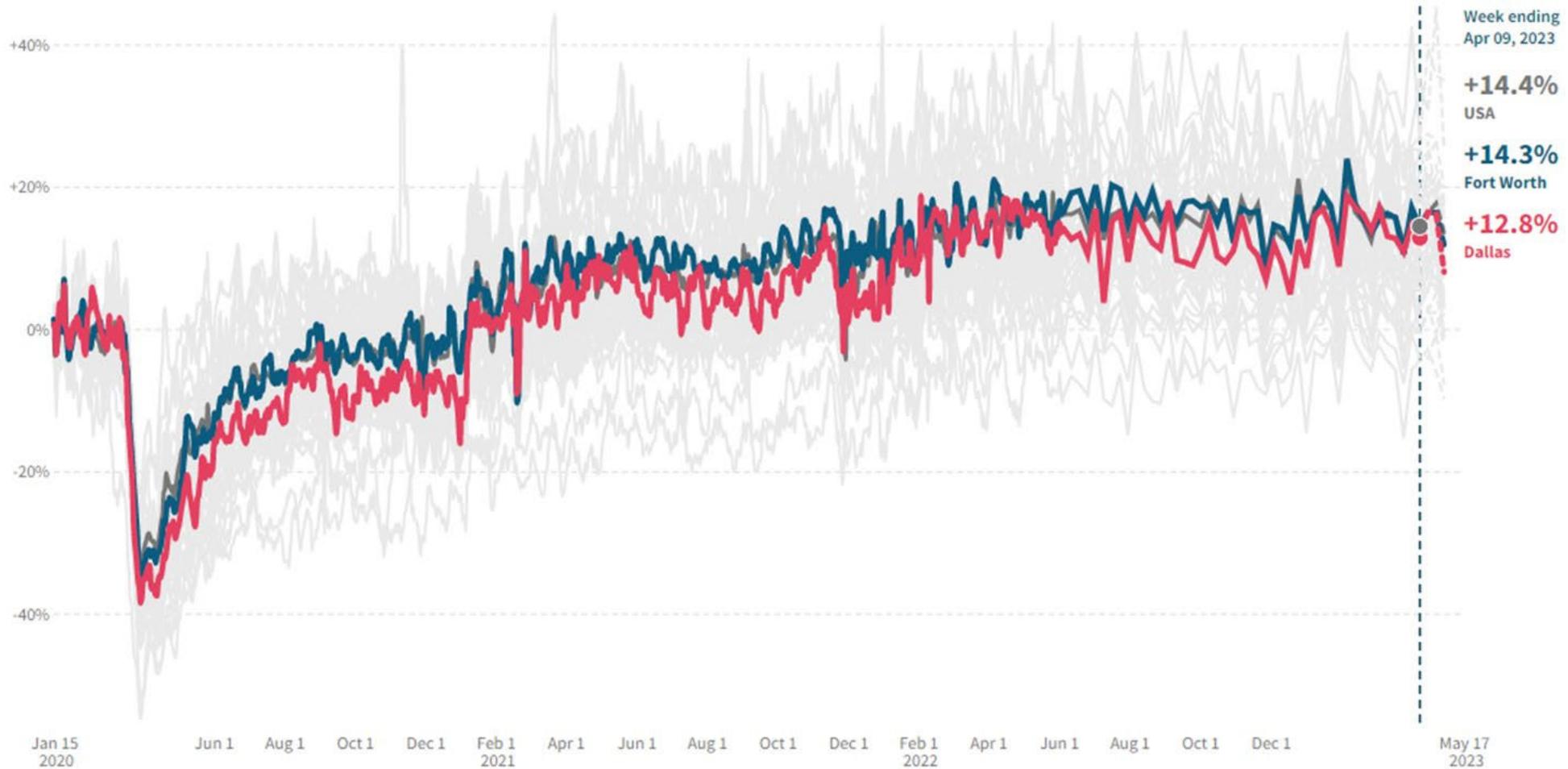
YOY percent change in CPI, May 2023*



*Inflation data shown for DFW is only available in odd-numbered months (excepting energy). The rate for Texas represents the West South Central Region (AR, LA, OK, and TX). Core inflation represents CPI items less energy and food.

CONSUMER SPENDING

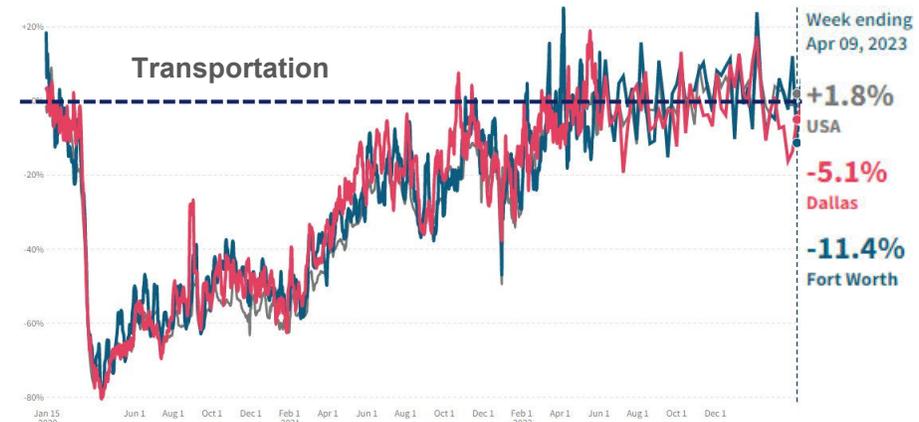
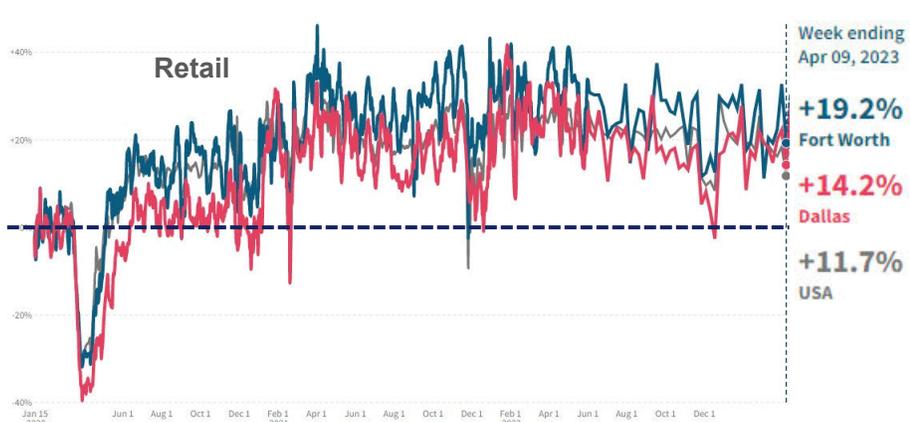
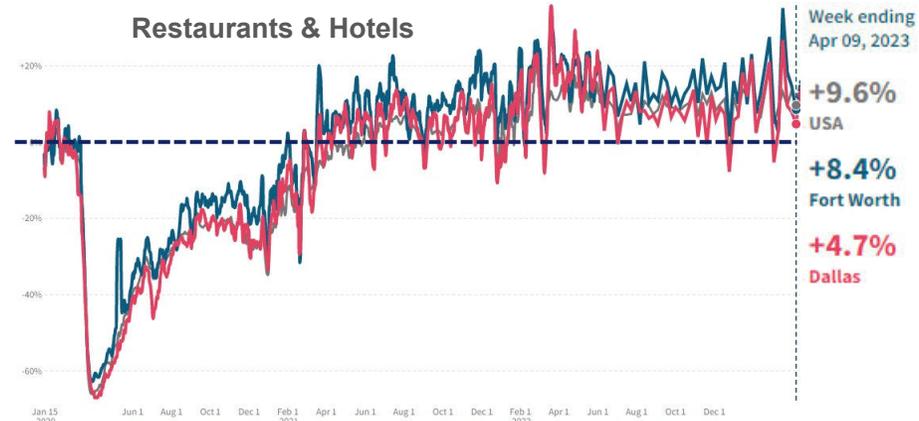
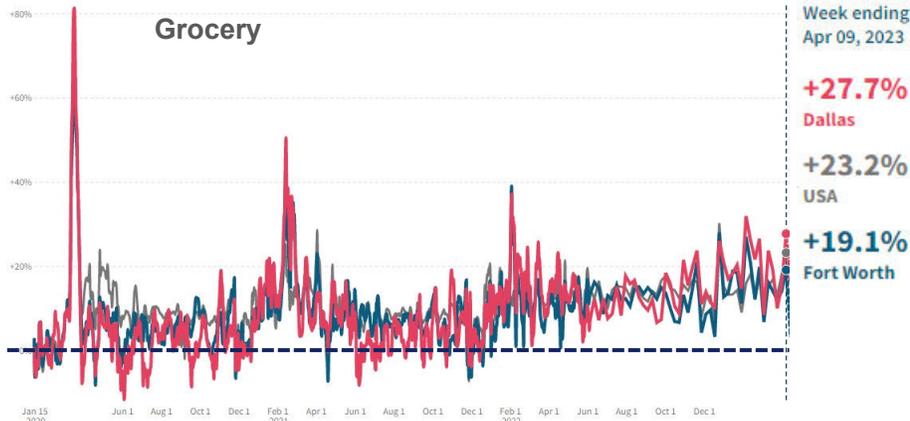
Percent change in average consumer spending*



*Change in average consumer credit and debit card spending, indexed to pre-pandemic spending from Jan. 4-31, 2020; seasonally adjusted. Dashed line segments represent provisional data subject to revision. Modeling was improved in Sep. 2022 to remove previous weighing bias.

CONSUMER SPENDING

Percent change in average consumer spending* by select industry segment



*Change in average consumer credit and debit card spending, indexed to pre-pandemic spending from Jan. 4-31, 2020; seasonally adjusted. Modeling was improved in Sep. 2022 to remove previous weighing bias.

200 Headquarters Located in DFW Since 2010 Including 6 Fortune 500 Companies (Blue)

**DFW is a
headquarters
magnet.**

FROM CALIFORNIA

AECOM (2021)
CBRE (2020)
Charles Schwab (2021)
Jacobs (2016)
McKesson (2019)
Core-Mark
Active Network
Copart
Farmer Brothers Coffee
JetSuite
Kubota Tractor
Omnitracs
Ruiz Foods
Toyota Motor North America
...many others

SELECT OTHERS

Boeing Global Services
Bombardier Recreational Products
Caterpillar (2022)
Hilti North America
McLaren North America
PGA of America
Smoothie King
Sunoco
Top Golf

BASED HERE BEFORE 2010

American Airlines
AT&T
BNSF Railroad
Comerica Bank
Fluor
Fossil
Frito-Lay
Kimberly-Clark
NEC Corp. of America
Southwest Airlines
Tenet Healthcare
Texas Instruments
...many others

The diversity of
companies with
headquarters in DFW is
a testament to the
attractiveness of our
market for all kinds
of companies.

The last 10 Fortune 500
headquarters to move
here represented 8
business sectors.

Dallas-Fort Worth is Home to 24 Fortune 500 Corporate Headquarters

Six Fortune 500 corporate headquarters
have moved to our region since 2016.

Jacobs

CBRE



McKESSON

AECOM

CATERPILLAR

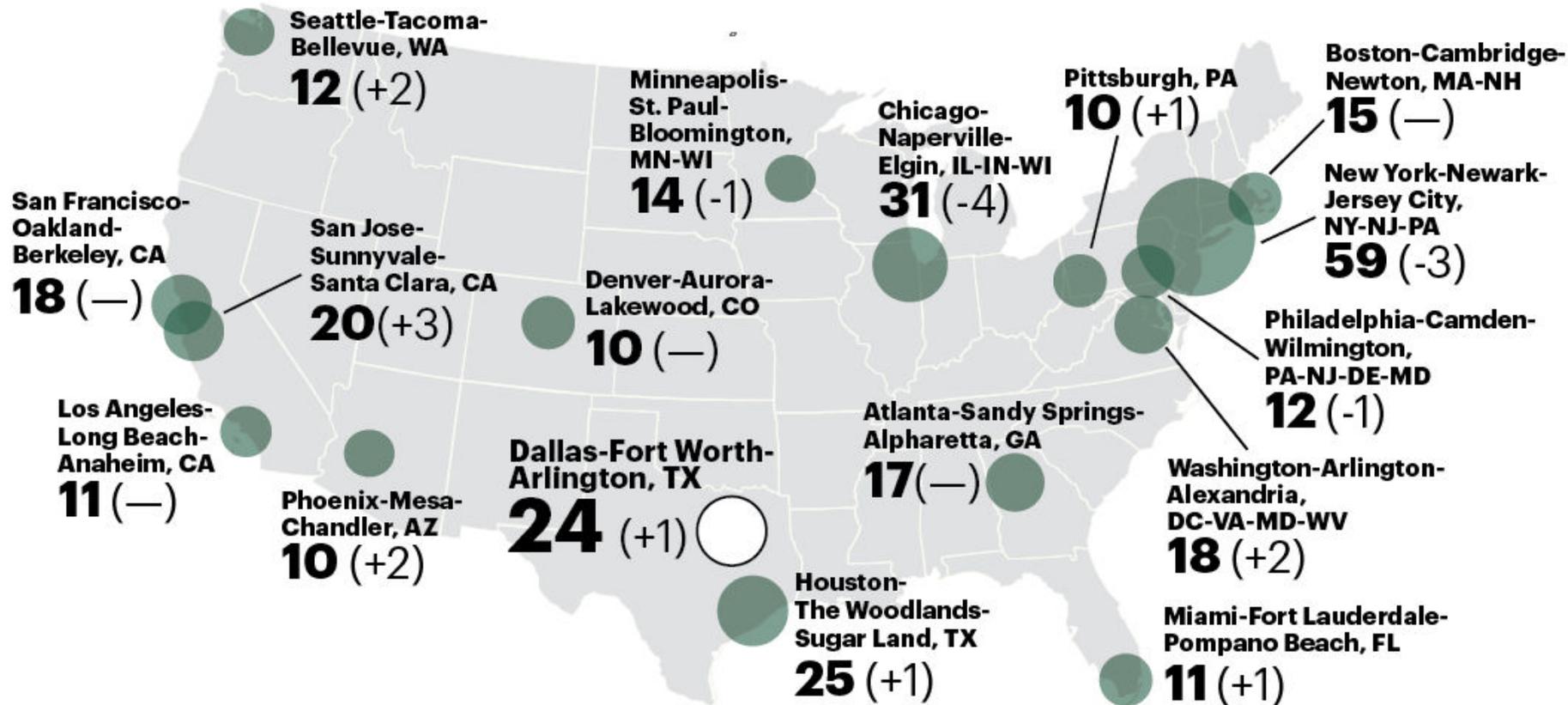
**DFW is home
to major U.S.
companies.**

Core-Mark was a 7th Fortune 500 corporate headquarters that moved to DFW since 2016. It was acquired in 2021 by Performance Food Group and is no longer on the Fortune 500 list.



FORTUNE 500

Metro areas with most Fortune 500 companies and change from prior year



DFW Fortune 50 Companies

6 **ExxonMobil**

9 **MCKESSON**

30  **AT&T**

43  **ENERGY TRANSFER**

DRC
DALLAS REGIONAL CHAMBER
NATIONAL CHAMBER OF THE YEAR

Corporate Moves and Growth in DFW Since January 2020

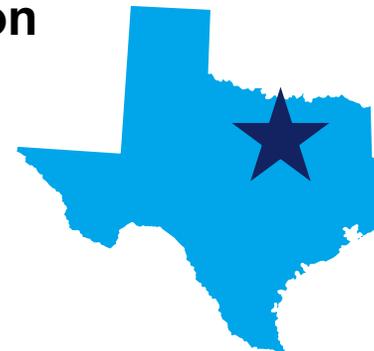
- **239 notable corporate announcements:**
 - 113 office projects
 - 95 industrial projects
 - 88 headquarters projects
 - 60 tech company projects
 - 55,000,000 square feet and 62,000 jobs
- **77 companies moved HQs from 17 different states and 10 countries:**
 - 30 locations from California
 - 33 from other states or countries (5 from New York, 5 from Illinois)
 - 14 headquarters projects from 10 different countries
- **Companies are locating across DFW:**
 - Dallas (57), Fort Worth (41), Plano (21), Irving (16), Frisco (14), Lancaster (6)
 - 36 regional cities had at least one notable corporate announcement
 - 27 regional cities had multiple corporate announcements

DRC Notes on Corporate Recruitment

- **Companies recently announcing DFW locations:**
 - PepsiCo, CBRE, Waymo, AECOM, Caterpillar, Vanguard, Verily, Fortress, Canyon Partners, WileyX, Evolve Biologics, Vividseats, Texas Instruments, MP Materials, Ruiz Foods, Goldman Sachs, Wells Fargo, Boingo, Universal Studios
- **A sample of location projects as of June 2023 include:**
 - A medical device company eyeing DFW for a location to scale its production and office
 - A California IT/software company considering a 2nd HQ and hub
 - A Fortune 500 financial services company; 250,000 square feet and 600 jobs
 - A European-based consulting firm looking at an office and potential U.S. HQ; 50,000 square feet
 - An electric aircraft company considering Texas (DFW) and a western state for manufacturing
 - A significant entertainment campus project
 - Two large solar components projects considering a southern Dallas location
 - A consumer goods manufacturer considering a southern Dallas location
 - A life science company considering DFW for a data and technology office

Our Region's Playbook for Attracting Companies

- ✓ Largest **talent base**, including tech, that's in a business-friendly place
- ✓ **Business friendly forecast**: reasonable costs, regulations, taxes
- ✓ **Welcoming place** for new companies, employees and families
- ✓ We plan and **invest in the future** to ensure companies and people can thrive
- ✓ **Relative affordability** – both for companies and people seeking a major market
- ✓ Desirable place to live and work – **amenities and quality of life options**
- ✓ **Strong K-12 education** with major colleges and universities
- ✓ Depth and **quality of critical services**: broadband, health care, engineering
- ✓ Perception and **proven track record** as a great corporate location
- ✓ Fast rising brand as a **tech and innovation** metro
- ✓ **Central location** with premier air, highway and rail accessibility



**U.S. CEOs
rank Texas #1
for 19 years.**

Already with a great brand as a headquarters, financial services and transportation location; DFW's innovation and technology status is rising to complement those.

Outlook for Company Locations and Expansions

- Dallas, DFW and Texas **comparative advantages** are strong versus other metros and states.
- **Talent** is the key issue and DFW's population growth and in-migration is attractive to companies.
- As companies reimagine their office environments and needs, DFW's **real estate market** can respond and evolve to desired solutions.
- Dallas' tech brand has elevated the past few years and **more technology companies** will be drawn here, complementing our headquarters and financial service brands.
- More **financial services companies** will favor DFW over taxing conditions elsewhere.
- Companies concerned about density or decay issues and deteriorating fiscal conditions in high cost, crowded locations will view DFW favorably and as **an easier and better place to be**.
- Superior air, rail and highway access appeals to manufacturers and distributors locating **production and supply chains** closer to top markets.

Outlook for Company Locations and Expansions

- DFW features companies and clusters in biotech, augmented reality, autonomous vehicles, fintech, cybersecurity, gaming, artificial intelligence, big data, blockchain....DFW is a capable and convergent location for **new sectors to locate and expand**; especially considering the scale of our existing tech ecosystem.
- DFW is well positioned as a location for **electric vehicle and related companies**, considering the strong auto and aircraft sector here and in Texas, and our base of other tech clusters.
- The **Texas two-steps**. Expect companies with a strong corporate presence in DFW and Texas to consider a shift of headquarters here if currently located in difficult business climates. Also, headquarters moves to DFW might start with smaller footprints and headcount given the current work from home environment; then grow on both fronts over time.

KEY TAKEAWAYS

- ❖ The Dallas Region **added 170,000 new residents in 2022**, more than any other metro in the U.S. Houston came in a distant second with 124,000 new residents.
- ❖ The Dallas Region has the **highest rate of year-over-year job growth at 4.4%** and the second highest total job growth among the largest U.S. metros in April 2023.
- ❖ The Dallas Region's **five-year jobs gain (569.6K)** through April 2023 is more than the combined gains of metros with the next highest employment growth, Atlanta (269.9K) and Phoenix (266.4K).
- ❖ The Dallas Region's **unemployment rate was 3.9%** in March 2023. This rate is 0.2 percentage points lower than Feb. 2023 and the region has rebounded from a high of 11.9% in April 2020.
- ❖ The 24 Fortune 500 companies headquartered in the Dallas Region generated **\$1.35T in 2022 revenues**, the second highest amount behind New York.

ECONOMY IN BRIEF

DALLASCHAMBER.ORG

ERIC GRIFFIN

MANAGING DIRECTOR, RESEARCH AND INNOVATION

EGRIFIN@DALLASCHAMBER.ORG

214.746.6688

For a weekly view on the national economy and expert global perspectives, visit [Truist Wealth Insights](#) to read the latest from investment and market analysts.



NATIONAL
CHAMBER
OF THE YEAR





DRC
DALLAS REGIONAL CHAMBER

NATIONAL
CHAMBER
OF THE YEAR



**WORKPLACE TRENDS IMPACTING
EMPLOYERS & TALENT**

Thursday, June 15, 2023

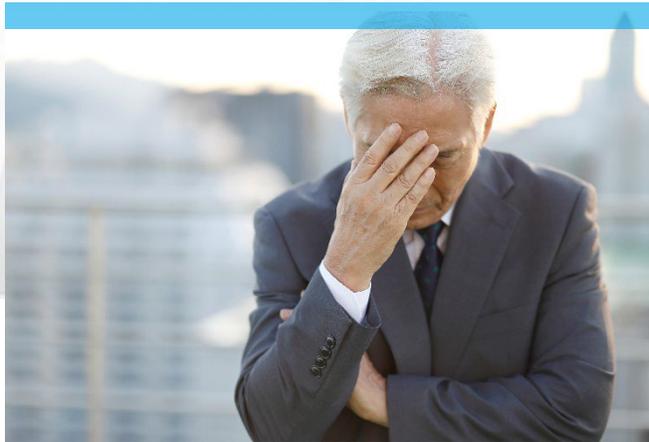


Workplace Trends

- Workplace trends indicate the direction the business world is heading and can easily become the new norm.
- Monitoring workplace trends can help you understand the initiatives that are shifting.
- Early implementation can help companies stay competitive by creating and maintaining a place where talent want to be.



The Great Resignation Continues



3.9 MILLION

U.S. WORKERS
WHO QUIT JOBS IN
MARCH 2023

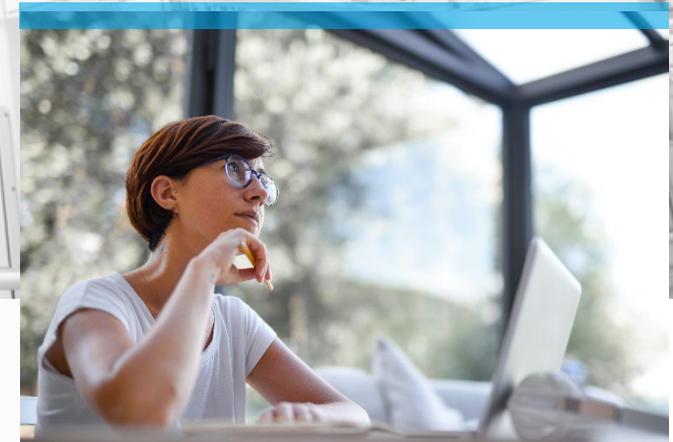
[Bureau of Labor Statistics]



9.6 MILLION

NUMBER OF U.S.
JOB OPENINGS IN
MARCH 2023

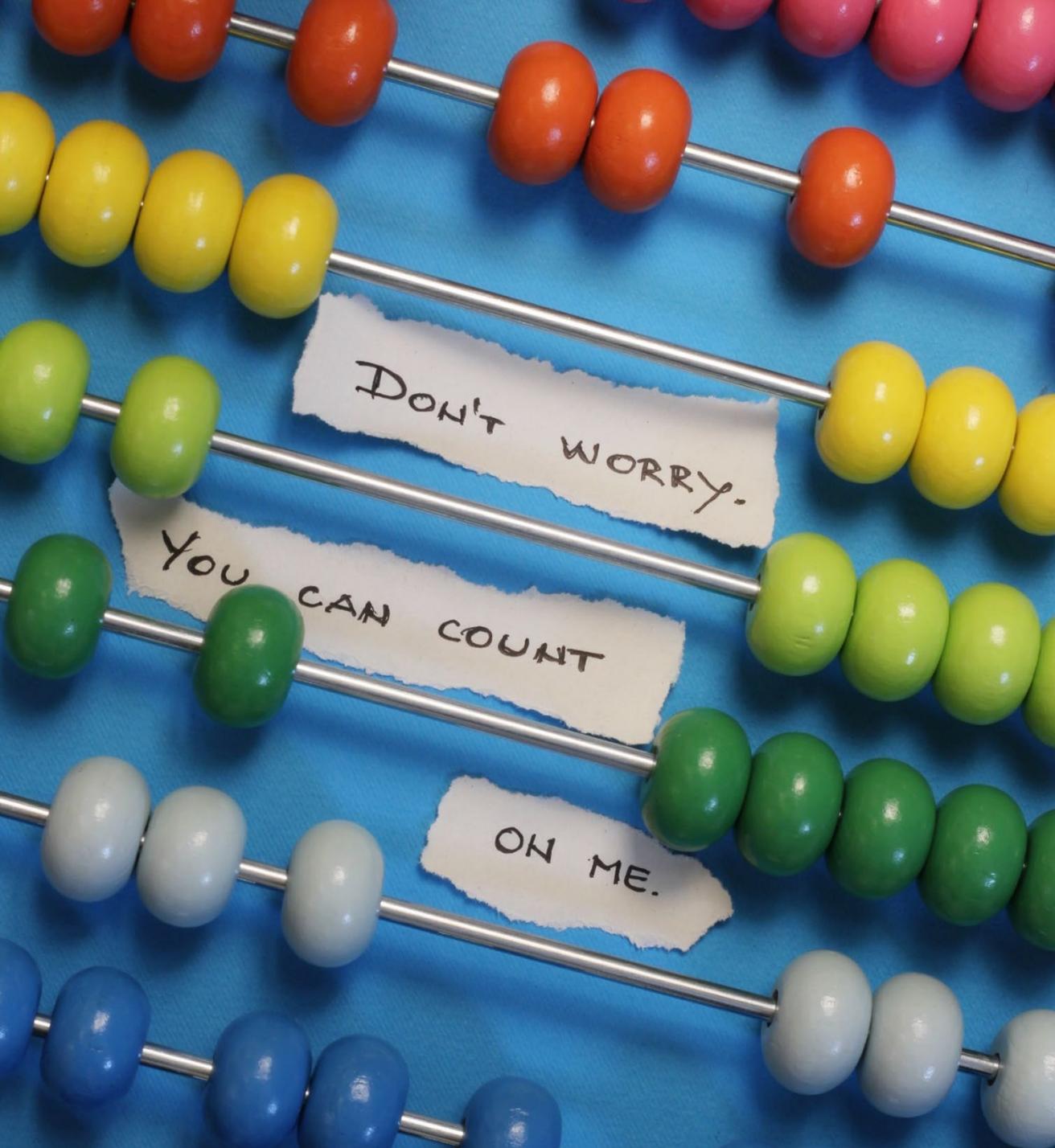
[Bureau of Labor Statistics]



61%

U.S. WORKERS
WHO ARE CONSIDERING
QUITTING IN 2023

[Business Insider]



3.5M

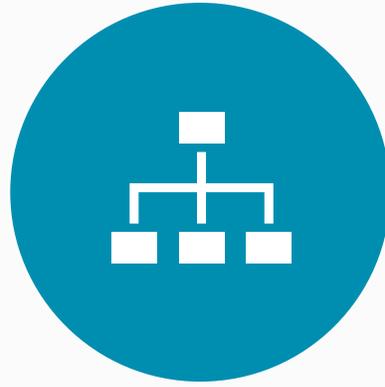
THE U.S. LABOR FORCE SHORTFALL,
REFLECTING LOWER POPULATION
GROWTH AS WELL AS LOWER
LABOR FORCE PARTICIPATION

[Federal Reserve Chairman Jerome Powell, January 2023]

Workplace Trends



TALENT



EMPLOYERS



WORKPLACE



TALENT



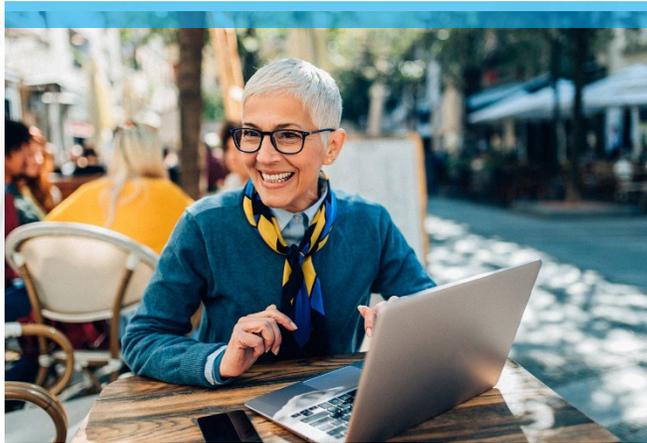
Candidate Perspective

- Hybrid & flexible workplaces are a must
- Strong compensation requirements
- Great culture with career advancement opportunities

[BGSF, April 2023]



Flexibility is the New Compensation



81%

OF GLOBAL DESK-BASED
WORKERS SAY THEY WANT
LOCATION FLEXIBILITY



93%

OF GLOBAL DESK-BASED
WORKERS SAY THEY WANT
SCHEDULE FLEXIBILITY

[[Future Forum Pulse, Wave 9](#), conducted Nov 16 – Dec 22, 2022 | Number of completed response = 10,243]



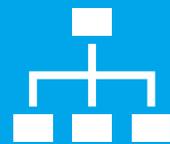
#1

REMOTE & HYBRID WORKERS
CITE FLEXIBLE WORK POLICIES
AS THE PRIMARY REASON
THEIR COMPANY CULTURE IS
CHANGING FOR THE BETTER

[[Future Forum Pulse, Wave 9, conducted Nov 16 – Dec 22, 2022](#)
Number of completed response = 10,243]

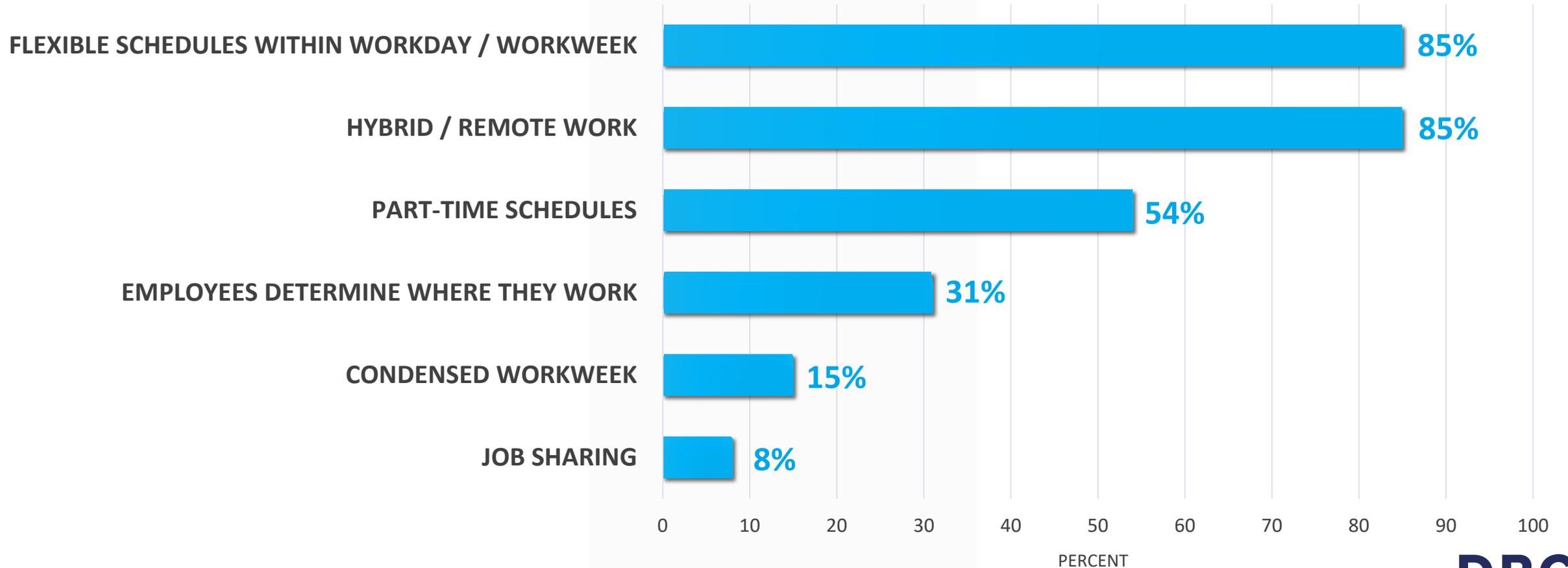


EMPLOYERS



Flexible Work Offerings

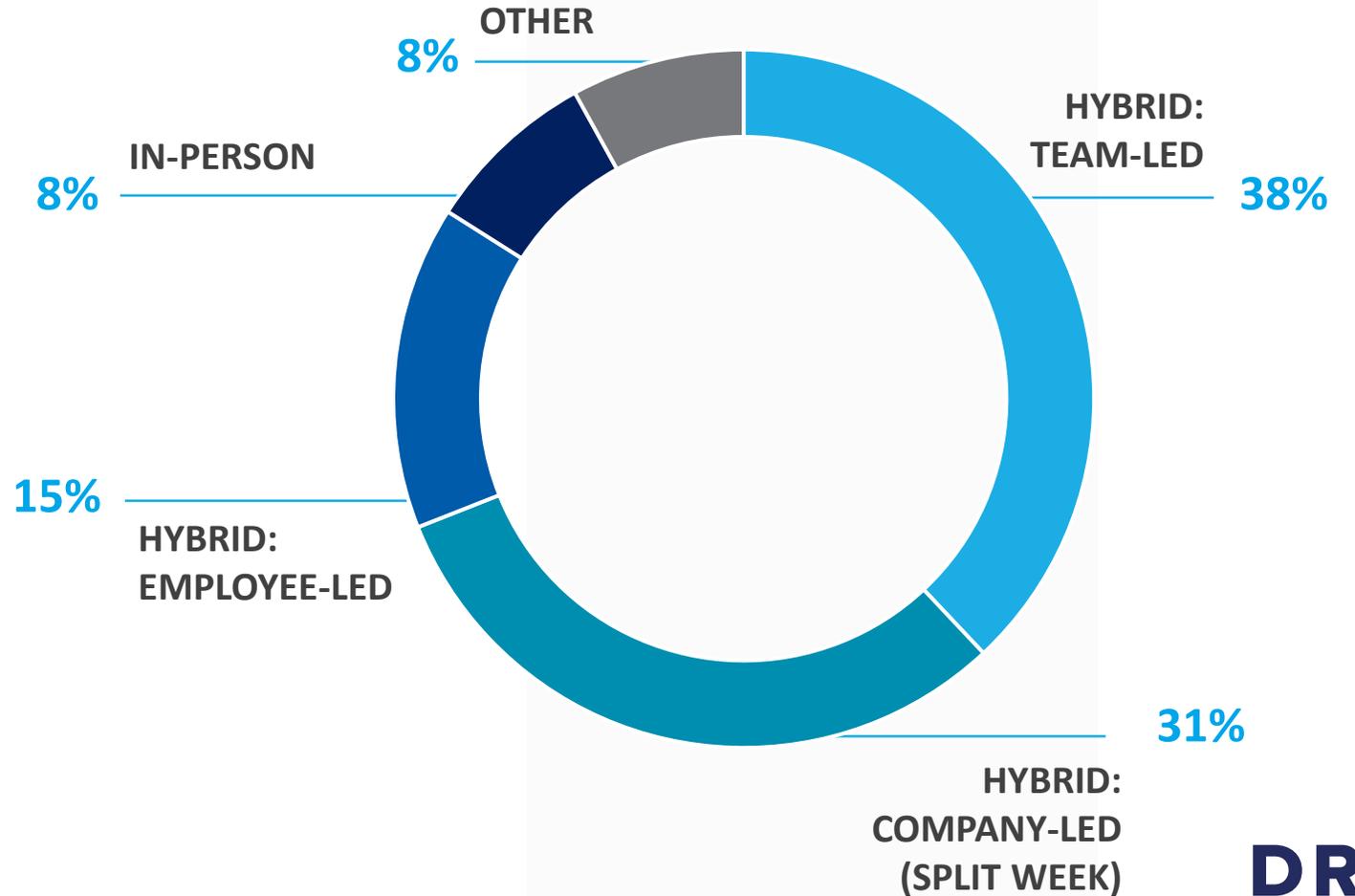
Q: What, if any, flexible work arrangements does your company offer employees (Check all that apply)





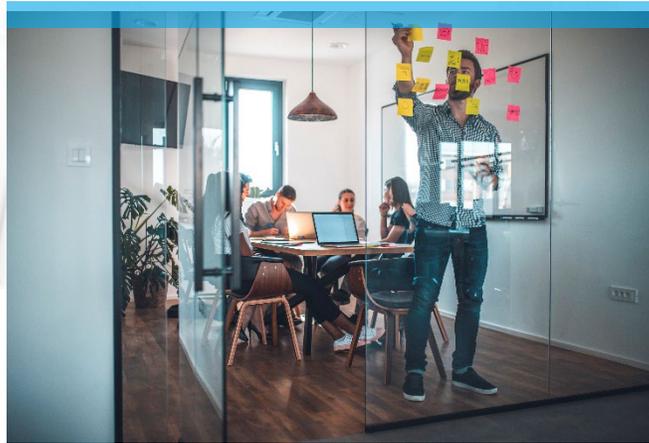
Working Arrangements

Q: How is your company structuring in-office working arrangements?



[Dallas Regional Chamber, Future of Work Survey of Members, May 1-12, 2023]

Employer In-Office Requirements Increasing



65%

EMPLOYERS REQUIRING
SOME LEVEL OF IN-OFFICE
EMPLOYEE ATTENDANCE

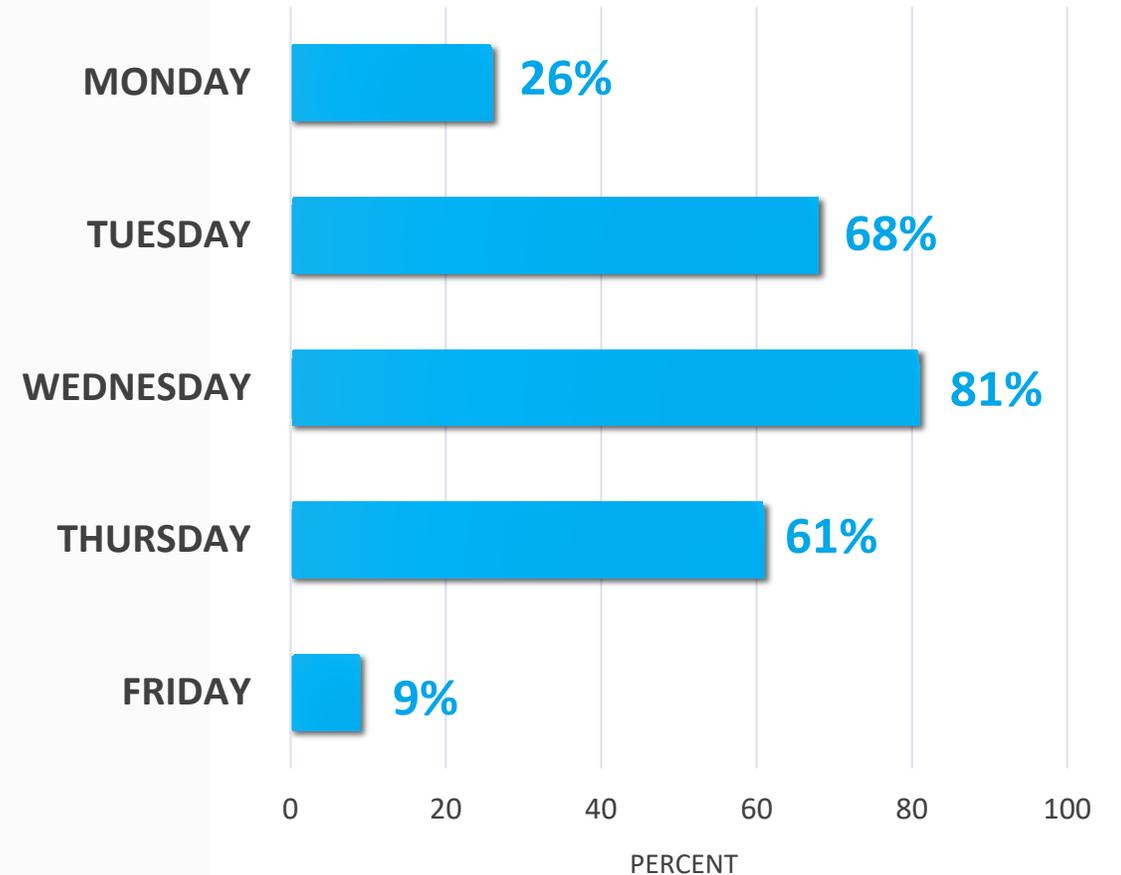
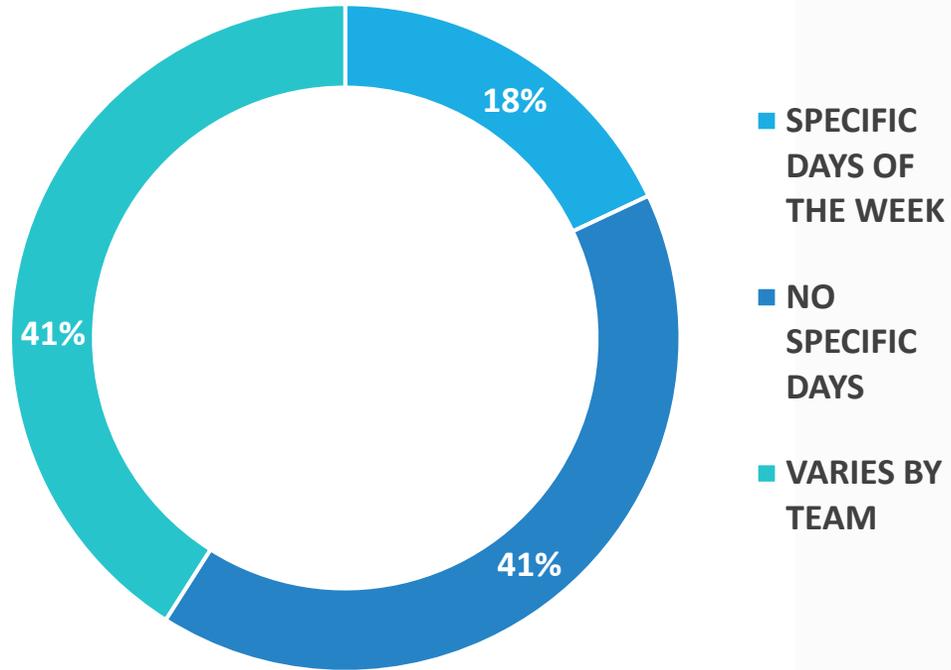


40%

EMPLOYERS PLANNING TO
RAMP UP THEIR OFFICE
ATTENDANCE REQUIREMENTS

[CBRE Group, [U.S. Office Occupier Sentiment Survey, Spring 2023](#)]

Office Attendance Requirements





WORKPLACE





67%

EMPLOYERS PLACE MORE
IMPORTANCE ON QUALITY OF
WORKING ENVIRONMENT THAN
THEY DID PRE-PANDEMIC

[CBRE Group, U.S. Office Occupier Sentiment Survey, Spring 2023]

Facility Perks

- Live-work-play locations
- Access to public transportation & parking
- Spaces to learn, collaborate & celebrate
- Health, wellness & convenience amenities

[Insights from CBRE, HKS & FMG, April 2023]





50%

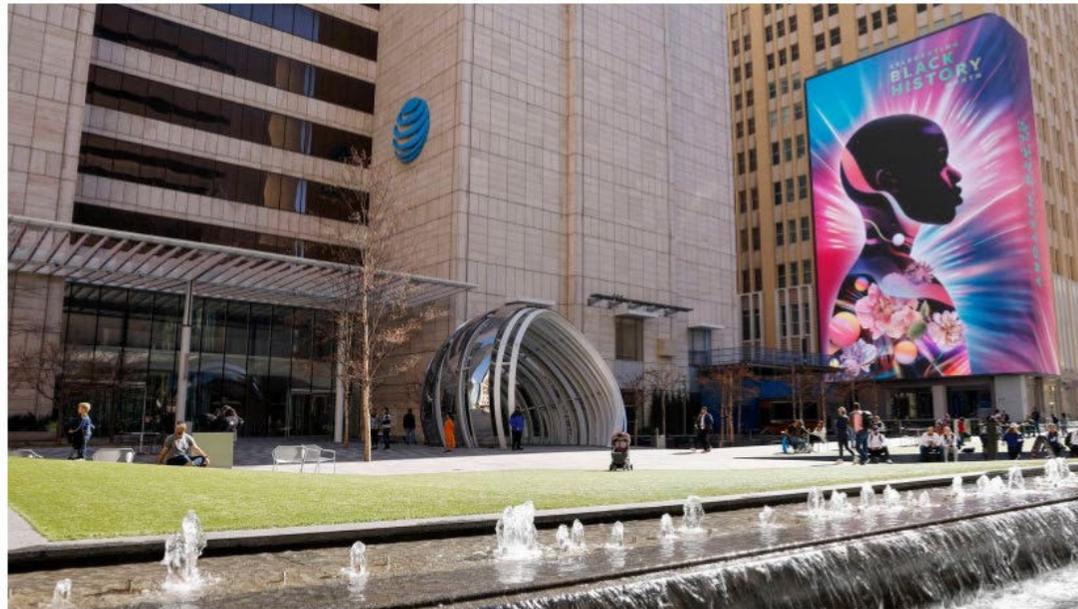
COMPANIES THAT EXPECT
THEIR OFFICE FOOTPRINT TO
GET SMALLER OVER THE
NEXT THREE YEARS

[CBRE Group, U.S. Office Occupier Sentiment Survey, Spring 2023]

The Dallas Morning News

AT&T wants managers back in offices in Dallas, Atlanta, other locations

The largest U.S. telecommunications company, which has operations in all 50 states, will consolidate into nine core offices with its corporate headquarters in Dallas and Atlanta as main hubs.



AT&T's headquarters building in downtown Dallas. (Eliás Valverde II / Staff Photographer)

By [Bloomberg Wire](#)
1:49 PM on May 16, 2023





BONUS





Artificial Intelligence (AI)

“Artificial intelligence is here. It’s overhyped, poorly understood, and flawed but already core to our lives—and it’s only going to extend its reach.”

[[WIRED – Guide to Artificial Intelligence, February 2023](#)]



60%

OF LINKEDIN RESPONDENTS
REPORTED USING AI TOOLS
LIKE CHATGPT FOR WORK

[Dallas Regional Chamber, LinkedIn Poll, May 8-15, 2023]

The Impact of Artificial Intelligence



7%

INCREASE IN GLOBAL GDP
WITH BREAKTHROUGHS IN
GENERATIVE AI



300 MILLION

FULL-TIME JOBS THAT
COULD BE AFFECTED BY
LATEST WAVE OF AI

[[Goldman Sachs Research](#), April 2023]



Best Place for Working Parents® Dallas



The Best Place for Working Parents® Dallas, presented by PNC Bank, recognizes family-friendly workplaces in the Dallas Region and aims to raise awareness of the importance of family-friendly benefits and policies for employers and workers.

Through a proprietary business self-assessment, employers may quickly determine whether their workplace qualifies for the Best Place for Working Parents® business designation by comparing their benefits to companies of similar size and industry.

Scan to take the three-minute self-assessment



say *yes* to *Dallas*



@SAYYESTODALLAS





Campaign Snapshot

JOB

- Search for jobs in DFW
- Featured employers
- Fortune 1000
- Shift work
- Start ups

LIVING

- Regional map
- Apartments & housing
- Getting around
- Education
- Cost-of-living calculator
- Essentials guide

PARKS & OUTDOORS

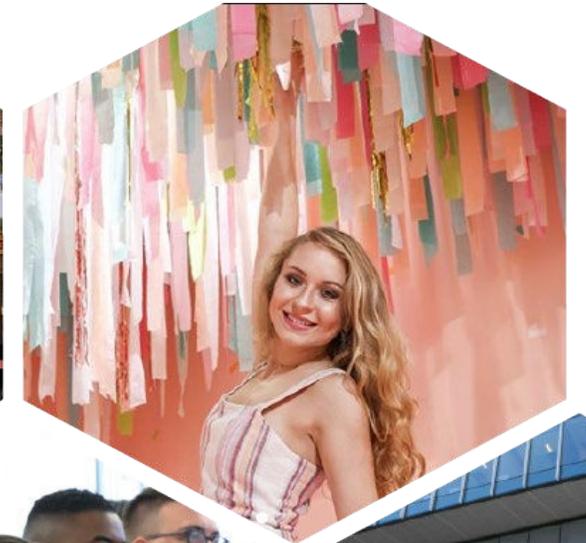
- Parks & trails
- Walk & role
- Lakes
- Golf
- It's a dog's life
- Hidden gems

CULTURE

- People & demographics
- Arts
- Sports
- Shopping
- Dining & nightlife
- Family guide
- Giving back

Talent Attraction Resources

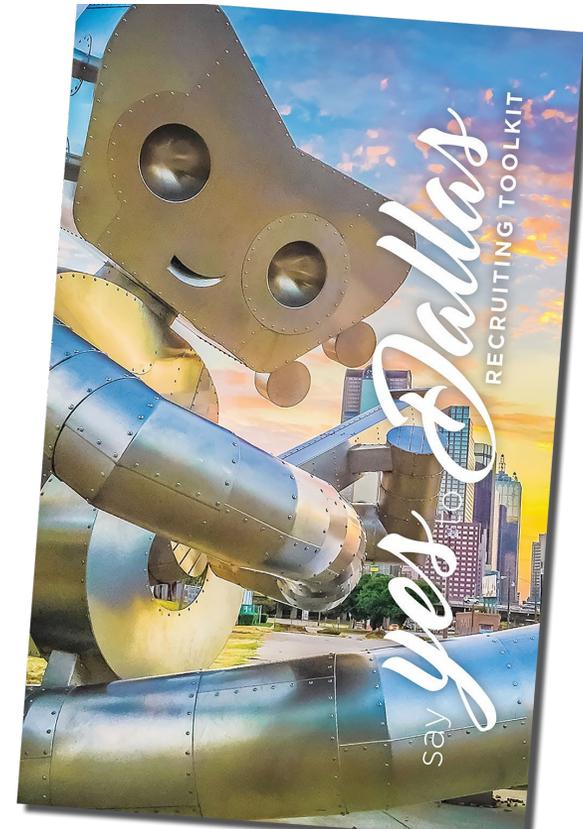
- Website & Social Media
- Print Magazine
- Seasonal Newsletter
- My Dallas Story Testimonials
- Recruiting Toolkit & Trainings
- Candidate Essentials Guide
- Talent Attraction Council
- Events





Recruiting Toolkit

- **Key messages** about the Dallas Region
- Say Yes to Dallas **marketing materials**
- Resources for **recruiting diverse tech talent**
- Resources for **moving international talent**



Scan to
Access

Candidate Essentials Guide

- Dallas area map
- Cost-of-living calculator
- My Dallas Story testimonials
- Myths about Dallas
- Important laws
- Moving checklist
- Things to do in first 30 days





Ways to Engage with Us

- Visit our website at sayyestodallas.com
- Follow us on social media @sayyestodallas
- Join the Talent Attraction Council
- Schedule a training for your recruiting team
- Attend the next Talent Attraction event

say *yes* to *Dallas*

INTERN MIXERS

PRESENTED BY **accenture**

JUNE 21, 2023 | 12 - 1:15 P.M.
Lunch & Learn via Zoom

JULY 12, 2023 | 4 - 6 P.M.
Dallas Regional Chamber





QUESTIONS?

Thank
you

JESSICA HEER



DRC
DALLAS REGIONAL CHAMBER

NATIONAL
CHAMBER
OF THE YEAR



in



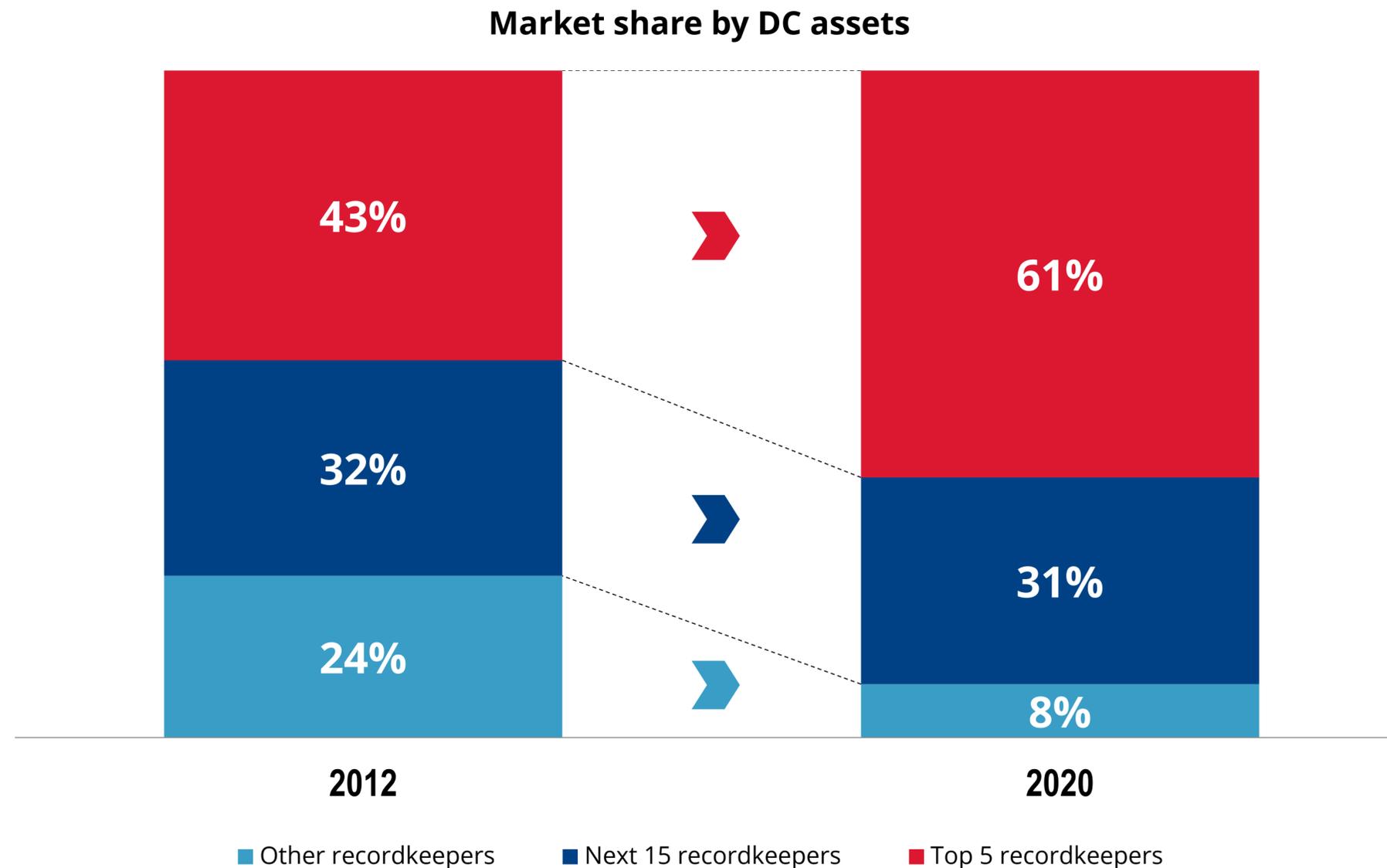
Industry Consolidation: It's a Scale Business

SCOTT SITZES

Regional Director, North TX

Largest DC providers are gaining share

Top 5 recordkeepers increased market share from 43% in 2012 to 61% in 2020



- Consolidation is likely to continue as business models evolve.
- The universe of recordkeepers has contracted from about 400 to approximately 150, with no signs of slowing.
- Likely end state is a small group of providers with significant scale.

Source: PLANSPONSOR estimates include Empower/Prudential deal on pro forma basis.

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Scale is driving consolidation

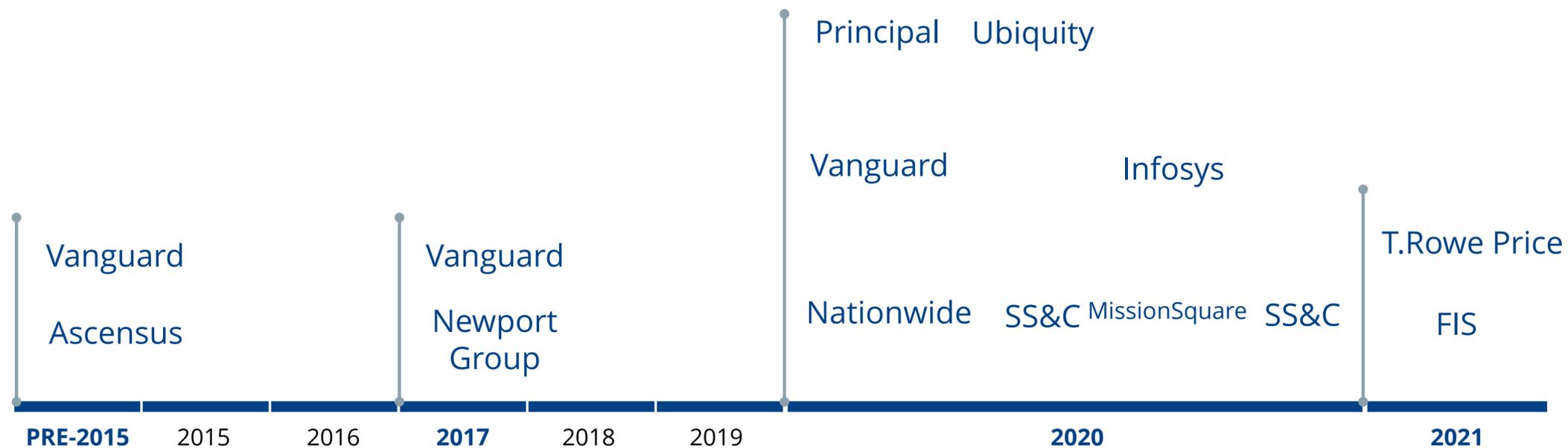
Sources:
[1 Blackstone/Aon Hewitt](#)
[2 Principal/Wells Fargo](#)
[3 Empower/MassMutual](#)
[4 American Trust/United Trust](#)
[5 Newport Group/PNC Bank](#)
[6 Empower/Prudential](#)

Acquirer	Seller	Buyer rationale	Seller rationale
Blackstone ¹	Aon Hewitt ¹ Benefits and HR Platform	Largest benefits administration platform in the U.S., serving ~15% of the population	Non-core business – increases focus as a stand-alone entity
Principal ²	Wells Fargo ²	Contributes to larger presence with mid-size companies	Is outside core business model
Empower ³	MassMutual Financial Group ³	Increases market share in critical markets	Allows focus on historical strength
American Trust ⁴	United Trust ⁴	Accelerates national expansion	Consolidates into larger organization
Newport Group ⁵	PNC Bank ⁵	Expands presence in retirement market	Allows focus on investment advice to clients
Empower ⁶	Prudential ⁶	Increases market share in critical markets	Advances transformation and enterprise growth strategy

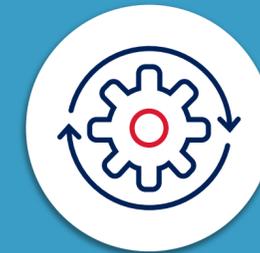
The above information is not fully reflective of additional merger and acquisition deals in the retirement industry that may have occurred over the past several years.

Outsourcing technology and operations

Outsourcing seen as an alternative to consolidation



Key goals



Streamlined operations



Improved technology



Reduced cost per participant

The acquisition trend may accelerate*

- Continued fee compression or a bear market could **accelerate recordkeeper consolidations**.
- Industry professionals state that for a **viable business**, a recordkeeper would need to have **3 million participants**; 20+ companies have 500,000 to 3 million participants.

*Source: PLANSPONSOR DC RK Survey, 2020.

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Considerations



Scale is key to **innovation, cybersecurity, client experience** and **regulatory** investments in the business.



Be mindful of recordkeeping as a **distinct business** vs. **subsidized economics**.



Choose wisely. Seek **sustainable partners** to avoid eventual **platform change** and associated client/communication distractions.

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*Statistics for number of individuals and plans is as-of April 1, 2022. Information refers to all retirement business of Empower Annuity Insurance Company of America (EAICA) and its subsidiaries, including Empower Retirement, LLC, Empower Life & Annuity Insurance Company of New York (ELAICNY) and Prudential Retirement Insurance & Annuity Company (PRIAC), marketed under the Empower brand. Assets represents the estimated consolidated pro forma assets under administration (“AUA”) of Empower and the full-service retirement business of Prudential Financial, Inc., as of December 31, 2021. AUA is a non-GAAP measure and does not reflect the financial stability or strength of a company. As of December 31, 2021, ELAIC’s statutory assets total \$75.9B and liabilities total \$73.0B, EAICNY’s statutory assets total \$4.1B and liabilities total \$3.9B, and PRIAC’s statutory assets total \$100.329B and liabilities total \$98.793B.

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T.RowePrice®



2023

U.S. Retirement Market Outlook

Webinar

RETIRE WITH CONFIDENCE®

Three Themes Shaping the U.S. Retirement Landscape in 2023



Getting on track and staying there



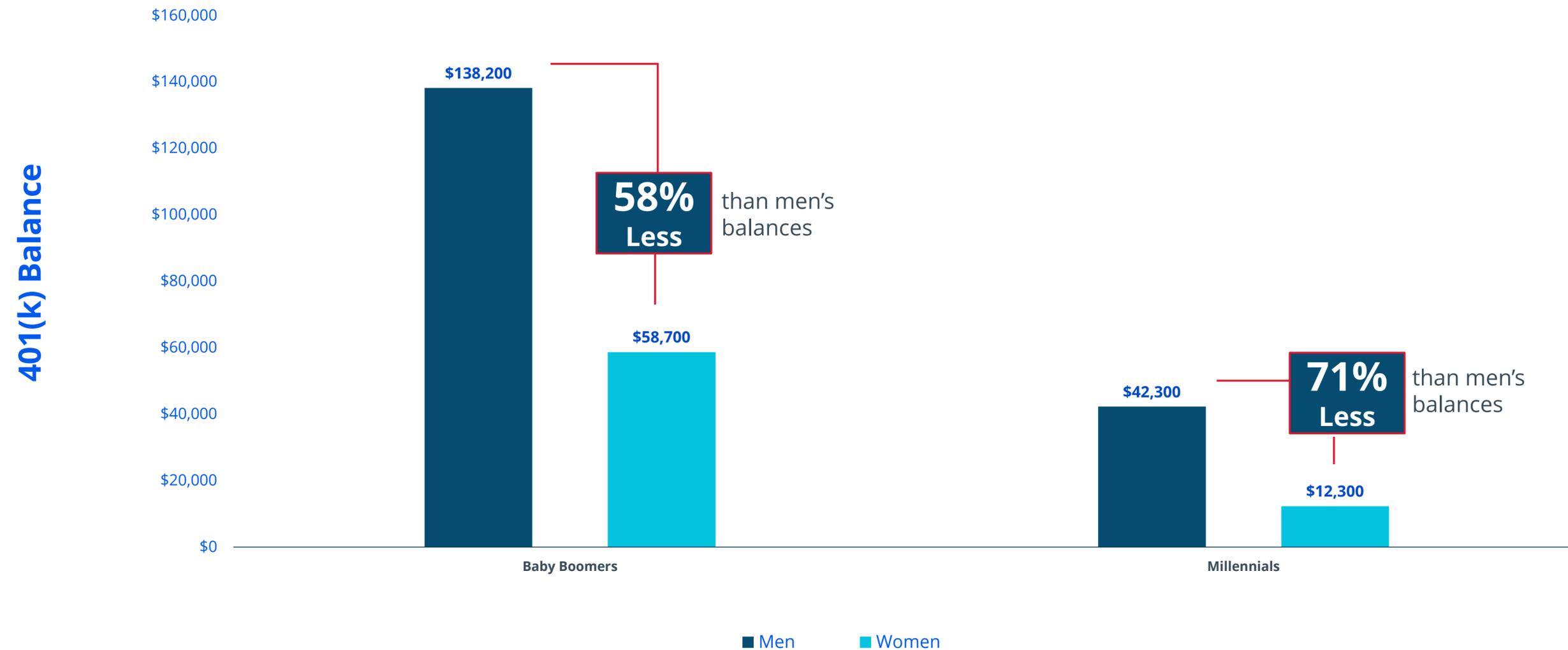
The need to offer holistic, personalized help to savers



Weathering challenges to keep portfolios on track for saving and spending

Women Have Historically Saved at Lower Levels Than Men

Median 401(k) Balance of Working Baby Boomers and Millennials



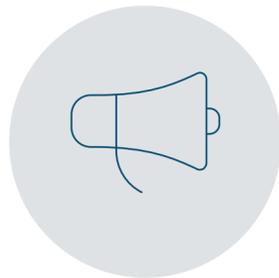
Source: T. Rowe Price Retirement Savings and Spending Study (RSS4), 2018.
"Our research" refers to the T. Rowe Price sources listed at the end of this presentation.
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How Does the Industry Move the Needle?



Data

Improve availability of demographic plan data.



Outreach

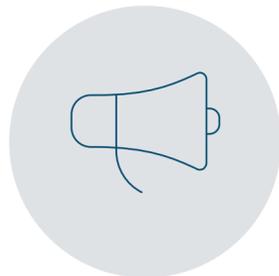
Engage minority participants with focused outreach using DEI resources within the organization.

How Does the Industry Move the Needle?



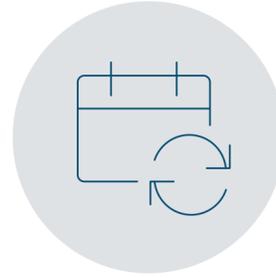
Data

Improve availability of demographic plan data.



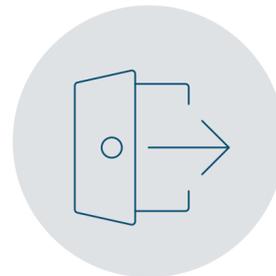
Outreach

Engage minority participants with focused outreach using DEI resources within the organization.



Plan Design

Maximize use of auto features (auto-enrollment, auto-reenrollment, auto-escalation, auto-invest).



Access

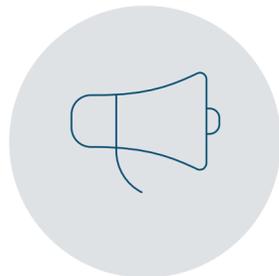
Maximize access and participation in the retirement savings plans.

How Does the Industry Move the Needle?



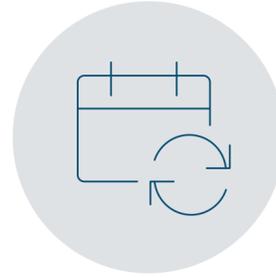
Data

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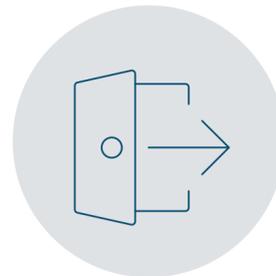
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Engage minority participants with focused outreach using DEI resources within the organization.



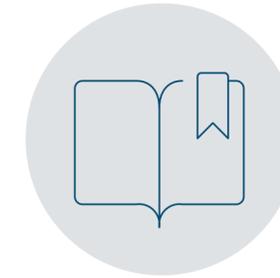
Plan Design

Maximize use of auto features (auto-enrollment, auto-reenrollment, auto-escalation, auto-invest).



Access

Maximize access and participation in the retirement savings plans.



Financial Wellness

Increase education for financial wellness programs.

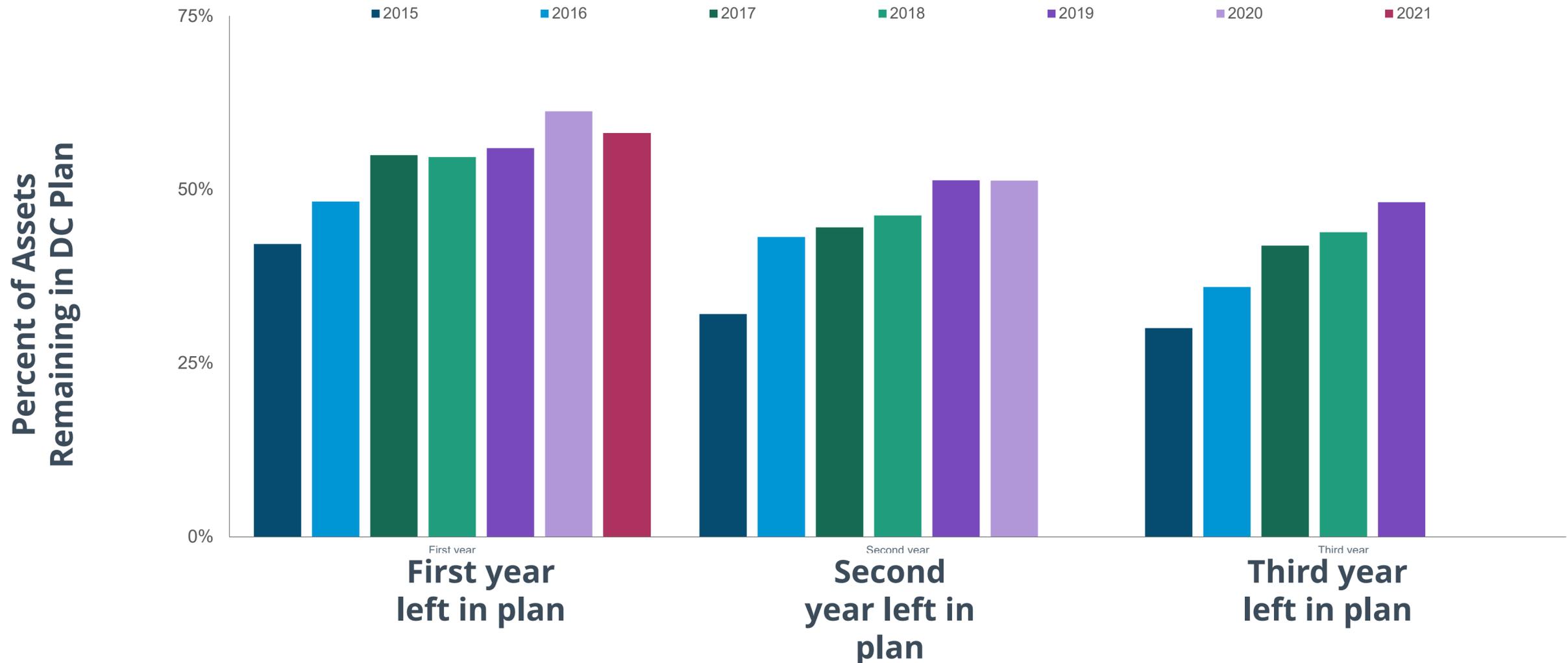


Communication

Target communications to encourage participation, savings, and appropriate investing.

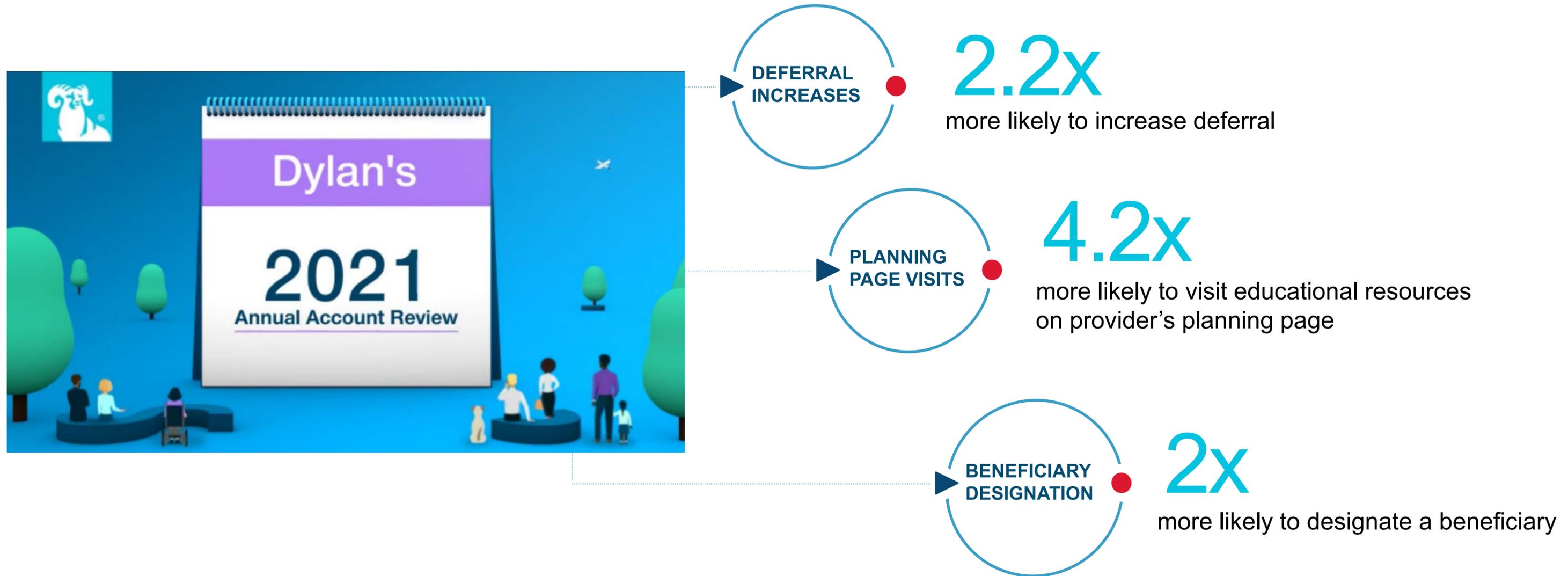
More Participants Are Keeping Their Assets in Plan

More assets remain in plan among DC participants separated from service and age 65+¹



¹T. Rowe Price. Percent of account value retained by defined contribution (DC) plan participants, age 65 or older after 1, 2, or 3 calendar years following separation from service.
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Personalized Content Drives Action



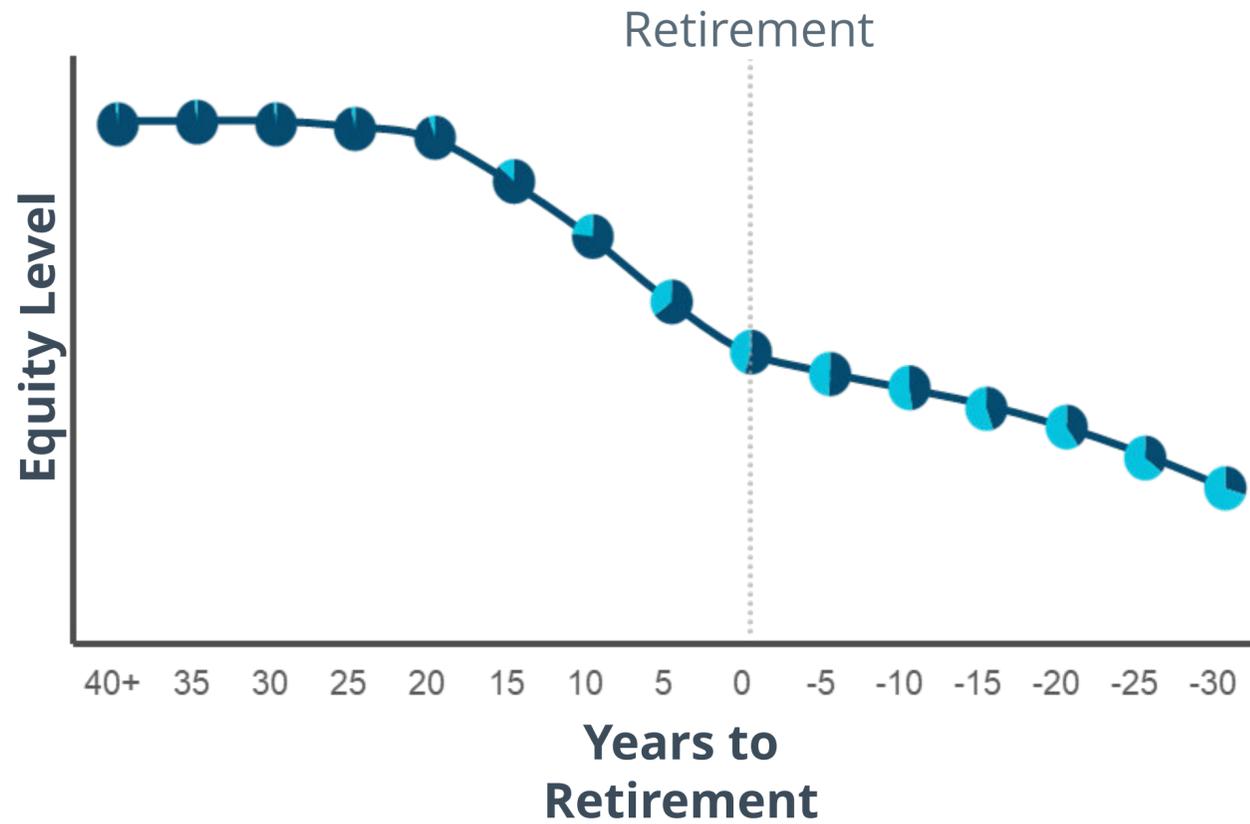
Annual Account Check-In and Midyear Review views between January 2, 2021, and November 30, 2021.

Results based on 121,762 SmartVideo Account Check-In viewers from January 1, 2021, through November 30, 2021. Deferral results do not include participants using the auto-increase service. Source: Ignitio/T. Rowe Price.

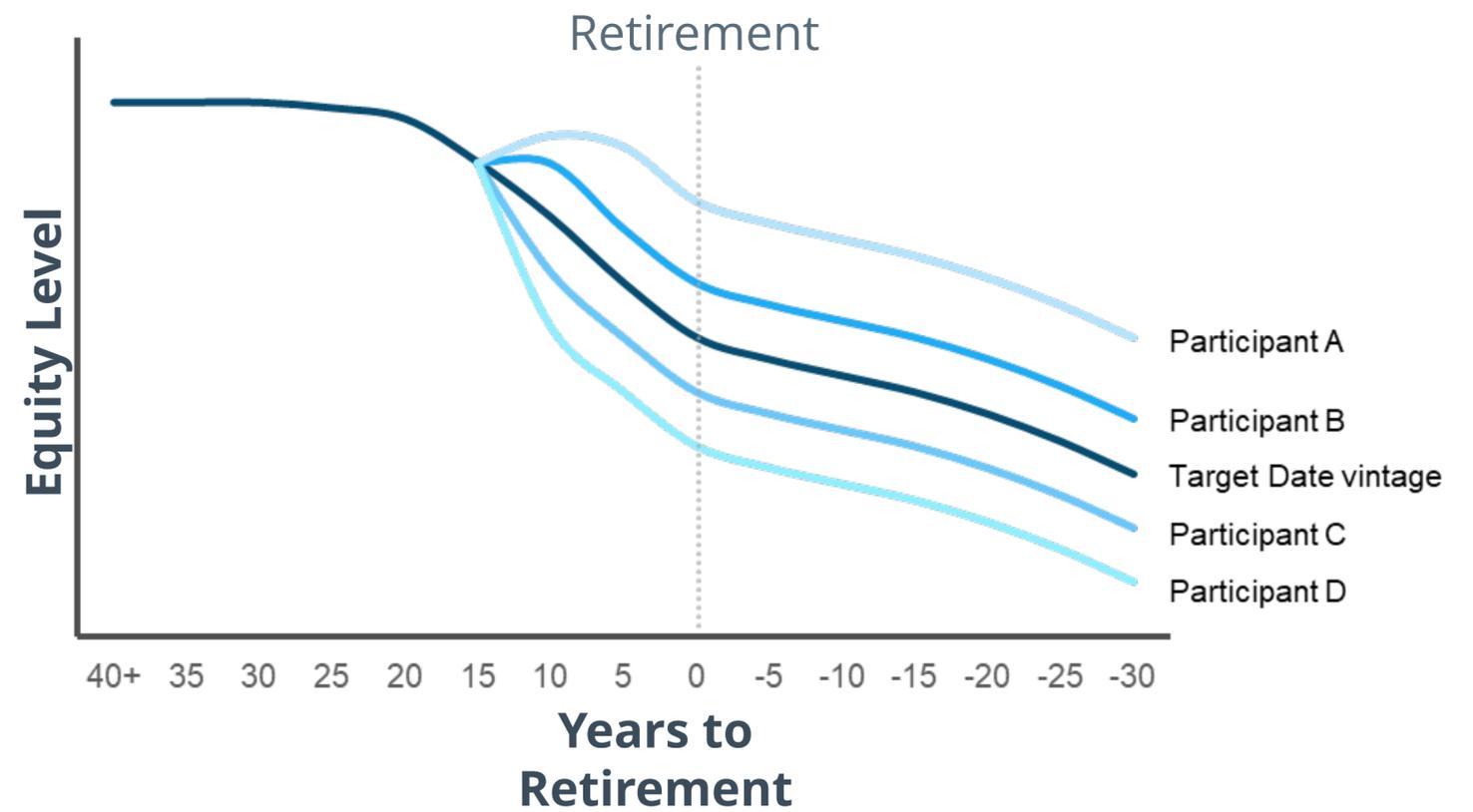
Results are sourced from TRPEvents dataset within Adobe Data Workbench and compared with a control group of participants with similar eligibility and account characteristics.
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Let's Get Personalized

Standard Target Date¹



Dynamic QDIA²



¹Glide path chart is for illustrative purposes only and not intended to represent the exact glide path of any individual. Hypothetical participant is invested in single vehicle, typically the vintage closest to the year they turn 65. Each vintage is designed for a population of participants and follows a predetermined glide path.

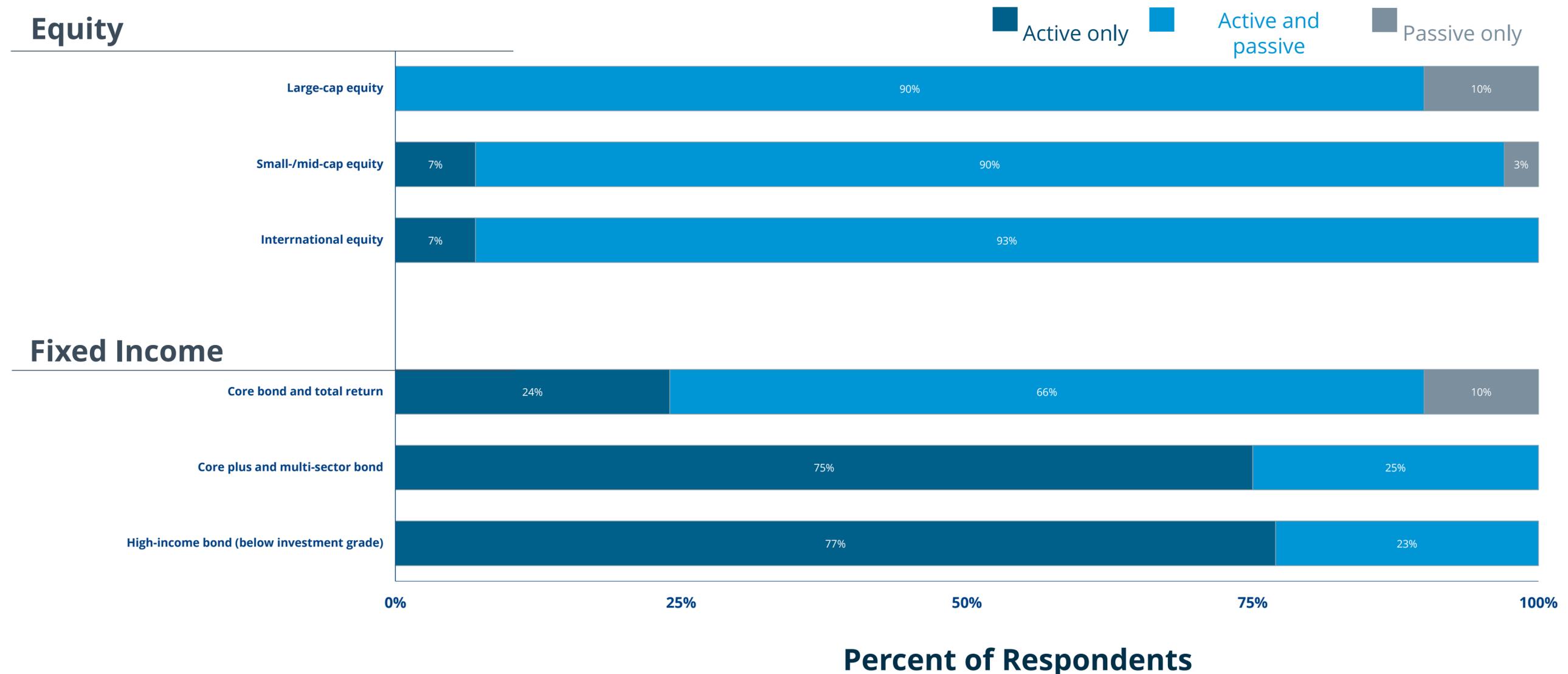
²Glide path chart is for illustrative purposes only and not intended to represent the exact glide path of any individual. Participant's portfolio is rebalanced periodically creating a dynamic, personal glide path over time.
FOR PLAN SPONSOR OR FINANCIAL PROFESSIONAL USE ONLY.

Active/Passive: Not an Either/Or Decision Anymore



CONSULTANT/ADVISORY VIEWS

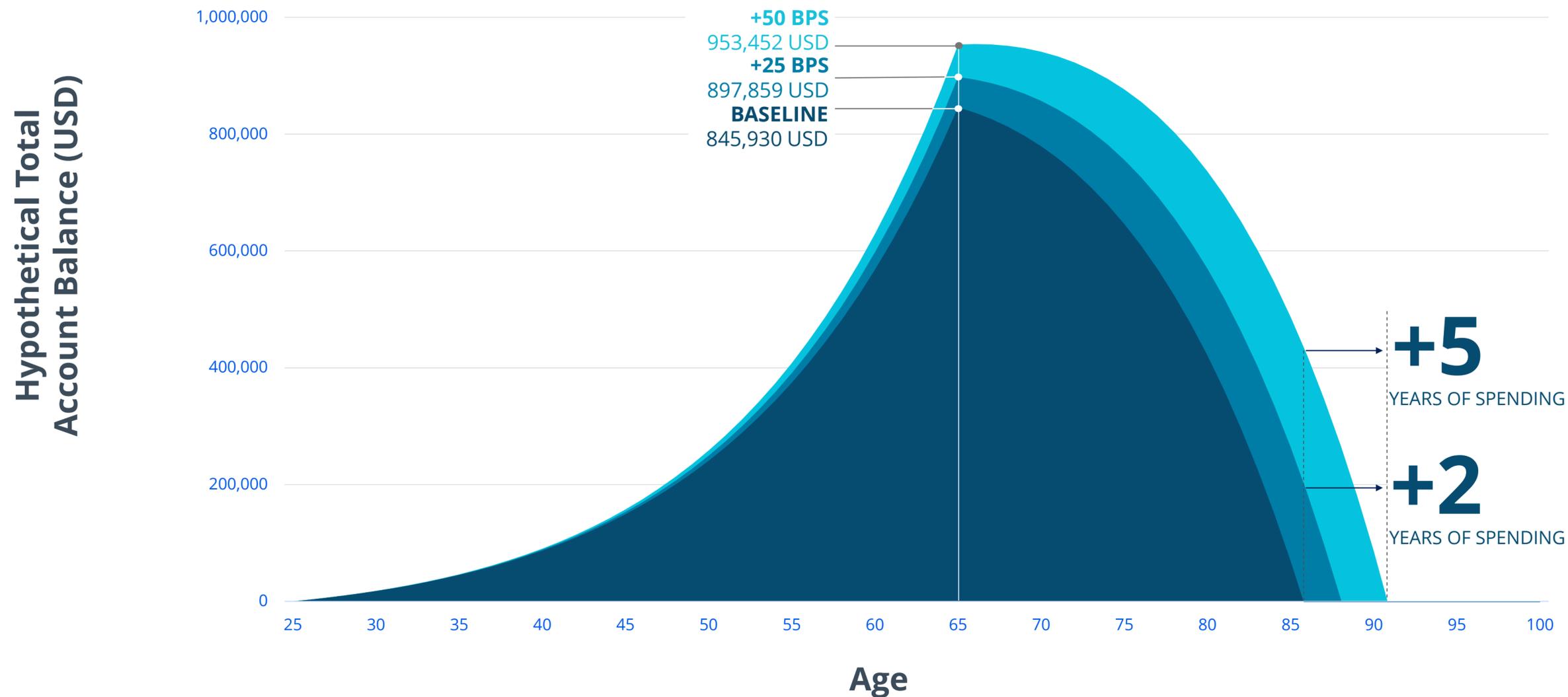
Preferences for active and passive implementation by asset class in DC plans¹



¹T. Rowe Price, 2021 Defined Contribution Consultant Study, Question 36. Consultants were asked: "Broadly speaking, what are your firm's philosophical views related to active and passive implementation by asset class in DC plans?"
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The Opportunity of Active Management

Even a small amount of excess returns can have a profound impact on results over time.



For illustrative purposes only. Actual results will vary, perhaps significantly. Values shown are based on the hypothetical experience of a DC plan participant who starts with a USD 0 retirement balance and a USD 30,000 salary at age 25 and then invests 9% of salary each year. Salary increases were assumed to equal 3% annually. The baseline scenario assumes a 7% annual return prior to retirement at age 65, and a 5% return thereafter. The initial postretirement annual withdrawal was set at 50% of ending salary (USD 48,931) and was assumed to increase 3% each year thereafter until portfolio exhaustion. To demonstrate the impact of a 25 basis point (0.25%) increase in excess returns, the assumed preretirement returns were raised to 7.25% and 7.50%, respectively, and postretirement returns were increased to 5.25% and 5.5%. Demographic assumptions, contributions, and investment returns are illustrative and are not intended to provide any assurance or promise of actual returns and outcomes. Source: I. Rowe Price.

T. Rowe Price Sources

Race, Retirement, and the Savings Gap

This paper used the U.S. Census Bureau's 2021 Current Population Survey as well as our 7th annual Retirement Savings and Spending Study to analyze where the largest savings gaps exist along racial and ethnic lines. Our study was conducted between June 9, 2021, and August 4, 2021, and included 3,844 plan participants and 1,332 retirees.

Retirement Savings and Spending Study

NMG Consulting conducts this annual survey on behalf of T. Rowe Price. The sample population surveyed includes 401(k) plan participants and retirees with a rollover IRA or left-in-plan balance. The survey has been fielded online annually since 2014.

Automatic Enrollment, Reenrollment, and Retirement Outcomes

In June 2022 we published this study, which took a closer look at specific plan design steps to try to improve retirement savings adequacy. The paper included an analysis of T. Rowe Price recordkeeping data, comparing participant savings behaviors 12 months prior to, and 36 months^{SEP} after, implementation of automatic enrollment.

2019 An Informed, Research-Based Approach to Better Retirement Outcomes

Survey conducted by P&I Content Solutions Group during November and December 2019, and statistical analysis conducted by Signet Research, Inc. Survey population included 451 corporate, nonprofit, and government defined contribution plan sponsors.

2021 Defined Contribution Consultant Study

T. Rowe Price, in partnership with Schaus Group, conducted this study, which included 51 questions, from September 20, 2021, to November 8, 2021. Responses came from 32 consulting and advisory firms with more than 33,000 plan sponsor clients and more than \$7.2 trillion in assets under advisement.

Automatic Enrollment's Long-Term Effect on Retirement Saving

This paper included an analysis of two data sets. The primary set came from 600 firms that use T. Rowe Price as their recordkeeper and covered 4 million employees over the years 2006–2017. The secondary data set came from the United Kingdom's Office of National Statistics and covered contributions to the National Employment Savings Trust (NEST), the UK's professional contribution savings plan.

Investment Risks

The principal value of **target date strategies** is not guaranteed at any time, including at or after the target date, which is the approximate year an investor plans to retire. These products typically invest in a broad range of underlying mutual funds that include asset classes such as stocks, bonds, and short-term investments and are subject to the risks of different areas of the market. A substantial allocation to equities both prior to and after the target date can result in greater volatility over short term horizons. In addition, the objectives of target date funds typically change over time to become more conservative.

International investments can be riskier than U.S. investments due to the adverse effects of currency exchange rates, differences in market structure and liquidity, as well as specific country, regional, and economic developments. These risks are generally greater for investments in **emerging markets**.

Fixed-income securities are subject to credit risk, liquidity risk, call risk, and interest-rate risk. As interest rates rise, bond prices generally fall. Investments in **high-yield bonds** involve greater risk of price volatility, illiquidity, and default than higher-rated debt securities. Investments in **bank loans** may at times become difficult to value and highly illiquid; they are subject to credit risk such as nonpayment of principal or interest, and risks of bankruptcy and insolvency.

Hybrid and personalized solutions are subject to risks including possible loss of principal. There is no assurance that any investment objective will be met. The incorporation of environmental and/or social impact criteria into an investment process may cause a strategy to perform differently from a strategy that uses a different methodology to identify and/or incorporate environmental and/or social impact criteria or relies solely or primarily on financial metrics. There is no assurance that any objective will be met.

Active investing may have higher costs than **passive investing** and may underperform the broad market or passive peers with similar objectives. Passive investing may lag the performance of actively managed peers as holdings are not reallocated based on changes in market conditions or outlooks on specific securities.

Diversification cannot assure a profit or protect against loss in a declining market.

All investments involve risk. All charts and tables are shown for illustrative purposes only.

Additional Disclosures

VanDerhei, Jack, Ph.D., "Impact of the Covid-19 Pandemic on Retirement Income Adequacy: Evidence From EBRI's Retirement Security Projection Model[®], ebri.org Issue Brief, April 21, 2020, No. 505, p.9, https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_505_2020crisis-21apr20.

The S&P 500 Index is made up of primarily large-capitalization companies that represent a broad spectrum of the U.S. economy and a substantial part of the U.S. stock market's total capitalization. (Market capitalization is the number of a company's outstanding shares multiplied by the market price per share.) Using a committee process, S&P Dow Jones Indices LLC ("SPDJI") constructs the benchmark index by applying certain eligibility factors to common stocks of U.S. companies. Eligibility factors include, but are not limited to, domicile, exchange listing, organizational structure and share type, market capitalization, liquidity, ownership (investable weight factor), sector representation, and financial viability. Index constituents are weighted by float-adjusted market capitalization.

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Information contained herein is based upon sources we consider to be reliable; we do not, however, guarantee its accuracy.

Past performance is not a reliable indicator of future performance. All investments are subject to market risk, including the possible loss of principal. All charts and tables are shown for illustrative purposes only.

T. Rowe Price Investment Services, Inc.

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T. Rowe Price Retirement Plan Services, Inc.

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Good fiduciary governance



Good governance: Why do we care?

- **Effective governance is the primary protection against liability that can attach to:**

- Board of Directors
- Committees
- Officers and employees
- Vendors and advisors



- **Make good decisions through well defined accountability**



- **Best Practices**

- Conduct comprehensive annual fiduciary training, including for new members – courts will ask for proof.
- Create a governance charter outlining fiduciary delegation and monitoring, ensuring committees report annually back to the Board.
- Define and delegate committee responsibilities with investment and administrative policy statements.
- Document committee meetings with minutes including attendance, topics, discussions and decisions – retain for 7 years.
- Consider maintaining an odd number of committee members to prevent tie votes.
- Think twice about having legal and CEO/CFO as voting members.

Consider a committee approach to plan management

Potential actions



1	Investment selection and monitoring	<ul style="list-style-type: none">• How sophisticated are plan participants in terms of investment knowledge?• Do asset classes offered allow participants to diversify appropriately?• What are the criteria for selecting and monitoring investment options?• Do investment options need to be added, removed and/or replaced?
2	Administration and reporting	<ul style="list-style-type: none">• What disclosures and notices are required to be distributed and at what frequency?• What regulatory forms need to be filed and by what date?• Is the plan being administered in compliance with the plan document?• Are transactions—including contributions—processed on time and accurately?
3	Service provider selection and monitoring	<ul style="list-style-type: none">• What are the needs of the plan and participants?• Do participants make optimal use of the services offered?• How—and how much— is the service provider compensated?• Do any of the service providers have any potential or actual conflicts of interest?• Is the total amount of service provider compensation received reasonable compared to an appropriate benchmark and value of services received?
4	Plan design and management	<ul style="list-style-type: none">• What actions should a participant take to achieve an adequately funded retirement?• What plan design features (such as auto-enroll, auto-increase and QDIA) can help participants achieve an adequately funded retirement?• What behavioral finance techniques should be considered to help participants optimize their retirement plan success?

More about process and documentation, and less about outcome

Process, process, process

To evaluate performance a court will normally examine the process the fiduciary followed regarding the decision or activity being examined:

- Information the fiduciary solicited
- Questions asked
- Evaluation of advice or recommendations
- Reasonableness of the decision or action

Documentation

Fiduciary decision-making and oversight process should be structured, documented and follow delegation.

- Document themes of the discussions
- Minutes should include detail, but individuals' names may be omitted

Outcome

It is more about process, as opposed to the court applying hindsight based on the outcome of the fiduciary's decisions or actions.

However, outcome is not completely irrelevant. Occasionally, there are outcomes that are egregious enough to question the prudence of the process that led to the outcome.



A pure heart and an empty head are not enough.”¹

- ¹Source: Donovan v. Cunningham, 5th Cir. 1983

Outsourcing investment and fiduciary services

ERISA § 3(21)

Investment recommendations

- Makes recommendations
- Discusses fund manager changes
- Guides fund decisions with plan sponsor
- Makes recommendations
- No authority to make decisions alone

ERISA § 3(38)

Investment decisions

- Makes decisions
- Has full discretion
- Hire/fire all fund managers
- Solely responsible to monitor investments

ERISA § 3(16)

Administrative outsourcing

- Day-to-day admin
- Required notices
- Review plan reports
- Governmental filings
- Approve plan distributions

Governance charters

- **While not required, Charters are a useful tool for defining a map to follow to achieve good fiduciary oversight.**

I.Purpose Statement	Board delegates fiduciary duties down to the committee(s) to operate the plan
II.Organization	a)Charter document b)Members and invited guests c)Meetings d)Agenda, minutes and reports
III.Investment committee responsibilities	a)Investment classes and choices, investment performance b)Plan fees c)Selection and monitoring of outsourced investment consultant
IV.Administration committee responsibilities	a)Plan design features b)Plan fees c)Vendor selection, competence and performance d)Employee participation, education and communication e)Plan compliance f)Selection and monitoring of outsourced administrative consultant

Sample agenda for plan committee meetings

- **Quarterly agenda items**

- Review minutes of last committee meeting and report on actions items
- Quarterly investment review (including company stock if applicable)
- Report on legal, regulatory and ERISA litigation updates
- Review of participant-related issues/claims for benefits

Q1	Q2	Q3	Q4
<ul style="list-style-type: none"> • Annual review of service provider operations, issues and opportunities • Annual review of IPS • Annual report to board of directors of prior year's committee activity • Review any service-level agreements with providers • Conduct fiduciary training 	<ul style="list-style-type: none"> • Review participant communication and education resources with recordkeeper • Assess participant retirement readiness and develop engagement strategies • Review QDIA selection and glidepath 	<ul style="list-style-type: none"> • Review of participant disclosures and notices • Report on industry trends compared to plan design • Review of plan policies to any new features • Review insurance and bonding requirements • Review vendors' cyber policies, including proper levels of insurance and bonding 	<ul style="list-style-type: none"> • Review funds for lowest share classes • Benchmark all plan services and fees including revenue sharing from investments, managed accounts, and brokerage window • Review costs and compensation for investment advisors, recordkeepers and plan providers • Review recordkeeper for possible cross-selling efforts

For illustrative purposes only.

Properly documenting plan decisions



Agendas

Should be standardized by quarter

Topics should be descriptive but not too detailed

Review last quarter minutes and report on action items

Quarterly investment review and watch issues

Quarterly service provider review and issues

Consider attorney client privilege on sensitive topics



Minutes

Should be standardized and follow the quarterly agendas

Describe a process of discussion, debate, decisions and next steps for the exclusive benefit of plan participants

Provide reasons for the decision



Caution: sometimes too much detail in the minutes could be problematic in a court of law



CAPTRUST

ENHANCING RETIREMENT READINESS

Creating a Tactical Action Plan to Improve Retirement Outcomes

Today's Agenda

01

Participant Perspectives and Mindset

- Investor Expectations
- Financial Literacy
- Longevity

02

Creating an Action Plan

- Plan Design Solutions
- Participant Education and Advice
- Investments



PARTICIPANT PERSPECTIVES AND MINDSET

Survey Says:

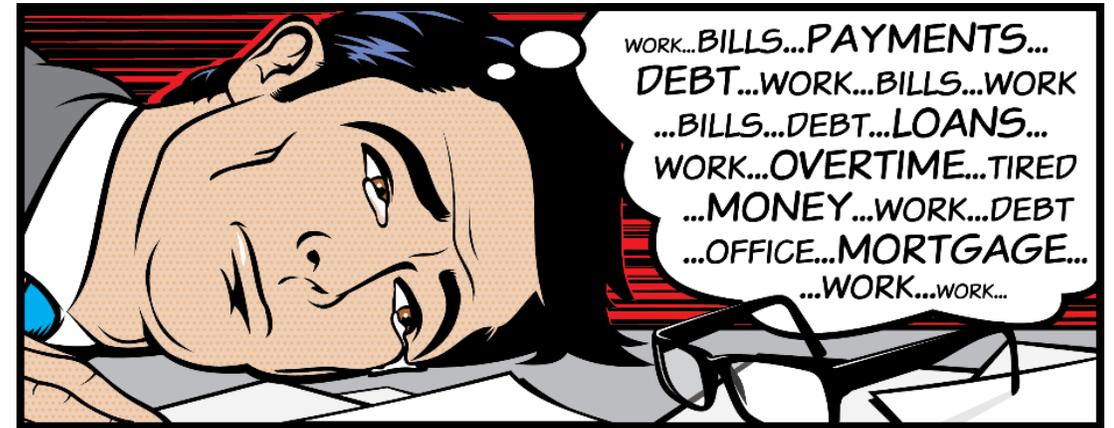
64% of Americans say money is a significant source of stress.

21% of Americans say they have considered skipping or have skipped going to the doctor due to financial concerns.

46% of employees who are distracted by their finances spend three or more work hours each week thinking about or dealing with personal finances.

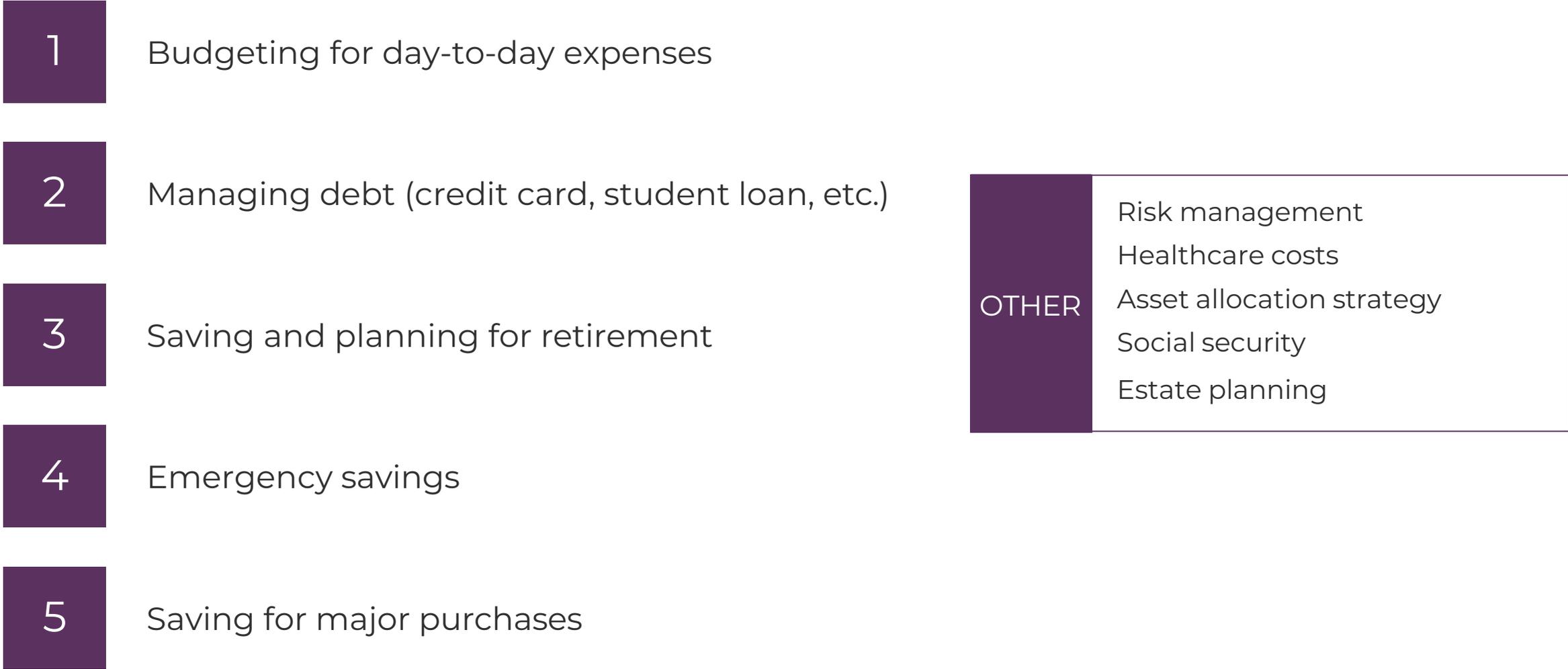
44% of workers say just paying for essential daily expenses is a significant source of stress.

44% will retire later than originally planned, and 21% are not planning to retire



Sources: Stress in America: Paying with Our Health – American Psychological Association, Employee Financial Wellness Survey: 2016 – PriceWaterhouseCoopers LLP, Inside Employees Minds – Financial Wellness Vol 2 – Mercer, Stress in America: Paying with Our Health – American Psychological Association, Americans' Financial Security Perception and Reality – The Pew Charitable Trust

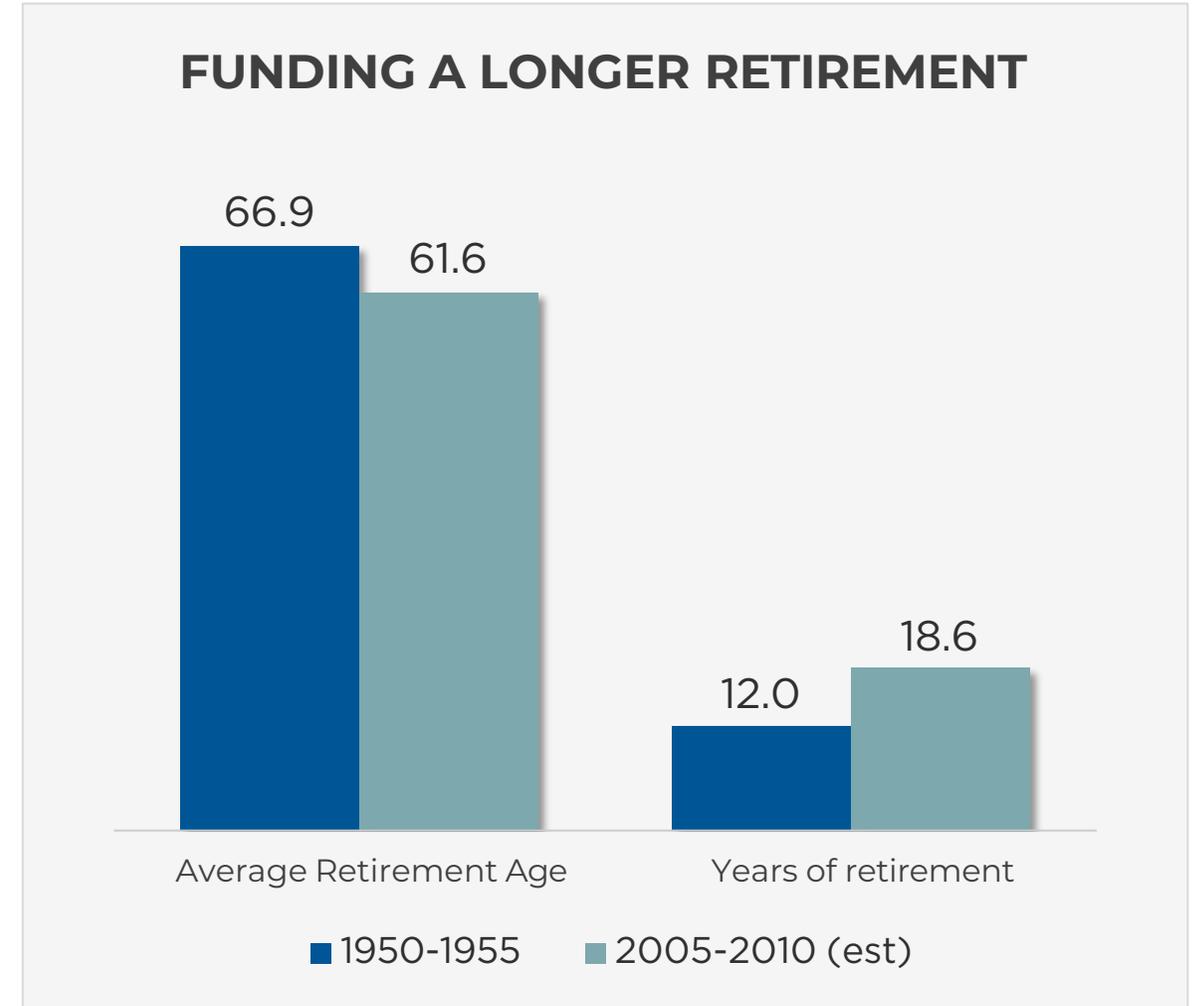
Top Five Most Requested Topics by Employers



Source: CAPTRUST Research, Provider RFI Responses June 2017

The Burden of Personal Responsibility

- Shift from defined benefit to defined contribution
- More retirement to fund
 - Increased longevity
 - Retiring earlier
 - More (quality) years of retirement
- Great Recession
 - Job losses
 - Market losses due to financial crisis
 - Real estate crash



Source: Murray Gendell, Monthly Labor Review, Older Workers: Increasing Their Participation in the Labor Force, 2008

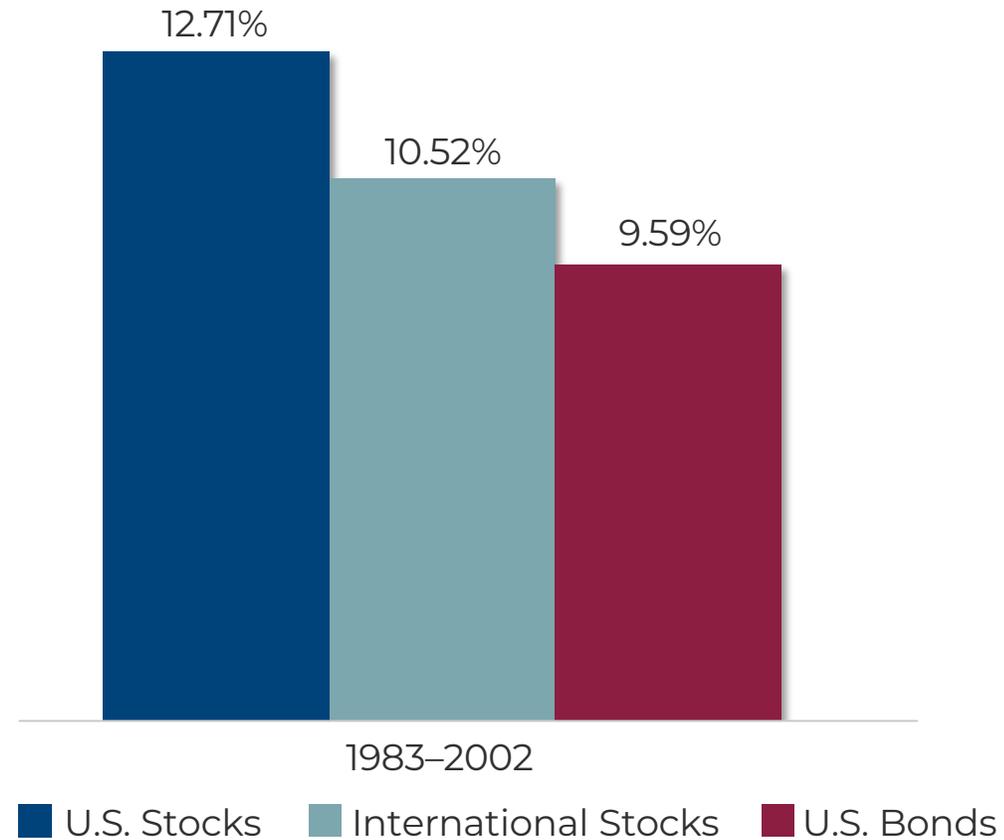
Inside the Mind of a Participant

- Investor expectations have been unmet.
- Financial literacy is a challenge.
- Fuzzy math doesn't help.
- People consistently underestimate longevity.
- We are overly optimistic by nature.

A combination of market events and human behavior risk creates a perfect storm of **undersaving**.

High Investor Expectations

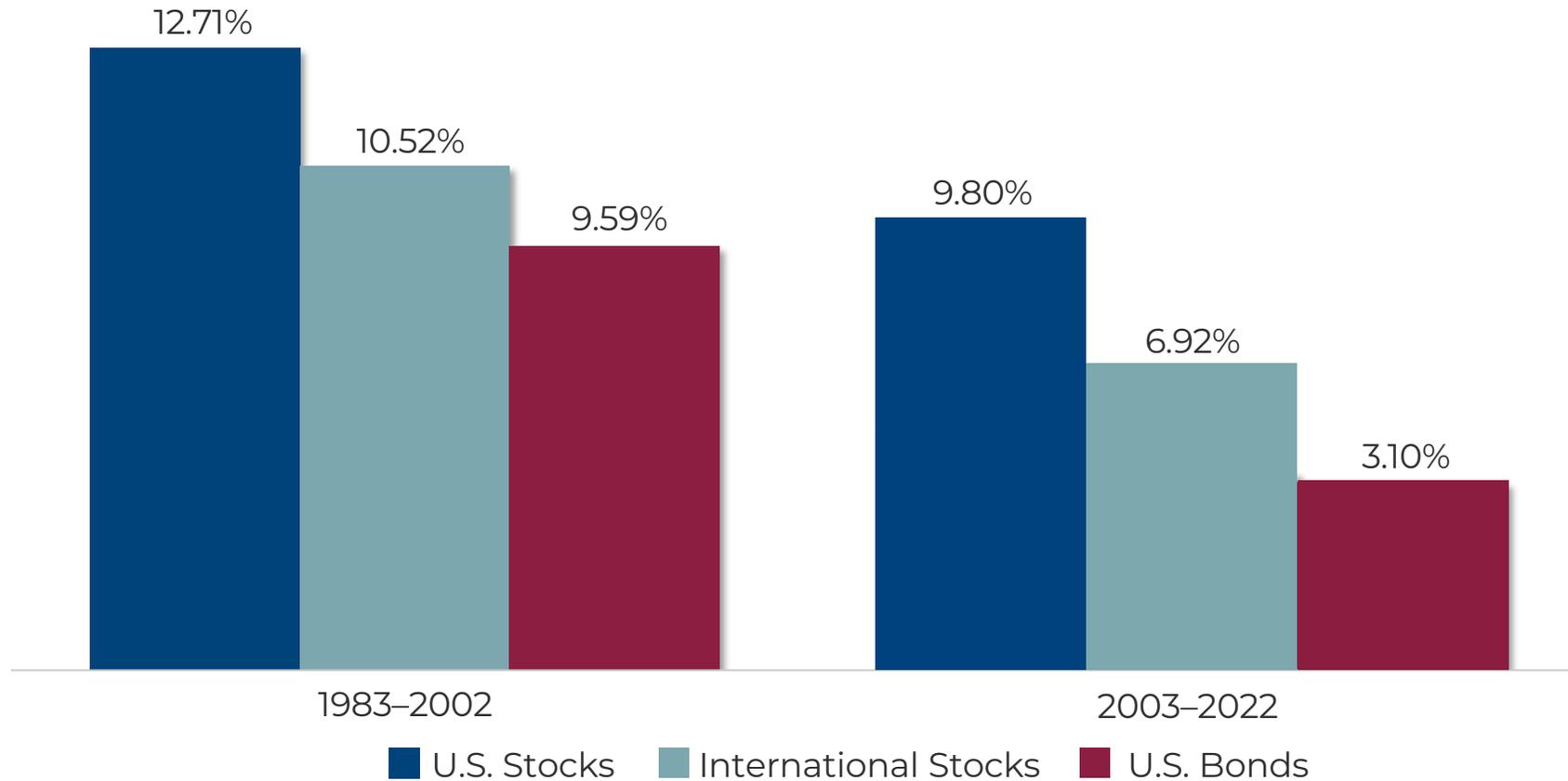
ASSET CLASS ANNUALIZED RETURNS



Source: Morningstar Direct. Proxies for U.S. Stocks, International Stocks, and U.S. Bonds are the S&P 500, MSCI EAFE, and Barclays Aggregate Indexes.

Expectations Have Not Been Realized

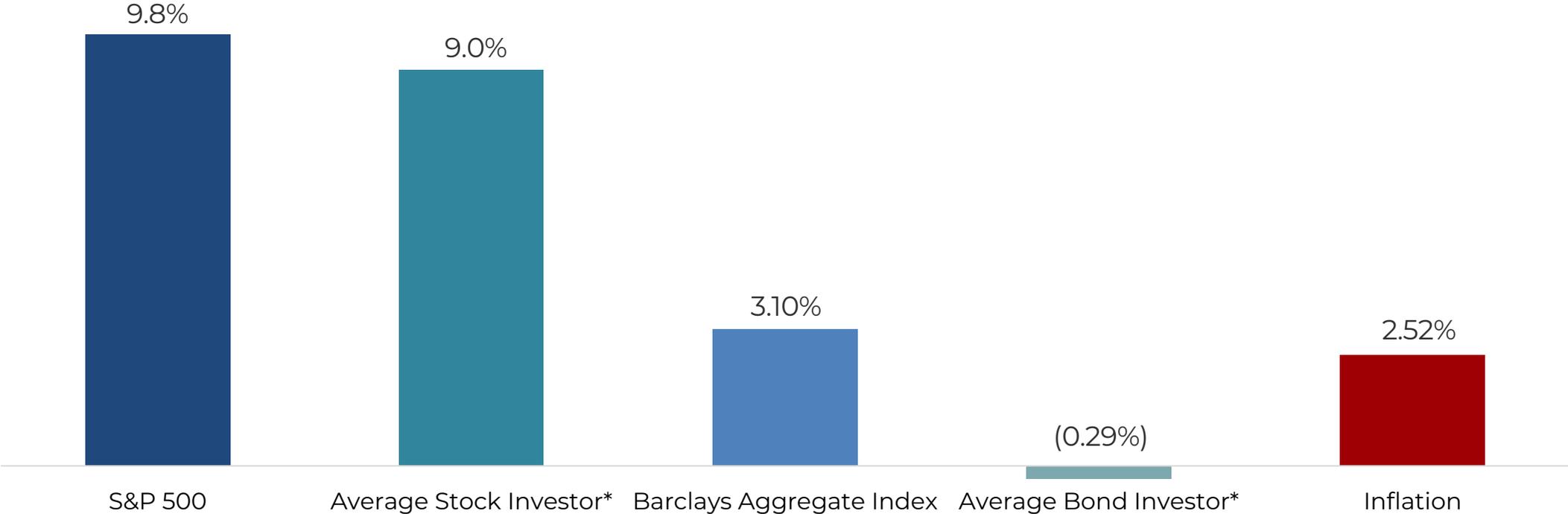
ASSET CLASS ANNUALIZED RETURNS



Source: Morningstar Direct. Proxies for U.S. Stocks, International Stocks, and U.S. Bonds are the S&P 500, MSCI EAFE, and Barclays Aggregate Indexes

The Average Investor Underperforms

ASSET CLASS ANNUALIZED RETURNS 2003–2022



*Average Stock and Bond calculation based on Dalbar's Quantitative Analysis of Investor Behavior study.
Source: Morningstar Direct. Proxies for U.S. Stocks, International Stocks, and U.S. Bonds are the S&P 500, MSCI EAFE, and Barclays Aggregate Indexes

Financial Literacy

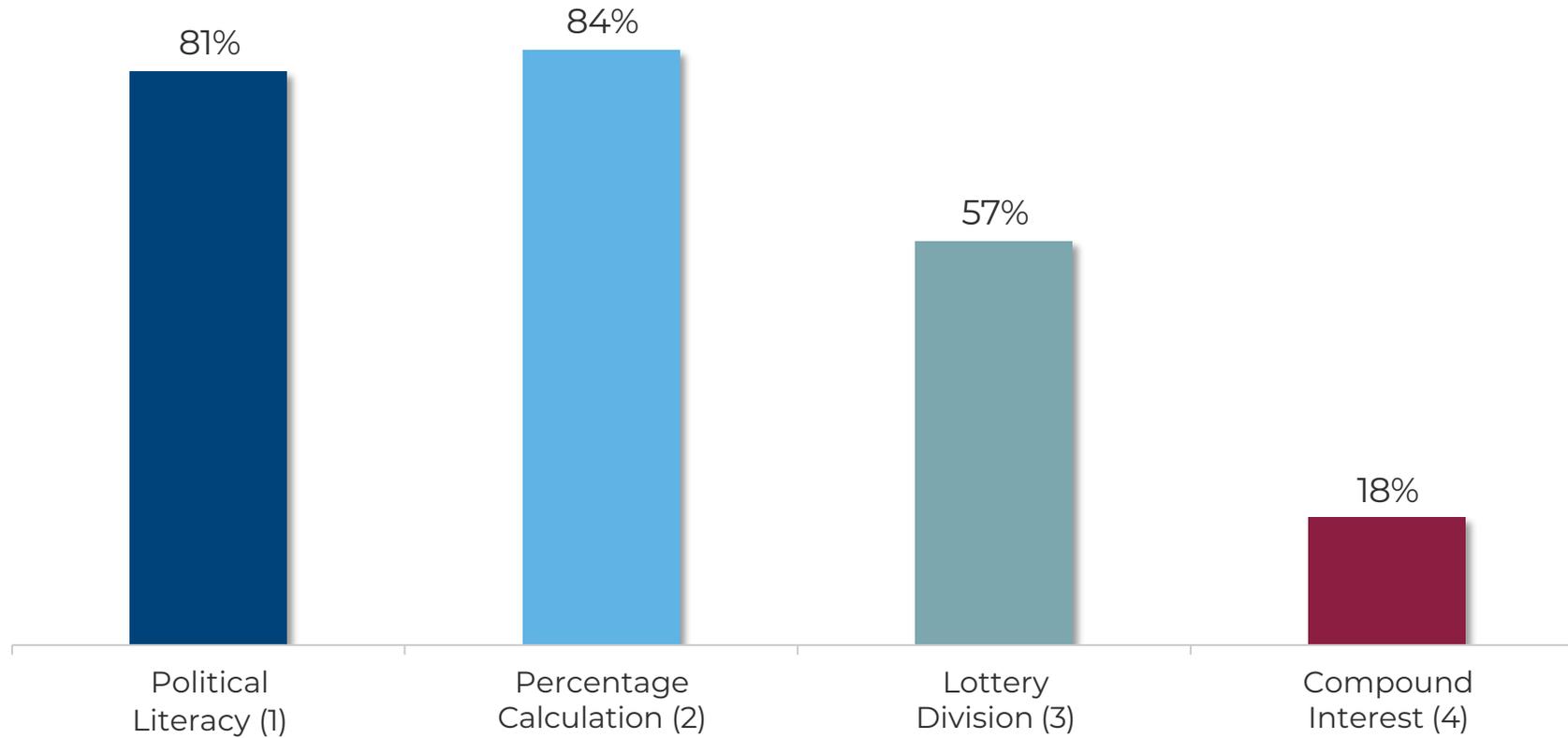
Questions asked to test financial literacy of 1,700 early baby boomers (age 51–56 in 2004):

- 1) Name the President and Vice President of the United States.
- 2) If the chance of getting a disease is 10%, how many people out of 1,000 would be expected to get it?
- 3) If five people all have the winning number in the lottery and the prize is \$2 million, how much will each of them get?
- 4) Let's say you have \$200 in a savings account that earns 10% interest per year. How much would you have in the account at the end of two years?

Source: Annamaria Lusardi and Olivia Mitchell, Pension Research Council, Financial Literacy and Retirement Preparedness: Evidence and Implications for Financial Education Programs, January 2007

Financial Literacy

PERCENT WHO ANSWERED CORRECTLY



Source: Annamaria Lusardi and Olivia Mitchell, Pension Research Council, Financial Literacy and Retirement Preparedness: Evidence and Implications for Financial Education Programs, January 2007

Fuzzy Math: Buggy Brains

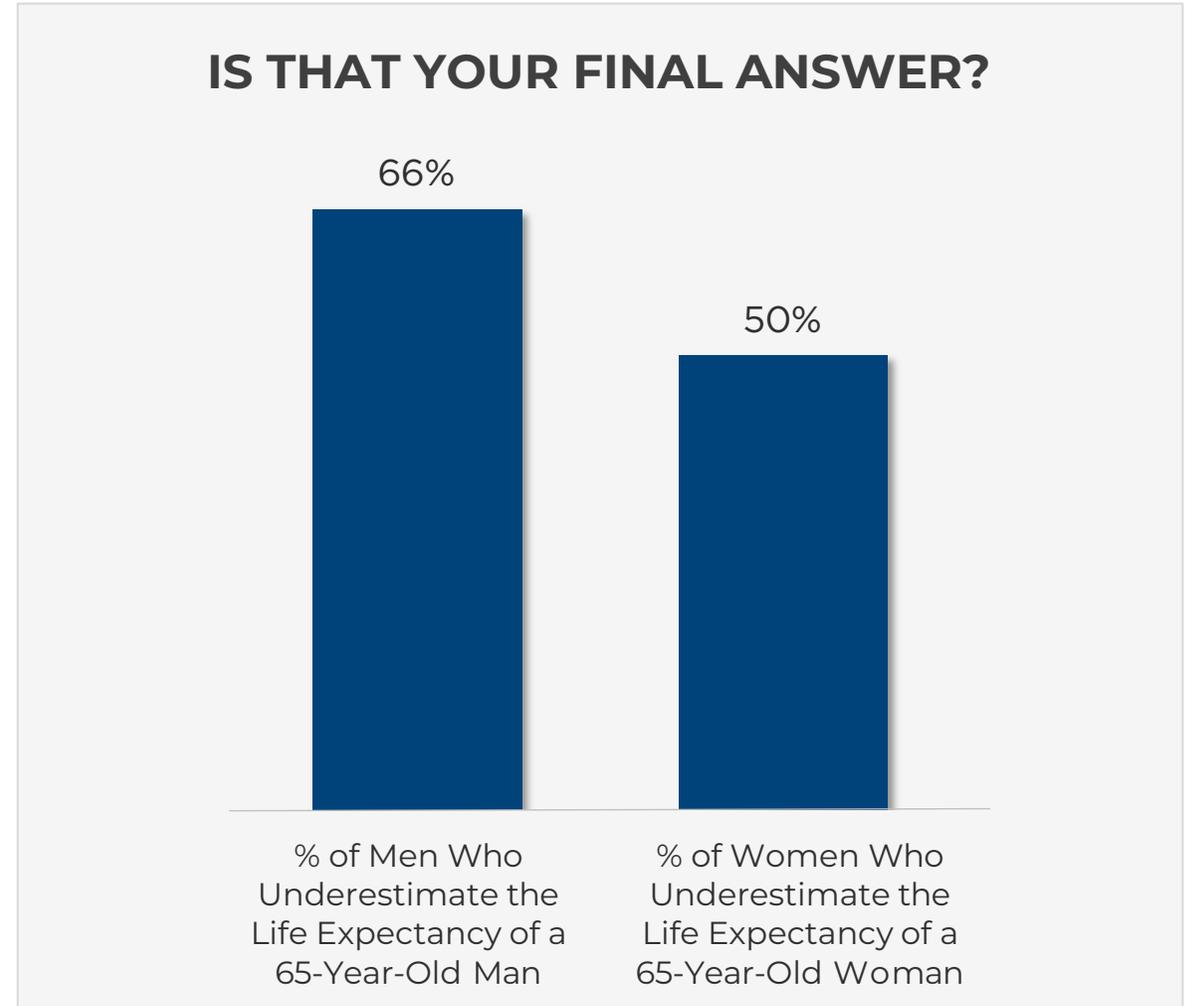
What is fuzzy math?

- Also known as “exponential growth bias”—extensively explored by Jonathan Zinman and Victor Stango.
- When a math question involves compounding, people don’t just make mistakes, they are biased toward a particular kind of mistake.
- This “cognitive bug” causes people to underestimate how quickly interest compounds—resulting in **undersaving** and overborrowing.
 - Lower estimate of future value of saving means less incentive to save.
 - Impact is bigger for decisions that are longer-term and higher-return.
- Just one of the several behavioral biases that cause people to **undersave**; however, this one is treatable.

Source: Jonathan Zinman and Victor Stango, Fuzzy Math in Household Finance: A Practical Guide, 2007

Underestimating Longevity

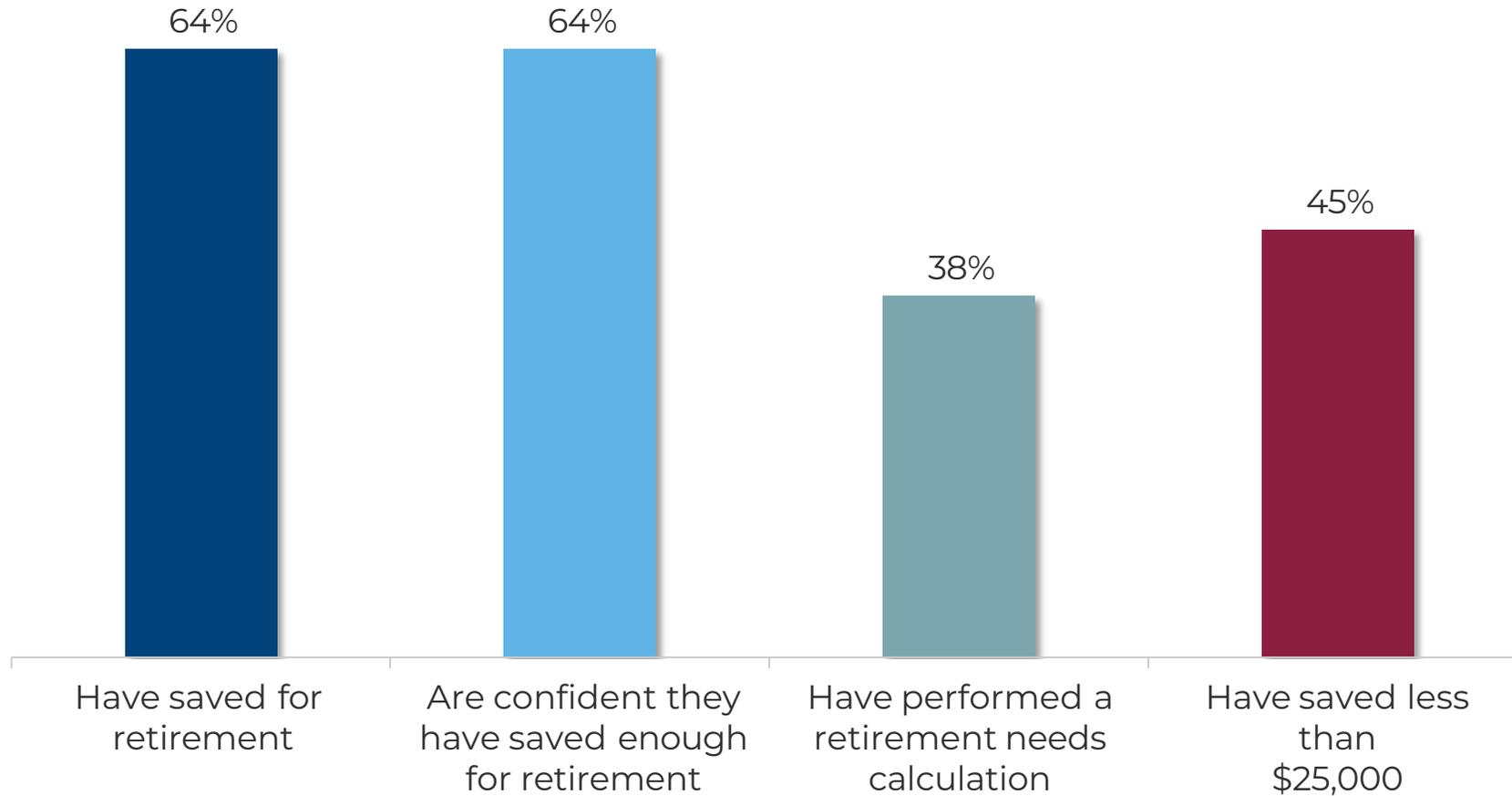
- Two in three pre-retiree men underestimate the life expectancy of a 65-year-old man.
- 42% underestimate it by more than five years.
- Half of pre-retiree women underestimate the life expectancy of a 65-year-old woman.
- Average life span has been increasing 2 years per decade for men, 1.7 for women.



Source: Stanford Center on Longevity, Underestimating Years in Retirement, 2011

Confidence or Optimism?

PERCENT OF WORKERS WHO...



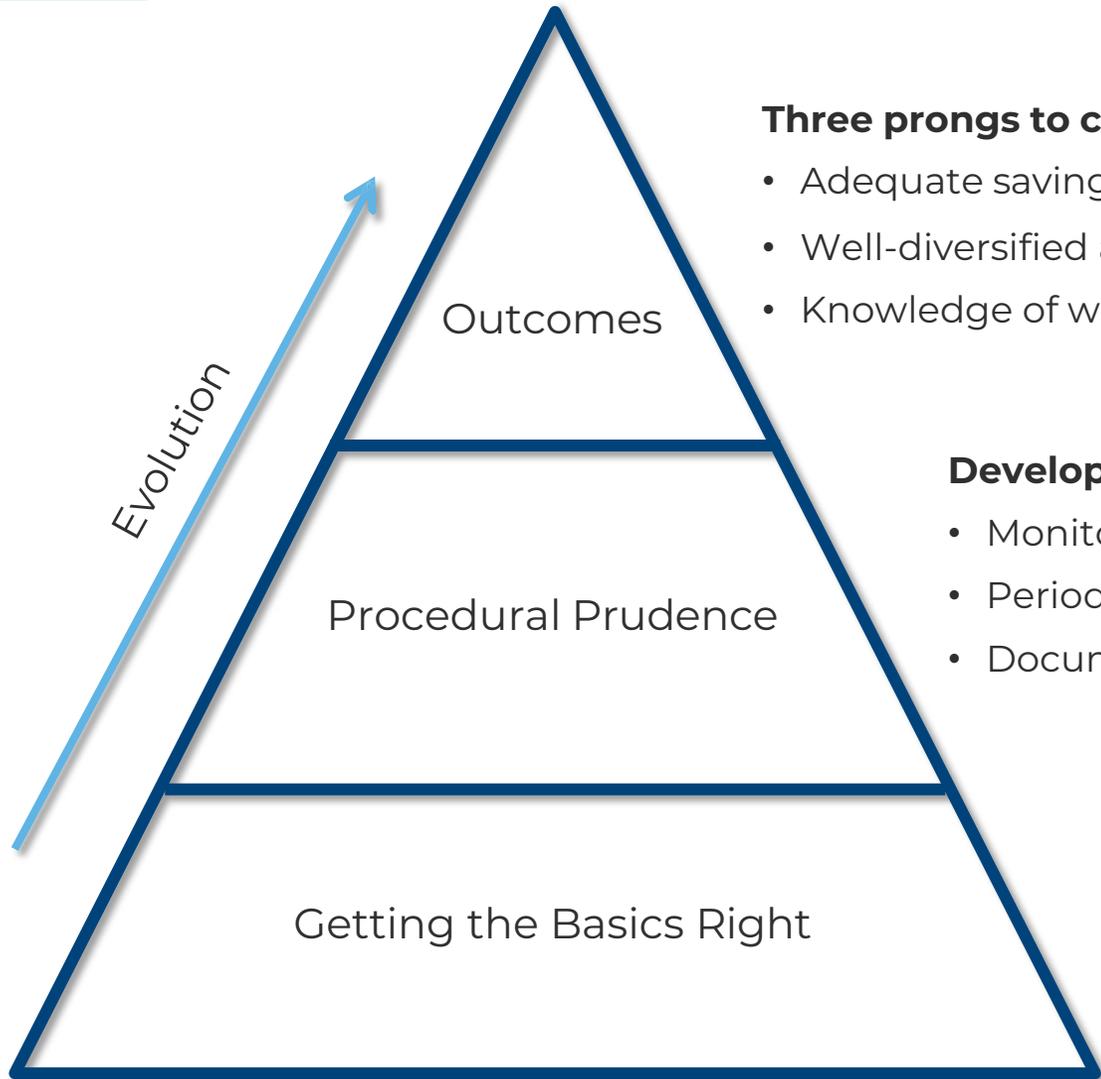
Source: 2018 Retirement Confidence Survey, Employee Benefits Research Institute and Matthew Greenwald & Associates

Bright Spots: Major Shifts Post-PPA

Heading in the right direction:

- Auto-features that harness participant inertia
- Asset allocation models, tools, and funds
- Rethinking qualified default investment alternatives (QDIAs)
- Target-date funds
- Fee transparency
- Fee leveling

Let's Turbocharge Retirement



Three prongs to creating retirement readiness

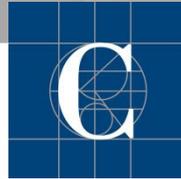
- Adequate savings
- Well-diversified approach to investing
- Knowledge of when and how to retire

Developing ongoing processes

- Monitor investments against investment policy statement (IPS)
- Periodic fee benchmarking
- Document fiduciary process

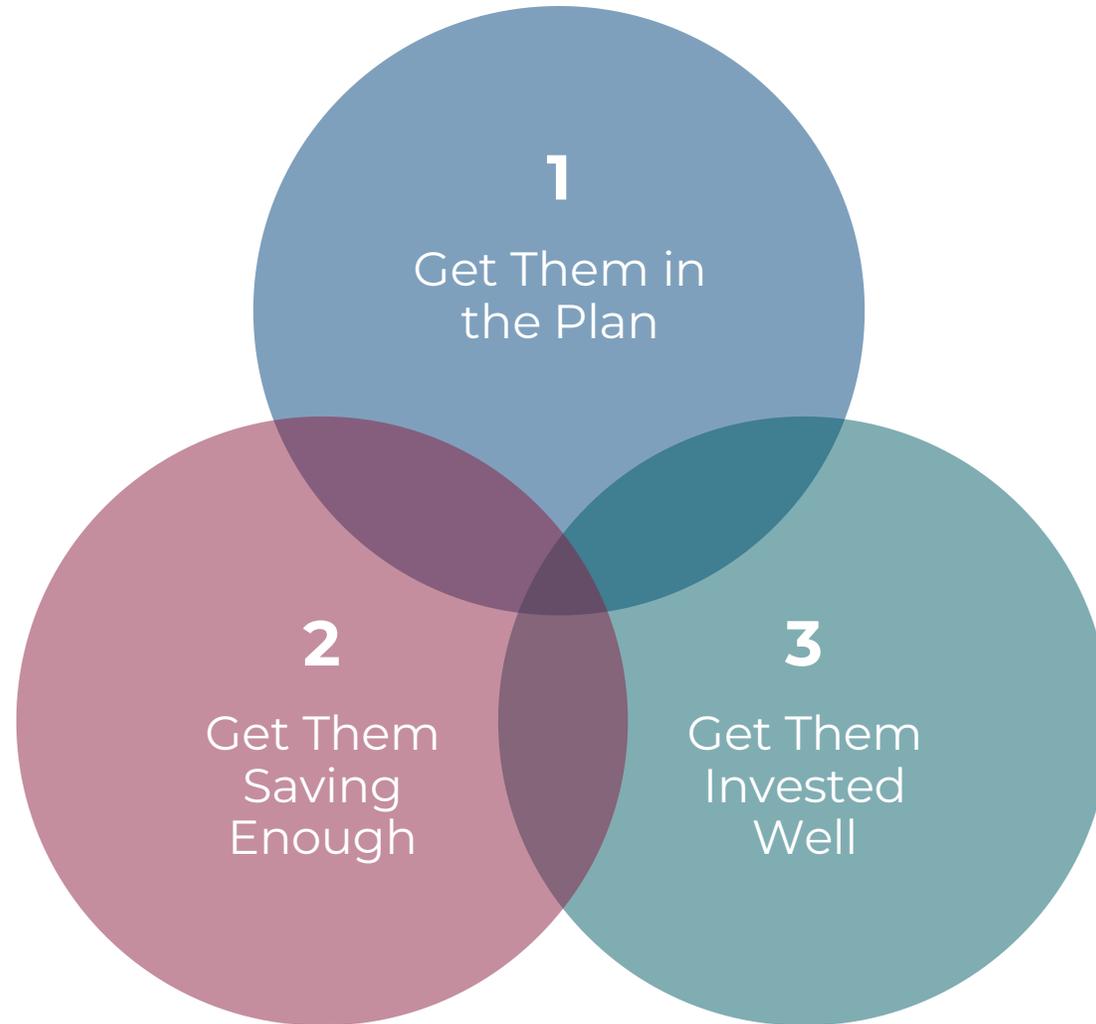
Building a solid foundation for the plan

- Regulatory compliance
- Investment selection
- Provider selection



CREATING AN ACTION PLAN

How Do You Do It?



Behavioral Segmentation

Segment	Characteristics
Delegators (Disengaged)	<ul style="list-style-type: none">• Less than \$50,000 in household investable net-worth• Defaulted participants• Lower end of wage scale• May skew toward younger or early-career employees
Emerging Savers	<ul style="list-style-type: none">• Serious about retirement saving• \$50,000 to \$250,000 of household investable net-worth (primarily in retirement plans)• May be mid-career employees• Primary financial goals are retirement and education
Highly Engaged	<ul style="list-style-type: none">• Affluent to high-net-worth• \$250,000 or more of household investable net-worth• Engaged in saving and investing outside of their retirement plans• Higher income, perhaps management• May skew toward late-career employees

Source: CAPTRUST Research

Financial Stress Is a Workplace Problem

Financial stress leads to decreased employee productivity, increased absenteeism, and higher employer healthcare costs.

According to Gallup, workplace distractions, physical stress, employee dissatisfaction, and weakened job performance cost employers \$300 billion in lost productivity annually.

A primary factor is a workforce ill-equipped for financial wellness.

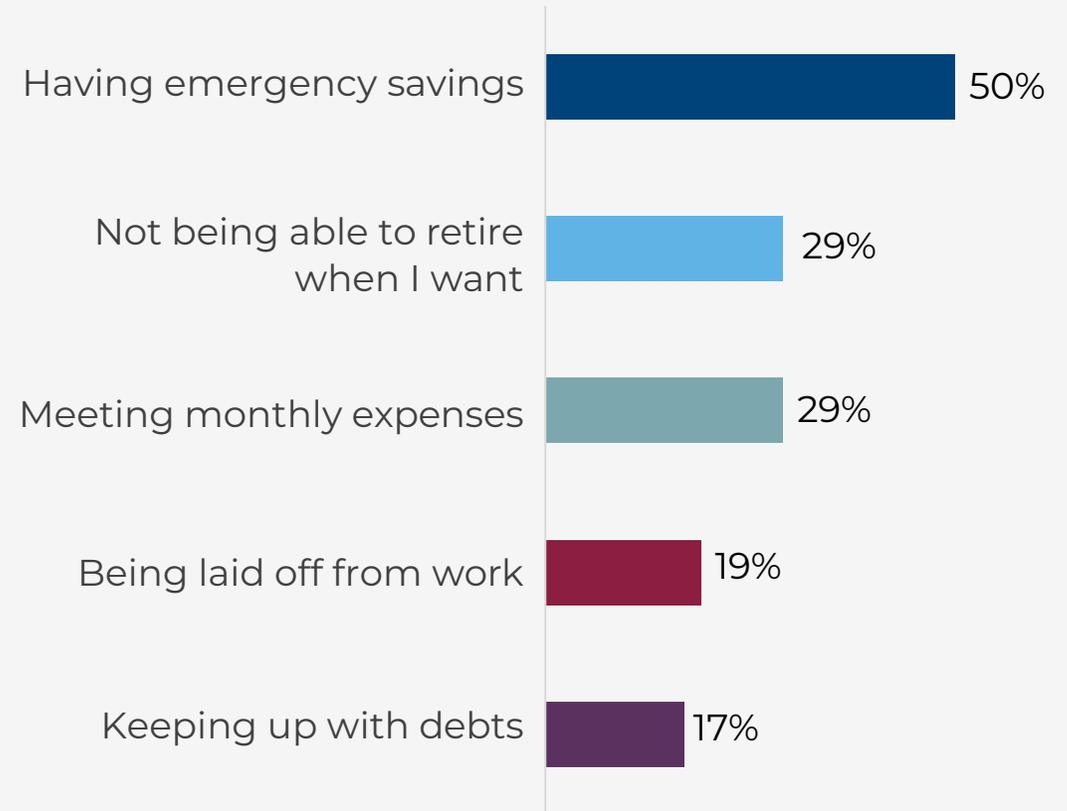
The resulting financial stress leads to a higher incidence of:

- Muscle tension/back pain
- Migraines
- Insomnia
- High blood pressure
- Stomach ulcers

A workforce of financially stressed employees translates into more sick days, higher healthcare costs, and absenteeism.

Twenty-nine percent of defined contribution participants reported missing work to deal with the emotional stress caused by their finances.

TOP FINANCIAL CONCERNS



Sources: PwC, "Employee Financial Wellness Survey: 2017 Results," 2017; *New York Times*, "Do Happier People Work Harder?," September 2011; AP/AOL, "Debt Stress: The Toll Owing Money Takes on the Body," 2008; State Street Global Advisors, "DC Investor Survey: Biannual Report," 2015

A Comprehensive Wellness and Advice Program Can Help

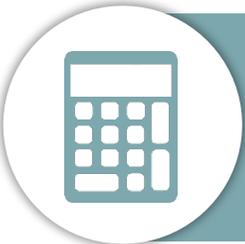
Better Outcomes for Employees



88% of those who received help invested appropriately for their risk tolerance levels



Meanwhile, only 39% of those who went unadvised invested appropriately



When a professional advisor calculates the amount an employee needs to save to achieve his goals, deferral amounts increased by an average of \$1,150 per year

Better Outcomes for Employers



A one-year delay in an employee's retirement results in \$50,000 of increased workforce costs



Across an entire workforce, the same delay could raise workforce costs by 1.0% to 1.5%



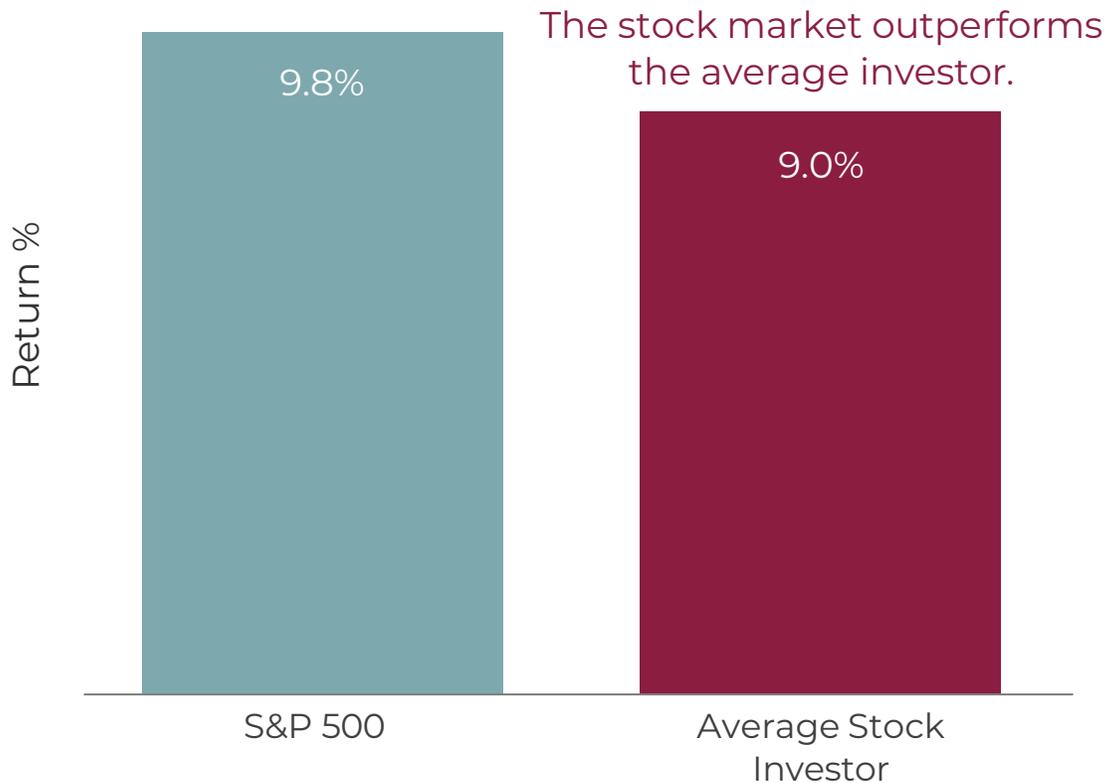
Employers who have a financial wellness program see healthcare costs decrease by as much as 4.5%

Sources: Financial Engines and Aon Hewitt Study, "Help in Defined Contribution Plans: 2006 Through 2010," 2011; Center for Retirement Research at Boston College, "Do Income Projections Affect Retirement Saving?," April 2013; Prudential, "Why Employers Should Care About the Cost of Delayed Retirement," 2017; Corporate Wellness Magazine, "Beyond the Paycheck: When Does a Financial Wellness Program Make Sense?"

The Difference Advice Makes

Emotional and reactive decision making by inexperienced investors can dramatically impact future retirement savings.

20 YEARS OF ANNUALIZED RETURNS



- The U.S. Department of Labor estimates that participants who receive professional investment advice **make 50% fewer errors** than those who do not receive regular investment advice.
- Employees in a company 401(k) plan who receive investment advice **can increase returns by as much as 2% to 3%**.
- CAPTRUST experience has proven that personalized interactions and advice combined with risk-based portfolios creates the most successful results.

Sources: 2022 Quantitative Analysis of Investor Behavior, DALBAR, Inc. Research & Communications Division U.S. Department of Labor. Final Rule to Increase Workers' Access to High Quality Investment Advice. Employee Benefits Security Administration. Available at: <http://www.dol.gov/ebsa/newsroom/factsheet/fsinvestmentadvicefinal.html>. Accessed: April 2015

Plan Design to Drive Retirement Readiness

Part 1: Get Them in the Plan

Segment	Issues	Potential Action Steps
Delegators (Disengaged)	<ul style="list-style-type: none">• Recognize inertia of new and disengaged employees.• Use auto-features and re-enrollment to get them hooked on saving.	<ul style="list-style-type: none">• Auto-enrollment• Auto-escalation• Re-enrollment
Emerging Savers	<ul style="list-style-type: none">• Make it easy for them to participate at a meaningful level.• Incent them to make positive incremental steps.	<ul style="list-style-type: none">• Delayed enrollment option• Employer match• Non-elective contributions
Highly Engaged	<ul style="list-style-type: none">• Taking advantage of the plan but not maximizing.• Incent them to make positive incremental steps.	<ul style="list-style-type: none">• Enhanced employer match• Stretch match formula• E-Z enroll forms

Source: CAPTRUST Research

Engaging Employees to Drive Readiness

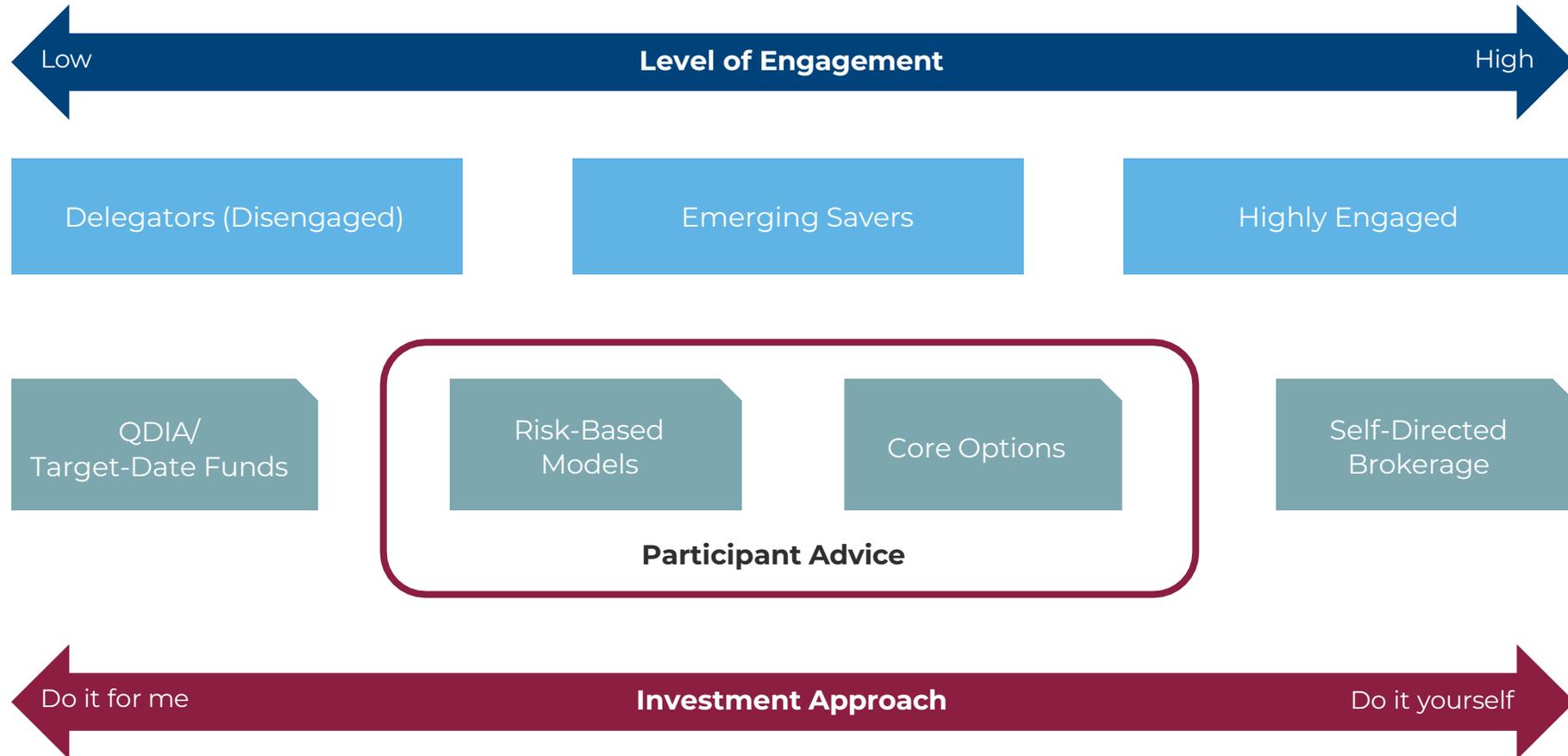
Part 2: Get Them Saving Enough

Segment	Issues	Potential Action Steps
Delegators (Disengaged)	<ul style="list-style-type: none">• Recognize inertia of new and disengaged employees.• While auto-features may be effective, employers should continue to educate.	<ul style="list-style-type: none">• Auto-features• General education campaigns• Mandatory group meetings
Emerging Savers	<ul style="list-style-type: none">• Easy-to-understand education and communication is a must.• Show them the difference savings makes.	<ul style="list-style-type: none">• Gap analysis• One-on-one meetings• Enhanced statements• Newsletters
Highly Engaged	<ul style="list-style-type: none">• Identify areas to further enhance what they are doing.• Topical advice and targeted communication is needed.	<ul style="list-style-type: none">• Plan integration• Targeted campaigns• Life-stage counseling

Source: CAPTRUST Research

Engagement Spectrum

Part 3: Get Them Invested Well



Source: CAPTRUST Research

Investment Menu

Part 3: Get Them Invested Well

Segment	Issues	Potential Action Steps
Delegators (Disengaged)	<ul style="list-style-type: none">• Want decisions to be made for them• One-stop shop for those wishing to delegate investment decisions• Bundling of investments and asset allocation advice	<ul style="list-style-type: none">• Reassess QDIA• Lifecycle or target date funds
Emerging Savers	<ul style="list-style-type: none">• Provide choice, but not enough to overwhelm• Simple approach to asset allocation• Link investment selection to guidance	<ul style="list-style-type: none">• Reassess core menu• Active and passive options• Asset allocation models• Asset allocation tools
Highly Engaged	<ul style="list-style-type: none">• May look to go beyond the core menu• How to incorporate the bigger picture• May desire professional management or access to outside experts	<ul style="list-style-type: none">• Self-directed brokerage• Managed account options

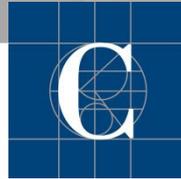
Source: CAPTRUST Research

Tying It All Together

- Market conditions, investor perceptions, and behavioral factors make being a plan sponsor harder than ever.
- But we are collectively making a difference—and can do more.
- One key is recognizing the needs and goals of disparate employee segments.
- Success will come from creating and executing a specific plan to:
 - Get them in the plan
 - Get them saving enough
 - Get them invested well

Five Pillars of a Successful Institutional Retirement Plan

	PLAN DESIGN	PARTICIPANT ENGAGEMENT	INVESTMENT MANAGEMENT	FIDUCIARY PROCESS	VENDOR MANAGEMENT
KEY OBJECTIVES	<ul style="list-style-type: none"> Ensure that retirement programs are aligned with the organization's policies and business goals Ensure that plan features and strategies are aligned with our participant demographics Ensure that the plan remains competitive with other companies that may compete for our employees 	<ul style="list-style-type: none"> Provide the information, resources, and advice to help our employees effectively plan, save, and invest for their retirements Viewed as very attractive and highly competitive benefit plan by our employees 	<ul style="list-style-type: none"> Provide an attractive menu of investment options and account management programs to enable our employees to prudently invest their retirement savings Allow for the diverse financial needs and sophistication of our employees Maintain diverse but reasonable number of core menu options 	<ul style="list-style-type: none"> Develop, follow, and document a consistent series of prudent processes to satisfy our fiduciary obligations to our employees Ensure that our retirement committee remains informed of prevailing regulatory considerations and market trends 	<ul style="list-style-type: none"> Provide timely and accurate account reporting and processing Ensure that we retain effective and user-friendly resources for the management of our plans Maintain compliance with prevailing regulatory requirements Ensure that the plan is paying fair and reasonable fees for the services provided
BEST PRACTICES	<ul style="list-style-type: none"> Peer-review key plan features: eligibility, matching, and vesting policies Evaluate automatic features for enrollment and deferral increases Evaluate re-enrollment Evaluate optional testing methods Evaluate Roth feature 	<ul style="list-style-type: none"> Allow multiple options for personalized advice Conduct targeted outreach campaigns Conduct demographic analysis Conduct participant satisfaction surveys Provide multiple forms of participant communications 	<ul style="list-style-type: none"> Evaluate risk versus age-based asset allocation strategies Evaluate model portfolios versus managed accounts QDIA selection Evaluate active and passive investing strategies 	<ul style="list-style-type: none"> Formal investment policy statement (IPS) Evaluate investment oversight advisory services—3(21) or 3(38) Documented fee payment philosophy Fiduciary training 	<ul style="list-style-type: none"> Fee benchmarking for service providers 404(c) compliance 408(b)(2) compliance



QUESTIONS?
