Discussion Guide

Town of Wilton
May 2020

Investment advice and consulting services provided by Aon Investments USA Inc.

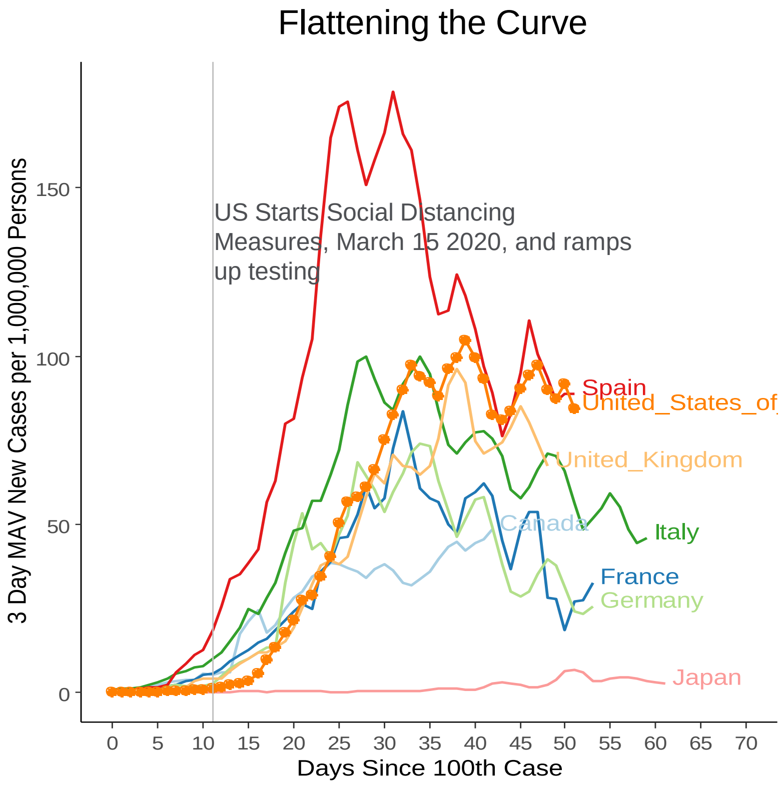
Empower Results®

Contents

Executive Summary

The World we Live in Now

- Ultra low government bond yields
- Unlimited QE, and QE in new markets
- Negative oil prices!
- “Let’s just forget about 2020”
- More than 25 million unemployed in the US in less than a month
- The government now sends you money
- Extremely large budget deficits



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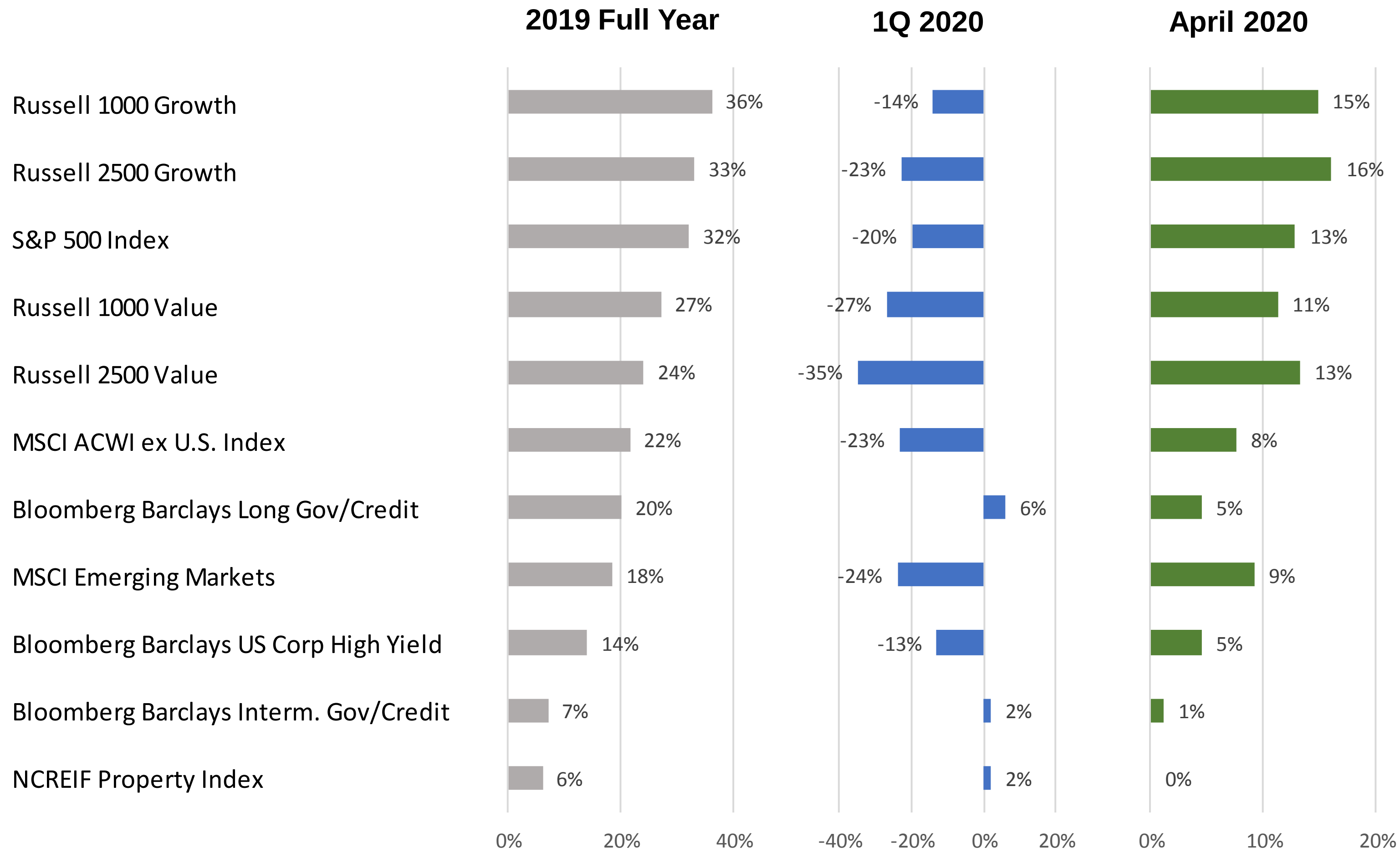
Broad Market Performance by Asset Class and Style

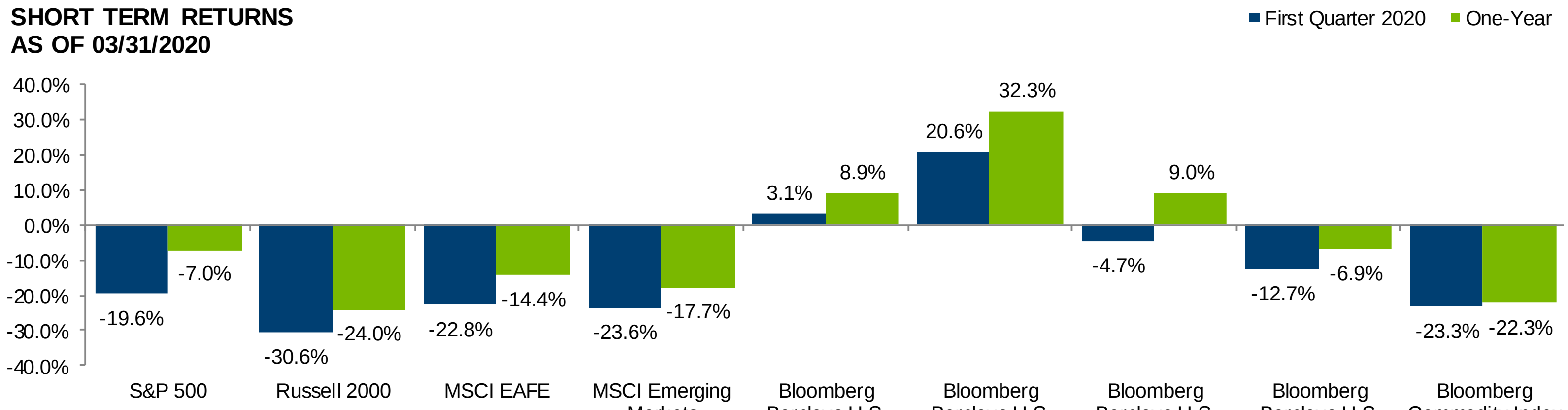


Town of Wilton Pension	20.3%	-16.2%	7.3%*
OPEB	18.6%	-12.9%	6.7%*

*Estimated Benchmark Performance

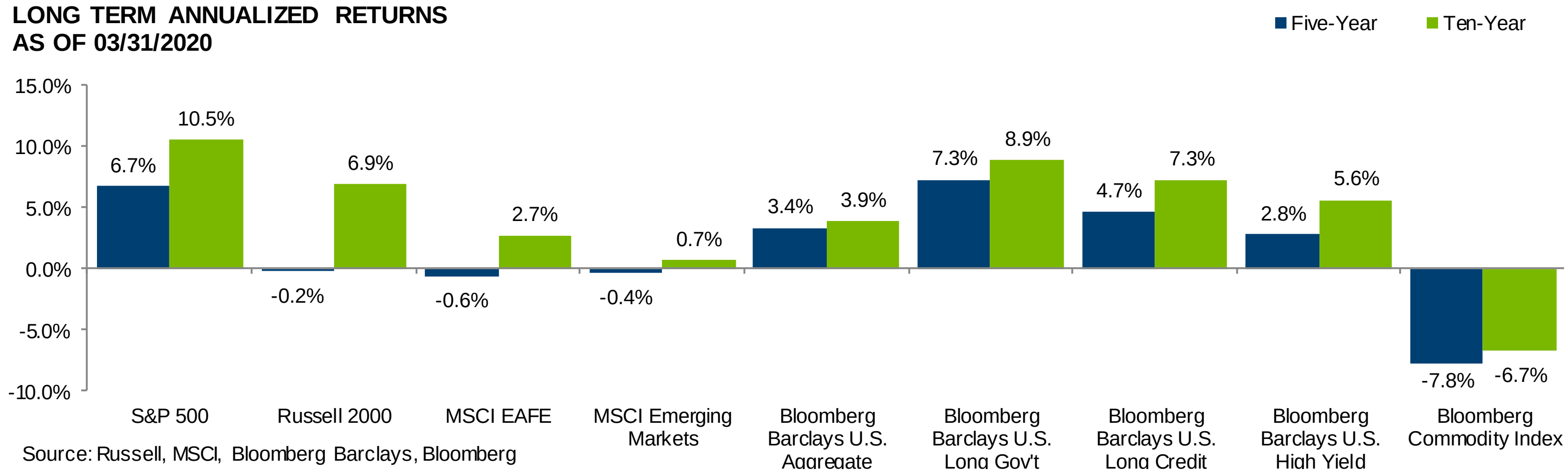
Market Highlights

SHORT TERM RETURNS
AS OF 03/31/2020



Source: Russell, MSCI, Bloomberg Barclays, Bloomberg
MSCI Indices show net total returns throughout this report. All other indices show gross total returns..

LONG TERM ANNUALIZED RETURNS
AS OF 03/31/2020



Source: Russell, MSCI, Bloomberg Barclays, Bloomberg

Market Highlights

Returns of the Major Capital Markets

Period Ending 03/31/2020

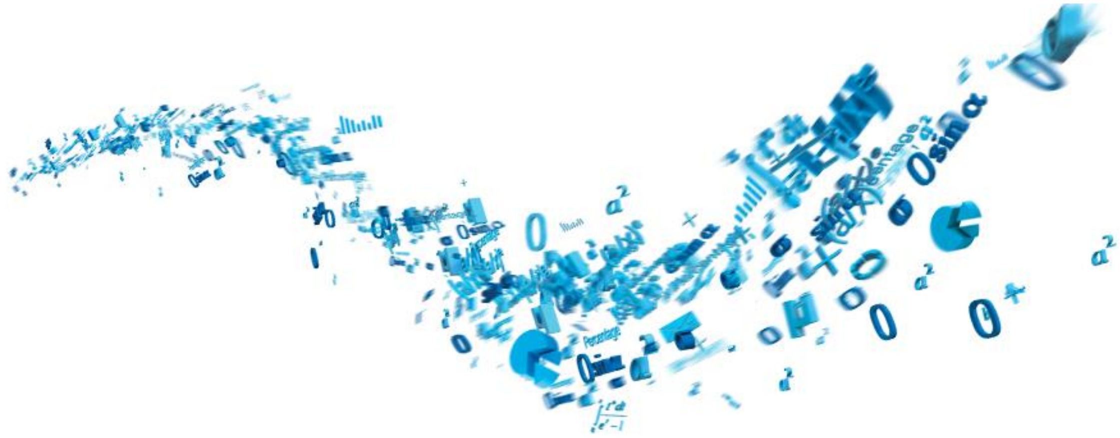
	First Quarter	1-Year	3-Year[1]	5-Year[1]	10-Year[1]
Equity					
MSCI All Country World IMI	-22.44%	-12.73%	0.76%	2.45%	5.80%
MSCI All Country World	-21.37%	-11.26%	1.50%	2.85%	5.88%
Dow Jones U.S. Total Stock Market	-20.96%	-9.28%	3.92%	5.70%	10.13%
Russell 3000	-20.90%	-9.13%	4.00%	5.77%	10.15%
S&P 500	-19.60%	-6.98%	5.10%	6.73%	10.53%
Russell 2000	-30.61%	-23.99%	-4.64%	-0.25%	6.90%
MSCI All Country World ex-U.S. IMI	-24.11%	-16.32%	-2.34%	-0.66%	2.14%
MSCI All Country World ex-U.S.	-23.36%	-15.57%	-1.96%	-0.64%	2.05%
MSCI EAFE	-22.83%	-14.38%	-1.82%	-0.62%	2.72%
MSCI EAFE (Local Currency)	-20.55%	-12.58%	-1.80%	-0.15%	4.36%
MSCI Emerging Markets	-23.60%	-17.69%	-1.62%	-0.37%	0.68%
Fixed Income					
Bloomberg Barclays Global Aggregate	-0.33%	4.20%	3.55%	2.64%	2.47%
Bloomberg Barclays U.S. Aggregate	3.15%	8.93%	4.82%	3.36%	3.88%
Bloomberg Barclays U.S. Long Gov't	20.63%	32.28%	13.30%	7.32%	8.89%
Bloomberg Barclays U.S. Long Credit	-4.65%	9.05%	6.58%	4.67%	7.26%
Bloomberg Barclays U.S. Long Gov't/Credit	6.21%	19.32%	9.68%	5.99%	8.07%
Bloomberg Barclays U.S. TIPS	1.69%	6.85%	3.46%	2.67%	3.48%
Bloomberg Barclays U.S. High Yield	-12.68%	-6.94%	0.77%	2.78%	5.64%
Bloomberg Barclays Global Treasury ex U.S.	-1.53%	2.02%	2.96%	2.44%	1.50%
JP Morgan EMBI Global (Emerging Markets)	-11.76%	-5.28%	0.44%	2.85%	4.82%
Commodities					
Bloomberg Commodity Index	-23.29%	-22.31%	-8.61%	-7.76%	-6.74%
Goldman Sachs Commodity Index	-42.34%	-41.01%	-13.33%	-12.82%	-10.43%
Hedge Funds					
HFRI Fund-Weighted Composite[2]	-9.39%	-5.11%	0.32%	1.09%	2.78%
HFRI Fund of Funds[2]	-7.30%	-3.94%	0.50%	0.33%	1.91%
Real Estate					
NAREIT U.S. Equity REITS	-27.30%	-21.26%	-3.14%	-0.35%	7.40%
NCREIF NFI - ODCE	0.97%	4.87%	6.81%	8.46%	11.45%
FTSE Global Core Infrastructure Index	-17.89%	-9.29%	3.94%	4.52%	8.30%
Private Equity					
Burgiss Private iQ Global Private Equity[3]		11.61%	14.89%	11.58%	13.92%

MSCI Indices show net total returns throughout this report. All other indices show gross total returns.

[1] Periods are annualized.

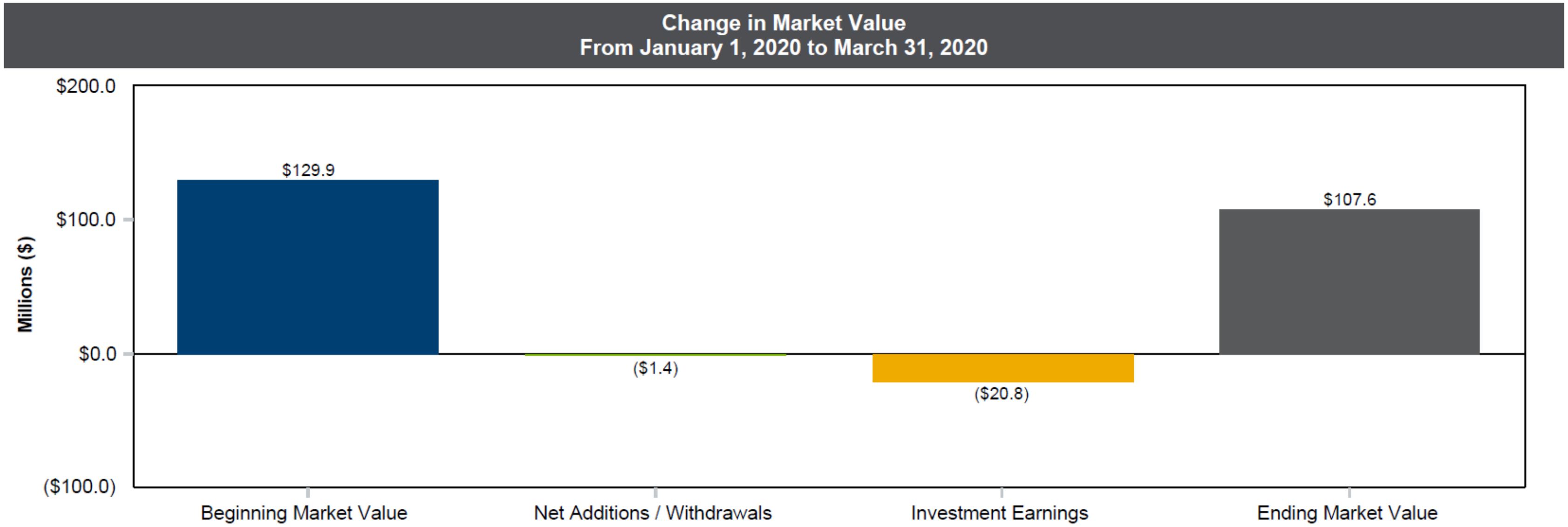
[2] Latest 5 months of HFR data are estimated by HFR and may change in the future.

[3] Burgiss Private iQ Global Private Equity data is as at June 30, 2019



Pension Plan Performance Summary

Total Plan Asset Summary



Summary of Cash Flow

	1 Quarter	1 Year	Since Inception	Inception Date
Pension Plan				**05/01/2012**
Beginning Market Value	129,869,485	119,717,394	73,939,906	
+ Additions / Withdrawals	-1,393,743	-2,934,914	-2,669,927	
+ Investment Earnings	-20,844,103	-9,150,842	36,361,660	
= Ending Market Value	**107,631,638**	**107,631,638**	**107,631,638**	

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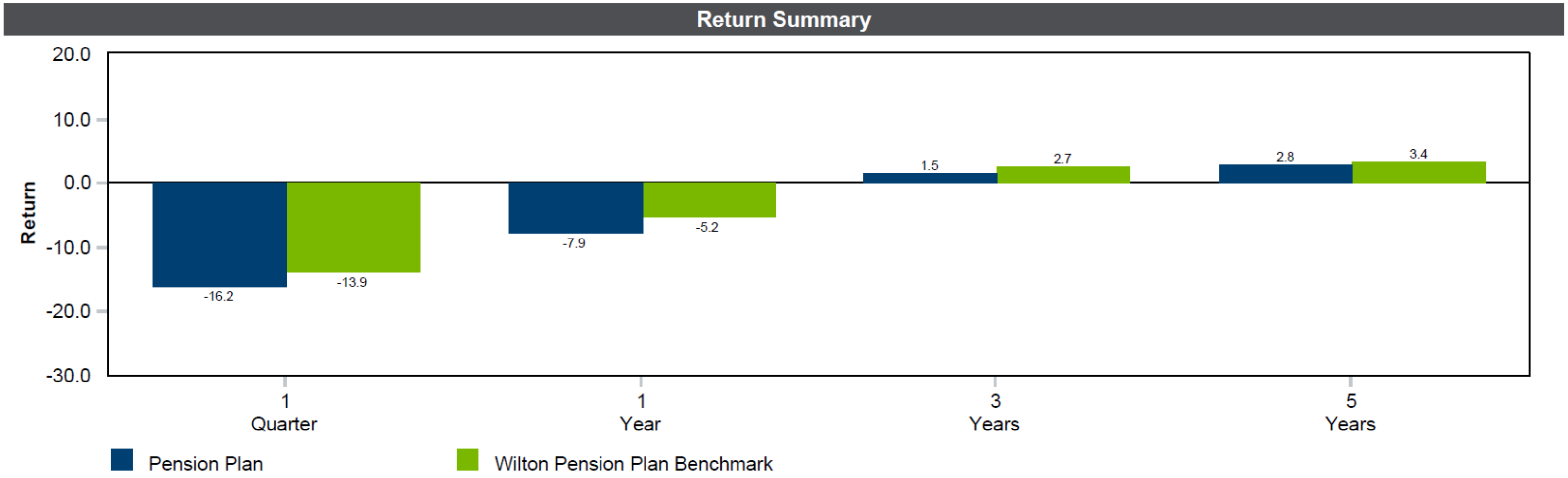
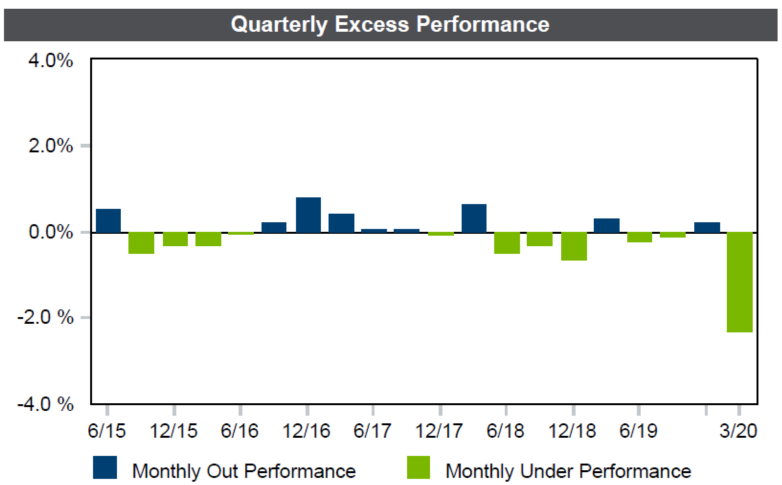
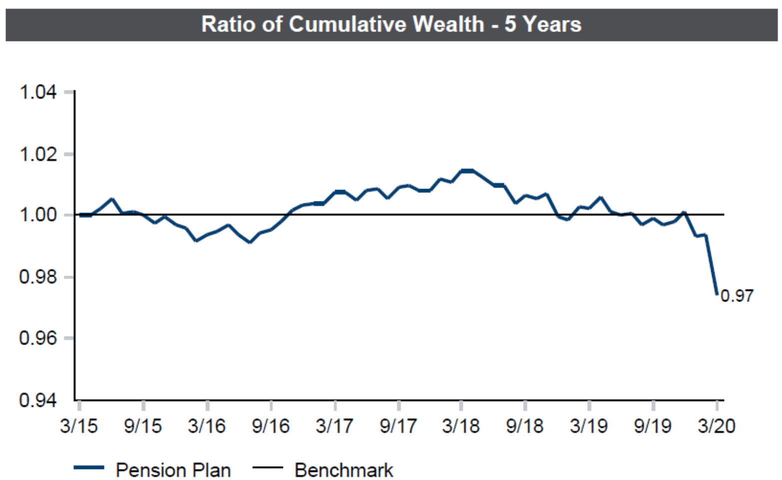
Total Plan Performance Summary







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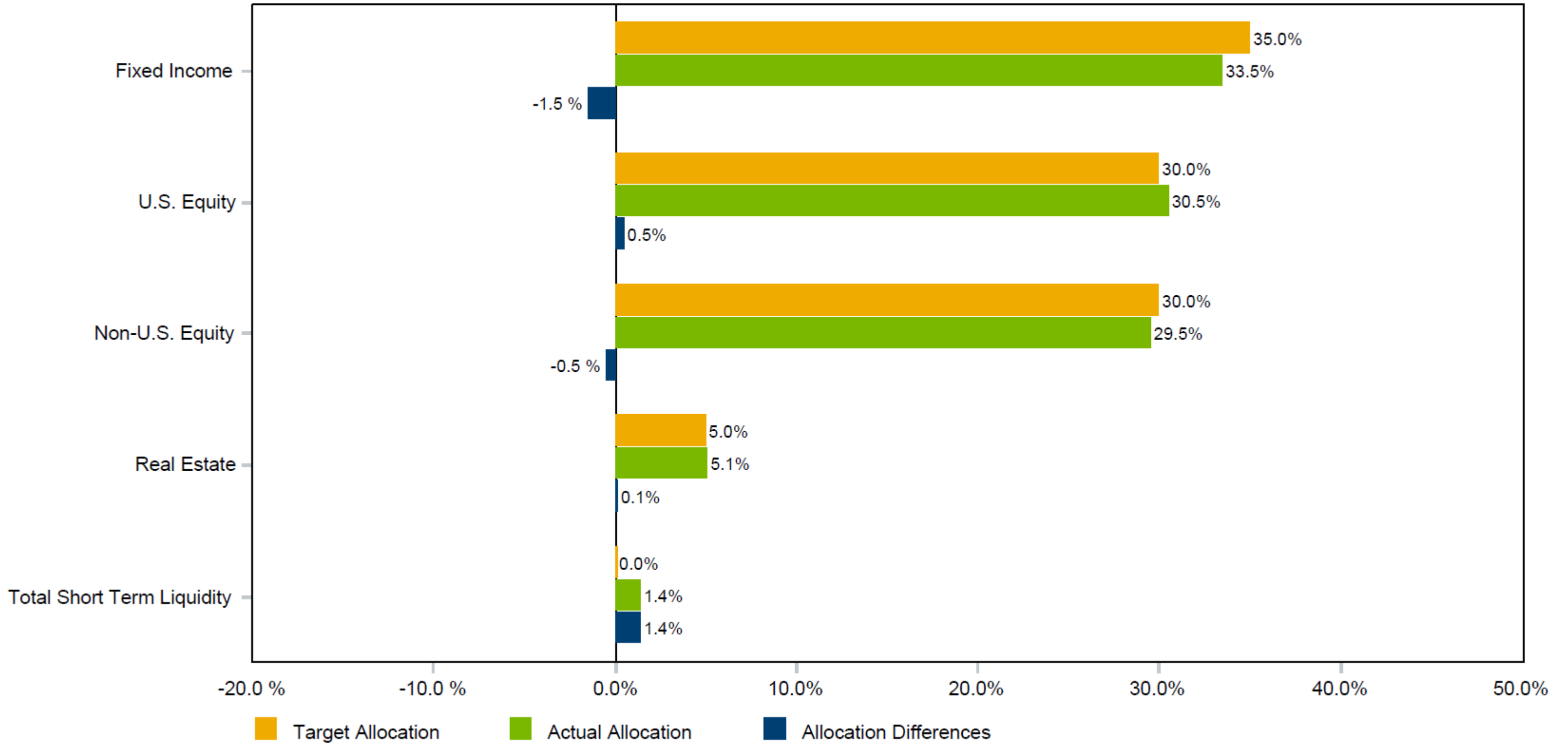
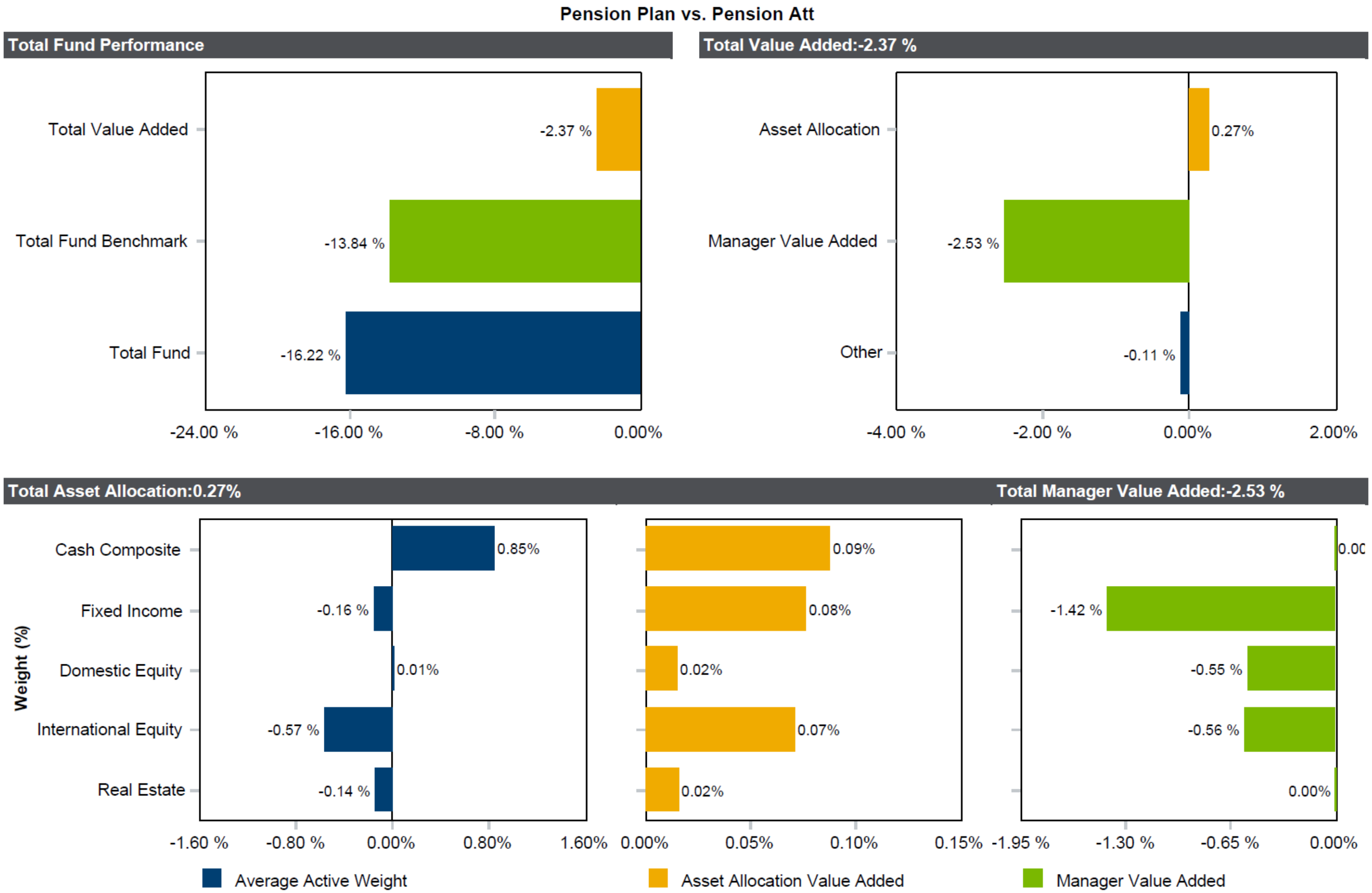
Asset Allocation as of March 31, 2020

	Market Value ($)	Current Allocation (%)	Target Allocation (%)	Differences (%)
Pension Plan	**107,631,638.40**	**100.00**	**100.00**	**0.00**
Fixed Income	**36,048,082.76**	**33.49**	**35.00**	**-1.51**
U.S. Equity	**32,842,048.86**	**30.51**	**30.00**	**0.51**
Non-U.S. Equity	**31,753,988.11**	**29.50**	**30.00**	**-0.50**
Real Estate	**5,478,180.18**	**5.09**	**5.00**	**0.09**



Pension Total Fund Attribution:
1 Quarter as of March 31, 2020



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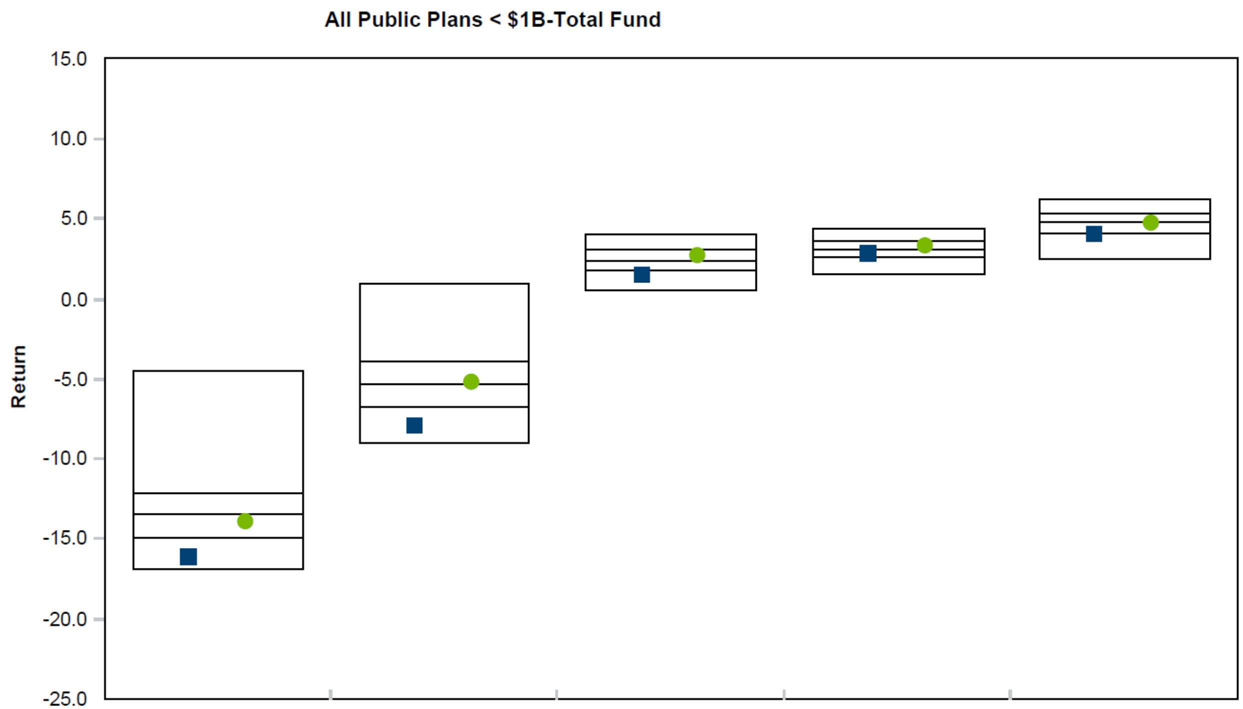
Plan Sponsor Peer Group Analysis

As of March 31, 2020



	1 Quarter	1 Year	3 Years	5 Years	7 Years
■ Pension Plan	-16.2 (91)	-7.9 (89)	1.5 (86)	2.8 (65)	4.1 (80)
● Wilton Pension Plan Benchmark	-13.9 (59)	-5.2 (49)	2.7 (38)	3.4 (37)	4.7 (55)
5th Percentile	-4.5	1.0	4.0	4.4	6.3
1st Quartile	-12.1	-3.8	3.1	3.6	5.4
Median	-13.4	-5.3	2.4	3.1	4.8
3rd Quartile	-14.9	-6.7	1.8	2.6	4.2
95th Percentile	-16.8	-8.9	0.6	1.6	2.5
Population	366	362	338	324	304

Performance as of March 31, 2020

	Allocation			Performance(%)												
	Market Value ($)	%	Policy(%)	1 Quarter		1 Year		3 Years		5 Years		7 Years		Since Inception		Inception Date
Pension Plan	107,631,638	100.0	100.0	-16.2		-7.9		1.5		2.8		4.1		4.9		05/01/2012
Wilton Pension Plan Benchmark				*-13.9*		*-5.2*		*2.7*		*3.4*		*4.7*		*5.3*		
Fixed Income	36,048,083	33.5	35.0	-1.2		3.4		2.9		2.6		2.5		4.5		05/01/2008
Wilton Pension FI Hybrid BB				*3.0*		*8.5*		*4.7*		*3.3*		*2.9*		*4.3*		
Vanguard Short-Term Inflation Protection Adm	1,474,087	1.4		-0.7	(65)	2.3	(73)	1.6	(74)	1.5	(77)	-		1.0	(82)	12/01/2013
Blmbg. Barc. U.S. TIPS 0-5 Year				*-0.7*	*(63)*	*2.4*	*(68)*	*1.6*	*(69)*	*1.6*	*(72)*	-		*1.1*	*(74)*	
IM U.S. TIPS (MF) Median				0.3		4.7		2.6		2.0		-		2.0		
Vanguard Total Bond Market Index Instl	5,855,117	5.4		3.3	(15)	9.1	(9)	4.8	(6)	3.3	(13)	-		3.5	(12)	12/01/2014
Blmbg. Barc. U.S. Aggregate				*3.1*	*(15)*	*8.9*	*(13)*	*4.8*	*(6)*	*3.4*	*(11)*	-		*3.5*	*(11)*	
IM U.S. Broad Market Core Fixed Income (MF) Median				0.8		6.5		4.0		3.0		-		3.1		
Metropolitan West Total Return Bond Pl	12,423,714	11.5		2.3	(8)	8.3	(4)	4.7	(6)	3.3	(19)	3.3	(21)	4.0	(9)	05/01/2012
Blmbg. Barc. U.S. Aggregate				*3.1*	*(4)*	*8.9*	*(1)*	*4.8*	*(4)*	*3.4*	*(17)*	*3.2*	*(30)*	*3.2*	*(56)*	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				-0.7		5.0		3.7		2.9		3.0		3.3		
PGIM Total Return Bond R6	6,014,684	5.6		-2.8	(77)	3.8	(75)	4.0	(39)	3.3	(21)	-		3.6	(13)	01/01/2015
Blmbg. Barc. U.S. Aggregate				*3.1*	*(4)*	*8.9*	*(1)*	*4.8*	*(4)*	*3.4*	*(17)*	-		*3.5*	*(21)*	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				-0.7		5.0		3.7		2.9		-		3.2		
BlackRock Strategic Income Opportunities K	2,555,917	2.4		-5.8	(37)	-0.9	(27)	1.5	(25)	-		-		-		12/01/2013
Blmbg. Barc. U.S. Aggregate				*3.1*	*(1)*	*8.9*	*(1)*	*4.8*	*(1)*	*3.4*	*(5)*	-		*3.8*	*(2)*	
IM Alternative Credit Focus (MF) Median				-8.8		-4.6		0.1		1.3		-		1.8		
Eaton Vance Floating Rate Instl	2,635,717	2.4		-12.0	(46)	-8.9	(46)	-0.7	(39)	1.2	(12)	-		1.5	(23)	12/01/2013
S&P/LSTA Leveraged Loan Index				*-13.0*	*(59)*	*-9.2*	*(53)*	*-0.8*	*(40)*	*1.1*	*(23)*	-		*1.6*	*(19)*	
IM U.S. Bank Loans (MF) Median				-12.3		-8.9		-1.0		0.8		-		1.2		
Templeton Global Bond R6	5,088,847	4.7		-4.4	(65)	-5.3	(97)	-1.2	(100)	0.6	(96)	-		-		05/01/2012
FTSE World Government Bond Index				*2.0*	*(1)*	*6.2*	*(1)*	*4.3*	*(1)*	*3.0*	*(3)*	*1.5*	*(47)*	*1.0*	*(79)*	
IM Global Fixed Income (MF) Median				-3.0		1.0		2.4		1.9		1.3		1.7		

* Consists of MSCI US REIT Index adjusted to include a 2% cash position (Lipper Money Market Average) through April 30, 2009; MSCI US REIT Index through January 31, 2018; MSCI US Investable Market Real Estate 25/50 Transition Index thereafter.

Performance as of March 31, 2020

	Allocation			Performance(%)						
	Market Value ($)	%	Policy(%)	1 Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
Cash Equivalents	1,509,338	1.4	0.0	0.3	1.8	1.5	1.0	0.7	0.6	05/01/2008
90 Day U.S. Treasury Bill				*0.6*	*2.3*	*1.8*	*1.2*	*0.8*	*0.6*	
Wells Fargo Government MM Fund	1,509,338	1.4		0.3	1.8	1.5	1.0	0.7	0.6	05/01/2012
90 Day U.S. Treasury Bill				*0.6*	*2.3*	*1.8*	*1.2*	*0.8*	*0.8*	
U.S. Equity	32,842,049	30.5	30.0	-22.6	-10.7	3.0	5.5	8.6	7.4	05/01/2008
Russell 3000 Index				*-20.9*	*-9.1*	*4.0*	*5.8*	*9.0*	*7.5*	
Vanguard Institutional Index Fund Instl	24,224,028	22.5		-19.6 (29)	-7.0 (25)	5.1 (15)	6.7 (16)	9.6 (9)	10.3 (6)	05/01/2012
S&P 500 Index				*-19.6 (30)*	*-7.0 (15)*	*5.1 (8)*	*6.7 (6)*	*9.6 (1)*	*10.4 (1)*	
IM S&P 500 Index (MF) Median				-19.6	-7.1	5.0	6.6	9.4	10.2	
Diamond Hill Small-Mid Cap Y	4,281,294	4.0		-35.8 (81)	-27.8 (72)	-8.7 (77)	-2.1 (55)	3.0 (52)	5.4 (38)	05/01/2012
Russell 2500 Value Index				*-34.6 (73)*	*-28.6 (74)*	*-8.4 (74)*	*-2.1 (55)*	*2.2 (68)*	*4.5 (59)*	
IM U.S. Mid Cap Value Equity (MF) Median				-32.5	-25.9	-7.3	-1.7	3.1	5.0	
Eaton Vance Atlanta Capital SMID Instl	4,336,728	4.0		-27.3 (92)	-15.6 (60)	3.1 (53)	5.8 (30)	8.6 (33)	9.7 (28)	05/01/2012
Russell 2500 Growth Index				*-23.2 (57)*	*-14.4 (50)*	*3.4 (50)*	*3.6 (56)*	*8.1 (37)*	*9.0 (38)*	
IM U.S. SMID Cap Growth Equity (MF) Median				-22.0	-14.4	3.3	4.1	7.6	8.4	
Non-U.S. Equity	31,753,988	29.5	30.0	-25.2	-17.1	-2.2	-0.4	0.8	-0.2	05/01/2008
MSCI AC World ex USA Index (Net)				*-23.4*	*-15.6*	*-2.0*	*-0.6*	*1.1*	*0.0*	
American Funds EuroPacific Growth R6	10,629,105	9.9		-22.4 (15)	-12.7 (13)	0.3 (1)	0.9 (1)	-	0.8 (1)	07/01/2014
MSCI AC World ex USA Index (Net)				*-23.4 (25)*	*-15.6 (36)*	*-2.0 (10)*	*-0.6 (3)*	-	*-1.6 (17)*	
IM International Large Cap Core Equity (MF) Median				-24.8	-17.1	-3.5	-2.0	-	-2.6	
T. Rowe Price Overseas Stock Instl	8,774,103	8.2		-24.8 (50)	-15.7 (37)	-2.5 (25)	-	-	-	07/01/2014
MSCI EAFE Index (Net)				*-22.8 (17)*	*-14.4 (16)*	*-1.8 (9)*	*-0.6 (3)*	-	*-1.4 (9)*	
IM International Large Cap Core Equity (MF) Median				-24.8	-17.1	-3.5	-2.0	-	-2.6	
Templeton Instl Foreign Smaller Companies Fund Adv	5,616,371	5.2		-31.9 (83)	-25.8 (81)	-6.0 (49)	-2.5 (65)	0.3 (58)	1.8 (68)	05/01/2012
MSCI AC World ex USA Small Cap (Net)				*-29.0 (56)*	*-21.2 (46)*	*-4.9 (32)*	*-0.8 (54)*	*1.1 (47)*	*2.3 (41)*	
IM International SMID Cap Core Equity (MF) Median				-28.9	-21.5	-6.1	-0.6	0.8	2.1	
Aberdeen Emerging Markets Instl	2,826,738	2.6		-26.1 (56)	-19.8 (55)	-4.1 (56)	-1.5 (54)	-2.1 (71)	-0.6 (55)	05/01/2012
MSCI Emerging Markets Index (Net)				*-23.6 (30)*	*-17.7 (41)*	*-1.6 (27)*	*-0.4 (33)*	*-0.4 (34)*	*0.0 (40)*	
IM Emerging Markets Equity (MF) Median				-25.7	-19.1	-3.7	-1.2	-1.2	-0.4	

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Performance as of March 31, 2020

	Allocation			Performance(%)						
	Market Value ($)	%	Policy(%)	1 Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
Vanguard Emerging Markets Stock Adm	3,907,671	3.6		-24.6 (42)	-18.5 (47)	-	-	-	-9.1 (41)	12/01/2018
FTSE Emerging Mkts All Cap China A Inclusion Index				*-24.2 (39)*	*-17.7 (41)*	-	-	-	*-8.2 (36)*	
IM Emerging Markets Equity (MF) Median				-25.7	-19.1	-	-	-	-10.3	
Real Estate	5,478,180	5.1	5.0	-24.1	-16.5	-1.5	0.5	4.1	5.1	07/01/2012
Wilton Pension Real Estate				*-24.1*	*-16.5*	*0.0*	*1.5*	*2.8*	*5.0*	
Vanguard REIT Index Instl	5,478,180	5.1		-24.1 (55)	-16.5 (49)	-1.5 (56)	0.5 (51)	4.1 (41)	5.1 (38)	07/01/2012
*Vanguard Real Estate Spliced Index**				*-24.1 (54)*	*-16.5 (49)*	*-1.4 (55)*	*0.6 (45)*	*4.2 (40)*	*5.2 (36)*	
IM Real Estate Sector (MF) Median				-23.8	-16.6	-1.1	0.5	3.9	4.6	

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OPEB Performance as of March 31, 2020

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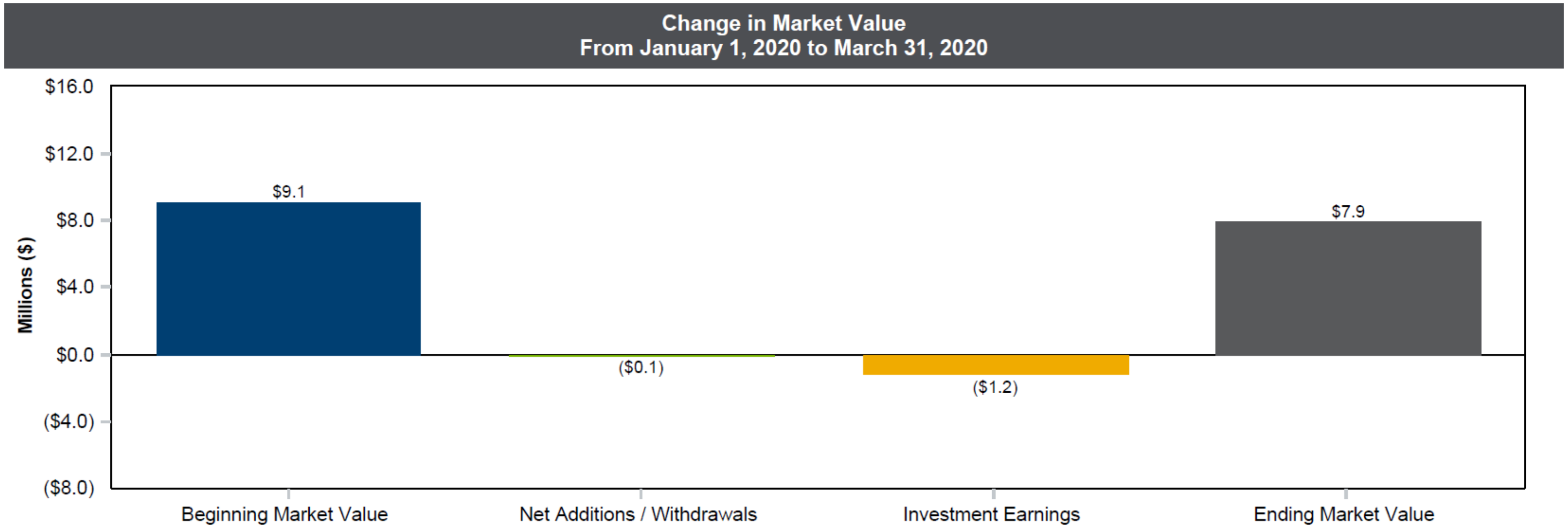
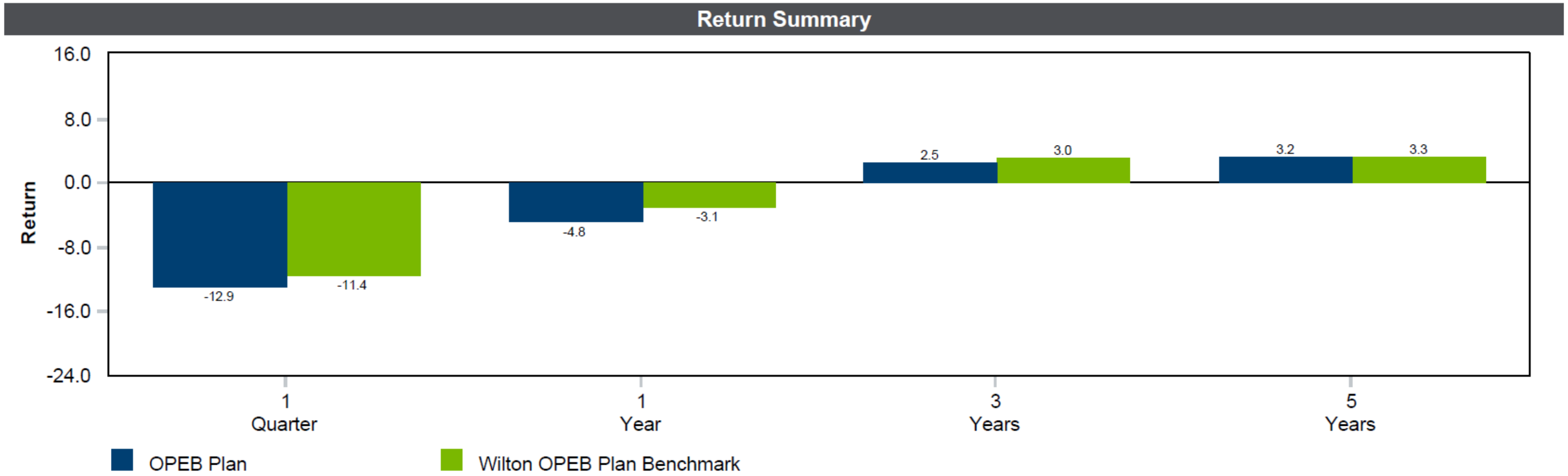
Total Plan Asset Summary

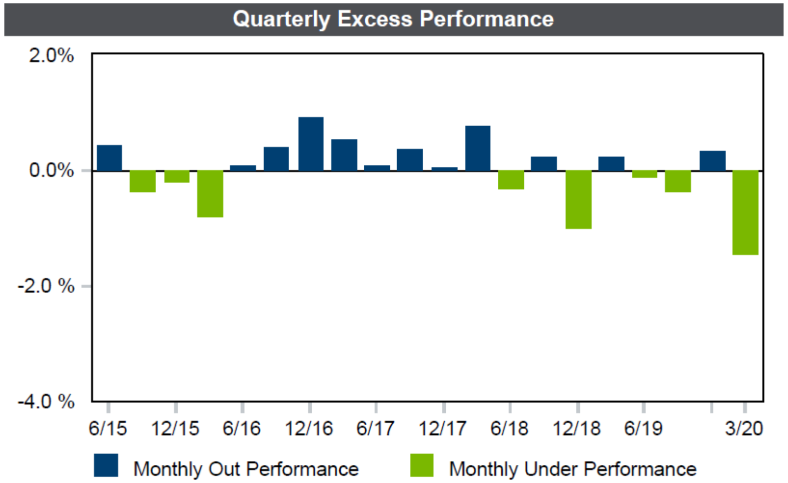


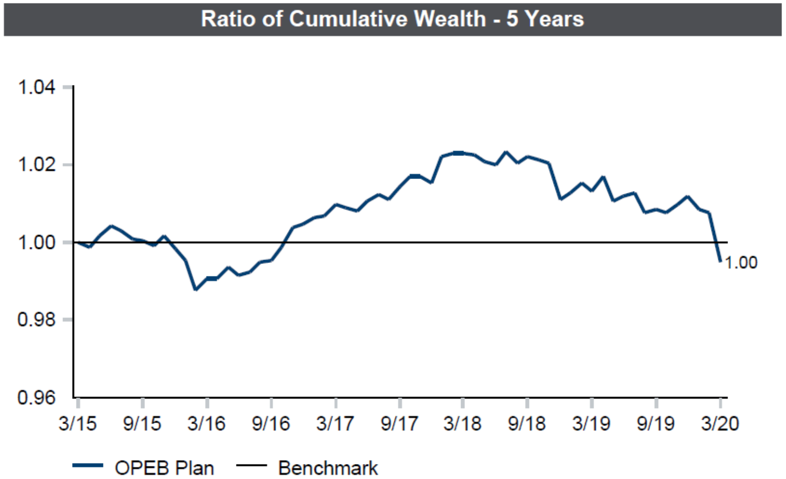
Summary of Cash Flow

	1 Quarter	1 Year	Since Inception	Inception Date
OPEB Plan				**05/01/2012**
Beginning Market Value	9,140,447	8,172,873	2,652,035	
+ Additions / Withdrawals	-63,873	135,345	3,321,257	
+ Investment Earnings	-1,177,783	-409,428	1,925,499	
= Ending Market Value	**7,898,791**	**7,898,791**	**7,898,791**	

Total Plan Performance Summary



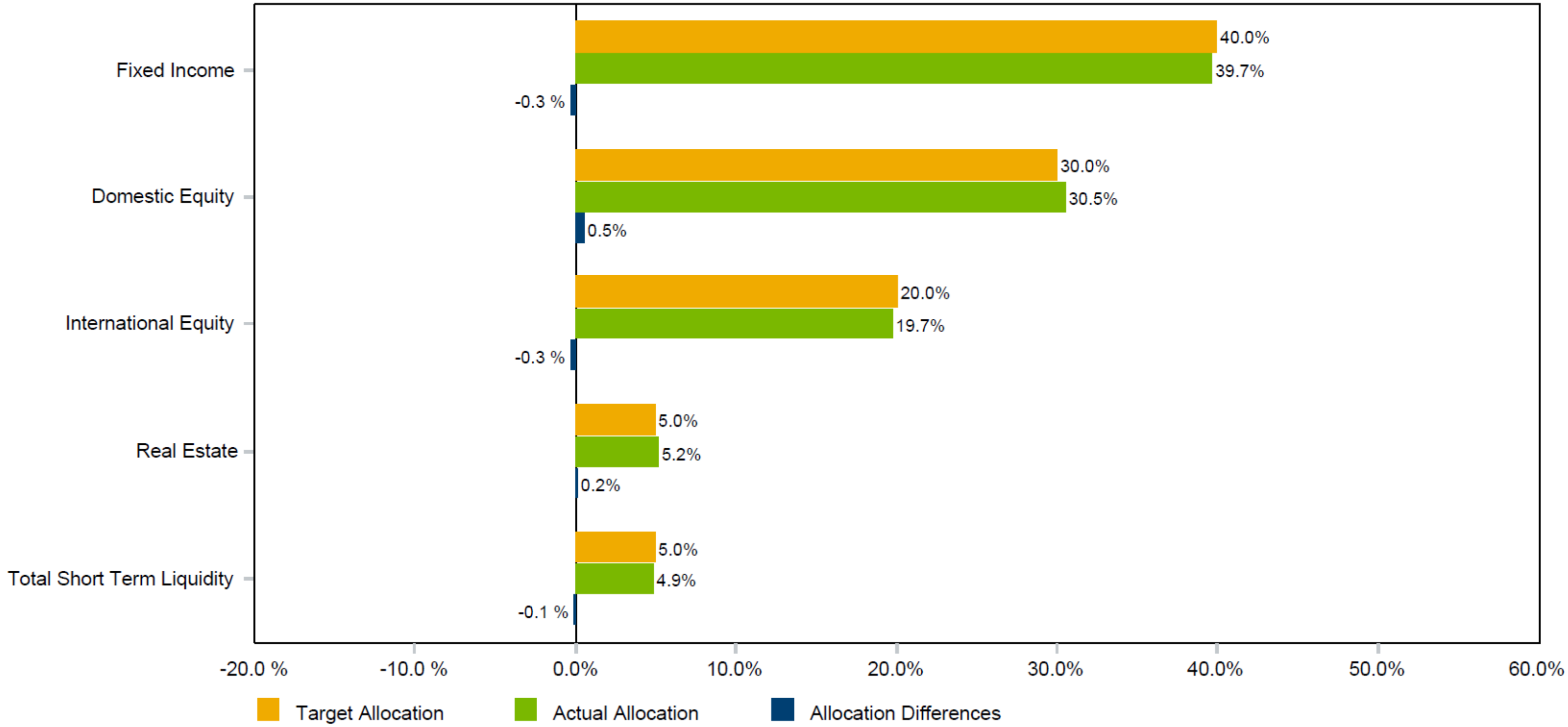




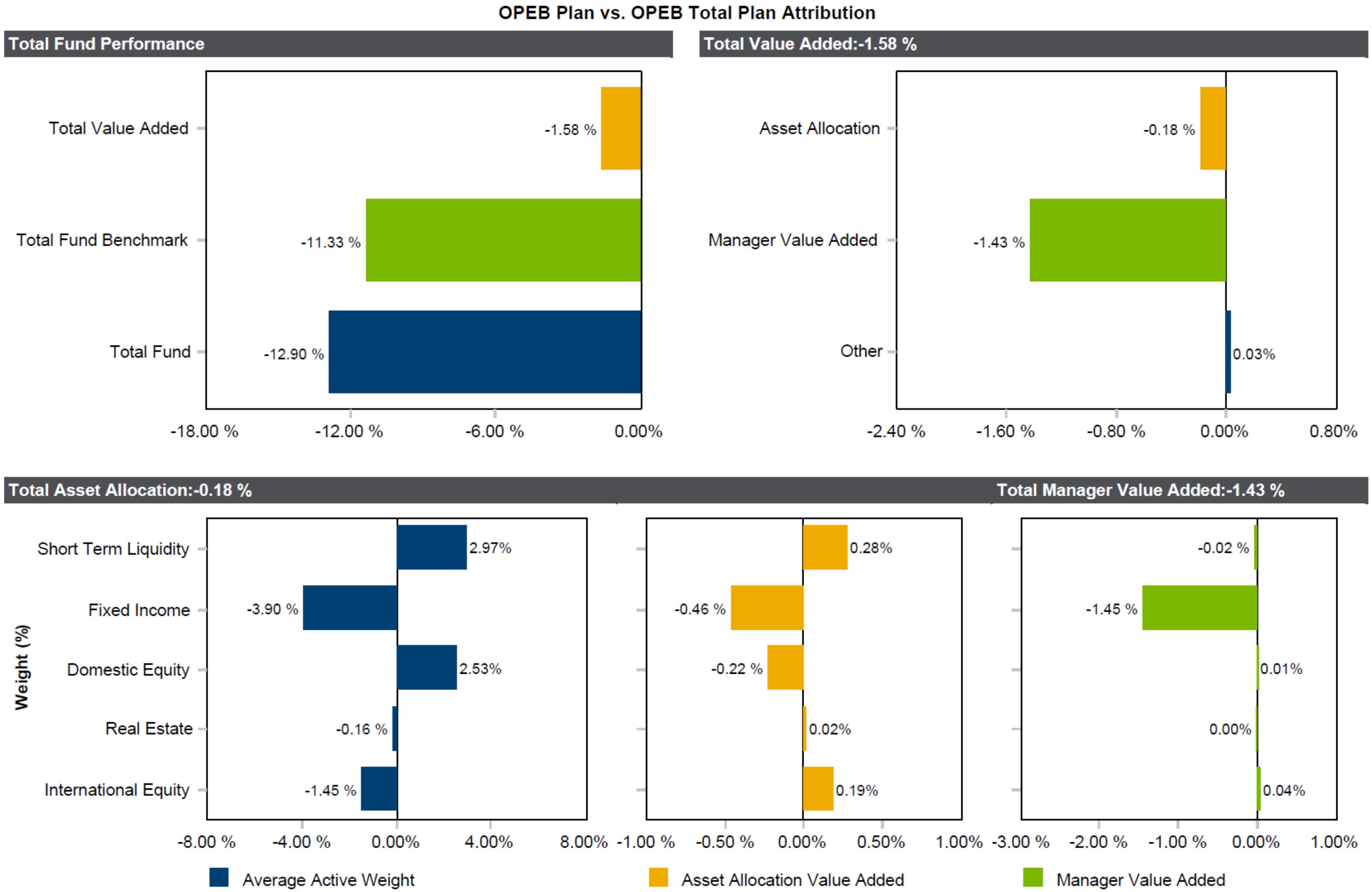
Empower Results®

Asset Allocation as of March 31, 2020

	Market Value ($)	Current Allocation (%)	Target Allocation (%)	Differences (%)
OPEB Plan	**7,898,790.67**	**100.00**	**100.00**	**0.00**
Fixed Income	**3,134,926.70**	**39.69**	**40.00**	**-0.31**
Domestic Equity	**2,410,603.06**	**30.52**	**30.00**	**0.52**
International Equity	**1,559,994.86**	**19.75**	**20.00**	**-0.25**
Real Estate	**407,773.41**	**5.16**	**5.00**	**0.16**
Total Short Term Liquidity	**385,492.64**	**4.88**	**5.00**	**-0.12**



OPEB Total Fund Attribution:
1 Quarter as of March 31, 2020



Performance as of March 31, 2020

	Allocation			Performance(%)						
	Market Value ($)	%	Policy(%)	1 Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
OPEB Plan	**7,898,791**	**100.0**	**100.0**	**-12.9**	**-4.8**	**2.5**	**3.2**	**4.6**	**5.2**	**05/01/2012**
Wilton OPEB Plan Benchmark				*-11.4*	*-3.1*	*3.0*	*3.3*	*4.6*	*5.1*	
Fixed Income	**3,134,927**	**39.7**	**40.0**	**-1.1**	**3.9**	**3.2**	**3.0**	**2.6**	**3.6**	**07/01/2010**
OPEB Fixed Income Composite Benchmark				*3.1*	*8.8*	*4.7*	*3.3*	*3.0*	*3.5*	
Vanguard Short-Term Inflation Protection Adm	193,365	2.4		-0.7 (65)	2.3 (73)	1.6 (74)	1.5 (77)	0.7 (78)	1.0 (81)	03/01/2014
Blmbg. Barc. U.S. TIPS 0-5 Year				*-0.7 (63)*	*2.4 (68)*	*1.6 (69)*	*1.6 (72)*	*0.7 (64)*	*1.1 (74)*	
IM U.S. TIPS (MF) Median				0.3	4.7	2.6	2.0	0.9	2.0	
Vanguard Total Bond Market Index Adm	605,663	7.7		3.3 (15)	9.1 (10)	4.8 (6)	3.3 (15)	3.1 (22)	7.0 (12)	06/01/2019
Blmbg. Barc. U.S. Aggregate				*3.1 (15)*	*8.9 (13)*	*4.8 (6)*	*3.4 (11)*	*3.2 (16)*	*7.0 (13)*	
IM U.S. Broad Market Core Fixed Income (MF) Median				0.8	6.5	4.0	3.0	3.0	4.6	
Metropolitan West Total Return Bond Pl	808,817	10.2		2.3 (8)	8.3 (4)	4.7 (6)	3.3 (19)	3.3 (21)	6.1 (4)	06/01/2019
Blmbg. Barc. U.S. Aggregate				*3.1 (4)*	*8.9 (1)*	*4.8 (4)*	*3.4 (17)*	*3.2 (30)*	*7.0 (1)*	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				-0.7	5.0	3.7	2.9	3.0	3.1	
PGIM Total Return Bond R6	599,375	7.6		-2.8 (77)	3.8 (75)	4.0 (39)	3.3 (21)	3.5 (11)	4.1 (22)	12/01/2015
Blmbg. Barc. U.S. Aggregate				*3.1 (4)*	*8.9 (1)*	*4.8 (4)*	*3.4 (17)*	*3.2 (30)*	*4.1 (26)*	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				-0.7	5.0	3.7	2.9	3.0	3.7	
BlackRock Strategic Income Opportunities Instl	570,194	7.2		-5.8 (35)	-0.9 (27)	1.4 (29)	1.5 (48)	2.2 (20)	1.9 (27)	03/01/2014
Blmbg. Barc. U.S. Aggregate				*3.1 (1)*	*8.9 (1)*	*4.8 (1)*	*3.4 (5)*	*3.2 (3)*	*3.7 (1)*	
IM Alternative Credit Focus (MF) Median				-8.8	-4.6	0.1	1.3	1.6	1.3	
Templeton Global Bond R6	357,513	4.5		-4.4 (65)	-5.3 (97)	-1.2 (100)	0.6 (96)	-	1.0 (78)	03/01/2014
FTSE World Government Bond Index				*2.0 (1)*	*6.2 (1)*	*4.3 (1)*	*3.0 (3)*	*1.5 (47)*	*1.5 (46)*	
IM Global Fixed Income (MF) Median				-3.0	1.0	2.4	1.9	1.3	1.4	
Domestic Equity	**2,410,603**	**30.5**	**30.0**	**-20.9**	**-9.2**	**4.0**	**5.8**	**8.9**	**11.8**	**07/01/2010**
Vanguard Spliced Total Stock Market Index				*-20.9*	*-9.2*	*4.0*	*5.7*	*8.9*	*11.8*	
Vanguard Total Stock Market Index Adm	2,410,603	30.5		-20.9 (36)	-9.2 (29)	4.0 (20)	5.7 (15)	8.9 (14)	10.9 (12)	01/01/2012
*Vanguard Spliced Total Stock Market Index **				*-20.9 (36)*	*-9.2 (29)*	*4.0 (19)*	*5.7 (14)*	*8.9 (14)*	*10.9 (11)*	
IM U.S. Multi-Cap Core Equity (MF) Median				-22.3	-12.1	1.5	3.4	7.2	9.3	

*Consists of Dow Jones U.S. Total Stock Market Index (formerly known as the Dow Jones Wilshire 5000 Index) through April 22, 2005; MSCI US Broad Market Index through June 2, 2013; and CRSP US Total Market Index thereafter. ** Total International Composite Index through August 31, 2006; MSCI EAFE + Emerging Markets Index through December 15, 2010; MSCI ACWI ex. U.S. IMI Index through June 2, 2013; FTSE Global All Cap ex U.S. Index thereafter *** Consists of MSCI US REIT Index adjusted to include a 2% cash position (Lipper Money Market Average) through April 30, 2009; MSCI US REIT Index through January 31, 2018; MSCI US Investable Market Real Estate 25/50 Transition Index thereafter.

Performance as of March 31, 2020

	Allocation			Performance(%)						
	Market Value ($)	%	Policy(%)	1 Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
International Equity	**1,559,995**	**19.7**	**20.0**	**-23.1**	**-14.4**	**-1.0**	**0.2**	**2.5**	**5.0**	**07/01/2010**
OPEB International Equity Composite Benchmark				*-23.7*	*-15.8*	*-2.1*	*-0.6*	*1.2*	*3.7*	
Vanguard Total International Stock Index Adm	780,049	9.9		-24.3 (43)	-16.6 (48)	-2.5 (26)	-0.7 (4)	1.1 (38)	2.3 (55)	05/01/2012
*Vanguard Spliced Total International Stock Index ** *				*-24.0 (37)*	*-16.0 (45)*	*-2.3 (14)*	*-0.5 (1)*	*1.2 (35)*	*2.3 (53)*	
IM International Large Cap Core Equity (MF) Median				-24.8	-17.1	-3.5	-2.0	0.8	2.4	
American Funds EuroPacific Growth R6	779,946	9.9		-22.4 (15)	-12.7 (13)	0.3 (1)	0.9 (1)	3.5 (1)	1.0 (1)	09/01/2014
MSCI AC World ex USA Index (Net)				*-23.4 (25)*	*-15.6 (36)*	*-2.0 (10)*	*-0.6 (3)*	*1.1 (39)*	*-1.5 (33)*	
IM International Large Cap Core Equity (MF) Median				-24.8	-17.1	-3.5	-2.0	0.8	-2.3	
Real Estate	**407,773**	**5.2**	**5.0**	**-24.1**	**-16.6**	**-1.5**	**0.5**	**4.1**	**8.6**	**07/01/2010**
MSCI REIT Index				*-27.0*	*-21.0*	*-3.0*	*-0.4*	*3.4*	*8.1*	
Vanguard Real Estate Index Fund Adm	407,773	5.2		-24.1 (55)	-16.6 (50)	-1.5 (59)	0.5 (51)	4.1 (43)	8.6 (45)	07/01/2010
*Vanguard Real Estate Spliced Index ****				*-24.1 (54)*	*-16.5 (49)*	*-1.4 (55)*	*0.6 (45)*	*4.2 (40)*	*8.6 (44)*	
IM Real Estate Sector (MF) Median				-23.8	-16.6	-1.1	0.5	3.9	8.2	
Total Short Term Liquidity	**385,493**	**4.9**	**5.0**	**0.2**	**1.5**	**1.2**	**0.8**	**0.5**	**0.5**	**01/01/2012**
Wells Fargo Government MM Fund	280,962	3.6		0.3 (49)	1.8 (36)	1.6 (45)	1.0 (36)	0.7 (34)	0.7 (31)	04/01/2012
90 Day U.S. Treasury Bill				*0.6 (1)*	*2.3 (1)*	*1.8 (7)*	*1.2 (15)*	*0.8 (15)*	*0.7 (15)*	
IM U.S. Taxable Money Market (MF) Median				0.3	1.8	1.5	1.0	0.7	0.6	
Webster Cash	104,531	1.3								

*Consists of Dow Jones U.S. Total Stock Market Index (formerly known as the Dow Jones Wilshire 5000 Index) through April 22, 2005; MSCI US Broad Market Index through June 2, 2013; and CRSP US Total Market Index thereafter. ** Total International Composite Index through August 31, 2006; MSCI EAFE + Emerging Markets Index through December 15, 2010; MSCI ACWI ex. U.S. IMI Index through June 2, 2013; FTSE Global All Cap ex U.S. Index thereafter *** Consists of MSCI US REIT Index adjusted to include a 2% cash position (Lipper Money Market Average) through April 30, 2009; MSCI US REIT Index through January 31, 2018; MSCI US Investable Market Real Estate 25/50 Transition Index thereafter.

Aon Medium Term Views

Empower Results®

One page summary

Cross Asset Class Views

---	--	-	=	+	++	+++
		Equities Core fixed income Credit	Cash	Alternatives		

The opportunity from cheaper valuations has been fleeting and we are not wholesale buyers of risk

We still favor uncorrelated sources of returns from a risk-mitigation view, but the real-estate opportunity has diminished

Coronavirus risks dominate and recent strong US rally keeps us cautious

Equity Regions

---	--	-	=	+	++	+++
		USA	EAFE Emerging			

Equity Styles

---	--	-	=	+	++	+++
			Value Growth	Low Vol. Quality		

Style views have become more defensive

Alternatives

---	--	-	=	+	++	+++
		Dir. Hedge Funds	Commodities Real Estate	Non-Dir. Hedge Funds Global Infra.		

Real estate downgraded, but non-correlated alternatives still generally preferred

Credit

---	--	-	=	+	++	+++
		USD EMD Bank Loans US High Yield	Local EMD	Selected ABS		

US high yield valuations have improved, but risks remain high

Core Fixed Income

---	--	-	=	+	++	+++
		Treasuries	Inv. Grade	TIPS		

Investment grade upgraded due to better valuations for the long-term investor. Risks are still elevated

Currencies versus USD

---	--	-	=	+	++	+++
			EUR GBP JPY EM			

Safe haven flows will keep the USD supported in the near-term

Please refer to the end of the document for interpretation guidelines

Empower Results®

Equities:

Cheaper versus bonds but valuations are not generally compelling

- Markets were sailing along and were caught completely unawares as the Covid-19 outbreak struck. This particularly hurt pro-cyclical sectors, such as energy and industrials, as well as value stocks. Since then, markets have rallied hard and valuations are even less compelling.
- **Valuations were better at the recent bottom but were cheaper in the lower points of some previous cycles**. Especially after the recent market rally, we suspect that the valuation adjustment may have further to run and that the market has not fully priced in the new economic and company profitability realities.
- **Equities look better valued on a relative basis versus bonds**. Interest rates have gone even lower and this will provide support.
- Market uncertainties and risks remain high and will likely remain so throughout the crisis period. **Any buying opportunity proved fleeting as markets rebounded sharply and we recommend against rebalancing at the moment, as we see risks skewed to the downside.**

12-month forward PE ratio doesn't stay "cheap" for long

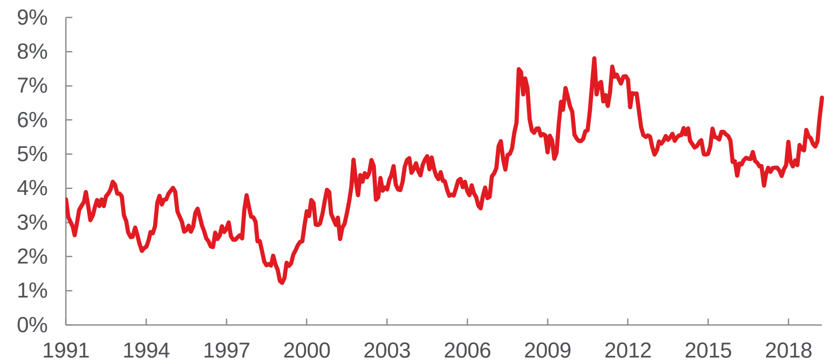
Source: Factset, Aon calculations using MSCI World, last data point is April 20

Valuations have been cheaper in previous market troughs

MSCI World	Forward PE	Price to Book	Dividend Yield	CAPE
Average of previous bear markets	13.0x	1.53x	3.88%	12.5x
Range in previous bear markets	10.4x - 15.8x	1.01x - 2.06x	2.36% - 5.70%	5.6x - 22.0x
March 31st	15.8x	2.90x	2.30%	23.0x

Source: Factset, MSCI World total returns in selected currencies, data to end-March

US equity risk premium highest since 2013



Source: Factset, Aon

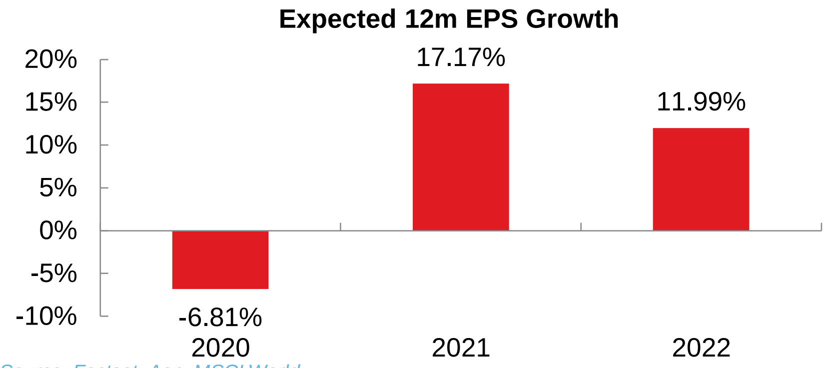
Past performance is no guarantee of future results. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees or expenses. Please see Appendix for index definitions.

Equities:

Earnings have started to adjust but there is a lot more to go

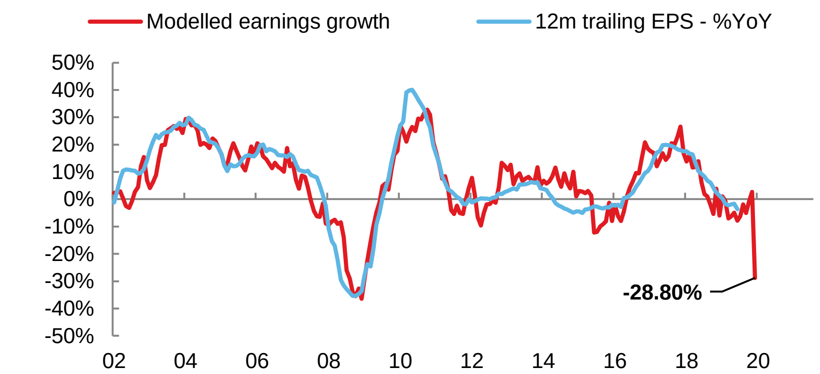
- The latest earnings growth estimates for the MSCI World index to end-March have begun to be revised lower and now show a decline of close to 7% for 2020. However, we believe that there will be large further downward revisions as firms begin to report over Q2. The latest earnings estimates from analysts and our calculations for 2020 are indicating drops of closer to 30%.
- Equity markets can sometimes "look through" declines in earnings if investors believe that the hit to profits is short-term in nature. But, we believe that we are only now starting to see company cash flows under strain. We do not think that there will be a rapid recovery in corporate earnings in this crisis.
- Lower **earnings growth, coupled likely lower corporate buyback activity, will probably depress equity market returns in the near-term.**
- In terms of styles, value lagged substantially in the recent sell-off, compared with the MSCI World index. Other factors – momentum, quality, growth and minimum volatility, have outperformed. **We expect value's weak performance to continue in the near-term and remain neutral.**

Earnings expected to fall 7% this year – this is optimistic



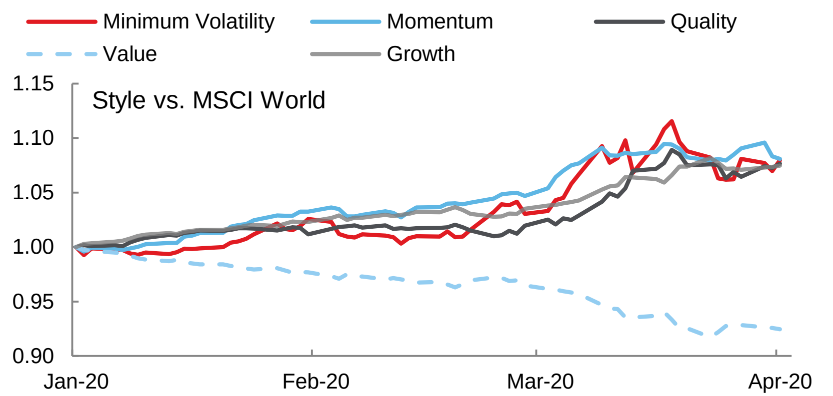
Source: Factset, Aon, MSCI World

MSCI World earnings likely to drop around 30% this year



Source: Factset, Aon calculations for model using a regression model of earnings revision ratios and earnings growth.

Major factors outperform market cap but value lags sharply



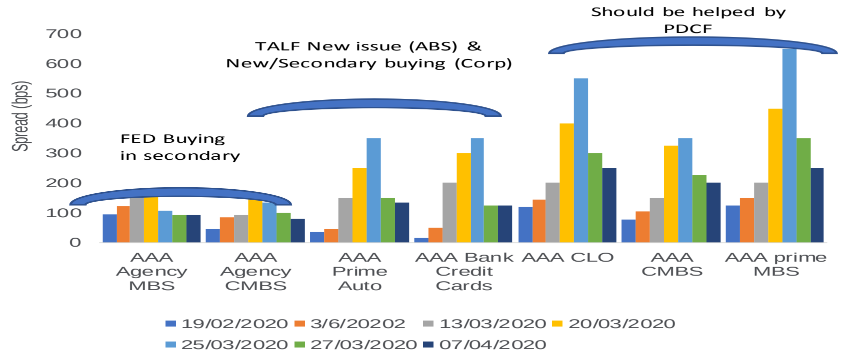
Source: Factset, Ratio of total return performance of selected equity styles relative to MSCI World

Past performance is no guarantee of future results. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees or expenses. Please see Appendix for index definitions.

Credit focus:
Securitised credit

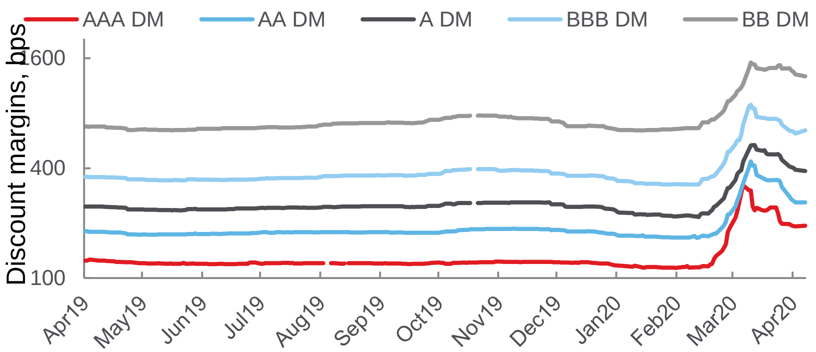
- With markets gyrating from complacency to panic and back to complacency we think it makes sense to look at the most defensive areas of credit which still enjoy a decent pick-up over Treasuries.
- **Our preferred credit sector is AAA securitised credit.** This currently has a spread of around 160 bps. AAA CLOs have slightly higher spreads at around 200 bps. We think most AAA tranches in the securitised space have negligible credit risk with levels of subordination far higher than in pre-GFC securitisations.
- Bargain hunters may be tempted by subordinated tranches of securitisations. In particular BB CLOs offer spreads of around 13%, and have only slightly retraced the loses between Feb 21st and Mar 22nd. However, we would recommend that such allocations are done via specialist managers and the ability to hedge.

AAA Securitised is still attractive



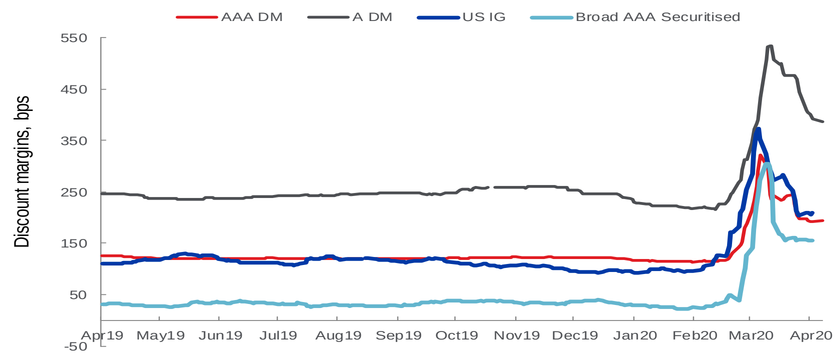
Source: Schroders

CLO tranches: BB spreads are tempting but dangerous



Source: Bloomberg, Palmer Square

AAA CLO spreads are similar to IG spreads



Source: Bloomberg, Palmer Square

Past performance is no guarantee of future results.

Core Fixed Income:
Some relative value in investment grade credit

- We are upgrading our view on investment grade credit relative to government bonds to neutral. **Now is a better time to accumulate credit positions. This a relative value play rather than outright total return.**
- Spreads now offer better value to enter for the long-term investor, and this is the core driver of our upgrade.
- The Fed's actions have helped to ease the market, and reduce liquidity constraints, which has alleviated immediate pressure.
- But we are not outright positive on credit yet because the path forward will be volatile. Even with Fed support, there is likely to be a wave of downgrades as credit's fundamental metrics deteriorate. Further, although spreads are better value, all in yields continue to be extremely low which will hamstring total returns.

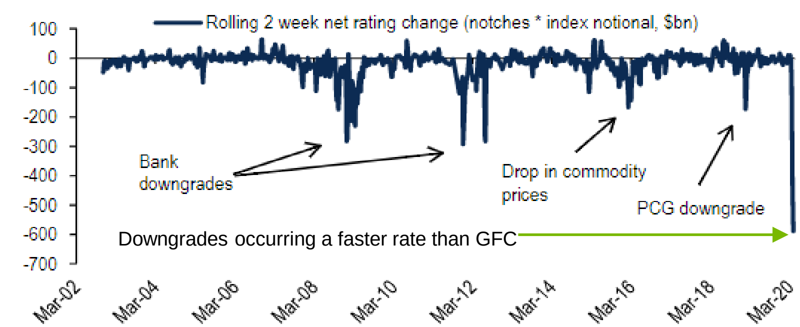
Spreads have become better value but remain volatile

Source: Bloomberg Barclays

Yields have not moved as much, limiting total value

Source: Bloomberg Barclays

Downgrades are accelerating, making us cautious



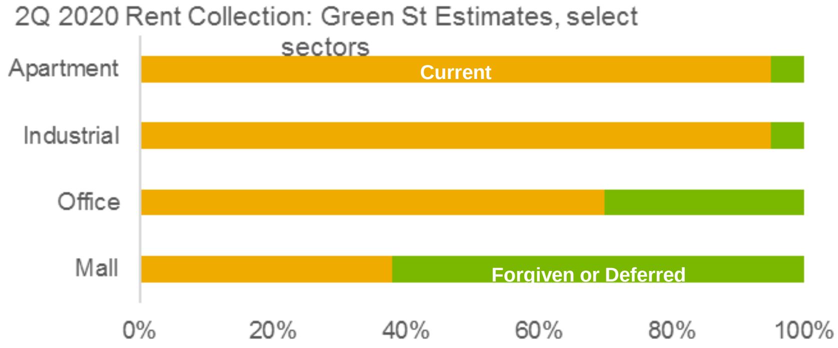
Note: Net rating change equals upgrades less downgrades. Based on the average of Moody's, S&P, and Fitch, if available. We also include the watch as 2/3 of a notch and the outlook as 1/3 of a notch. Restricted to bonds in ICE BoFA IG corporate index C0A0.

Past performance is no guarantee of future results.

Alternatives:
Do not add to private real estate exposures

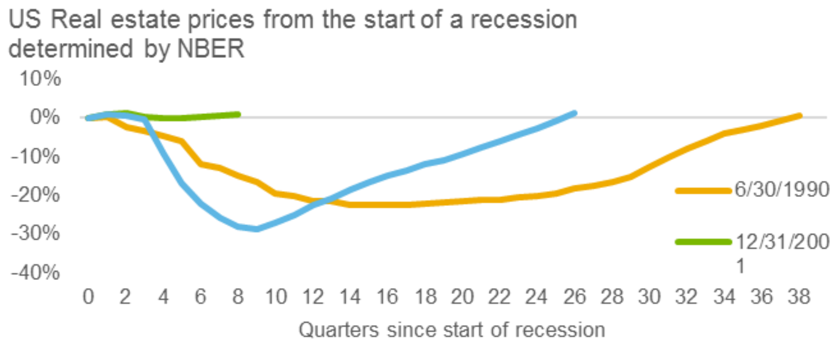
- We are down grading our view on private real estate to neutral. **Portfolios should not be adding to private real estate exposures at this time.** This is for the following reasons.
- First, the real estate market is by all accounts frozen, making transacting extremely difficult.
- Second, rents are collapsing around the world, putting in jeopardy the life blood of real estate - income. The rental outlook in Q2 and through the rest of 2020 is uncertain and sector dependent.
- Third, the valuation adjustment is not yet large enough to offer value. Prices are expected to fall, but currently in-line with the rental shortfall which does not create a wholesale opportunity.
- There may be opportunities in public real estate, and non-core assets that are showing more distress.

Rents are expected to fall in Q2 2020



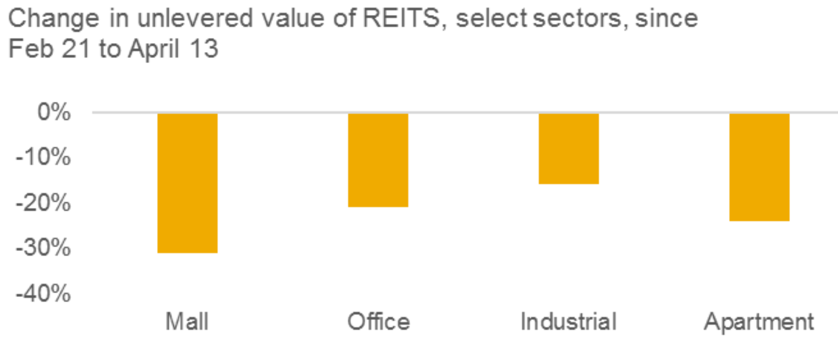
Source: Green Street Advisors

Real estate prices adjust in recessions



Source: NCREIF

Real estate prices already expected to decline



Source: Green Street Advisors

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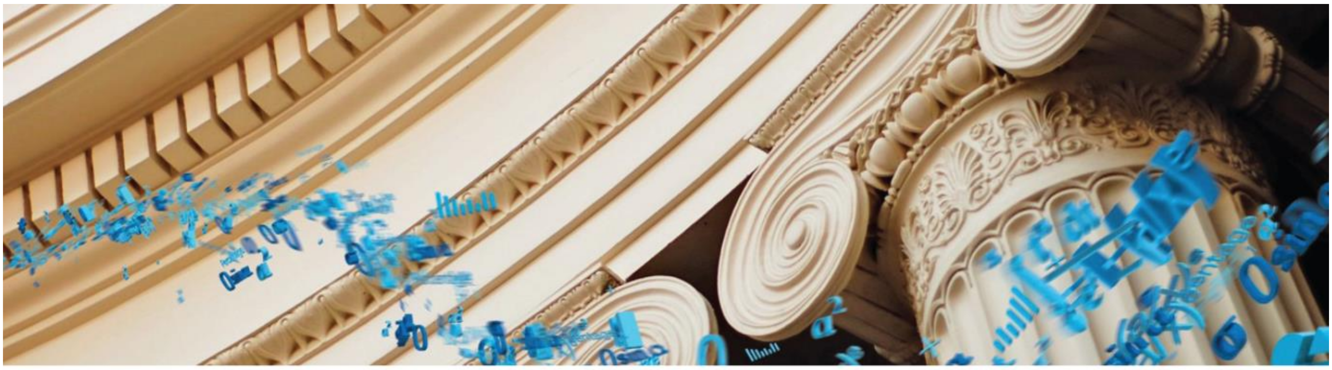
Legal Consulting & Compliance Update



Aon Quarterly Update

Retirement Legal Consulting & Compliance

In this Issue

Prior Issues

To access prior issues, **click here** and select "Newsletters"

Editor's Note

The second quarter of 2020 finds us and our readers amid a global pandemic. As it seems that the coronavirus has impacted every aspect of our lives in some way, we hope that our readers, families, and communities are well and safe, now and in the coming weeks.

We open this edition of the *Quarterly Update* with five articles focused on benefit-related concerns raised by the pandemic, as well as legislative and regulatory efforts to address its impact. Our first article discusses the concerns that plan sponsors may have regarding market volatility and economic slowdown issues, both of which impact the financial health of employers and their employees. The article includes a discussion of recent concerns regarding death forecasts and their potential financial impact on mortality tables and pension funding. Our second article discusses some steps employers can take to understand and minimize long-term impacts on both employer and employee financial health.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), signed into law in late March, is one of several legislative responses to the pandemic. In the first of two articles discussing the CARES Act, we discuss the limited funding relief for single-employer defined benefit (DB) plans provided by the Act, as well as enhanced flexibility for accessing benefits from both DB and defined contribution (DC) plans. The second CARES Act article discusses a modification to the Internal Revenue Code Section 127 rules governing employer educational assistance plans. This modification permits an exclusion from federal taxable income for employer student loan repayment assistance through the end of 2020, subject to certain other requirements.

Our pandemic coverage closes with an article on new federal legislation providing temporary paid sick leave and expanding the provisions of the Family and Medical Leave Act for the remainder of 2020. Specifically, the article discusses the Families First Coronavirus Response Act which added the Emergency Paid Sick Leave Act and the Emergency Family and Medical Leave Expansion Act, effective from April 2, 2020 through December 31, 2020.

The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE) offered a game-changer for small business owners and their employees looking to save for retirement: the value-added open multiple employer plan (Pooled Employer Plan or PEP). In a first of a series of articles, we report on the considerations and processes that plans sponsors should consider in deciding whether to join a PEP.

We end this edition with two litigation-related articles. First, we provide an update on a Supreme Court decision that provides plan sponsors with a procedural path to make disclosures to participants in a manner designed to allow retirement plans to make effective use of the three-year limitation period for claims to be made against plan fiduciaries. While plan fee litigation has been ongoing for some time, we include an article on an interesting fiduciary case that challenged an employer's gift acceptance policy as part of a case alleging excessive plan fees.

If you have any questions or need any assistance with the topics covered, please contact the author of the article or Tom Meagher, our practice leader.

Susan Motter

Susan Motter
Associate Partner
Aon

Aon
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COVID-19 Impact on Pension Plans

by Grant T. Martin

As of this publication, [The Center for Systems Science and Engineering at Johns Hopkins] is reporting 854,490 cases and 47,178 deaths in the U.S. resulting from COVID-19. Experts forecast the total number of deaths will be between 80,000 and 1 million, with a central estimate of around 240,000. Some of the more pessimistic forecasts have been as high as 2.2 million. Retirement plan sponsors are appropriately asking how those numbers should be interpreted, whether they should be concerned for plan participants, and what the ultimate financial impact will be on pension funded status.

In 2018 there were around 2.8 million deaths in the U.S.—the two leading causes of death being heart disease and cancer, both of which were responsible for around 600,000 deaths. If COVID-19 causes 240,000 additional deaths, that would be equivalent to increasing the total number of deaths by about 9%, or roughly a return to the mortality rates of the mid-2000s.

We are still learning how the virus affects the body, but one clear pattern has emerged—older people seem to be most at risk. Data from multiple countries has shown a clear pattern of increased fatality as patients age. The numbers vary by country depending on testing strategy and health system capacity, but older cohorts seem to be the most susceptible group.

Plan sponsors should expect that funded status will be more heavily impacted by changes in capital markets than by changes in life expectancy. Even in the relatively severe scenarios outlined above, the anticipated actuarial gains from shorter life expectancy are small (e.g., 1-3%). Discount rates and asset valuations should continue to be the primary drivers of pension funded status.

For more plan-specific estimates, please reach out to your Aon consultant for additional information.

CARES Act Coronavirus Relief: Impact on DB and DC Plans

by Melissa Elbert and Eric Keener

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) into law. The CARES Act represents "Phase 3" of the U.S. legislative response to the coronavirus pandemic, following the enactment of the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 (signed into law on March 6, 2020) and the Families First Coronavirus Response Act (signed into law on March 18, 2020). Among other provisions, the CARES Act includes limited funding relief for single-employer defined benefit (DB) pension plans as well as enhanced flexibility for accessing benefits from both DB plans and defined contribution (DC) retirement plans (in addition to IRAs).

Funding options available to DB plan sponsors under the CARES Act include:

- Deferring quarterly or final cash contributions that would otherwise have been due during calendar year 2020 until January 1, 2021 (deferred contributions would be increased with interest during the deferral period); and
- For purposes of the benefit limitations under Section 436 of the Internal Revenue Code, electing to treat the funded status for the last plan year ending before 2020 as the funded status for plan years which include calendar year 2020.

In addition, the CARES Act provides certain employees with enhanced flexibility regarding retirement plan distributions through:

- An increase in the qualified DC plan loan limit from $50,000 to $100,000 (or up to 100% of the vested accrued benefit) for loans initiated during the 180-day period beginning on the date of enactment and ending September 23, 2020 for qualified individuals;
- A temporary waiver of required minimum distributions (RMDs) from qualified DC plans in 2020 (generally applies to those RMD payments that were not paid in 2019 and would have been due by April 1, 2020); and
- Relief from the 10% excise tax on early withdrawals from qualified DB and DC plans for qualified individuals taking coronavirus-related distributions of up to $100,000; DC plans may be amended to provide in-service distributions to active or former employees for this purpose or may rely upon existing plan withdrawal features.

A qualified individual for purposes of the CARES Act relief is someone diagnosed with the coronavirus by means of a test approved by the Centers for Disease Control and Prevention, whose spouse or dependent is so diagnosed, or who otherwise experiences adverse financial consequences due to layoff, furlough, reduction of hours, lack of child care, or other causes identified by the Treasury Department (Treasury). A plan sponsor may rely on an individual's self-certification that he or she meets these requirements.

While additional guidance will be needed from Treasury, the Internal Revenue Service, and the Department of Labor (DOL) regarding these changes, plan sponsors will want to understand the changes now and consider whether to amend their DB and DC plans for this enhanced plan flexibility. In addition, certain changes to federal and state income tax withholding and other administrative processes may be needed. Sponsors of DB plans will want to consider how/whether to coordinate these changes with the ability to offer in-service distributions beginning at age 59½, as permitted by separate 2019 year-end budget legislation.

Beyond the DB- and DC-specific changes discussed above, the CARES Act also provides the DOL with additional authority to delay certain administrative deadlines applicable to retirement plans and other employee benefit plans to the extent that the Secretary of Health and Human Services declares a public health emergency. While a public health emergency was declared retroactive to January 27, 2020, as of this writing, the DOL has not yet extended such deadlines.

Please contact your Aon consultant for additional information on the CARES Act and how we can provide further assistance with your retirement programs.

The Market's Down: Now What?

by Melissa Elbert and Beth Halberstadt

Given the nature of the COVID-19 crisis, medical experts are understandably focused on physical health and the resulting impact of the crisis on communities. As the U.S. works to contain the spread of the virus, the financial impacts are becoming acutely felt with market volatility and an economic slowdown impacting financial health.

Employees are likely seeing big losses in their retirement savings. With only one in three full-career employees expected to be prepared for a comfortable retirement at age 67[1] prior to the market downturn, we may see many employees who are approaching retirement delaying their plans for a timely retirement.

While younger employees have more time to recover from investment losses, the coronavirus situation may have broader, more lasting impacts on retirement plan savings. Many employers are taking workforce actions such as furloughs, reductions in force, and/or suspending employer contributions to retirement plans. The recent Coronavirus Aid, Relief, and Economic Security Act (CARES Act) recently signed into law gives employees much needed flexibility in accessing their retirement savings to cover more immediate needs, perhaps at the cost of future retirement readiness.

As employees and employers alike are forced to choose between short-term needs and long-term sustainability, the answer will often be clear. But employers can take steps to understand and minimize long-term impacts.

- **Understand Workforce Impacts.** A good rule of thumb is that a 10% reduction in projected retirement savings means an employee will need to work a year longer to make up for the loss. Delayed retirements can lead to increased costs for employers.
- **Review Investment Options.** No two Target Date Funds (TDFs) are the same. Employers should review their TDFs to ensure they have appropriate diversification[2] built in versus a more traditional allocation of stocks and bonds. It's also a good time to verify that your plan is accessing the lowest cost share class available for your plan's asset levels.
- **Take Steps to Improve Retirement Income Security.** Recent retirement legislation (the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act)) lowers some of the barriers to providing lifetime income options in defined contribution plans. Employees have been asking for more guaranteed income in retirement, and employers will now be better positioned to deliver. Remember to highlight the benefits that the plan offers to participants regardless of their employment status—benefits such as lower cost investment solutions, strong oversight by the company, and access to the same plan features such as advice or managed accounts.
- **Focus on Financial Well-being.** Most employers want to help employees with their financial well-being but have yet to develop a strategy and implement programs. Addressing financial well-being immediately can help weather this current storm and build resiliency for the future.
- **Take Actions to Minimize Risks.** One thing we learned from the 2008 financial crisis is that loss of retirement assets can increase litigation risk as plan sponsors saw a huge increase in the number of 401(k) complaints. Litigation became a real risk during that time and could increase again. It is more important than ever to have a sound governance structure in place and follow it diligently. Another option is to offload some of this risk. The SECURE Act supports creation of pooled employer plans that will lower certain fiduciary risks for plan sponsors.

We'd be happy to discuss your specific workforce issues and how to best support employee and employer financial health going forward. Reach out to your Aon consultant to set up a discussion.

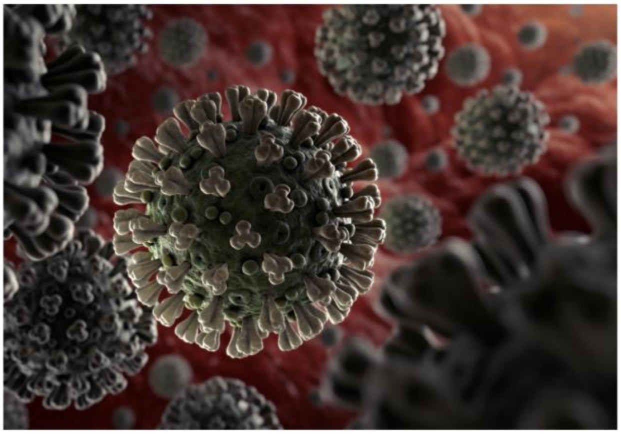
Please see the applicable Disclosures and Disclaimers on page 11.

1 Source: *The Real Deal: 2018 Retirement Income Adequacy at U.S. Plan Sponsors*.

2 Diversification does not ensure a profit, nor does it protect against loss of principal. Diversification among investment options and asset classes may help to reduce overall volatility.

Temporary Paid Sick Leave and Expanded FMLA Provisions

by Jennifer Ross Berrian



Prompted by the many questions being asked by employers about COVID-19, the Department of Labor (DOL) issued a series of frequently asked questions about employee leaves during the pandemic. After that guidance was issued, the federal government passed new legislation providing temporary paid sick leave and expanding the provisions of the Family and Medical Leave Act (FMLA) for the remainder of 2020.

Under FMLA, certain employers must provide qualifying employees job-protected, unpaid leave of up to 12 weeks during any 12-month period for specified reasons. Employees on FMLA leave are entitled to continue their employer-provided health insurance coverage under the same terms that existed before they started their leaves.

The Families First Coronavirus Response Act (FFCRA) added two new temporary provisions to deal with the pandemic. These include the Emergency Paid Sick Leave Act (EPSLA) and the Emergency Family and Medical Leave Expansion Act (EFMLEA), effective from April 2, 2020 through December 31, 2020.

COVID-19—How Does FFCRA (EPSLA and EFMLEA) Work?

The provisions of the two acts, how they interact with each other, and how they impact FMLA are very detailed and should be analyzed by each employer to determine whether they apply and how the employer will be impacted. Employers should also determine whether any applicable state or local laws may have been enacted on this topic. At a very high level, the two federal acts do the following:

- **Employer Size.** The two acts apply to private employers with less than 500 employees and to governmental employers with at least one employee.
- **Employment Term.** EPSLA applies to all employees of employers described above while employees must have been employed for at least 30 calendar days to be eligible for EFMLEA.
- **Eligibility.** Both acts provide multiple COVID-19 related reasons for eligibility, some of which apply directly to the employee and some of which apply to employees caring for others.
- **Paid Sick Leave Payments.** EPSLA requires two weeks of paid sick leave for employees who satisfy eligibility requirements, paid at their regular rate if employees need time off from work due to their own situation and at two-thirds of regular pay if employees need time off to care for someone else. Payments are capped at $511 per day or $5,110 in the aggregate if the leave is related to themselves while, the limit is $200 per day or $2,000 in the aggregate if the leave is to care for someone else.
- **Extended Family Leave Payments.** EFMLEA requires two weeks of unpaid leave at the beginning of the leave period and then paid leave for the remaining 10 weeks at two-thirds of regular pay. This is capped at $200 per day or $10,000 total.
- **Carve-out for Small Employers.** There are special provisions for employers with less than 50 employees if compliance would jeopardize the ongoing viability of the business.
- **Expiration Date.** These provisions expire on December 31, 2020 and do not impact the terms of FMLA after that date.

As FMLA continues to be an important part of the rules governing human resources, particularly after the temporary acts described above cease to be effective, the DOL guidance issued before FFCRA was enacted will continue to impact employers. This guidance doesn't change the terms of FMLA leave but clarifies some outstanding questions. Please note that this only applies to federal law; each state may provide its own requirements regarding employee leaves.

COVID-19—How Will FMLA and Other Leave Policies Now Work?

- **FMLA Eligibility.** The eligibility requirements for regular FMLA leave (as opposed to the extended leave provisions in EFMLEA) have not changed. Employees are generally still required to have worked for their employers for at least 12 months, have earned at least 1,250 hours of service over the previous 12 months, and work in a location where at least 50 people within 75 miles are employed by the same employer.
- **Serious Health Condition.** Workers who have COVID-19 or need to take care of a family member who has the virus may qualify as having a "serious health condition" defined by FMLA. The DOL encourages employers to consider flexible leave policies in this situation to minimize the spread of the pandemic.
- **Leave to Avoid Infection.** Leave taken to avoid getting COVID-19 is not protected under FMLA. Either the employee or a family member who the employee needs to care for must be incapacitated by a serious health condition for the time off to qualify as FMLA leave.

- **Absence Due to Lack of Childcare/Closed Schools.** Taking time off to care for children who are not sick would not qualify as FMLA leave. However, the DOL recommends that employers review their leave policies to provide increased flexibility to their employees.
- **Paid Sick Leave.** Other than as described in the two temporary acts above, in general employers are not required to provide employees with paid sick leave under federal law.
- **Mandated Sick Leave.** Employers may require employees to take sick leave so long as the policy is not discriminatory.
- **Fitness-for-Duty Certifications.** While employers can require a doctor's note before allowing employees to return to work, the DOL urges employers to recognize that the healthcare system is overwhelmed, and it may be difficult for employees to obtain fitness-for-duty certifications.
- **Amended Sick Leave Policies.** Federal laws do not prohibit employers from changing their paid sick leave policies if it's done in a nondiscriminatory manner. While there may be a contractual right to already accrued paid sick leave, future accruals are not protected. However, the terms of collective bargaining agreements regarding sick leave may not be unilaterally amended by employers.

These rules are complex and will be applied based upon the facts and circumstances of each employer and employee. Aon recommends that all employers analyze these requirements and ensure compliance. Please contact your Aon consultant for additional information and how we can provide further assistance.

Someone CARES: Tax-Free Employer Payment of Student Loans

by Dan Schwallie

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provides an exclusion from federal taxable income for employer student loan repayment assistance through the end of 2020. Section 2206 of the CARES Act modifies Section 127 of the Internal Revenue Code (Code), which provides an exclusion of up to $5,250 of employer educational assistance from employee income, to also exclude employer-paid student loan assistance. The $5,250 annual cap applies to the combined amount of employer educational assistance and employer-paid student loan repayments for an employee. Code Section 127 employer assistance is not available to an employee's spouse, children, or other dependents. Interest paid by the employer cannot be deducted from the employee's federal taxable income under the student loan interest deduction. Although this CARES Act provision is temporary, the expectation is there will be lobbying to make the provision permanent.

The federal taxable income exclusion applies to the payment by an employer, *whether* paid to the employee or to a lender, of principal or interest on any qualified education loan (as defined in Code Section 221(d)(1)) incurred by the employee for the employee's education during the period beginning March 28, 2020 (the day after enactment of the CARES Act) through December 31, 2020. As required by Code Section 127, such a program must be administered under a written plan for the exclusive benefit of the employer's employees and not discriminate in favor of highly compensated employees. Reasonable notice of the availability and terms of the program must be provided to eligible employees, and the program must not provide a choice between the assistance and other remuneration includible in gross income. Aon's Retirement Legal Consulting & Compliance consultants are available to assist plan sponsors in understanding the implications of these changes and complying with them in application.

Deciding to Join a Pooled Employer Plan: The Process

by David Alpert

In our recent **Special Edition** of the *Quarterly Update*, we included an article—"A True Value-Added Employee Retirement Savings Plan: Open MEPs"—that discussed the potential value to employers and participants from a pooled employer plan (PEP). A PEP is a new type of plan permitted by the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) and can be effective as early as January 1, 2021. A PEP is a defined contribution (DC) "open" multiple employer plan (MEP), qualified under the Internal Revenue Code (Code) and treated as a single employee pension benefit plan under the Employee Retirement Income Security Act of 1974 (ERISA), in which two or more unrelated employers participate. This article explores some important considerations for employers when deciding whether to join a PEP.

PEP Selection

The employer should establish a prudent process for determining if a PEP is the appropriate vehicle for delivering DC plan benefits for its employees. This process will involve selecting the appropriate PEP and its pooled plan provider (PPP) (the entity responsible for administering the PEP), as well as any optional provisions that may be available under the PEP. The selection process typically will require a diligent review of (i) all standard and optional provisions of the PEP, including those that apply to participating employers, mergers of employer plans, and termination of participation in the PEP; (ii) the trust agreement; (iii) the service providers and their responsibilities under the PEP; and (iv) all fees and expenses that may apply under the PEP. The evaluation process also should confirm that the PPP has registered as such with the Internal Revenue Service (IRS) and the Department of Labor (DOL) and that the PEP is qualified under Code Section 401(a).

Merger of Existing Employer Plan

If the employer intends to transfer all or any portion of the assets and liabilities under its existing qualified DC plan to the PEP, such a transfer is treated as a merger of that plan (or portion of that plan) into the PEP. In evaluating whether to move forward, the employer should (i) review the terms of its plan and the PEP to ensure that any plan features required to be protected are preserved by the PEP; (ii) address any known plan document and/or operational issues prior to the merger; and (iii) gather a copy of all relevant plan documents that the PPP will want before it can approve the merger. The employer may need to amend its plan prior to the merger to modify, delete, or add certain provisions, depending on the PEP (and subject to any required preservation of protected benefits).

Joining the PEP

The employer will need to approve its participation in the PEP (e.g., by formal action by its board of directors or other authorized person); obtain any necessary union approval with respect to collectively bargained employees who may be permitted to participate in the PEP; sign any documentation required by the PPP to accept the employer's participation in the PEP and to confirm the employer's agreement with all PEP terms; and provide any information that the PPP, IRS, and/or DOL may require in connection with its participation.

Ongoing Employer Responsibilities

The employer should understand its ongoing obligations with respect to PEP participation. For example, it will need to provide certain information to the PEP, including payroll feeds, employee census and coverage data, and other information that may be required to comply with PEP rules and regulatory requirements (yet to be issued). This will enable the PPP to administer the PEP and satisfy its obligations under the Code and ERISA. The employer also should establish a prudent process for complying with all PEP and PPP requirements. Failure to satisfy its obligations could result in the involuntary withdrawal of the employer from the PEP, transfer of its portion of the PEP to another plan or arrangement, and responsibility of the employer (and not the PEP or other participating employers) with respect to PEP liabilities attributable to its employees and their beneficiaries.

Other participating employer obligations include (i) reviewing information that the PPP will periodically provide and (ii) monitoring the PEP's operational and investment performance on a periodic basis to ensure, among other things, that the PEP remains an appropriate vehicle for its participants and that all fees and expenses under the PEP are reasonable for the services provided. The employer should establish a prudent process for its ongoing review of the PEP and document any related decisions it may make. For example, that process should address whether the PPP will provide (in addition to periodic information about the PEP) regular meetings (at least annually) with the employer to discuss PEP operations for the preceding period, including any issues that may have occurred and their resolution.

In addition, the employer will need to ensure that it satisfies its responsibilities, in accordance with the SECURE Act, as the plan sponsor with respect to its portion of the PEP (other than the administrative duties of the PPP). Such responsibilities should include complying, on a continuing basis, with those qualification requirements of the Code and ERISA obligations that apply separately to that employer.

Fiduciary Responsibilities

The PPP will be taking on many of the fiduciary responsibilities associated with the PEP. To the extent that any employer-related obligations with respect to the employer's portion of the PEP involve fiduciary considerations, the fiduciary (e.g., a designated committee) of the employer should satisfy its responsibilities and appropriately document any related decisions.

Other Matters

There may be various other matters to address depending on the particular employer, PEP, and (if applicable) employer plan to be merged into the PEP. Aon would be pleased to assist employers in understanding and navigating the new world of the PEP and how Aon's PEP (which is anticipated to be effective January 1, 2021) can increase efficiency, reduce risks, and create better outcomes for their participants.

Employer Gift Acceptance Challenged in Plan Fee Litigation

by Bridget Steinhart

An interesting set of strategies transpired between plaintiffs and defendants in the excessive investment and recordkeeping fees litigation involving the $2 billion 401(k) plan sponsored by Banner Health (Banner). *Ramos v. Banner Health* underscores the importance of vetting service providers, avoiding real or perceived conflicts of interest, and ensuring competitive plan fees.

As part of their litigation strategy, the plaintiffs questioned a prior Securities & Exchange Commission Order (SEC Order) which required remedial sanctions on Jeffrey Slocum & Associates, Inc., the investment advisor to the plan, related to misleading marketing materials issued in 2011 through 2014 with respect to its gift policy (unrelated to the *Banner* case). Of relevance to this case, the plaintiffs alleged, that Banner's and Slocum's regular attendance at dinners and major sporting events paid for by the plan recordkeeper caused substantial harm to the 401(k) plan. This scenario, according to plaintiffs, allowed plan fiduciaries to accept (or tolerate) uncapped, asset-based fees and underperforming funds.

At this stage in the proceedings, the court determined that the SEC Order didn't make Slocum more or less likely to be influenced by the recordkeeper's gifts. While the outcome regarding Slocum may have been resolved differently in another court, this court indicated that Banner would have been hard-pressed to discover the SEC Order in its due diligence of Slocum as a service provider.

In Aon's experience, some Department of Labor audit information requests have included gift policies that may apply to the benefits or fiduciary committee for the plan; the *Banner* case serves as a reminder that "gifts" include entertainment and meals, and such items may be perceived as influencing the recipients. We believe that effective fiduciary training should include dialogue about real, potential, or perceived conflicts of interest. For some clients, we are drafting conflict of interest disclosures and gift policies for review by clients and their legal counsel. We believe these policies may be necessary in the event the fiduciary committee has not prohibited gifts or adopted a gift policy with a maximum annual gift limit (as determined by the fiduciary committee and its legal counsel).

While plans paying flat per-participant fees may be able to adequately assess plan fees every few years (depending on particular facts and circumstances), plans paying asset-based fees do not have the luxury of time, and may need to benchmark annually, particularly with headcount and asset growth that contribute to recordkeeper revenue. Additionally, a vendor search may be warranted in the event the incumbent recordkeeper has been in place for five years or more; clients often find that its outsourcing needs have expanded, or that certain service enhancements should be explored. Aon recommends that fiduciary committees address fee structure (i.e., flat fees, per-participant fees, à la carte fees, etc.) and all revenue streams (e.g., revenue sharing, transaction fees, float income, managed accounts) as part of fee benchmarking or vendor search negotiations, as warranted. In either scenario (benchmarking fees or a vendor search), fiduciaries should be able to demonstrate a thorough and thoughtful diligence process with appropriate documentation describing the process and the results. It is noteworthy that any review of fees does not necessarily require that the fiduciary change recordkeepers or advisors, but rather permits the plan fiduciary to evaluate the reasonableness of the fees and the services provided and to make any needed adjustments under the circumstances then prevailing. Aon's experts in fiduciary matters are happy to assist with any questions you may have about these or other plan governance processes. *Ramos v. Banner Health, No. 1:15-cv-02565-WJM-NRN (D. Colo. Nov. 26, 2019).*

Please see the applicable Disclosures and Disclaimers on page 11.

Intel Decision Provides Procedural Path for Plan Sponsors

by Hitz Burton

On February 26, 2020, the U.S. Supreme Court, in *Intel Corp. Investment Policy Committee v. Sulyma*, addressed what constitutes "actual knowledge" on the part of a participant who alleged that plan fiduciaries breached their obligations under the Employee Retirement Income Security Act of 1974 (ERISA) when they replaced certain mutual funds with higher-expense "alternative investments." Under ERISA Section 413, participants can generally bring a fiduciary breach claim provided they do so within six years of the alleged breach. The general six-year limitation period can be shortened to a three-year period (from the date when the plaintiff has actual knowledge of the breach or violation) if a plan sponsor can show that the plaintiff obtained information constituting "actual knowledge" of the breach.

Christopher Sulyma worked at Intel between 2010 and 2012 and participated in two company-sponsored defined contribution plans. Concerned by how certain plan-designated investment options had performed during the financial crisis of 2007-2008, plan fiduciaries for those retirement plans decided to move certain trust assets out of more traditional mutual fund investments and into hedge fund, private equity, and commodity investments in 2010 hoping that the move would result in a portfolio that was better hedged against a possible future market downturn. Sulyma filed suit in 2015.

In *Intel*, the plan fiduciaries sought to assert the shorter three-year limitation period by providing evidence that the Intel retirement plans had provided various disclosures, including, for example, providing a summary plan description in 2011 and a qualified default investment notification in 2010. Intel argued that both disclosures provided Sulyma with "actual knowledge" of the change in plan investments. Sulyma responded by saying that, while he may have received various email disclosures regarding changes in the designated investment alternatives available under the plans, he did not specifically remember reading those disclosures. In agreeing with Sulyma, the Supreme Court held that, by the phrase "actual knowledge" in ERISA Section 413, Congress clearly meant real knowledge or knowledge in fact rather than some lesser standard where knowledge could be inferred.

While siding with Sulyma in the instant decision, the Court acknowledged that nothing in its decision allowed for plaintiffs to defeat arguments that their claims were not timely brought by "willful blindness" or where a plaintiff's denial of actual knowledge is strongly contradicted by the record. And the Supreme Court provided plan sponsors and fiduciaries with a path to document actual knowledge in the future. This path likely includes not only making required disclosures, as the Intel fiduciaries did, but using electronic records to track that participants have opened and read the actual disclosure. For example, electronic disclosures could be delivered to a workplace computer or laptop where employees need to self-certify that they have read the actual contents of the disclosure before being allowed to proceed with their daily log-in. Similarly, these same or similar disclosures could be made in a plan's intranet site where a participant will need to acknowledge that he has received and read the disclosure before proceeding to check a 401(k) balance or to access other wanted plan information.

If you would like to evaluate your existing disclosure practices or address how to make disclosures to participants in a manner designed to allow your retirement plans effective use of the three-year limitation period afforded plan fiduciaries under ERISA, please contact a member of Aon's Retirement Legal Consulting & Compliance group or other Aon consultants with whom you regularly work.

Quarterly Roundup of Other New Developments

by Teresa Kruse, Jan Raines, and Bridget Steinhart

Fiduciary Committees Part 2—Committee Formation
A well-formed retirement plan committee can help lighten an employer's fiduciary responsibilities that result from sponsoring a retirement plan. A critical step in this process is to be able to demonstrate a direct line of authority from the employer, typically by the Board of Directors or other governing authority to the committee. Why is this important? A committee must be able to demonstrate that it was given authority to act as a plan fiduciary. Documentation is key to a successful governance structure and committee activities; therefore, committee designations and acceptances should be in writing.

Once the authority for the committee is granted, the next step would be to designate committee members. Committees should be made up of people with the right skill sets to meet the "prudent expert" standard provided in the Employee Retirement Income Security Act of 1974 (ERISA). This requirement states, among other things, that a fiduciary must perform its duties "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use. . . ." Simply stated, committee members should have the skill and aptitude of a person expert in such matters as may come before the committee.

In our experience, there are a number of considerations that should go into the selection and makeup of committee members including the following:

- Select an odd numbered group for voting tiebreakers;
- Senior level individuals and individuals who may know the business make sense, but not necessarily C-suite; and
- Individuals who will understand their fiduciary role, are willing to participate, attend meetings, and able to challenge their committee peers.

Defining a solid governance structure and identifying appropriately skilled committee members are important steps when developing and documenting a prudent process. Aon has fiduciary experts who can help committees review their governance structure and understand fiduciary responsibilities through training, along with the investment consulting services to assist committees in meeting their fiduciary duties.

This article is the second in a series that will highlight Fiduciary Committees over the course of this year. The first article was published in the First Quarter 2020 issue of the *Quarterly Update*. Stay tuned next quarter as we delve into best practices regarding documentation.

Hilton Still Wrestling Vesting
In late February 2020, after 20 years of litigation, Hilton Hotels Retirement Plan participants asked the court to certify a class of Hilton employees who claimed that Hilton fiduciaries failed to calculate vested benefits according to remedies outlined in a September 2010 court order. What complexities have contributed to 20 years of

litigation? For many Hilton employees, hours worked data was not available. Other issues include failure to count union service and service prior to a Hilton employer's participation in the Hilton plan, disagreement as to whom death benefits are payable, and the Hilton plan's pre-1976 use of "elapsed time"—a vesting and service crediting method where no hours are explicitly counted. While "equivalency methods" could be used in instances when hours worked data is insufficient or not available, pre-planning can often help mitigate vesting calculation issues in mergers and acquisitions, employee and group transfers from related employers or from ineligible groups, and when vesting methods are changed. Aon's experts in tax and ERISA service crediting methods and plan consulting can coordinate with clients, plan recordkeepers, and clients' legal counsel to help address any questions or concerns—including possible approaches to addressing any needed corrective action. *White v. Hilton Hotels Retirement Plan, No. 1:16-cv-00856 (D.D.C. Jan. 24, 2018).*

No Match? No Problem!

Although recent market and pandemic issues have led some organizations to suspend or eliminate matching contributions, some organizations may never offer a match on employee deferrals. A case study addressing an organization's approach to plan design and compensation was recently featured in *Pensions & Investments*. In this example, the company's plan—which does not provide a match—enjoys an 83% participation rate and 11% average deferral rates. A company's reasons for not offering a match could include a total rewards approach that prioritizes company retirement contributions lower on the spectrum of offerings, employee interests focused elsewhere (just as on healthcare costs), and many more. The Plan Sponsor Council of America's 62nd Annual Survey notes that 31.7% of plans with less than 1,000 participants and 12% of plans with 1,000 or more participants made no match in 2018. In what instances might a reduction or removal of matching contributions be successful? The case study noted above indicates that the organization focuses on wages to skilled trades people, and attributed plan participation and deferral rates in part to employee education, and automatic enrollment and escalation.

Supreme Court Sends Back IBM Stock Drop Case

The U.S. Supreme Court vacated the decision by the Second Circuit Court of Appeals, sending it back to the Second Circuit to decide whether plan fiduciaries, who are also insiders under federal securities laws, can be liable under ERISA for failing to disclose company struggles that led to a 7% drop in the company's stock price. The justices said they wouldn't address arguments that involved federal securities laws—requiring that the lower court address the new securities law issues raised in Supreme Court briefs but not in the lower courts. *Ret. Plans Comm. of IBM v. Jander, 589 U.S. __ (2020).*

Private, not Private

In late January 2020, we saw yet another lawsuit filed against a large employer regarding its 401(k) plan. A lot of the claims are similar as to what we've seen before—excessive recordkeeping fees, failure to monitor the investments, and excessive fee arrangements with outside third parties. So, what's different this time? The recordkeeper has also been named in the lawsuit—with many claims regarding how the firm and its affiliated companies use participant data.

Participants claim that confidential data, including social security numbers, assets, investment choices, etc., were shared with recordkeeper-affiliated companies, which allowed sales personnel to aggressively market non-plan related retail financial products and services. The claim goes on to note that these practices ultimately benefited the recordkeeper and continued well after the participant was no longer employed or "protected" by the plan's fiduciaries.

It's not explicit in ERISA, nor is there guidance from the DOL, on whether participant data is considered a "plan asset" and whether it needs to be protected just like the actual investment assets in the plan. There have been two settlements (and one case pending in the U.S. Court of Appeals) that seem to support this idea of treating all plan data as a "plan asset" subject to protections under ERISA. In these settlements, the recordkeeper was required to include in the service agreement that participant data will not be used for anything beyond actual recordkeeping activities and will not be shared with other parties; however, we have no actual judgments issued from the courts taking a similar position.

The California Consumer Privacy Act of 2018, effective January 1, 2020, also addresses issues of privacy and how participant data is utilized—final regulations are pending. Other states may follow California's model and adopt similar rulings.

Fiduciaries need to understand how participants' data is being used and if it is being shared with other affiliated or non-affiliated third parties, and perhaps the revenue generated from the sharing of that information—and address the use in service agreements, as applicable. Aon's fiduciary consultants can assist plan sponsors in developing a strategy to oversee participant data and to manage risk.

Retirement Plan Litigation Update

Retirement plan litigation has been prevalent over the past decade impacting corporate plan sponsors, financial institutions that are also plan sponsors, and universities sponsoring 403(b) plans. Defined contribution plan cases generally fall into the following three areas: inappropriate or imprudent investment choices; excessive fees; and self-dealing. Recently several cases involving financial institutions and universities have been dismissed (in full or in part) or settled, including:

- *In re Fidelity ERISA Fee Litig.* – Case dismissed
- *In re M&T Bank Corp. ERISA Litig.* – Case settled for $20.9 million
- *Schultz v. Edward D. Jones & Co.* – Case settled for $3.1 million

Plan sponsors seeking to reduce their litigation risk liability use a variety of strategies including increasing the number of passive funds in their plans and implementing better fee transparency. *In re Fidelity ERISA Fee Litig., No. 1:19-cv-10335-LTS (D. Mass. Feb. 14, 2020); In re M&T Bank Corp. ERISA Litig., No. 1:16-cv-00375 (W.D.N.Y. Dec. 26, 2019); Schultz v. Edward D. Jones & Co., No. 19-2158, 2020 BL 34196 (8th Cir. Jan. 31, 2020).*

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Recent Publications

Roth Trends Revisited: Divergence Between Plan Sponsors and Participants
By Daniel Schwallie
Benefits Magazine (April 2020)

The percentage of defined contribution plan sponsors offering Roth contributions continues its upward trend. Will employee participation rates follow?

Click here to read the article.

Defined Benefit Plan Termination: Exorcising the Excise Tax on Reversions
By Daniel Schwallie
Journal of Pension Planning & Compliance (Summer 2020)

A reversion of assets from a terminating tax-qualified defined benefit plan terminates is subject to a 50% excise tax in addition to employer income taxes. However, the excise tax rate can be reduced to 20% of the reversion amount if the employer either increases benefits in the terminating plan or establishes a qualified replacement plan or both. This article describes possible ways to reduce the reversion amount and the requirements to reduce the excise tax rate to 20%, based on the available guidance.

Click here to read the article.

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About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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Aon Quarterly Update – Special Edition

Retirement Legal Consulting & Compliance

In this Issue

Editor's Note: SECURE Transforms the Retirement Landscape

Welcome to this Special Edition of the *Quarterly Update*. In this edition, we will provide in-depth coverage and discuss some of the implications of the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act), passed in December 2019.

Not since the Pension Protection Act of 2006 have we seen legislation that significantly affects, or, as we might contend, transforms the retirement landscape. The SECURE Act is transformative as it not only includes bipartisan reforms long sought by plan sponsors, but also includes changes to enhance retirement savings by employees.

We open this Special Edition with an article on the value-added open multiple employer plan, a game-changer for small business owners and their employees looking to save for retirement. By increasing the ability for unrelated employers to join together to create a value-added retirement plan, small business owners may take advantage of scale and shift operational and fiduciary responsibility, as well as operational expertise, to the multiple employer plan provider.

The federal spending legislation that incorporated the SECURE Act as part of the package also includes changes affecting active and retiree medical plans. We include an article discussing the repeal of three unpopular taxes and fees (e.g., the Cadillac tax) affecting these plans and suggest that plan sponsors consider a "checkup" of their plans to determine the law's effect on these plans, as well as on plan design and administration.

Plan sponsors with closed retirement plans that were (or would soon be) experiencing difficulties satisfying coverage, nondiscrimination, and other testing may find welcome relief in the SECURE Act. This Special Edition reports on the long-anticipated relief and what it may mean for sponsors of closed plans.

This Special Edition offers two articles discussing areas of interest in the defined contribution (DC) plan space. In the first article we report on the SECURE Act changes making it easier for plan sponsors to offer lifetime income options in their DC plans to assist employees in managing their retirement nest eggs to last their lifetimes. The second article relates to new plan design opportunities provided by the SECURE Act that plan sponsors may wish to incorporate in their DC plan designs that are aimed at increasing retirement savings.

We close our Special Edition with two articles focusing on the SECURE Act's effect on distribution and administration issues related to defined benefit (DB) plans and DC plans, respectively. Plan sponsors in the near future will need to make some important decisions related to the changes in the distribution rules for their DB and DC plans.

If you have any questions or need any assistance with the topics covered, please contact the author of the article or Tom Meagher, our practice leader.

Susan Motter

Susan Motter
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A True Value-Added Retirement Plan: Open MEPs

by David Alpert, Barb Hogg, and Rick Jones

The idea of a better retirement plan has been forming for years. The goals were lofty: getting more people in the plans and providing a better outcome without increasing costs. In other words, creating a value-added retirement plan. The years of analyzing, understanding barriers, and searching for the "best of the best" finally paid off when the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) was signed into law in December 2019, and a new concept—a pooled employer plan—was born.

A pooled employer plan, often known as an open multiple employer plan or open MEP, opens the doors for employers to join together as participating employers in a pooled plan. In the past, this was only allowed if employers had some common nexus, thus putting up a barrier to a mutually beneficial aggregation. By coming together, employers can be part of a bigger defined contribution (DC) plan that offers the **value-added advantage of scale**. For instance, with more assets, an open MEP will be able to access institutional investment options which tend to come with lower expense ratios than their retail counterparts. Small and mid-size employers can now have the leverage that large companies have enjoyed for years.

But these open MEPs don't just offer value through scale, they also offer value through how they operate. In the current model, the employer offering a DC plan to its employees has typically been the plan sponsor and plan administrator and has taken on a certain amount of fiduciary responsibility, including establishing committees to make decisions "solely in the interest" of participants. Not all committee members have felt they had the time and/or expertise to do justice to this role, let alone want to take the risk it entails. Once an employer chooses an open MEP, it passes the baton on much of what had been its **operational and fiduciary responsibility** to the chosen pooled plan provider.

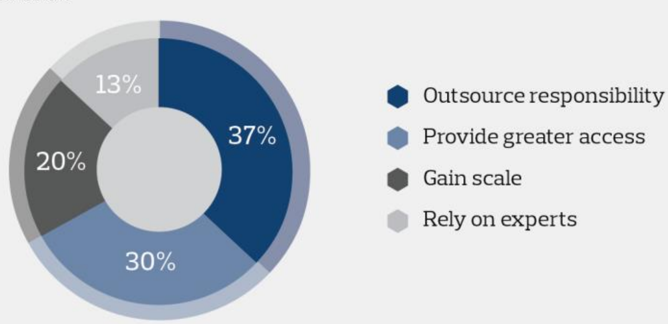
The pooled plan provider that runs the open MEP is likely to be able to **bring expertise to bear on running the plan**. For instance, the experts running the open MEP can effectively address issues that have historically plagued individual plan sponsors, such as staying current on all the latest rules, establishing appropriate procedures to minimize issues, or identifying potential compliance problems before they become issues. But it's not just the blocking and tackling of managing retirement plans where this expertise can add value; it also allows employers to incorporate emerging trends and offer new features earlier than they otherwise would have. For instance, offering lifetime income options in retirement programs has been much talked about but seldom implemented; a pooled plan provider is well positioned to do the broad analysis and implement appropriate features across multiple employers in the open MEP.

Another factor driving open MEPs is **expanding access to retirement programs**. With approximately one-third of employees working for private employers *not* having access to a retirement program, there is much room for improvement. While some individual states are starting to encourage—or require—employers to offer employees savings programs through a state program, this is not universal. The open MEP concept will support long-term retirement security and may be a strong alternative for employers that operate across state lines or want to include employer contributions in addition to employee savings.

These new open MEPs can be offered as early as January 1, 2021 and are likely to grow significantly over time. While waiting on regulatory guidance regarding these new open MEPs, employers can start to evaluate how these value-added plans could fit into their overall benefits program. Aon is ready to help you explore the opportunities open MEPs offer and whether it could make sense for your retirement program. Reach out to your Aon consultant to set up a discussion.

Most Appealing Features of an Open MEP

During a January 22, 2020 Aon webinar on SECURE, participants were asked what they found most appealing about an open MEP. Responses from 420 participants are shown below



A Good Time for an Active and Retiree Medical Plan Checkup

by Brian Cronin, Milind Desai, Eric Keener, and Paul Koch

The federal spending package that was signed into law on December 20, 2019 included a repeal of three unpopular taxes and fees that were originally intended to help fund the Affordable Care Act (ACA): (i) the excise tax on high-cost health plans (Cadillac tax); (ii) the annual fee on health insurance providers; and (iii) the medical device excise tax. The spending package also extended the Patient-Centered Outcomes Research Institute (PCORI) fee for an additional 10 years. Taken together, these changes will generally benefit plan sponsors through reduced health care costs. Now is a good time for plan sponsors to assess the potential impact of these changes on their active and retiree medical programs and consider the potential implications for plan design and administration.

The Cadillac tax was a deductible excise tax of 40% on the value of group health insurance coverage exceeding a specified dollar threshold. Originally scheduled to go into effect in 2018, this tax had twice been delayed and has now been repealed for all future tax years. For sponsors of retiree medical plans, the repeal of the Cadillac tax will result in favorable impacts on balance sheet liabilities and expense in the near-term. The liability impact could range from less than 2%, to 10% or more, depending on plan design and demographics. While the impact for active employees is less immediate, repeal of the tax will also impact the evolution of active plan costs over time. Employers that have previously communicated plan changes to active or retired employees in anticipation of the excise tax may wish to reassess their plan designs in light of the Cadillac tax repeal. Collectively bargained plans may warrant particular attention if the excise tax has been a consideration in the context of union negotiations.

The repeal of the health insurance provider fee, effective beginning in 2021, is good news for sponsors of insured medical plans, as it will result in lower premiums and reduced retiree medical obligations. It will also provide relief from recent volatility and uncertainty, as the fee has gone in and out of effect due to temporary waivers. For a typical insured plan, the elimination of the fee is expected to reduce premiums by between 1% and 3%. However, for Medicare Advantage plans, the elimination of the fee will have a more leveraged impact on premiums. The dollar amount of the fee for Medicare Advantage would be expected to range from $20 to $40 per member per month, likely a more substantial percentage of net premiums than is seen for a typical insured plan. From a cost perspective, Medicare Advantage has often been more attractive to retiree medical plan sponsors than traditional indemnity plans in recent years. The elimination of the health insurer fee makes the economics of Medicare Advantage even more compelling. Plan sponsors can leverage Medicare Advantage by offering group-based Medicare Advantage plans, or by providing guided access to individual market Medicare Advantage (and Medigap) plans through a Medicare Exchange. While both strategies are financially advantageous compared to offering traditional group indemnity plans, in many cases, the individual market strategy can achieve the greatest financial benefit. Now is an ideal opportunity for plan sponsors to reassess their retiree medical strategy following this change.

The repeal of the medical device tax beginning in 2020 will have a smaller impact on most employer-sponsored health plans than the repeal of the Cadillac tax or health insurance provider fee, but it is expected to result in cost savings nonetheless, estimated to be about 0.2% of overall costs for a typical plan.

From an administrative perspective, plan sponsors will need to ensure they have processes in place to calculate and pay the PCORI fee for plan years ending on or after October 1, 2019. This fee was originally set to expire, so that it would no longer apply for such plan years, but it has now been reinstated and extended for an additional 10 years to fund the PCORI created by the ACA. *Note that there is currently some uncertainty, as the IRS has not yet provided guidance on the amount of the fee, or the filing process, for plan years ending between October 1, 2019 and September 30, 2020.* For plan years ending between October 1, 2018 and September 30, 2019, the IRS had provided guidance on the amount of the fee in Notice 2018-15 (issued in November 2018) and on the filing process in Form 720 and Instructions (issued in April 2019). Plan sponsors will likely need to reinstate their processes for gathering headcounts for reporting on Form 720, which can vary in complexity, and for filing the form with the required fee by July 31, 2020, in addition to considering any implications for active or retiree medical pricing.

Moving forward, plan sponsors will want to monitor the impact of these legislative changes on the long-term viability of the ACA, as well as the potential impact of proposed prescription drug pricing reform legislation and potential healthcare legislation coming out of the 2020 election. Please contact your Aon consultant for additional information or to discuss how we can provide assistance with your active and retiree healthcare programs.

How Do You Spell Closed Plan Relief? S-E-C-U-R-E Act

by Jan Harbold, Jennifer O'Block, and Dan Schwallie

The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) was enacted as part of the Further Consolidated Appropriations Act, 2020 on December 20, 2019, and includes significant coverage and nondiscrimination testing relief for plans that have been fully or partially closed to new participants. Many plans with closed groups will have testing relief not previously available. Plan sponsors may be able to reinstate benefit accruals or benefits, rights, and features (BRFs) that were previously eliminated for some employees to ensure nondiscrimination testing was passed for closed groups, although any such plan amendment after the date the plan was closed must not discriminate significantly in favor of highly compensated employees.

Subject to certain requirements, the relief applies to a defined benefit (DB) plan that was amended to continue providing benefit accruals and/or BRFs with respect to a closed group of employees. The relief also extends to a defined contribution (DC) plan that was amended to provide "make-whole" contributions intended to replace reduced or frozen DB accruals with respect to a closed group of employees by an amendment to the DB plan. Plans amended before April 5, 2017 are eligible for the relief. Plans amended after April 5, 2017 are eligible if they were in effect for at least five years prior to the close with no substantial increase in coverage, benefits, or BRFs during those five years. Formal written documentation of plan closure and communication to participants prior to April 5, 2017 can count as the amendment being effective before April 5, 2017.

Coverage and General Test Relief

The SECURE Act dramatically expands the ability to aggregate plans for purposes of coverage testing and general test relief for eligible closed plans if the closed plan passes for three years without relief. Aggregating plans for testing may result in the combined plan passing testing when not all the individual plans would pass testing on their own. Provided the requirements for relief are met, the following aggregations are allowed when testing closed group plans:

- Matching contributions from 401(k) plans and 403(b) plans can be included in the tests, although if included, elective deferrals (including Roth contributions) must be included as well, and the matching contributions must be treated as nonelective contributions;
- Certain ESOPs may be included; and
- Plans with different plan years may be aggregated.

Note, however, that these expanded aggregation options only apply for purposes of closed plan testing relief and do not otherwise replace existing plan aggregation prohibitions.

Cross-Testing Gateway Relief

Testing DC plans or aggregated DB and DC plans based on plan benefits rather than plan contributions ("cross-testing") can provide more favorable general test results, but to do so first requires that the plans satisfy certain "gateway tests" that are difficult for closed plans to pass. Closed DB plans and DC plans including closed group "make-whole" contributions related to lost or reduced DB plan benefits may now use cross-testing without first passing a gateway test if they pass without the relief for three years after the date of the amendment closing the group. During this three-year period, any available testing methodology other than relief provisions is permitted, including aggregation with plans having different plan years.

However, a plan closed after April 5, 2017 is *not* eligible for cross-testing gateway relief if there was a substantial DB plan increase in coverage or benefits (i.e., the number of benefiting participants increased by more than 50% or the average benefit provided to such participants increased by more than 50%) during the five-year period prior to the plan close. For purposes of determining whether there was such substantial increase:

- Employees who become participants due to a merger, acquisition, or other corporate transaction within seven years of the close date or due to merging with another plan in effect at least five years are disregarded;
- The average benefit is deemed to be the same between the beginning and end of the period if there has been no formula change during the five-year period. If the formula changed during that period, the average benefit is considered to have increased by more than 50% only if the target normal cost[1] (excluding expenses) is more than 50% higher reflecting only the change in formula for the closed group; and
- All components of a multiple employer plan are treated as a single plan in determining whether there is a substantial increase.

DB BRF Relief

Many closed DB plans have BRFs associated with benefits that continue for the closed group of participants. Such BRFs will be deemed to pass testing for all future years if those BRFs pass testing for three years after the close amendment. During this three-year period, any available testing methodology other than relief provisions is permitted, including aggregation with plans having different plan years.

However, a DB plan BRF closed after April 5, 2017 is *not* eligible for BRF testing relief if there was a substantial increase in coverage or value (i.e., the number of covered participants eligible for the BRF increased by more than 50% or the value of the BRF substantially increased solely

1 For plans subject to the Cooperative and Small Employer Charity Pension Flexibility Act, Code Section 433(j)(1)(B) normal cost is substituted for target normal cost.

due to plan amendments) during the five-year period prior to close. For purposes of determining whether there was such substantial increase, employees who become participants due to a merger, acquisition, or other corporate transaction within seven years of the close date or due to merging with another plan in effect at least five years are disregarded, provided the BRFs of the merged plans are conformed prospectively.

Minimum Participation Relief

When a DB plan is frozen or closed to new participants, over time the plan may no longer be able to satisfy the minimum participation requirement that a DB plan must cover the lesser of 50 employees or 40% of nonexcludable employees. To be eligible for this relief, a DB plan must be amended to freeze accruals for all or for all but a closed group of employees. If the plan passes upon close, then the plan is deemed to pass for all future years.

Taking Advantage of the Relief

This relief is welcome news to many employers, but there are many technical aspects not detailed in this article that must be considered before taking any action under the relief. Please contact your Aon consultant to discuss how this nondiscrimination testing relief may apply to your plans and how we can assist you in obtaining the available relief.

SECURE Boosts Lifetime Income Retirement Options

by Greg Fox, Barb Hogg, and Jennifer Ross Berrian

The emergence of defined contribution (DC) programs as the primary—or only—supplement to Social Security retirement benefits for many workers has led to questions and concerns. A major issue is whether these workers are ready to manage their retirement nest eggs to last their lifetimes. It is becoming increasingly obvious that many are not. As a result, Congress has been exploring how to make it easier for plan sponsors to offer lifetime income options in their DC plans and for participants to understand how their DC account balances translate into lifetime payments.

To encourage plan sponsors to offer lifetime income products and educate participants about the value of their DC account balances over their lifetimes, Congress has amended the Internal Revenue Code (Code) and the Employee Retirement Income Security Act of 1974 (ERISA) as part of the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act). There are three key areas in the SECURE Act that specifically relate to the provision of and disclosure about lifetime income in DC plans.

Change #1—Safe Harbor Fiduciary Selection. Some plan sponsors were reluctant to offer annuities within their DC plans because of the fiduciary risk in choosing an annuity provider. ERISA has been amended to add an optional safe harbor for choosing an annuity provider for a DC plan. This new safe harbor provides guidelines for selecting an annuity provider and lowers the fiduciary risk of adding annuities to DC plans. This removes a major barrier, as identified by plan sponsors, to offering lifetime income investment options within a DC plan.

Change #2—Lifetime Income Participant Disclosure. An ERISA amendment requires sponsors of DC plans to provide more information to plan participants with respect to lifetime income. As part of required annual DC plan statements, plan sponsors will need to include illustrations of how participants' account balances translate into lifetime income streams. This disclosure will be required even if the plan does not offer lifetime income distribution options. Time will tell what exactly this disclosure will look like as the Secretary of Labor has until December 20, 2020 to draft a model disclosure notice, issue interim guidance, and provide the assumptions to use in the disclosure calculations. One year after all of these items are issued, plan sponsors will have to start including the disclosure in their annual statements. While plan sponsors will not be required to offer lifetime income, receiving the disclosure may spur participants to start asking for these options. In the future, offering lifetime income options in DC plans may be a differentiator to be utilized when seeking to attract and retain employees.

Change #3—Portability Rules. An optional Code change makes it easier for plan sponsors to stop offering certain lifetime income investment options in their DC plans without negatively impacting participants by causing them to incur surrender charges or other fees. This provision should help plan sponsors that have annuity-based investments eliminate such investments prospectively if desired. The ability to eliminate an annuity form of investment from a DC plan may go a long way to address fiduciary fears about adding investments that could be hard to eliminate in the future.

Plan sponsors should take time now to address, or readdress, their approach to lifetime income options within their DC plans. The changes made to the Code and ERISA should make it easier for plan sponsors to add these options, and it is anticipated that participants are going to want them. Please reach out to your Aon consultant or the authors of this article for additional information.

Please see the applicable Disclosures and Disclaimers on page 9.

New Opportunities in DC Plan Design

by Elizabeth Groenewegen

The recently enacted Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) will shape the future of retirement savings in the U.S. This article briefly addresses a few of the important changes to the Internal Revenue Code (Code) and the Employee Retirement Income Security Act of 1974 (ERISA) of which employers sponsoring qualified plans that include Code Section 401(k) contributions need to be aware. The changes are aimed at increasing retirement savings.

Mandatory Plan Participation by Longer-Service Part-Time Workers

The SECURE Act requires that employees who earn at least 500 hours per year for at least three consecutive 12-month periods (and have met the age requirement, if any) must be permitted to make salary deferral contributions under their employer's 401(k) plan. Employers are not required to provide nonelective or matching contributions to these long-term, part-time employees, and they also may be excluded from nondiscrimination and top-heavy testing.

Along with the new "pooled employer plan" structure (which is separately addressed in this issue), this change is the SECURE Act's response to research which shows that a substantial number of U.S. workers have no access to an employer-sponsored retirement plan. Research also demonstrates that retirement income outcomes for workers who have access to workplace savings is far superior to the results for workers without such access. Certain states are establishing mandatory IRA programs also aimed at expanding access to retirement savings. (See the article titled, "The Federal Government Weighs In—CalSavers Is Preempted Under ERISA," in the Fourth Quarter 2019 issue of the *Quarterly Update*.) The effect of these new laws remains to be seen.

Every 401(k) plan will need to address the long-term, part-time employee rules. Service counting for purposes of the rules must begin no later than January 1, 2021. The need to revise their plans to accommodate this change presents an excellent opportunity for employers, particularly those who have significant portions of their workforce employed part-time, to review and refine their plans.

Increased Limit for Automatic Contribution Design

Provisions regarding a "qualified automatic contribution arrangement" (QACA) were added to the Code by the Pension Protection Act of 2006. Such plans are also commonly known as "ADP/ACP safe harbor plans," where automation is required for compliance with the safe harbor. Under the SECURE Act the maximum deferral percentage allowable under a QACA is increased from 10% to 15% after the first complete plan year of the employee's participation. This increase in the automatic escalation cap is an optional design feature. This allows an employer to harness the power of inertia to help employees save more for retirement automatically, as their savings rate increases 1% per year until reaching 15%, then staying at that rate indefinitely. Participants can opt out of the automatic increases at any time. It is also worth noting that such high savings rates may not be attainable for some employees, and employers should carefully balance employee retirement savings with other financial goals such as paying for medical care or managing debt. Employers already using a QACA plan design may consider updating their plan to reflect the increase in the QACA deferral limit. Other employers might take a fresh look at a QACA design. And even though non-QACA plans are not directly impacted by this change, other plan sponsors may choose to add automatic contribution escalation to their plans, or to increase their default savings rate cap to reflect the 15% rate in the SECURE legislation. Research shows that most working Americans are not saving enough for retirement, and that automatic features tend to increase retirement savings.

Elimination of Notice Requirement for QNEC Safe Harbor Plans

Under a "safe harbor" 401(k) plan design the employees' salary deferrals need not be tested for nondiscrimination.[1] The employer must make a certain level of either matching or nonelective contributions (QMACs or QNECs, respectively). Before the SECURE Act, use of either QMAC or the QNEC safe harbor required that notice be provided in advance to plan participants. The notice requirement has been eliminated for the QNEC safe harbor approach.

This change both reduces administrative burdens and permits more flexibility in the use of the QNEC plan design. An employer plan sponsor need not decide to use a QNEC safe harbor in advance of the plan year. A QNEC safe harbor can be added during, or even after, the plan year. If the safe harbor is adopted before the 30th day before the close of the plan year, the QNEC must be at least 3% of compensation. Later adoption is permissible up to the end of the following plan year, but in this case the QNEC must be at least 4% of compensation.

In light of these changes, it is an opportune time for employers to revisit their strategy regarding DC plan savings. Please reach out to your Aon retirement consultant, rob.reiskytyl@aon.com, or meghan.lynch@aon.com if you would like to hear more about Aon's DC plan design services.

1 Generally, salary deferrals must satisfy nondiscrimination amounts testing under the actual deferral percentage (or "ADP") test. The actual contribution percentage (or "ACP") test is beyond the scope of this article.

SECURE Act: Impact on Defined Benefit Plan Administration

by Hitz Burton and Erin Huening

Federal tax law controls when qualified retirement plans are permitted to distribute benefits. These tax laws specify rules for how early distributions may begin and the dates by which benefits must commence. The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) significantly impacts these rules by extending the date by which defined benefit (DB) plans must generally commence required minimum distributions (RMDs) to most participants. The SECURE Act also lowers the age at which DB plans can permit participants to commence in-service distributions from age 62 to age 59½.

Qualified retirement plans must generally commence RMDs to a participant by the later of April 1 following the calendar year in which the participant attains his or her required beginning date (RBD) or terminates employment. Prior to the SECURE Act, a participant's RBD was generally tied to the calendar year the participant attained age 70½ unless the participant remained actively employed.

Under the SECURE Act, there is no change in administration for RMD payments for participants who reached age 70½ prior to 2020. As a result, RMDs in place or triggered by an age 70½ RBD that occurred in 2019 (or prior) should continue to be administered as under prior law. Participants who attained age 70½ in 2019 (or before) and remain actively employed in 2020 will also have their RMDs paid in accordance with the rules that applied prior to the recent law changes. For participants who did not attain age 70½ before 2020, distributions will not generally be required, as a matter of federal tax law, until the later of the April 1 following the calendar year in which the participant attains age 72 or terminates employment. Plan provisions, however, may continue to generally require benefit commencement at age 70½ for participants who are not actively employed.

Whether plan sponsors should continue to generally require participants to commence distributions at age 70½ or permit the extended deferral opportunity to age 72 is a complicated question. In certain situations, participants have expressed concerns that commencement of retirement benefits may make them ineligible for certain state-provided assistance. Sponsors, however, should be mindful that they have a fiduciary obligation under the Employee Retirement Income Security Act of 1974 (ERISA) to timely pay benefits when due. If a qualified retirement plan is currently struggling to contact and commence benefits to terminated vested participants as they approach age 70½ or even locate other terminated vested participants later determined to be "missing" participants, extending the RBD to age 72 may only serve to exacerbate existing compliance concerns. Additionally, sponsors of DB plans should also be mindful that while the general RBD was extended, the SECURE Act left unchanged the requirement that an actuarial increase must be added to a benefit payable from a DB plan for the period from the April 1 of the calendar year following the calendar year the participant attained age 70½ until such benefit commences.

Qualified retirement plans providing for lump-sum payments (LSPs) will also need to be mindful of how the changes to the RMD rules described above will impact administration for eligible rollover distributions. For example, a portion of an LSP payable to a terminated vested participant who attained age 70½ prior to 2020 is an RMD and not eligible for rollover. By comparison, a terminated vested participant who did not attain age 70½ prior to 2020 and later receives an LSP prior to age 72 can generally roll over the entire LSP, subject to normal rollover rules, including 20% mandatory withholding unless the LSP is directly rolled over to an IRA or other qualified retirement plan.

In addition to the RMD changes described above, the SECURE Act reduced the age at which DB pension plans can provide in-service distributions from age 62 to age 59½. This reduction in the permitted age at which in-service distributions can be paid from a DB plan aligns with other tax rules that have long permitted a 401(k) plan to provide for distributions to participants when they attain age 59½, even if the participant remains actively employed by the plan sponsor or an affiliate.

If you have questions regarding how the SECURE Act changes may affect administration of your retirement plans, please contact the Aon actuary, DB plan administration lead, or the Retirement Legal Consulting & Compliance team member with whom you normally discuss such matters.

Defined Contribution Plan Required Distribution Changes: Need to Act Soon

by Meghan Lynch and John Van Duzer

The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) provisions surrounding distribution and payout options can have a significant impact on the design and administration of defined contribution (DC) plans. Outlined below are what plan sponsors and participants should be thinking about and planning for in the coming weeks and months.

Age 72 Commencement Date

The SECURE Act revises the required minimum distribution (RMD) age—raising it to age 72 from age 70½. Generally, participants in tax-qualified and other plans (e.g., 403(b) and 457(b) plans) are subject to RMD rules. Before the SECURE Act, these participants generally needed to begin receiving distributions by April 1 of the year following the *later* of the year of reaching age 70½ or terminating employment with the plan sponsor. The SECURE Act provides that participants who turn age 70½ on or after January 1, 2020 may generally delay payments until after the later of age 72 or termination of employment.

Important points to consider:

- RMDs out of DC plans are based on the individual account balances and the Internal Revenue Service (IRS) Uniform Life Table (the IRS recently issued a proposed update to this table, which could lower the amount of required distributions, once the updated table is finalized and published);
- RMDs cannot be rolled over to an IRA or other retirement plan—full distribution of the RMD from the plan is required; and
- Plan documents and participant communications (e.g., summary plan descriptions (SPDs) and rollover notices) should be reviewed to ensure coordination and compliance with these new requirements.

Accelerated Distributions Following a Participant's Death

Another important provision for DC plans and IRA arrangements in the SECURE Act provides for an acceleration of payouts to certain nonspouse beneficiaries after the death of the participant. For deaths occurring on or before December 31, 2019 (prior to the effective date of the changes in the SECURE Act), beneficiaries could often receive their benefit over their entire life expectancy. This flexibility allowed for "Stretch IRAs" that provided income and tax planning opportunities for savvy beneficiaries covered by these arrangements.

With the passage of the SECURE Act, this opportunity is significantly reduced. Effective as of January 1, 2020, payouts to many beneficiaries (other than surviving spouses, minor children, and some others) are limited to 10 years. For eligible beneficiaries who are surviving spouses, minor children (up to the age of majority), and in certain other limited situations, the payout period may exceed 10 years. In most cases, payments to eligible beneficiaries who wish to use extended payout periods must start by the end of the following year. For surviving spouses, however, commencement of payments may be delayed until December 31 of the year in which the participant (if still alive) would have turned age 72.

Of course, there are exceptions to this new rule that should be observed. For beneficiaries who are not individuals or who are not "designated" by the participant, the payout period will be limited to five years. All of these changes will need to be communicated (sooner rather than later), and plan documents, SPDs, election forms, and other materials will need to be reviewed and revised.

Administrative Decisions

These changes in the distribution rules create some interesting and important decisions for plan sponsors. Should plans be amended at this point to provide for the maximum permitted deferral for participants, or is it sufficient that a participant wishing to take advantage of these changes may elect (in many cases) an IRA rollover? Should payments to beneficiaries be extended to 10 years, rather than the current five years in the plan?

Perhaps most importantly, how will these changes affect plan administration and related documentation? Although plan amendments can likely be delayed for a time, administrative communications and election forms, requirements documents for the plans, tax notices, and similar types of written materials may need to be revised soon. Although not legally required until at least 2021, it may also be advisable to issue a summary of material modifications or revised SPDs sooner rather than later.

As is usually the case, there is no single correct answer or approach to these and other new changes in the law. Aon consultants are available to assist you in understanding all related issues and decisions and can help work through and analyze the issues, evaluate the pros and cons, and assist plan administrators in making the best decisions, based on the employee workforce and other factors.

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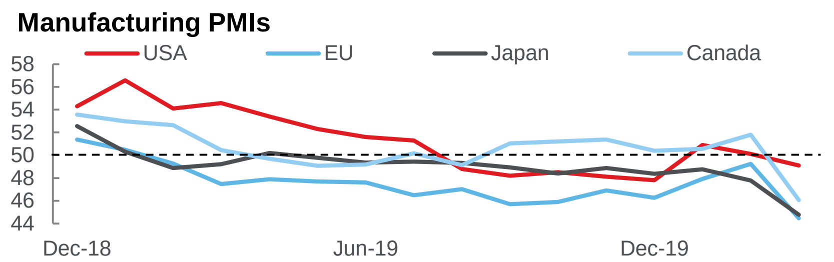
Empower Results®

Appendix

Economic Highlights

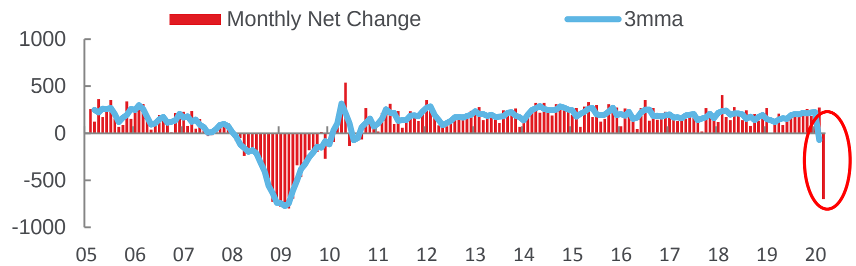
Within the space of 3 months, the world has been turned upside down, as the Covid-19 pandemic has prompted widespread lockdowns and immense fiscal and monetary policy responses to prevent economic collapses. More recently, some signs of "curve-flattening" have eased worries but the reality seems to be that the recovery to more normal conditions will take a long time, with the world reliant on a vaccine for a true end to the crisis. Meanwhile, oil prices have plunged and the US dollar has benefitted from safe-haven flows. The near-term economic outlook is highly challenged, whilst the medium-term is dependent on the swiftness of medical developments.

The manufacturing sector activity plunges



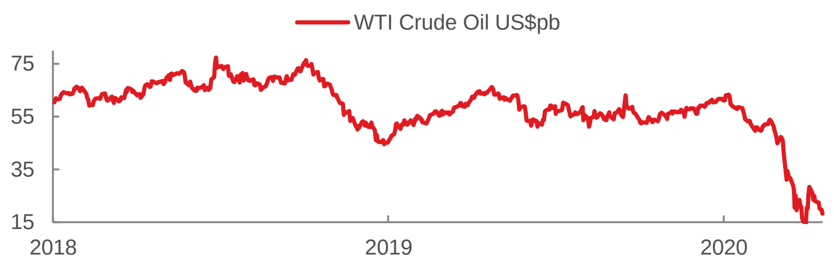
Source: Factset

A huge surge in US unemployment…similar elsewhere

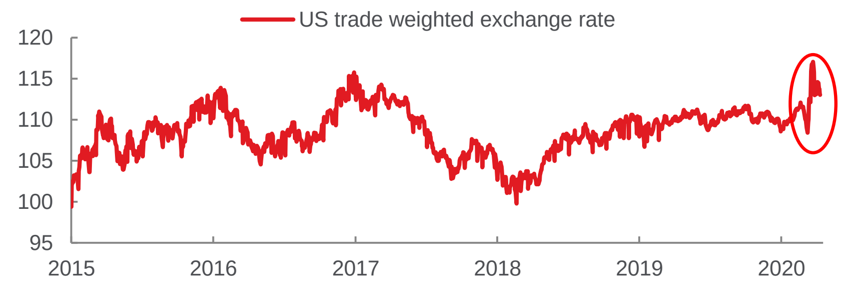


Source: Factset, US non-farm payrolls

Oil prices fall to lowest since 2002



Safe-haven flows lead to spike in value of the US dollar



Source: Factset

Source: Factset

*Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees or expenses.
Past performance is no guarantee of future results.

Economic Highlights

USA

- The US economy was relatively healthy in Q4 but is very likely to have contracted sharply in the first quarter.
- The early monthly signals certainly point to this outcome – retail sales contracted by a record 8.7% in March as shops were closed across the country, the ISM indexes of activity fell into recession territory and the unemployment rate jumped to 4.4% as over 20 million people claimed unemployment benefit for the first time. These all indicate very significant disruption and, without a return to normality very soon, it is highly likely that the US is facing a recession over the next two quarters.
- In response, the Federal Reserve cut interest rates sharply to 0.25% from 1.75% and commenced potentially unlimited Quantitative Easing, with an aim to buy a wide range of assets. Meanwhile, the government passed a $2trn fiscal stimulus package, which includes direct financial grants to individuals and corporate loans.
- A recession is set to be officially confirmed now whilst the medium-term outlook remains clouded and dependent on medical developments.

EAFE

- Europe rapidly become the epicentre of the Covid-19 outbreak over March, especially in Italy and Spain, and widespread lockdowns remain in place in many countries. With the EU's new financial support package, the region's total fiscal response is now the biggest in the world, at $3.2trn. The ECB also re-initiated Quantitative Easing.
- Japanese GDP growth had already contracted in Q4 2019 as the consumption tax hike was introduced and the signs indicate another weak quarter in Q1 too. The Bank of Japan, already very experienced in QE, has extended its purchase programme to virtually all financial assets, including equity ETFs.
- Meanwhile, the UK looks especially hard hit by the virus outbreak and imposed relatively severe lockdown restrictions, with many businesses and all schools closed. In keeping with other central banks, the Bank of England cut the base rate to 0.1%, which is an all-time low, whilst the government introduced a large fiscal package, including plans to pay part of salaries.

Emerging Markets

- Emerging markets have not been immune to the havoc being wreaked by the coronavirus and, indeed, there are fears that some nations with weaker governments will suffer especially.
- Chinese GDP growth was reported to have contracted for the first time since the 1970s and by a larger than expected 6.8% year-on-year in Q1. Restrictions are starting to be eased within the country but it remains to be seen whether China has truly managed to contain their outbreak. Furthermore, the halt in global trading activity will likely remain a strong headwind to the Chinese economy for much of this year.
- Many central banks and governments have introduced support measures similar to those in the G7 but the degree of help varies widely. The IMF expects growth in Asia to be virtually zero this year but to fare better than the G7 – this forecast is based on the assumption that China's outbreak is under control.
- Meanwhile, the G7 has announced plans to provide debt relief to emerging market economies in order to support fragile countries.

Economic Data Table

Indicator	Date of Latest Reading	Latest Reading	Previous Month* Reading	Change From Previous Month*	Previous Quarter	Previous Year
Growth						
Real GDP (QoQ% Change Annualized)	Dec-19	2.10	2.10	0	2.1	1.1
Industrial Production Total (YoY% Change)	Mar-20	-5.5%	0.0%	-5.5%	-0.8%	2.3%
ISM - Maufacturaing	Mar-20	49.1	50.1	-1.0	47.8	54.6
ISM - Non-Manufacturing	Mar-20	52.5	57.3	-4.8	54.9	56.3
Consumer Confidence	Mar-20	120.0	132.6	-12.6	128.2	124.2
Durable Goods Orders Total (YoY% Change)	Feb-20	0.0%	-3.7%	3.7%	-4.8%	0.5%
Durable Goods Orders excl. Transport (YoY% Change)	Feb-20	-0.8%	-0.5%	-0.3%	-0.8%	2.3%
Durable Goods Orders excl. Defense (YoY% Change)	Feb-20	-2.0%	-4.1%	2.1%	-3.0%	1.7%
Retail Sales (YoY% Change)	Mar-20	-6.2%	4.6%	-10.8%	5.4%	4.1%
Retail Sales excl. Autos (YoY% Change)	Mar-20	2.1%	4.1%	-2.0%	5.9%	3.9%
New Car Registrations (YoY% Change)	Feb-20	-13.2%	-21.0%	7.8%	-20.0%	-15.0%
Prices and Money	0	0	0		0	
Inflation	Mar-20	1.5%	2.3%	-0.8%	2.3%	1.9%
Core Inflation	Mar-20	2.1%	2.4%	-0.3%	2.2%	2.0%
Chain Type Price Index for Personal Consumption Expenditure (YoY% Change)	Dec-19	1.6%	1.3%	0.2%	1.3%	1.8%
Core Chain Type Price Index for Personal Consumption Expenditure (YoY% Change)	Dec-19	1.6%	1.5%	0.1%	1.7%	2.0%
Fed Fund Rate	Mar-20	0.25	1.75	-1.5	1.75	2.5
Long Treasury Rate	Mar-20	1.26	1.81	-0.55	2.16	2.8
Labor	0	0	0		0	
Unemployment Rate	Mar-20	4.40	3.50	0.9	3.5	3.8
Non-Farm Payrolls (Actual Monthly Change in Thousands)	Mar-20	-701.00	275.00	-976	184	147
Unit Labour Cost - Total Business (QoQ% Change Annualized)	Dec-19	0.90	0.30	0.60	0.3	0.6
Unit Labour Cost - Non-Farm (QoQ% Change Annualized)	Dec-19	0.90	0.20	0.7	0.2	0.7
Real Average Hourly Earnings - Total Non-Farm (QoQ% Change Annualized)	Dec-19	-0.20	-1.90	1.7	-1.9	-0.4
House Prices	0	0	0		0	
Shiller Price Index (YoY% Change)	Dec-19	2.8%	2.5%	0.3%	2.1%	4.0%
Mortgage Rate	Mar-20	3.5	3.45	0.05	3.74	4.06
Pending Home Sales (YoY% Change)	Feb-20	9.4%	5.8%	3.6%	6.9%	-4.9%
Housing Starts Authorized by Permit (YoY% Change)	Mar-20	4.8%	12.8%	-8.0%	6.0%	-8.4%

*Real GDP, Unit Labour Costs, and Real Earnings data are from the previous quarter. Payrolls are previous month

Source: FactSet

Empower Results®

Appendix: View guidance

- - -

Large under-performance expected with highest conviction

- Target larger underweight
- Bring forward selling plans and defer SAA buying implement-ation
- Do not rebalance to target weight yet

- -

More under-performance or stronger conviction

- Target underweight
- Bring forward selling plans and defer SAA buying implement-ation
- Do not rebalance up to target weight yet

-

More likely to underperform

- Target small underweight to strategic weight
- Prefer to avoid buying and selling on strength
- Buying for SAA reasons fine, but add slowly or into weakness.
- Consider partial rather than full rebalancing

=

Weak conviction or no view on relative performance

- Target benchmark or strategic weight
- Buying/ Selling both look ok coming from SAA changes or rebalancing

+

More likely to outperform

- Target small overweight to strategic weight
- Prefer to accumulate
- Selling for SAA reasons fine, but look to sell gradually
- Slow rebalancing moves back to benchmark weight

++

More outperformance or stronger conviction

- Target overweight
- Bring forward buying plans and defer SAA selling implement-ation
- Do not rebalance down to target weight yet

+++

Large outperformance expected with highest conviction

- Target larger overweight
- Bring forward buying plans and defer SAA selling implement-ation
- Do not rebalance to target weight yet

Appendix: Investment View Framework

Investment View

Fundamental

Analyze the core economic and underlying drivers of an asset class. For example:

- Economic Growth
- Earnings Growth
- Default Risk

Valuation

Establish if the asset class is cheap or expensive given our fundamental outlook. For Example:

- P/E Ratio
- Credit Spreads
- Yield Levels

Market Awareness

Establish if near-term drivers for the asset class are positive or negative. For Example:

- Technical Indicators
- Sentiment Surveys
- Futures/Options Positioning

Appendix:
Index Definitions

MSCI All Country World Index - A capitalization-weighted index of stocks representing approximately 46 developed and emerging countries, including the U.S. and Canadian markets.

MSCI Emerging Markets Index - A capitalization-weighted index of stocks representing 22 emerging country markets.

MSCI US - A market capitalization-weighted index that is designed to measure the equity market performance of stocks in the USA.

JPM EMBI Global Diversified – Comprised of dollar-denominated Brady bonds, traded loans and Eurobonds issued by emerging market sovereign and quasi-sovereign entities. The Diversified version limits the weights of the index countries by only including a specified portion of those countries' eligible current face amounts of debt outstanding, providing for a more even distribution of weights within the countries in the index.

JPM GBI-EM Global Diversified - Designed to provide a comprehensive measure of local currency denominated, fixed-rate, government debt issued in emerging markets.

BofA Merrill Lynch High Yield - A market capitalization-weighted index that tracks the performance of U.S. dollar-denominated, below investment grade corporate debt publicly issued in the U.S. domestic market.

Trade weighted US Dollar (Federal Reserve) - A weighted average of the foreign exchange value of the U.S. dollar against a broad index currencies that circulate widely outside the country of issue.

VIX Index – Tracks the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

MSCI World Index - A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets, representing 24 developed market country indices.

Russell 1000 Index - An Index that measures the performance of the largest 1,000 stocks contained in the Russell 3000 Index.

Russell 2000 Index - An Index that measures the performance of the smallest 2,000 stocks contained in the Russell 3000 Index.

MSCI EAFE Index - A capitalization-weighted index of stocks representing 22 developed countries in Europe, Australia, Asia, and the Far East.

MSCI Canada - A market capitalization-weighted index that captures broad Canadian equity market coverage, including over 680 constituents across large, mid, small and micro capitalizations.

NCREIF Property Index - A capitalization-weighted index of privately owned investment grade income-producing properties representing approximately $269 billion in assets.

HFRI Fund Weighted Composite Index – The HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net of all fees performance in US Dollar and have a minimum of $50 Million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

.**S&P/LTSA Leveraged Loans Index** – The S&P/LSTA Leveraged Loan Index is the first index to track the investable senior loan market. This rules-based index consists of US loan facilities in the syndicated leveraged loan universe.

Bloomberg Commodity Index - Bloomberg Commodity Index is calculated on an excess return basis and tracks price movements in commodity futures. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification.

Barclays Capital Long Credit Bond Index - An unmanaged index considered representative of long-term fixed-income obligations issued by U.S. corporate, specified foreign debentures, and secured notes.

Barclays Capital Intermediate Credit Bond Index - An unmanaged index considered representative of intermediate fixed-income obligations issued by U.S. corporate, specified foreign debentures, and secured notes.

ML MOVE Index - The Merrill lynch Option Volatility Estimate (MOVE) Index is a yield curve weighted index of the normalized implied volatility on 1-month Treasury options which are weighted on the 2, 5, 10, and 30 year contracts

Appendix:
Index Definitions

HFRI Macro (Total) Index – Macro: Investment Managers which trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top down and bottom up theses, quantitative and fundamental approaches and long and short term holding periods. Although some strategies employ RV techniques, Macro strategies are distinct from RV strategies in that the primary investment thesis is predicated on predicted or future movements in the underlying instruments, rather than realization of a valuation discrepancy between securities. In a similar way, while both Macro and equity hedge managers may hold equity securities, the overriding investment thesis is predicated on the impact movements in underlying macroeconomic variables may have on security prices, as opposes to EH, in which the fundamental characteristics on the company are the most significant are integral to investment thesis.

HFRI Macro: Systematic Diversified Index – Systematic: Diversified strategies have investment processes typically as function of mathematical, algorithmic and technical models, with little or no influence of individuals over the portfolio positioning. Strategies which employ an investment process designed to identify opportunities in markets exhibiting trending or momentum characteristics across individual instruments or asset classes. Strategies typically employ quantitative process which focus on statistically robust or technical patterns in the return series of the asset, and typically focus on highly liquid instruments and maintain shorter holding periods than either discretionary or mean reverting strategies. Although some strategies seek to employ counter trend models, strategies benefit most from an environment characterized by persistent, discernible trending behavior. Systematic: Diversified strategies typically would expect to have no greater than 35% of portfolio in either dedicated currency or commodity exposures over a given market cycle.

Purchasing Managers Index - The PMI® is a composite index based on the diffusion indexes of five of the indexes with equal weights: New Orders (seasonally adjusted), Production (seasonally adjusted), Employment (seasonally adjusted), Supplier Deliveries (seasonally adjusted), and Inventories. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change.

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