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Retirement readiness in any market environment

The future of defined contribution

next

Issue no. 6

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Time to rebalance, refocus and refresh: retirement planning for today and tomorrow

If 2020 has done anything, it has shown us the world keeps changing yet the role of the plan fiduciary remains constant: helping employees prepare for retirement. The *next* publication is designed to help plan fiduciaries navigate through industry, market and policy changes while staying on course.

In this issue of *next*, we examine how plan sponsors should be thinking about the equity allocation on their plan menu in the context of ongoing market volatility and the risk of participants being over-allocated. We also speak with Dan Keady, TIAA's Chief Financial Planning Strategist, to determine what messages will help clients continue on with confidence. In Fiduciary Perspective, we highlight where we may see significant shifts in retirement policy under the new administration. Lastly, we look at four things employers can do today to support employees' financial well-being.

While the pandemic may have changed the timeline for some, retirement is still one of American workers' long anticipated and sought after milestones. The need for thoughtful advice and guidance has never been greater.

Your Nuveen Team

INVESTMENT CORNER

Rethinking equities with retirement and recovery in mind

There is some conventional wisdom in the way plan sponsors talk to participants about achieving better retirement outcomes: Contribute early, maximize your contributions and take advantage of long-term appreciation. That said, this guidance may also lead to participants having heavy allocations to equities in their portfolios—and for good reason: the equity bull market that began in March 2009 was the longest in history, lasting 131 months. But these outsized gains in equity markets are prompting a number of questions: Are participants over-allocated today? Are they sufficiently diversified? And how should plan sponsors and participants utilize long-term strategic allocations in conjunction with rebalancing opportunities?

66%

of DC participants' assets were invested in stocks through equity funds, the equity portion of target date and non-target-date balanced funds, or company stock.

Source: The Employee Benefit Research Institute.

FIGURE 1

Are equities becoming overvalued?

S&P 500 12-month forward P/E ratio

Source: Bloomberg, Nuveen, 31 Jan 1995 - 31 Mar 2021. **Past performance is no guarantee of future results.**

The equity outlook

First, we must step back and look at where the economy currently is along its journey to recovery. The graph in Figure 1 may prompt concern as we see the 12-month forward price/earnings ratio reaching levels close to those in the late 1990s.

Needless to say, the circumstances are much different today than they were in the late 1990s. Valuations in 2000 were reflecting hope for earnings potential for a large number of nascent companies, while in 2021 they are merely reflecting hopes for a return to 2018 levels of earnings. That is not too high a bar. An imminent collapse in equity prices seems unlikely under current circumstances absent a complete failure to contain and reverse the health crisis. Even then, as we learned last year, a dip might only be temporary as firms and consumers continue to adapt and evolve.

The short answer: Equities still look like a good option to help grow portfolios over the balance of this decade. This applies potentially even more to non-U.S. markets, where stock valuations are generally less stretched but real interest rates are far lower, in many cases. This doesn't mean investors should shift to large tactical equity overweights by any means, but it does mean we believe that the risk-adjusted returns in a 60/40 or 50/50 portfolio will benefit from the equity portion over the next several years.

Of course, absolute returns matter, too. During the past five years, the S&P 500 has delivered average annual returns of 16.8%. To put that in context, that's about the same five-year return you would have received if you'd courageously put money into the market in the middle of November 2008. These returns are going to be difficult if not impossible to replicate in the coming years given where valuations and interest rates are starting. But that makes it all the more important that plan sponsors choose their investments wisely. Diversification will be key.

Diversifying your options

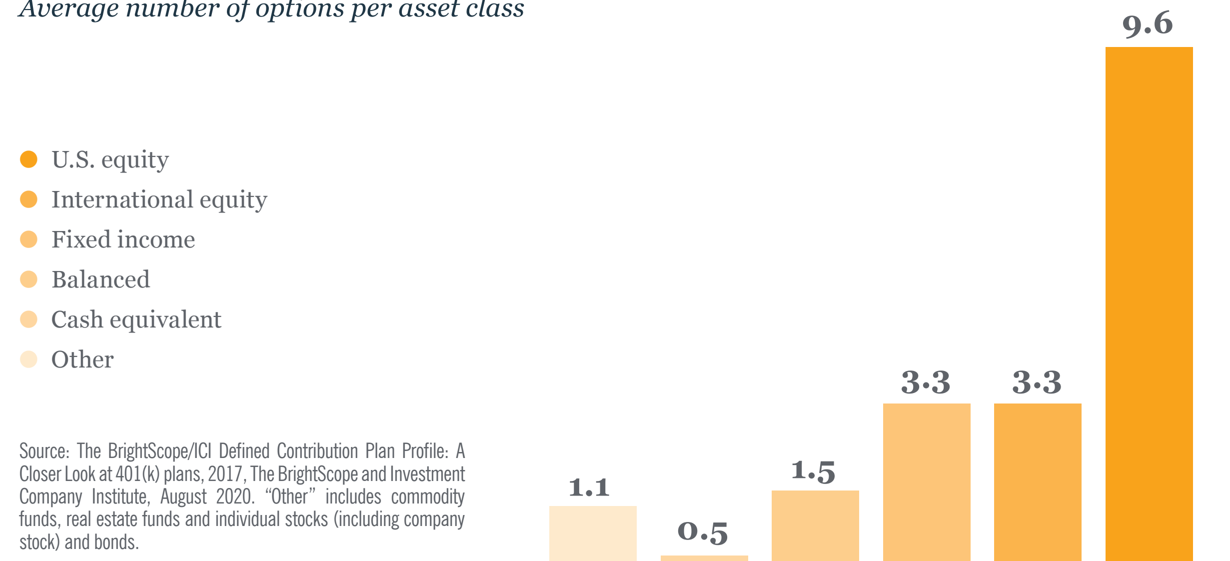
According to TIAA's 2020 Plan Sponsor Retirement Survey, plan sponsors are becoming increasingly concerned about diversification. Up from 27% in 2018, 50% of plan sponsors are concerned their participants do not have enough investment diversification in their retirement plans. A good place to start looking for solutions for this is revisiting the core menu equity investment options in context of the current market environment.

Many plan sponsors might think their plan menus are suitably diversified simply by the number of equity offerings available. On average, DC menus have a total of 13 equity offerings, which seems like it should be enough to provide participants with sufficient options for diversification within the asset class. Maybe not, though. Taking a closer look at the breakdown, out of 13 equity funds, U.S. equity funds comprised an average of 9.6 of the total offering, and only slightly more than 3 are dedicated to international equity (Figure 2).

FIGURE 2

U.S. equities comprise the majority of menu options

Average number of options per asset class



Source: The BrightScope/ICI Defined Contribution Plan Profile: A Closer Look at 401(k) plans, 2017, The BrightScope and Investment Company Institute, August 2020. "Other" includes commodity funds, real estate funds and individual stocks (including company stock) and bonds.

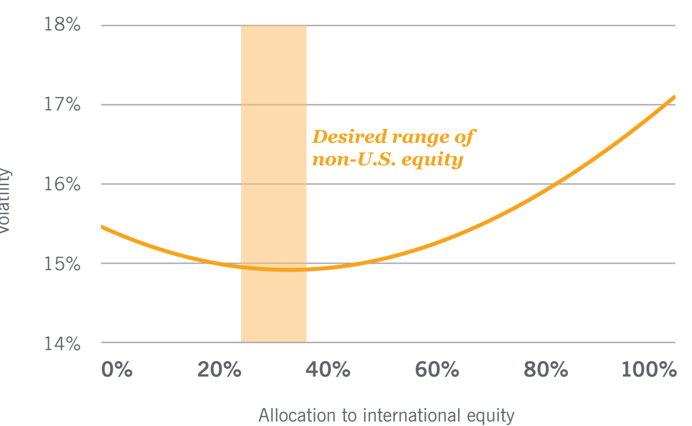
Expand your horizons

Although U.S. equities have outperformed other global markets over the last decade, our Equities Investment Council feels this trend could be poised for a reversal. As the global coronavirus pandemic starts to wind down, extensive fiscal and monetary policy actions should lead to a strong global economic recovery this year. In addition to international developed markets, emerging markets should benefit from several tailwinds including a weaker dollar, improving geopolitical outlook and attractive relative valuations.

To give participants non-U.S. exposure, we think plan sponsors should consider diversifying their portfolio with asset classes across geographies. Historically, portfolio risk is minimized when non-U.S. equity represents between 25% and 35% of total equity exposure, reflecting a potential optimal diversification point (Figure 3).

FIGURE 3

Portfolio risk as a function of international equity (1979-2020)



Source: Bloomberg, Nuveen. Blend of indexes used, 1970-MSCI EAFE; 1988-MSCI ACWI ex-US; 1994-ACWI ex-US IMI. **Past performance is no guarantee of future results.**

Did you know?

50%

of plan sponsors are concerned that their participants do not have enough investment diversification in their retirement plans.

Source: TIAA 2020 Plan Sponsor Retirement Survey.

Simplify, but gain broader exposure

Market capitalization is another critical component of diversification. Instead of offering several large cap investment options, plan sponsors should consider replacing some with a selection of actively managed funds that include a variety of styles and market capitalizations. For example, large cap stocks have dominated in recent years, but we think the environment for small cap stocks has been steadily improving as the economy recovers. Historically, small cap stocks have often outperformed the broader equity market during economic recoveries. Over the long term, small caps have generated higher annual rates of return than any other U.S. equity or fixed income investment for nearly a century.

We also like dividend-yielding stocks that have the ability to provide a stream of income with less volatility. This area looks particularly appealing in the current low-rate environment when casting a wider net for income and yield. These are just a few examples of how a skilled active manger can identify areas of the market with the potential for outperformance while having the flexibility to capture the opportunities.

Keeping it professional

Monitoring participants' equity exposure through reviewing the core investment options is a good start, but is not enough by itself. While the majority of DC participant assets are held in equities, the majority of DC participant contributions in 2020 were target date funds, according to Alight Research Insights. It's therefore critical to extend that review to the equity components of the default investment option, which, per Callan, is a target date fund for nearly 90% of plans.

The onus is on professional asset managers to make strategic and tactical asset allocation decisions for target date funds. In some cases, the pressure is better placed directly on the shoulders of professionals who can provide access to a broadly diversified portfolio within a single investment. For example, during the turbulence in the first quarter of 2020, in which U.S. equities declined 34% from Feb. 20 through March 23, most target-date funds performed in line with expectations, but outcomes varied meaningfully for those who were near retirement, according to a Morningstar analysis. This highlights the importance of knowing your target-date fund's risk profile. Additionally, and perhaps most importantly, professional managers were able to take advantage of the market dip through their systematic rebalancing process.

It's critical for plan fiduciaries to understand the following as it relates to underlying equities:

- The strategic, and tactical if applicable, asset allocation that the managers of their target date funds employ.
- How that asset allocation has contributed to returns.
- How the underlying equity managers have contributed to the overall target date performance and their expected contribution going forward.

Keeping participants on course

After all the work fiduciaries put into reviewing and potentially adjusting investment menu options, participants should be made aware of their options and informed of best practices to help them keep on track. We suggest a range of communications options that will likely yield varying results.

OPTION 1: CONSISTENT HR/CALL CENTER TALKING POINTS
(minimally effective)

Volatile markets can be jarring for participants, causing some to panic and make emotional investment decisions in their retirement plans, forgetting about their long-term investment time horizons. Plan sponsors and call center support teams are often on the front line of that panic. It is important to educate employees about how to think about their 401(k) investments, the benefits of diversification and retirement planning or financial wellness tools available to them to help.

OPTION 2: TARGETED COMMUNICATIONS
(moderately effective)

Periods of uncertainty might be a good time to directly and proactively remind participants of the potential diversification benefits along with updates to the investment menu through targeted communications. Partnering with the plan administrator's communications team, plan sponsors can launch a communications campaign to a specific segment of plan participants with tailored messaging. People learn best when they believe the information being shared is relevant to them. Targeted communications help increase the relevancy of the message compared to a broad participant notification or mailing.

OPTION 3: REENROLLMENT
(highly effective)

Over-allocation to equities is a real risk in turbulent market environments. And while communications may help, we also know that many participants do not understand basic investing principles like diversification, return expectations and risk suitability. Inertia is another risk to participant behavior. Re-enrolling the plan into the QDIA may significantly help improve overall investment allocations and realize any cost savings associated with the QDIA selection (Figure 4 and 5).

FIGURE 4 **Before re-enrollment**
Wide variance of asset allocation

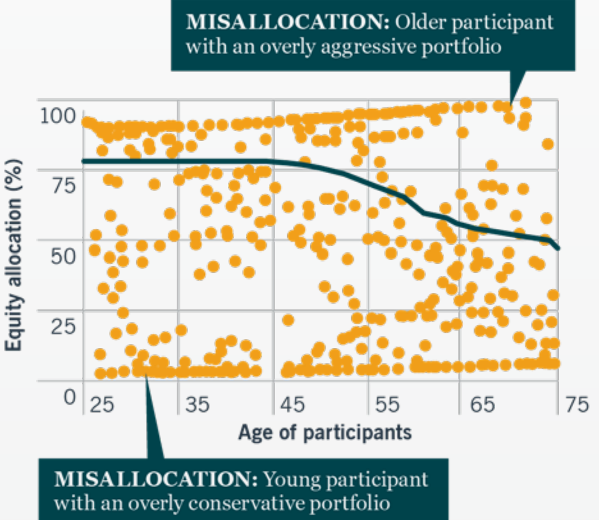
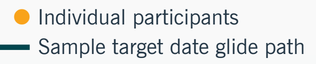
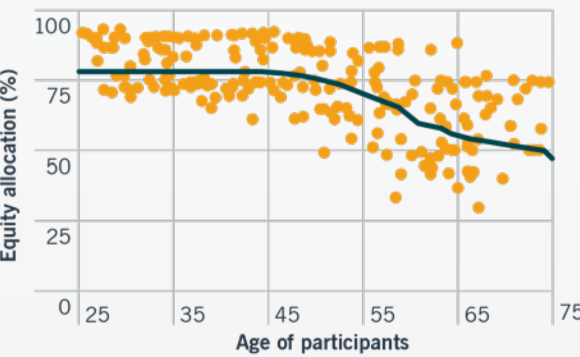


FIGURE 5 **After re-enrollment**
Participants with more suitable allocations





For illustrative purposes. Does not represent the actual experience of any specific defined contribution plan.

Looking forward

Following a tumultuous 2020, we look forward to the global economy transitioning to a period of "normalization" in 2021. Consistent with conventional retirement-planning wisdom, we believe plan sponsors should continue to remind participants to invest over longer time horizons with careful rebalancing. We do not advocate that participants time the market, which is why having actively managed, diversified investment options — either standalone or through a target date fund — on the menu can potentially provide better retirement results.

Key takeaways for plan sponsors

- *Diversify equity offerings across styles and market caps.*
- *Consider adding a fund that includes exposure to small caps or a stand-alone option.*
- *Include an actively managed international strategy with the flexibility to invest in emerging markets.*
- *Incorporate these concepts as a part of regular target date fund offerings review.*
- *Help participants maintain an appropriate risk/return profile.*

PARTICIPANT ENGAGEMENT

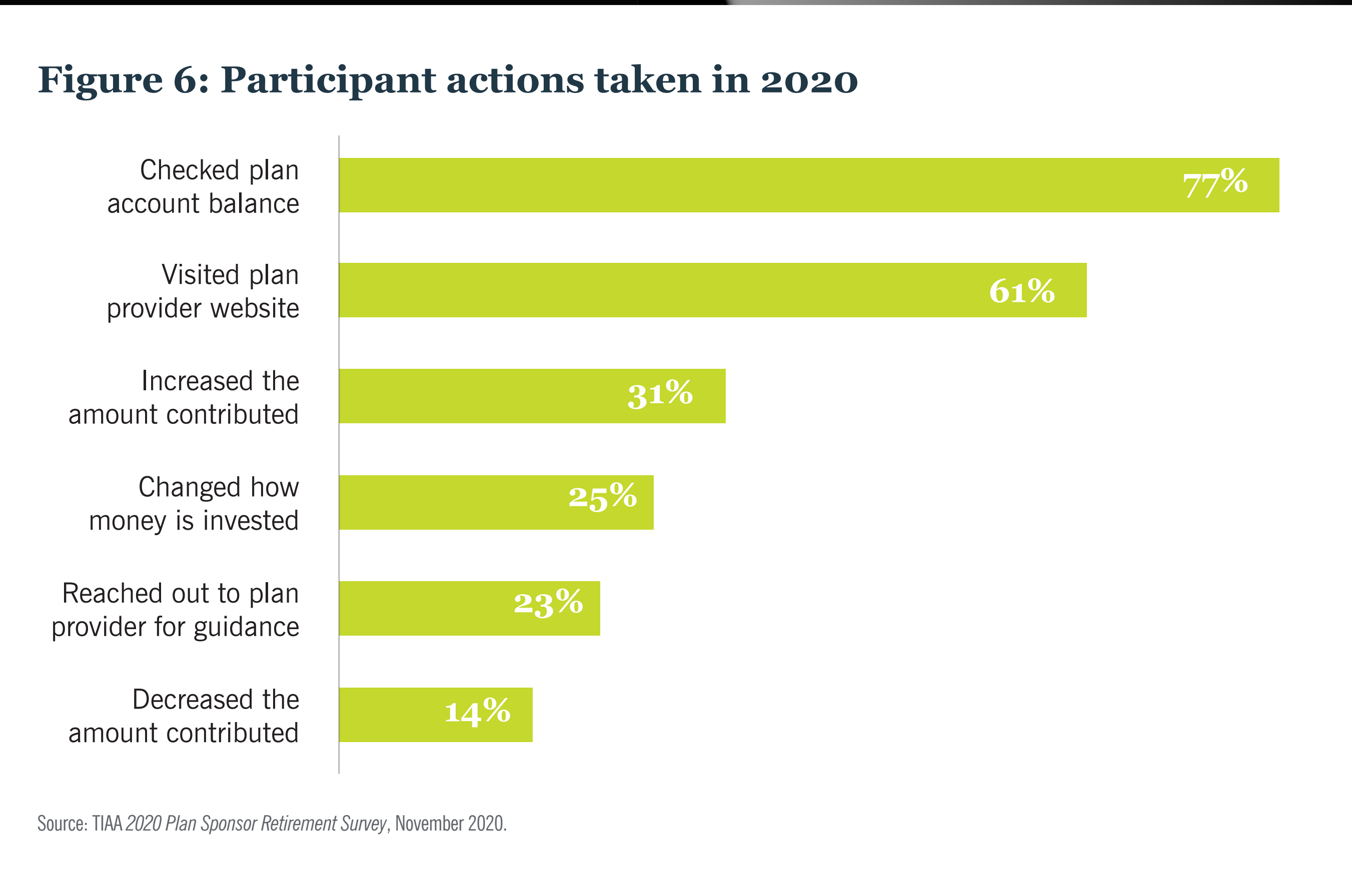
An interview on retirement readiness in any market environment

TIAA's 2020 Plan Sponsor Retirement Survey found that as a result of the coronavirus, 50% of 401(k) participants and 69% of plan sponsors are concerned about retiring when they would like. But despite these financial pressures, it is important that participants don't lose sight of their long-term retirement goals. While plan sponsors cannot control or predict what may come next, there are time-tested strategies that can help prepare participants for retirement regardless of the environment.

Hands off

We spoke to Dan Keady, chief financial planning strategist at TIAA, and he cautions that looking at retirement balances too often "can cause more harm than good. When volatility rises, so do emotions. And when participants put themselves on this emotional roller coaster, it only increases their anxiety and can make them prone to poor decision making."

He notes it is important to remind participants about the time they have until retirement, especially for younger investors with longer horizons. "Looking at retirement balances every day during turbulent times doesn't make sense for these participants because they won't touch the money for many years." Still, TIAA's annual Plan Sponsor Retirement Survey found that 77% of participants checked their account balances, and 39% either decreased their contributions or changed how their money was invested during 2020.



Don't cash out

If participants are frequently checking their retirement accounts, remind them to resist the temptation to sell their investments if they see a drop. As Keady puts it, "It might feel like the safe thing to do, but remind them that those losses are on paper only. And throwing money into cash actually cements those losses." We witnessed this investor behavior last year. Figure 7 tells the story of two participants, both of whom began 2020 with the same portfolios of 50% stocks and 50% bonds. One sold all their stocks on March 31 amid spiking volatility while the other stayed the course. At the time, moving to cash may have seemed like the "safe" choice, but it wound up being the exact opposite.

While this is only one snapshot in time, the point holds true over the long run. Participants may miss crucial rebounds by attempting to "time" their market participation. Instead of jumping in and out of markets, or shifting strategies frequently, participants should follow a more consistent approach. While staying invested can take willpower and fortitude, reminding participants to stay the course and remain invested is often the best way to help them achieve long-term goals. When markets fluctuate, participants may feel the need to act, but with a long-term investment horizon, such as saving for retirement, sometimes the best action is no action at all.

FIGURE 7

Value of $100 portfolio

50% stocks / 50% bonds

Source: Bloomberg, Nuveen, 01 Jan 2020 - 01 Mar 2021. Representative indexes: Stocks: S&P 500 Index, Bonds: Bloomberg Barclays U.S. Aggregate Bond Index. **Past performance is no guarantee of future results.** For illustrative purposes only; does not represent the experience of any specific investor.

"Rebalancing" act

Many self-directed participants may still have the same allocations they started with when they first enrolled in the 401(k) plan. Over time, those allocations tend to shift as one asset class outperforms another. For example, some participants may unknowingly have a higher allocation to equities than they realize given the advance in stock prices over the last decade. This means their allocations may no longer align with their risk tolerance. That is why it is important for participants to rebalance periodically to avoid being overweight in certain asset classes.

Some experts suggest participants consider rebalancing if the funds in their portfolio have strayed more than 5% to 10% from their original allocation. Others recommend annual or quarterly rebalancing. Either way, it is important to pick a strategy and stick with it. Keady suggests picking the same day every year or quarter to rebalance, which helps avoid making emotional decisions based on market moves.

While rebalancing makes sense in theory, it may be difficult to convince participants to do it. Fortunately, there are tools to make it easier. Offering an automatic rebalancing feature can take the guesswork and anxiety out of the process for participants, allowing participants to set up automatic rebalancing on a regular schedule. In addition, certain menu options such as actively managed target-date funds automatically diversify and rebalance investments over time in line with the participant's expected retirement year. Target date funds may keep participants from falling into the common trap of selling after asset prices fall because they automatically rebalance over time to align with participants' time horizons and risk appetites.

Encourage consistent contributions

During periods of uncertainty and increased market volatility, participants can easily lose sight of long-term financial goals, and may even stop contributing to their 401(k). This is the perfect time to reinforce the idea of dollar-cost averaging. By sticking with steady contributions, participants can actually take advantage of stock market downturns as their fixed dollar amount goes further to buy more shares at a lower cost. In fact, the TIAA survey found that 31% of participants actually increased the amount they contributed last year amid higher volatility. Another thing to remind participants: Those who jump in and out of the market have to get it right twice — when to exit and again when to re-enter the market.

Market volatility and investment uncertainty are here to stay. But so too is the commitment plan sponsors have to their participants. The important thing is providing the right information and advice to empower participants to make smart choices. While no two participants will have the same retirement time horizon, goals or risk tolerance, there are fundamentals that can lead to improved retirement outcomes: staying the course, proper diversification and consistent saving.

Since 2000, there have been three bear markets. During each overall market drop, multiple up-market periods add to the complexity of trying to time your actions.

TECHNOLOGY BUBBLE

24 Mar 2000 to 09 Oct 2002

-47.4%
total decline

41%
months with positive return

FINANCIAL CRISIS

09 Oct 2007 to 09 Mar 2009

-54.9%
total decline

33%
months with positive return

COVID-19 HEALTH CRISIS

19 Feb 2020 to 23 Mar 2020

-33.5%
total decline

If I got out, did I get back in?

FIDUCIARY PERSPECTIVE

Washington watch:
shifts in retirement policy?

*A look at **legislative changes** that could impact your plan participants.*

Traditionally, the first two years of a president's term is when the most significant legislation is enacted. And so far, the Biden administration and Congress are following tradition as their agenda begins to take shape, including some possible changes to retirement policy. Unlike many other issues, retirement policy remains largely bipartisan, but that does not mean that we will see consistent approaches to retirement regulation and legislation relative to prior administrations. So what are the issues to watch? Following is a list of the ones we think deserve focus from plan sponsors.

A sigh of COVID relief?

As outlined in his campaigning, the top priority for the Biden administration is pulling the country and economy out of the COVID-19 pandemic. And to that end, the American Rescue Plan Act of 2021 (ARPA) was signed into law on March 11, 2021. Here are some key provisions:

RETIREMENT

While ARPA builds upon and extends numerous provisions from the Coronavirus Aid, Relief and Economic Security Act of 2020 (CARES), it does not contain the same kind of retirement plan relief that provided increased access to retirement savings and suspended required minimum distribution (RMD) payments. ARPA does, however, address longstanding issues related to certain defined benefit plans. While this is a defined contribution-focused publication, many of our readers oversee defined benefit plans as well, so it is worth noting defined benefit plan relief on the next page.

STATE AND LOCAL

ARPA provides $350 billion to state and local governments hit by tax revenue losses. Critically, the bill bars states from using the aid for pensions or to finance tax cuts enacted since March 3, 2021, a provision that some states are pushing back against with litigation — notably, Ohio's attorney general asked a federal court to rule it unconstitutional. State and local governments could transfer funds to private nonprofit groups, public benefit corporations involved in passenger or cargo transportation, and special-purpose units of state or local governments. Funds can only be used to cover costs incurred by December 31, 2024.

SMALL BUSINESS

ARPA provided $7.25 billion for Paycheck Protection Program (PPP) forgivable loans, but did not extend the PPP's application period, which closed March 31, 2021. It also makes more not-for-profits eligible for the PPP and provides $15 billion for targeted Economic Injury Disaster Loan (EIDL) advance payments; $25 billion for restaurants, bars, and other eligible providers of food and drink; and $1.25 billion for shuttered venue operators.

Defined benefit provisions included in ARPA

Multiemployer

Intended to address the growing funding crisis in the multiemployer pension system, ARPA includes the following:

- A new financial assistance program to offer cash payments from the Pension Benefit Guaranty Corporation (PBGC) to financially troubled multiemployer pension plans. The PBGC would be provided with the amounts necessary to provide such payments through a general Treasury Department transfer.
- The legislation would increase the PBGC multiemployer plan premium rate to $52 per participant starting in calendar year 2031.
- If a multiemployer plan is endangered or in critical and declining status (known as the funding zone status) as of a plan year beginning in 2019, the plan can retain that status for plan years beginning in 2020 or 2021.
- A multiemployer plan in endangered or critical status for a plan year beginning in 2020 or 2021 could extend its rehabilitation period by five years.
- Multiemployer pension plans would be given a longer period to amortize investment losses or reductions in employer contributions.

Single employer

- Increase and extend the 25-year average interest rate stabilization factor provided by Congress in prior years, which started phasing out during 2021.
- Set a 5% floor on the 25-year average rate.
- Change the requirement to amortize funding shortfalls over seven to 15 years for plan years beginning after 2019.

These changes should come as a welcome relief for sponsors subject to the Employee Retirement Security Act of 1974 (ERISA) minimum funding requirements, especially in the current environment of very low interest rates.

ARPA PROVIDES

$350 billion to state and local governments hit by tax revenue losses

$7.25 billion for Paycheck Protection Program (PPP) forgivable loans

$15 billion for targeted Economic Injury Disaster Loan Program (EIDL)

$25 billion for restaurants, bars, and other eligible food and drink providers

$1.25 billion for shuttered venue operators

The great tax debate

Now that ARPA has been signed into law, the next high-priority issue will be moving forward with an infrastructure bill. On March 31, President Biden outlined his "American Jobs Plan," which would invest $2.3 trillion in "physical" infrastructure as a means to boost job creation, expedite post-pandemic economic recovery and promote clean energy. On April 29, President Biden unveiled his "social" infrastructure package, dubbed the "American Families Plan." This second plan proposes spending an additional $1.3 trillion to address issues like child care, paid family leave, education and nutritional assistance. To cover the costs of these proposals, he has proposed a number of tax increases that would impact both corporate and individual tax rates. These proposed changes include, but are not limited to:

- Raising the corporate rate from 21% to 28%
- Increasing the top rate to 39.6% for single filers with income above about $400,000 and married couples with income above roughly $500,000
- Taxing capital gains at ordinary income rates for those making over $1 million
- Ending stepped-up basis at death in excess of $1 million

Congressional leadership will now work to determine which ideas within the proposals can gain enough support to pass Congress.

ESG factors remain in focus (and are still uncertain)

On November 13, 2020, the Department of Labor published "Financial Factors in Selecting Plan Investments," a final rule to address financial factors in selecting plan investments. Although DOL's final rule moved away from using terminology such as "environmental," "social," "governance," and/or "ESG" factors or considerations, the effort is still commonly referred to as the "ESG rule." The amendments made by the rule require ERISA plan fiduciaries to select investments and courses of action based solely on financial considerations relevant to the risk-adjusted economic value. The amendments also address the scope of fiduciary duties surrounding non-pecuniary issues when making investment decisions.

Moderate members in both parties will be at the forefront of the policy debates and could lead from the center in the 117th Congress.

Consistent with past administrations, on his first day in office Biden issued a series of Executive Orders that requires a review of all regulations issued during the Trump Administration that might be inconsistent with President Biden's policies concerning public health, the environment and climate change. Among those was one regulation related to climate change that specifically referenced the ESG rule.

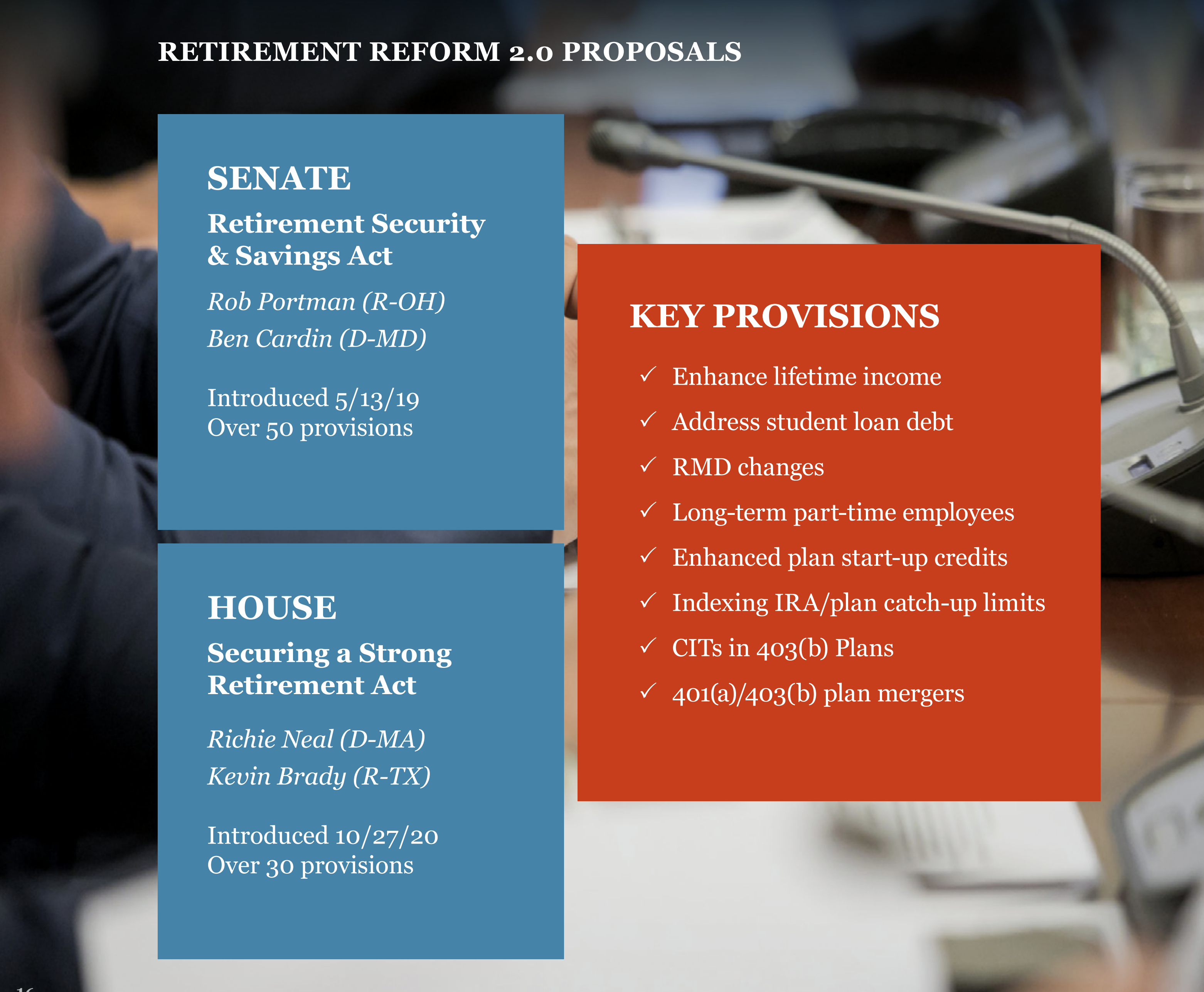
Subsequently, on March 10, 2021, the DOL issued a temporary non-enforcement policy for the so-called ESG rule and similar previously published regulations. The DOL noted it will not enforce these rules until it provides further guidance and intends to revisit the rules, though no specific timeline was provided. Until the publication of additional clarification, the department will not enforce previously offered ESG rules.

The ball is now in the DOL's court. Principal Deputy Assistant Secretary for the Employee Benefits Security Administration Ali Khawar stated, "We intend to conduct significantly more stakeholder outreach to determine how to craft rules that better recognize the important role that environmental, social and governance integration can play in the evaluation and management of plan investments, while continuing to uphold fundamental fiduciary obligations." Our view remains that ESG factors are a critically important component of both plan construction and investment processes. We are hopeful that the benefits of ESG incorporation will continue to be recognized by policymakers, plan sponsors and individual investors.

Comprehensive retirement reform 2.0

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, enacted in 2019, received nearly unanimous support across Washington, an example of the bipartisan nature of retirement policy. The next effort to improve and modernize the retirement system is already underway, based upon two bills that were introduced in both the House and Senate. The bills have similar key provisions. We expect to see the same bipartisan support and anticipate there will be activity around these proposals in the coming months:

1. ***The Retirement Security And Savings Act ("Portman-Cardin"), which was introduced in 2019, featuring more than 50 provisions.***
2. ***The Securing a Strong Retirement Act ("SECURE 2.0"), which was introduced just before the election, reintroduced to this Congress on May 5, 2021 and has over 30 provisions.***



RETIREMENT REFORM 2.0 PROPOSALS

SENATE

Retirement Security & Savings Act

Rob Portman (R-OH)
Ben Cardin (D-MD)

Introduced 5/13/19
Over 50 provisions

HOUSE

Securing a Strong Retirement Act

Richie Neal (D-MA)
Kevin Brady (R-TX)

Introduced 10/27/20
Over 30 provisions

KEY PROVISIONS

- ✓ Enhance lifetime income
- ✓ Address student loan debt
- ✓ RMD changes
- ✓ Long-term part-time employees
- ✓ Enhanced plan start-up credits
- ✓ Indexing IRA/plan catch-up limits
- ✓ CITs in 403(b) Plans
- ✓ 401(a)/403(b) plan mergers

Insuring retirement assets?

In late 2020, Congressmen Donald Norcross (D-NJ) and Tim Walberg (R-MI) introduced the Lifetime Income for Employees Act to expand the qualified default investment alternative (QDIA) regulations in three key ways:

QDIA EXPANSION

Amends QDIA safe harbor to allow, as part of its mix of asset classes, a limited investment in an annuity that has a ***delayed liquidity feature.***

DEFAULT ANNUITY COMPONENT

Limits delayed liquidity component to ***no more than 50%*** of periodic contributions and total account value after a rebalancing.

No liquidity delay can be imposed during a ***180-day period*** beginning after the initial investment.

NOTICE REQUIREMENT

Requires each new participant or beneficiary receive a new notice ***at least 30 days*** before the imposition of delayed liquidity feature.

Can I have some advice?

As a final point plan sponsors should consider the DOL's final prohibited transaction exemption (PTE) on Improving Investment Advice for Workers and Retirees. Published on December 18, 2020, the preamble to the final exemption includes a significant discussion of DOL's views on the 1975 five-part regulatory test for determining whether a person or entity is an investment advice fiduciary for purposes of ERISA and the Internal Revenue Code's prohibited transaction rules. The PTE states that recommendations to roll assets out of an ERISA-covered plan can be considered fiduciary investment advice, which reversed DOL's longstanding position. The Biden Administration had the option to delay the PTE, but they decided to keep it in place. However, it is likely that DOL will make further changes to the PTE and the definition of investment advice fiduciary.

The path forward remains rocky

The path for moving the Biden administration agenda forward is not as smooth as one may think. While Democrats ultimately swept the 2020 elections, they lost seats in the House and have the narrowest of margins in the Senate. While Vice President Harris will cast the tie-breaking Senate vote when necessary, it will still be challenging for Democrats to move forward with any overly progressive proposals. Moderation and negotiation will be critical, especially in the Senate, where a handful of moderate Democratic senators may not automatically agree with every Democratic proposal under consideration. Bipartisanship will be at a premium and nearly as important as if Congress were more divided. Moderate members in both parties will be at the forefront of the policy debates and could lead from the center in the 117th Congress to drive the outcome of retirement reform and policy.

These issues all bear close watching, and we remain committed to staying informed, discussing our views with policymakers and providing our perspectives to plan sponsors.

ON THE HORIZON

Beyond better health: *renewing focus on wellness*

Along with almost everything else in the world, employees' needs have changed over the past year. The physical, mental and financial toll of the pandemic continues to weigh heavily, creating significant implications for employers. While corporate wellness programs have historically focused on physical health, the pandemic has revealed gaps in strategies to more holistically address physical, mental and financial well-being.

A bridge from health to well-being

Even when compared to major events like September 11, nearly 70% of U.S. workers have stated that the pandemic has been the most stressful period in their entire professional careers. Issues relating to mental health and burnout are true threats to an organization's performance. According to data from the American Psychiatric Association, employees with unresolved depression experience a 35% reduction in productivity, contributing to a loss to the U.S. economy of $210.5 billion a year in absenteeism, reduced productivity and medical cost.

And unfortunately these high stress levels won't be disappearing anytime soon. Mental and emotional well-being need to be placed at the forefront of a holistic wellness offering. Employers should consider what actions they can take to improve employee well-being in their everyday lives, and how to provide easy access to resources when professional assistance is needed.

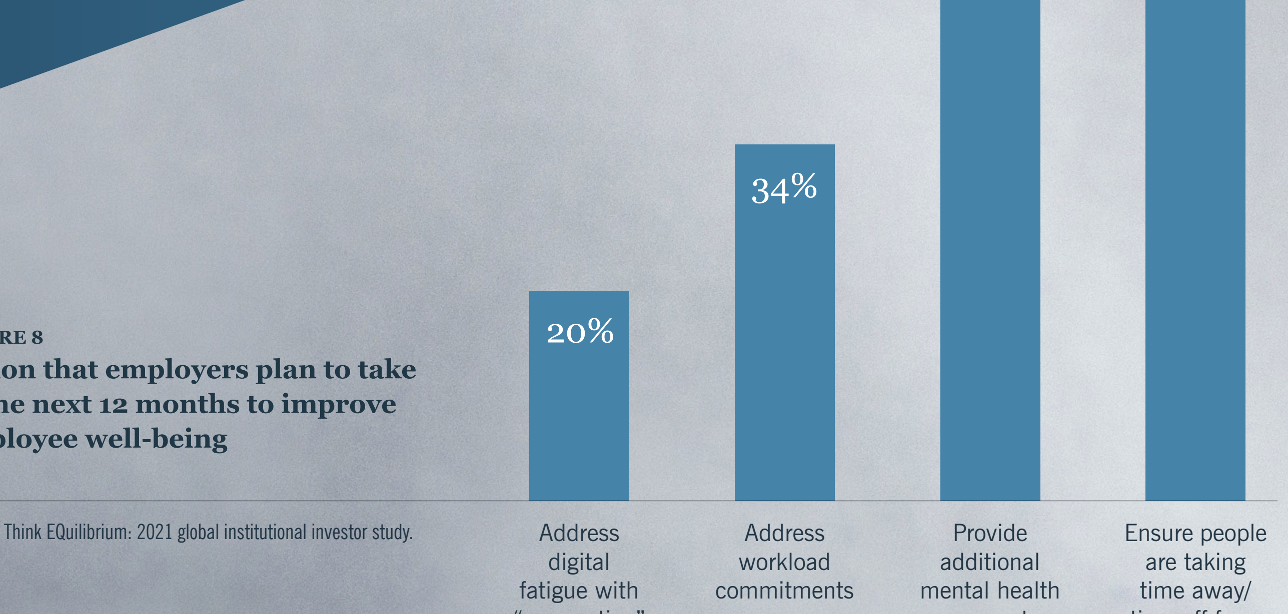
Nearly

70%

of U.S. workers have stated that the pandemic has been the most stressful period in their entire professional careers.

FIGURE 8

Action that employers plan to take in the next 12 months to improve employee well-being



Source: Think EQuilibrium: 2021 global institutional investor study.

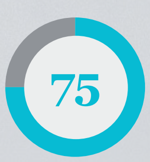
Addressing financial insecurity

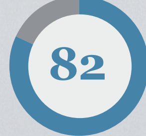
In addition to physical and mental well-being, our society's financial stability and resilience has been put to the test over the past year. Throughout the pandemic, employers have been extremely attentive to physical and mental health needs with more than 80% of employers stating an increased focus on health and safety of the workforce. This heightened focus on health seems to be paralleled by an increased focus on financial well-being with 69% of employers stating they now have a greater focus on improving financial wellness and 60% say the same about retirement preparedness. While employees recognize the newfound attention to health, they are not making the connection between health and financial wellness. Only a third of employees recognize this connection and only 1 in 4 have increased focus on retirement preparedness.

FIGURE 9

How employers have changed since COVID-19

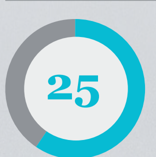
According to employees (%) | According to employers (%)

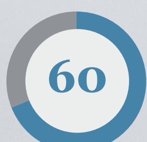




Employer increased focus on the health and safety of employees

Employer increased focus on improving the financial wellness of employees





Employer increased focus on retirement preparedness of employees

Source: Think EQuilibrium: 2021 global institutional investor study.

Financially stressed employees leads to:

3 hours lost per week on money worries

10x more likely to not be able to finish daily tasks

13-18% increase in annual payroll due to additional training and recruitment costs

Now is the time to address this disconnect as employer-provided resources are seemingly going unused, while issues relating to financial insecurity among employees continue to rise. The negative downstream effects of employee financial stress can be significant: According to Salary Finance, this sort of stress can cost a company between 13% and 18% of their annual payrolls. As employees look to rebuild their financial well-being, there will be a demand for not just information, but also guidance from employers. As highlighted in the next section, the workplace will be a key area to start.

Strategies employers can leverage to support employees' financial well-being

ENHANCE YOUR VIRTUAL CAPABILITIES

With digital engagement here to stay, employees are much more likely to participate in a virtual interaction than ever before. Interactive tools, seminars and even financial coaching are now scalable offerings that can make a meaningful impact.

BEEF UP YOUR BENEFITS

Look beyond a retirement plan match or health savings account and consider programs to address common personal finance concerns such as emergency savings funds or student loan payment programs.

FOCUS ON FINANCIAL LITERACY

Achieving and maintaining financial well-being is not simply having enough money. It is the knowledge and understanding that enable sound financial decision making. Consider offering a series that focuses on financial literacy to promote long-term financial wellness.

BUILD AWARENESS

Communication is key. Create a plan to ensure that all employees know what benefits are available to them, where to access those benefits and most importantly how to use them. And this isn't a one and done effort. Studies have suggested that people need to hear a message seven times before they consider taking action.

77%

of outperforming company CEOs surveyed report they plan to prioritize employee well-being even if it affects near-term profitability compared to just

39%

of underperformers, reflecting that the surveyed leaders of top organizations are heavily focused on their people in this moment.

—2021 CEO Study: *How to thrive in a post-pandemic reality*

Employers have a key opportunity to create happier and more engaged employees. A holistic wellness offering that addresses not only physical health, but also mental, emotional and financial health can be major component of strengthening your overall employee engagement.

For more information, please visit us at nuveen.com

Sources

1 Alight, “Alight Solutions 401(k) Index™: Full Year 2020 Observations,” 2020.

2 Callan, “DC Trends Survey,” 2020.

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4 Salary Finance, “Inside the Wallets of Working Americans: The 2nd Annual Salary Finance Report,” 2020

5 IBM, “2021 CEO Study: Find your essential. How to thrive in a post-pandemic reality,” 2021.

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A word on risk

All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investing involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income.

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