EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

87TH PUBLIC POLICY FORUM
JUNE 29, 2020
CARES ACT: IMPLICATIONS FOR RETIREMENT SECURITY OF AMERICAN WORKERS

REMEMBER THE BLIZZARD OF '78?

THANK YOU POLICY FORUM DEVELOPMENT TASK FORCE!

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Melissa Kahn, State Street Global Advisors

Gary Koenig, AARP

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Mike Skinner, T Rowe Price

Michael Sowa, LGIMA

Jana Steele, Callan

Aron Szapiro, Morningstar

For information about joining, contact Betsy Jaffe at jaffe@ebri.org

Forums

Summer 2020 Policy Forum #87

If your organization is interested in sponsoring one of our events, contact us at memberships@ebri.org.

On the week of June 29th, EBRI will offer its traditional spring Policy Forum in a nontraditional format — via a series of webinars. While we would love to see you in person — and hope we will see you in healthier times in December — EBRI wants to deliver timely, valuable content in a manner that is safe for our community. We plan to offer compelling speakers addressing policy implications in a post-pandemic world. We'll be discussing retirement, health, and financial wellness issues within the prism of the times.

Register now!

Full Agenda

Presentations

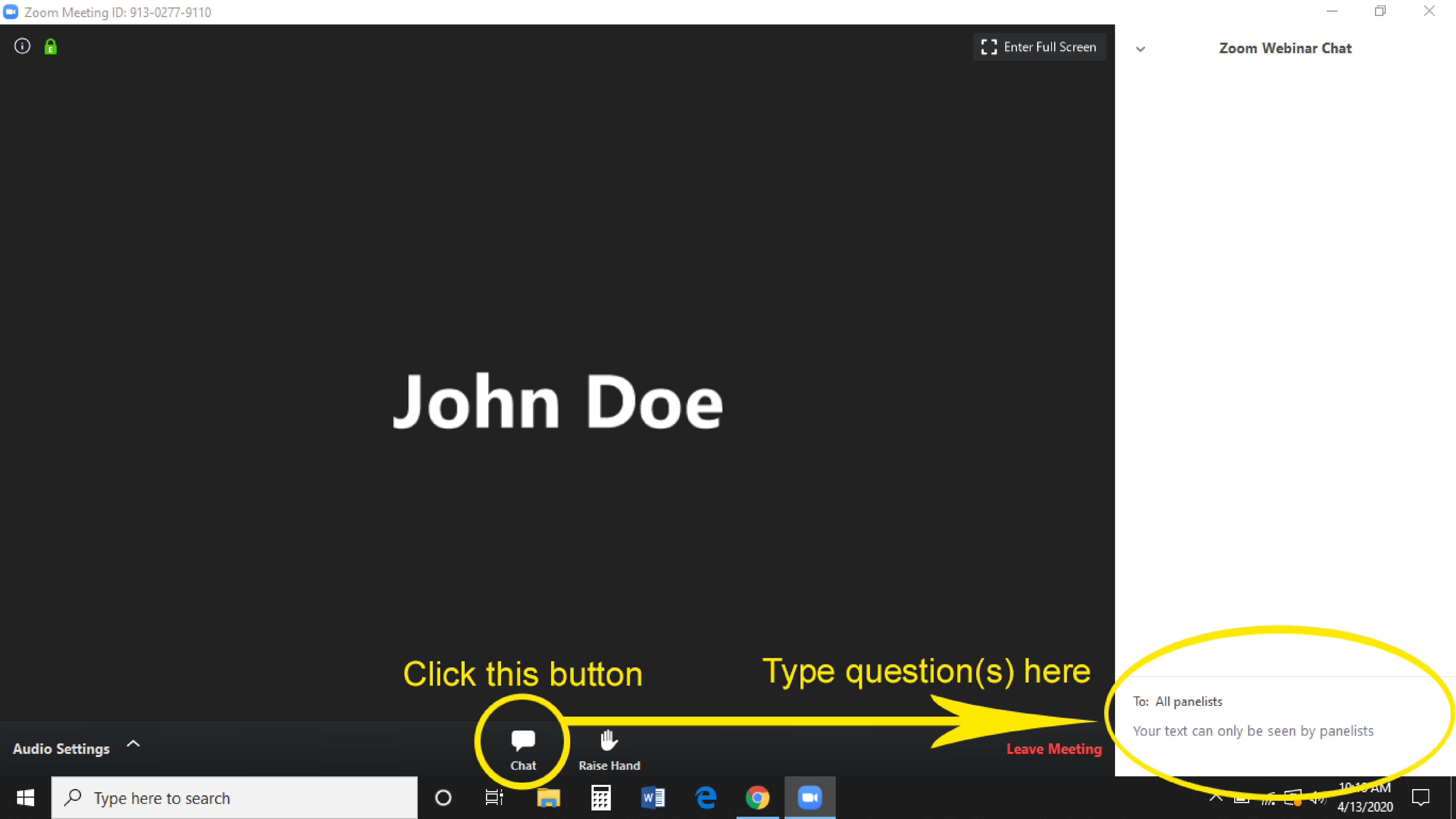
- **June 29:** CARES Act: Implications for Retirement Security of American Workers
- **June 30:** The New Landscape: COVID-19's Impact on Defined Benefit Plans
- **July 1:** Coming out the Other Side of COVID-19: the

Forum Location

Virtual!

Register Here

Past Forums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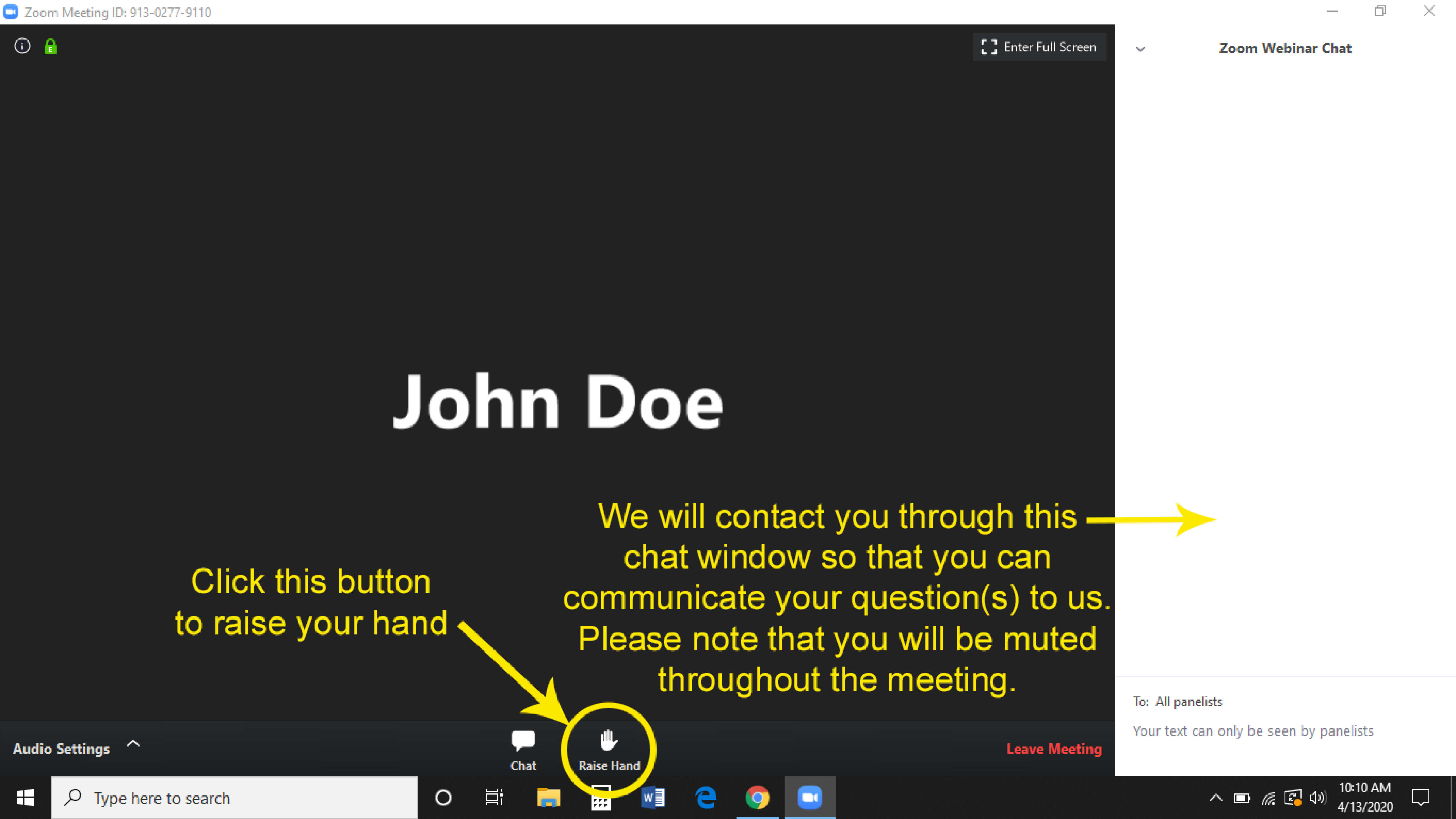
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Jack VanDerhei,
Research Director,
EBRI

Bridget Bearden,
Director, Institutional
Marketing, Edelman
Financial Engines

Chantel Sheaks,
Executive Director of
Retirement Policy, U.S.
Chamber of
Commerce

Moderated by:
Melissa Kahn,
Managing Director
and Retirement Policy
Strategist, State
Street Global
Advisors

TODAY'S AGENDA

- An evaluation of the CARES Act provisions' potential impact on retirement income adequacy.
- How employers might help workers rebuild their retirement assets and avoid unnecessary access.
- Plan sponsors' considerations around the CARES Act.

CARES Act: Legislation and Guidance

Withdrawals and Loans

Penalty Free Withdrawals:

CARES Act allows penalty free distributions of up to $100,000 from a defined contribution plan or IRA for distributions made after the date of enactment and before December 31, 2020 for individuals who:

- Are diagnosed with COVID-19;
- Have a spouse or dependent who is diagnosed with COVID-19;
- Experience adverse financial consequences because of being quarantined, furloughed or laid off, have work hours reduced, or are unable to work because of lack of childcare; or
- Experience a closing or the reduction of hours of a business owned or operated by someone diagnosed COVID-19

Amounts may be paid back over a three year period. A person also may elect to spread the income tax implications over three years.

Loan Modifications:

Any loan made to an individual who meets the above requirements for the 180 day period starting after the date of enactment may be up to the lesser of $100,000 or the present value of the nonforfeitable account balance. In addition for any individual who meets the above requirements, any loan repayment due starting on the date of enactment to December 31, 2020 may be delayed by one year and the loan will be reamortized.

RMDs, Pension Contributions, Delays

Required Minimum Distributions

- Required minimum distributions for 2020 would be waived for defined contribution plans and IRAs

2020 Required Minimum Contributions and Benefit Restrictions

- A plan sponsor may delay a required quarterly minimum contribution due during calendar year 2020 until January 1, 2021, subject to interest from the original due date at the "effective rate of interest for the plan for the plan year which includes such payment date"
- An employer may elect to treat the plan's adjusted funding target attainment percentage for the last plan year ending before January 1, 2020, as the adjusted funding target attainment percentage for plan years which include calendar year 2020 for benefit restrictions

DOL Authority to Delay Reporting

The CARES Act amends ERISA Section 518 which allows the Secretary of Labor to postpose certain reporting and other ERISA requirements to include "a public health emergency declared by the Secretary of Health and Human Services." Although this delay allows DOL to provide reporting and disclosure relief and possibly allow PBGC to provide a delay for premium payments and other reporting, it does not address the excise tax and penalties under the Internal Revenue Code.

CARES Act: Regulatory

IRS CARES Distributions/Loans FAQs

- IRS intends to issue further guidance and referenced Notice 2005-92 for guidance on the tax favored treatment of distributions and plan loans under the Katrina relief
- Acknowledges that CARES Act distributions and loans are optional — plan sponsor may offer either, neither or both
- IRS is reviewing public comment to expand who is a qualified individual
- Plan administrator may rely on an individual’s certification that the person is a qualified individual
- A coronavirus-related distribution is any distribution to a qualified individual from 1/1/2020 to 12/30/2020 regardless of whether the plan sponsor designates it as such
- A plan or IRA must report a coronavirus-related distribution on Form 1099-R (even if repaid within the year), and the IRS expects to provide additional reporting guidance
- The IRS “anticipates” an eligible retirement plan will accept repayments. BUT, if a plan does not accept rollovers, it is not required to change the plan to accept repayments. MEANING: If the plan accepts rollovers, it must accept cornonavirus-related repayments.
- If a distribution is repaid, the individual must file an amended return to claim the refund

Notice 2020-1 — Notice and Disclosure; Loans and Distributions

- For CARES Act loans and distributions, the Notice provides good faith reliance on amending the plan for loans and distributions if the plan is amended by the last day of the first plan year on and after January 1, 2022

Important Disclosures

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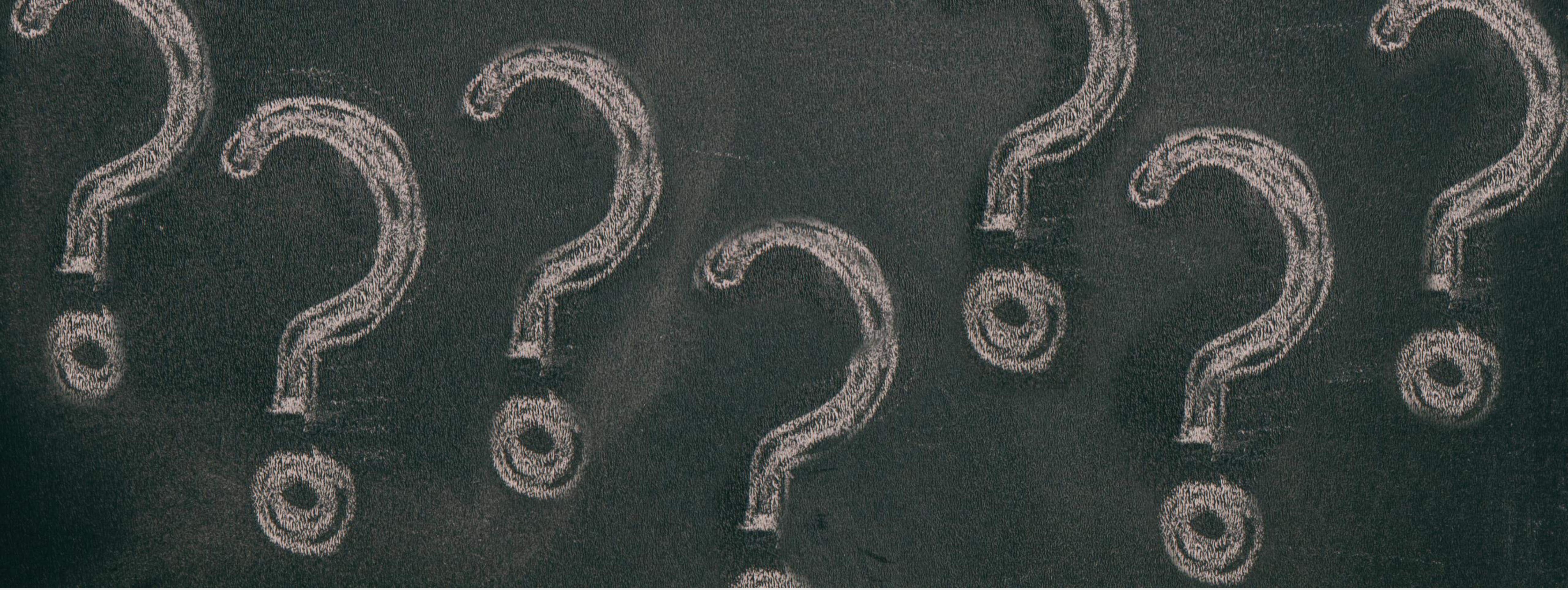

POLLING QUESTION

PLEASE SHARE YOUR THOUGHTS

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CARES Act: Implications for Retirement Security of American Workers
EBRI Policy Forum: June 29, 2020

Jack VanDerhei, Ph.D.
Research Director
Employee Benefit Research Institute
Washington, DC
vanderhei@ebri.org

Outline of the presentation

- Scope of the study and previous research
- Brief summary of the simulation model
- Results
- Summary and future work

Impact of COVID-19 and CARES Act on Retirement Income Adequacy

- "Impact of the COVID-19 Pandemic on Retirement Income Adequacy: Evidence From EBRI's Retirement Security Projection Model®," EBRI Issue Brief, April 2020
  - Simulated the AGGREGATE impact on retirement income adequacy metrics based on assumptions with respect to:
    - Investment results
    - Participant behavior
    - Plan sponsor behavior
    - Unemployment
  - Currently working on a follow-up to show CONDITIONAL impact on participants
- Today's presentation: CONDITIONAL impact of the CARES Act on retirement income adequacy
  - Assuming maximum utilization of provisions under four different scenarios
    - Both plan sponsor and participant

EBRI's Retirement Security Projection Model (RSPM)

- Accumulation phase
  - For current 401(k) participants ages 25-64, simulates balances from 401(k) plans and IRA rollovers originating in 401(k) plans at age 65
    - 401(k) participant behavior based on individual administrative records
      - Annual linked records dating back to 1996
- NB: this version of the model does NOT include the retirement/decumulation phase

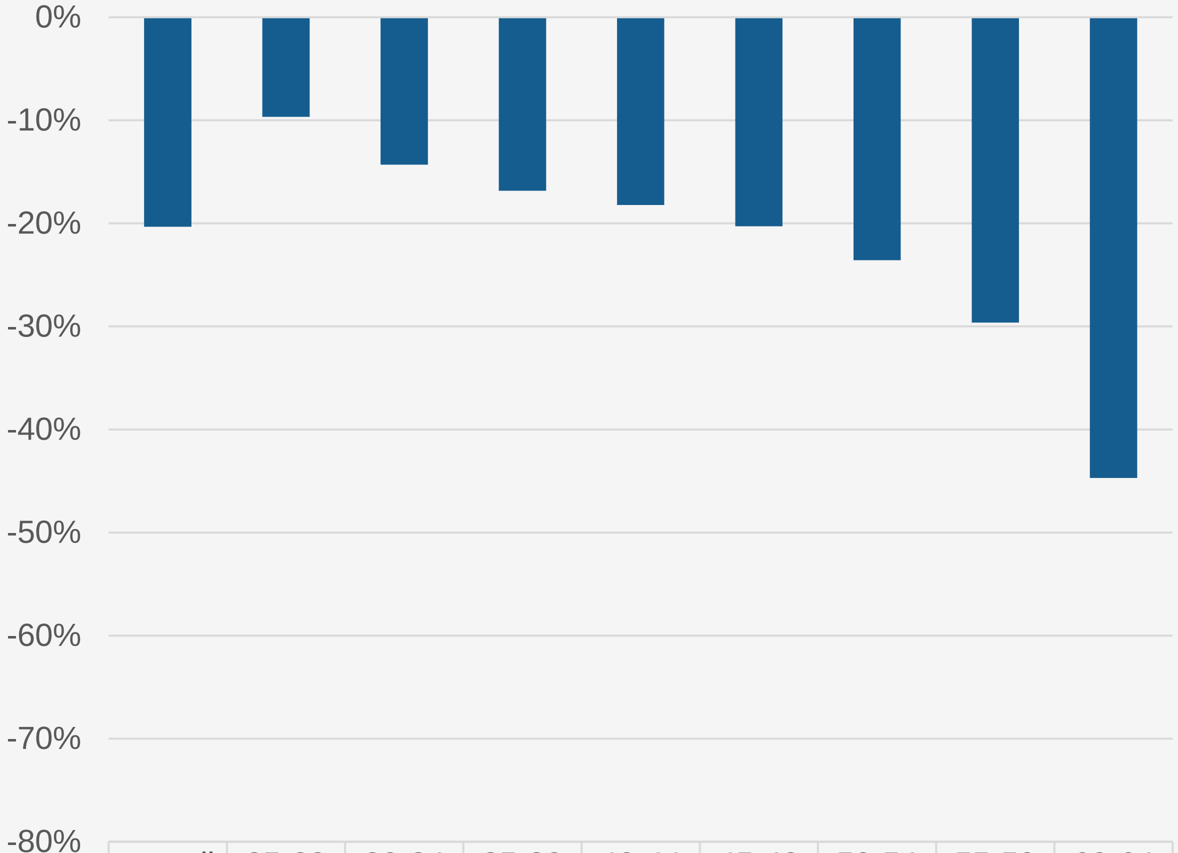
For a list of approximately 50 studies using RSPM please see: bit.ly/ebri-rspm-new

Today’s analysis

- Scenarios analyzed
  - One-time withdrawal with no payback
  - One-time withdrawal with payback over three years
  - “Extra” loan with dollar for dollar offset for loan payments against employee contributions
  - Withdrawal every ten years with no payback
- Results
  - Medians of reduction in retirement balances at age 65 as a multiple of pay broken out by:
    - Age
    - Age-specific salary quartiles
    - Age-specific <u>initial</u> account balance quartile
    - Replacement rate proxies

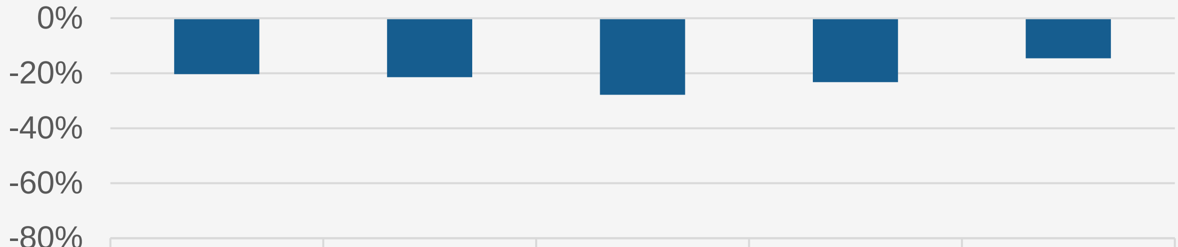
Median reduction in retirement balances as a multiple of pay at age 65 for employees taking full withdrawal (up to $100,000) in 2020 with no payback

by current age



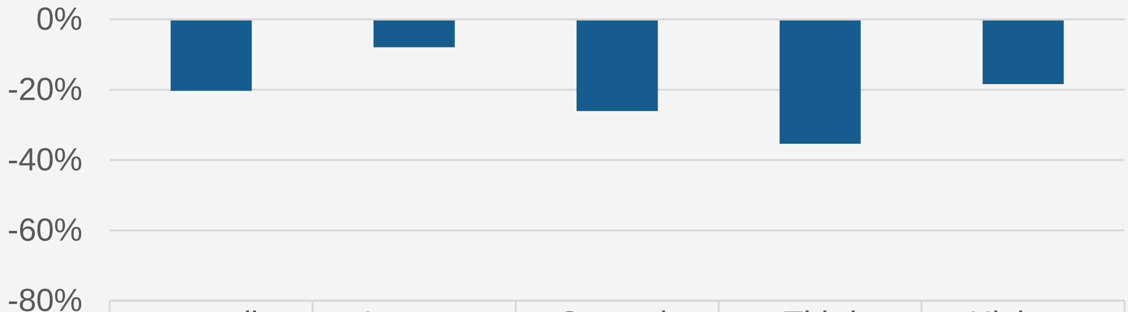
	overall	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64
p50	-20%	-10%	-14%	-17%	-18%	-20%	-24%	-30%	-45%

by age-specific salary quartile



	overall	Lowest	Second	Third	Highest
p50	-20%	-21%	-28%	-23%	-15%

by age-specific initial account balance quartile



	overall	Lowest	Second	Third	Highest
p50	-20%	-8%	-26%	-35%	-18%

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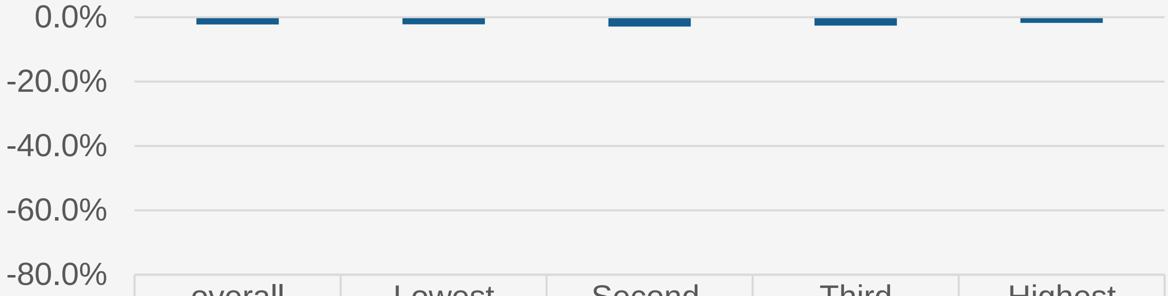
Source: EBRI Retirement Security Projection Model® version 3653.

Median reduction in retirement balances as a multiple of pay at age 65 for employees taking full withdrawal (up to $100,000) in 2020 with three-year payback*

by current age

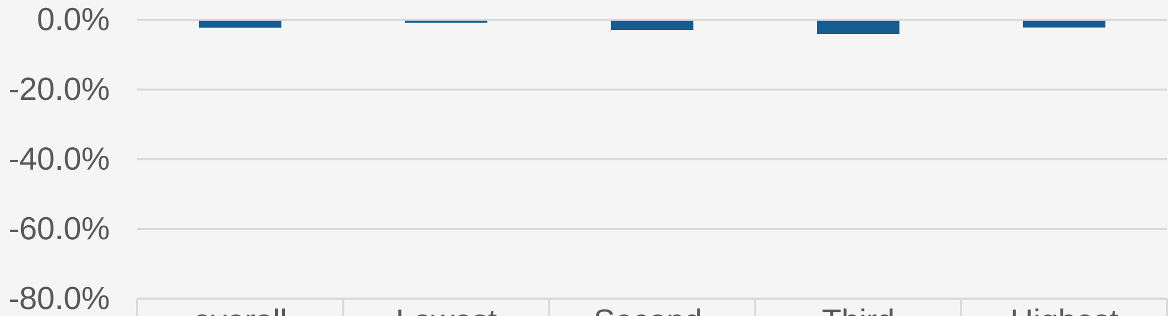
	overall	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64
p50	-2.3%	-0.9%	-1.4%	-1.8%	-2.0%	-2.2%	-2.5%	-3.1%	-5.8%

by age-specific salary quartile



	overall	Lowest	Second	Third	Highest
p50	-2.3%	-2.2%	-2.9%	-2.6%	-1.8%

by age-specific initial account balance quartile



	overall	Lowest	Second	Third	Highest
p50	-2.3%	-0.8%	-2.9%	-4.0%	-2.2%

* With the exception of those taking the withdrawal after age 61

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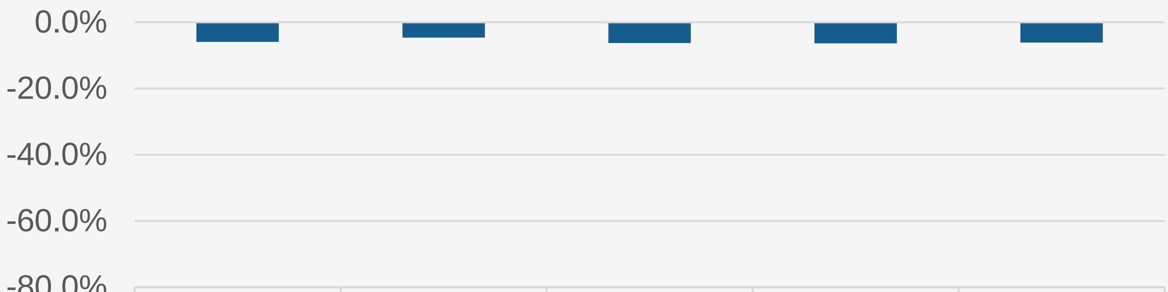
Source: EBRI Retirement Security Projection Model® version 3653.

Median reduction in retirement balances as a multiple of pay at age 65 for employees taking new loans (up to $100,000) in 2020 with dollar for dollar offset against employee contributions* for new loan payments

by current age

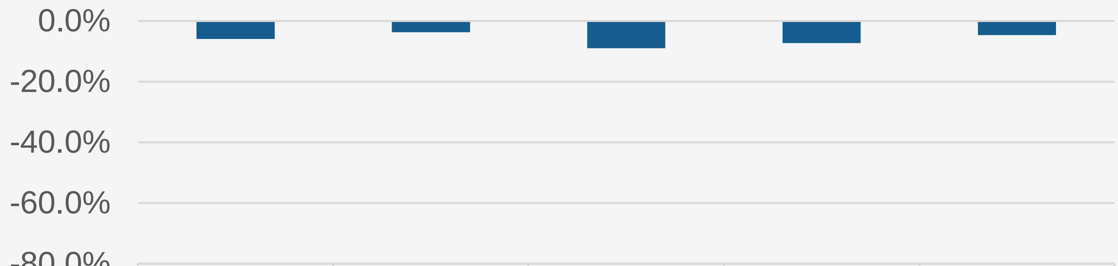
	overall	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64
p50	-5.9%	-3.4%	-4.6%	-5.2%	-5.7%	-6.4%	-7.2%	-8.8%	-5.5%

by age-specific salary quartile



	overall	Lowest	Second	Third	Highest
p50	-5.9%	-4.6%	-6.3%	-6.4%	-6.1%

by age-specific initial account balance quartile



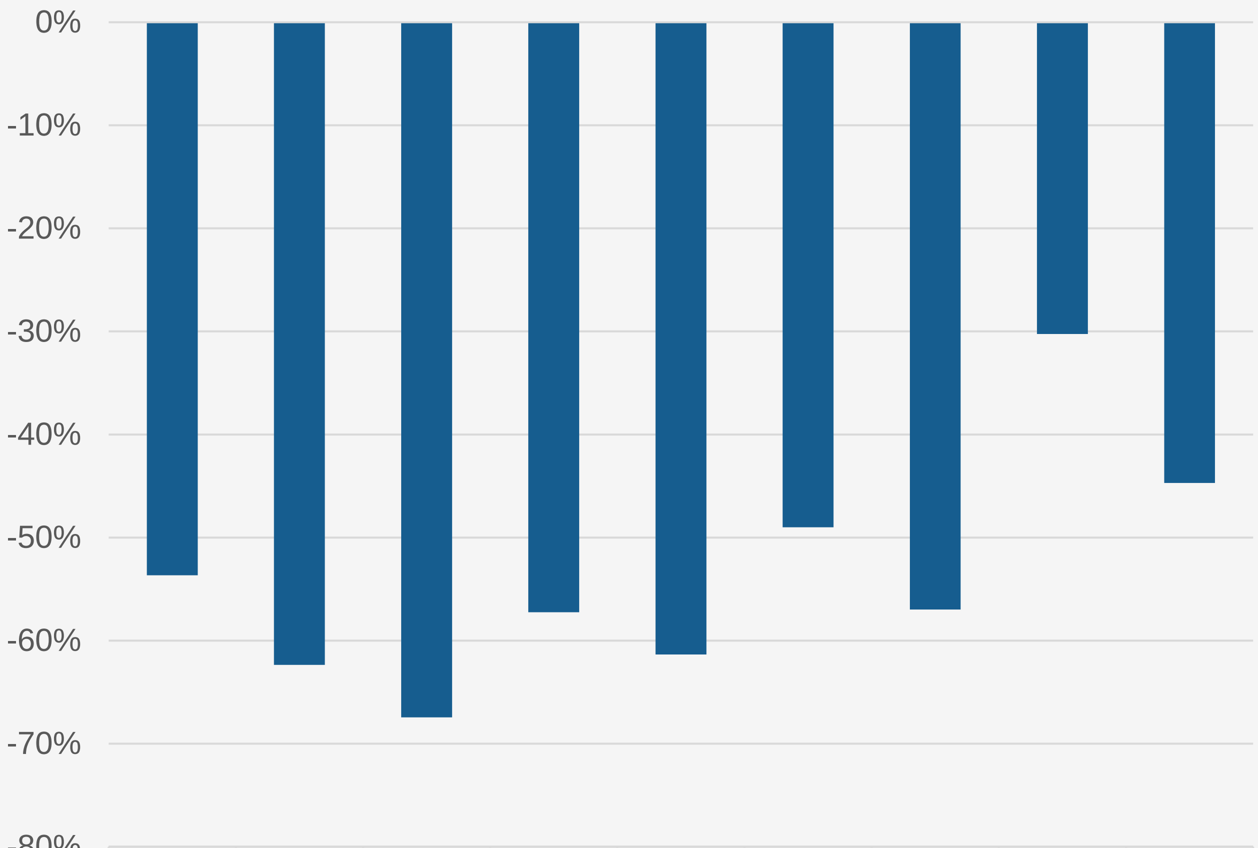
	overall	Lowest	Second	Third	Highest
p50	-5.9%	-3.7%	-9.0%	-7.3%	-4.6%

* to the extent possible

Source: EBRI Retirement Security Projection Model® version 3653.

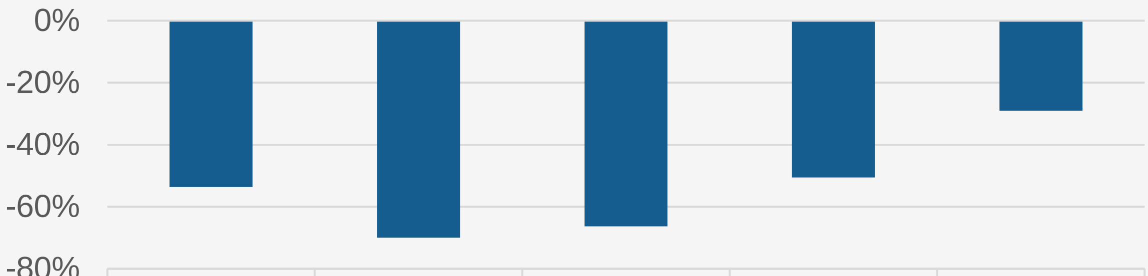
Median reduction in retirement balances as a multiple of pay at age 65 for employees taking full withdrawal (up to $100,000) in 2020 and every ten years thereafter with no payback

by current age



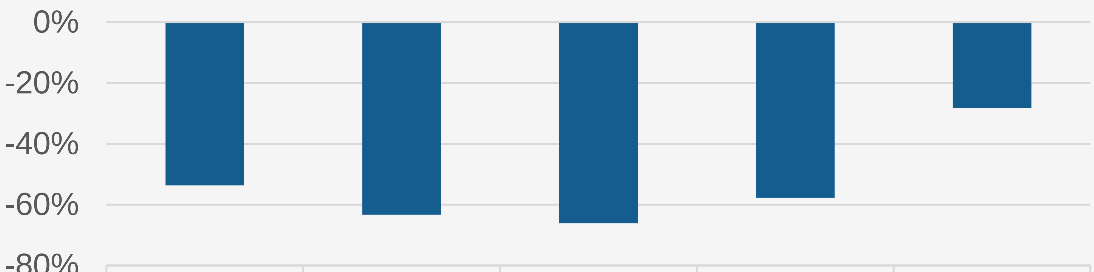
	overall	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64
p50	-54%	-62%	-67%	-57%	-61%	-49%	-57%	-30%	-45%

by age-specific salary quartile



	overall	Lowest	Second	Third	Highest
p50	-54%	-70%	-66%	-51%	-29%

by age-specific initial account balance quartile



	overall	Lowest	Second	Third	Highest
p50	-54%	-63%	-66%	-58%	-28%

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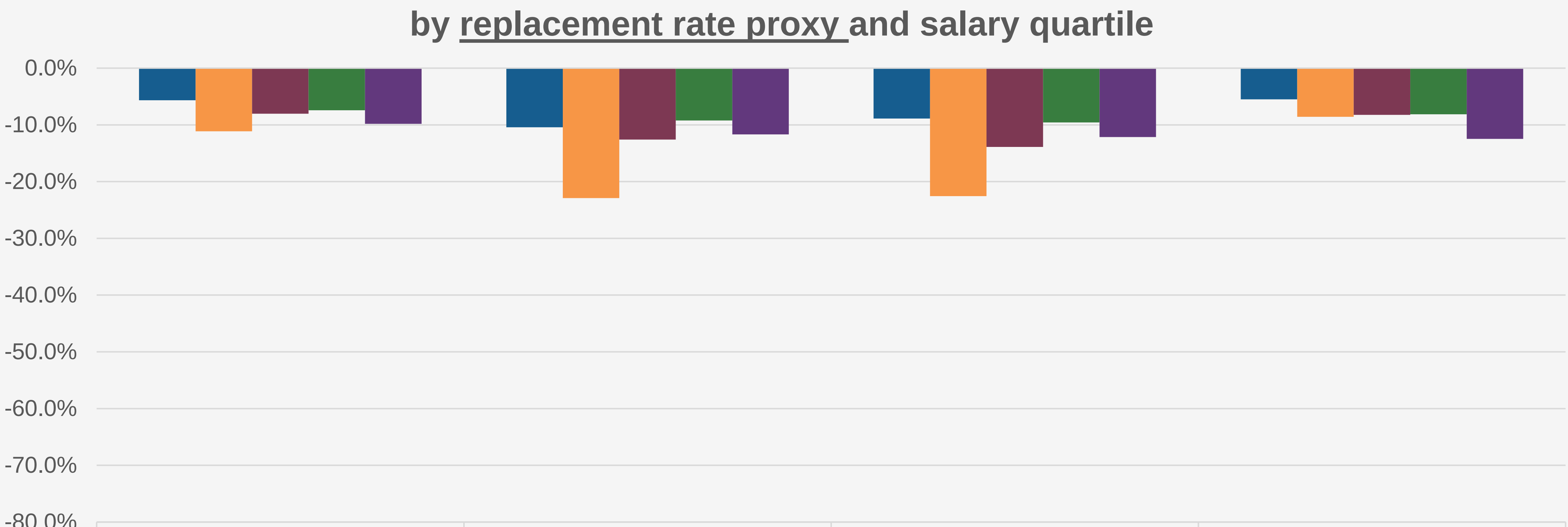
Source: EBRI Retirement Security Projection Model® version 3653.

Median reduction in retirement balances as a multiple of pay at age 65 for employees taking full withdrawal (up to $100,000) in 2020 with no payback: only participants age 30 and younger



Replacement rate proxy (percent)	Lowest	Second	Third	Highest
50-60	-5.7%	-10.4%	-8.9%	-5.5%
60-70	-11.1%	-22.9%	-22.6%	-8.6%
70-80	-8.0%	-12.6%	-13.9%	-8.2%
80-90	-7.4%	-9.2%	-9.6%	-8.1%
>90	-9.8%	-11.7%	-12.1%	-12.5%

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Source: EBRI Retirement Security Projection Model® version 3653.

Median reduction in retirement balances as a multiple of pay at age 65: Worst-case assumption vs. preliminary aggregate

Scenario	Worst-case assumption	Preliminary aggregate
Employees Taking Full Withdrawal up to $100,000, no payback	-20%	-0.43%
Employees Taking Full Withdrawal up to $100,000, with 3-year payback	-2.3%	N/A
Employees taking new loans up to $100,000 in 2020 with dollar for dollar employee contribution offset against new loan payments	-5.9%	-0.03%
Employees Taking Full Withdrawal up to $100,000, every ten years, no payback	-54%	N/A

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Source: EBRI Retirement Security Projection Model® version 3653 and PSCA, CARES Act Snapshot - June Follow-up

Future work

- Future EBRI publication: AGGREGATE impact of the CARES Act on retirement income adequacy
  - Waiting for requisite data on plan sponsor and participant behavior

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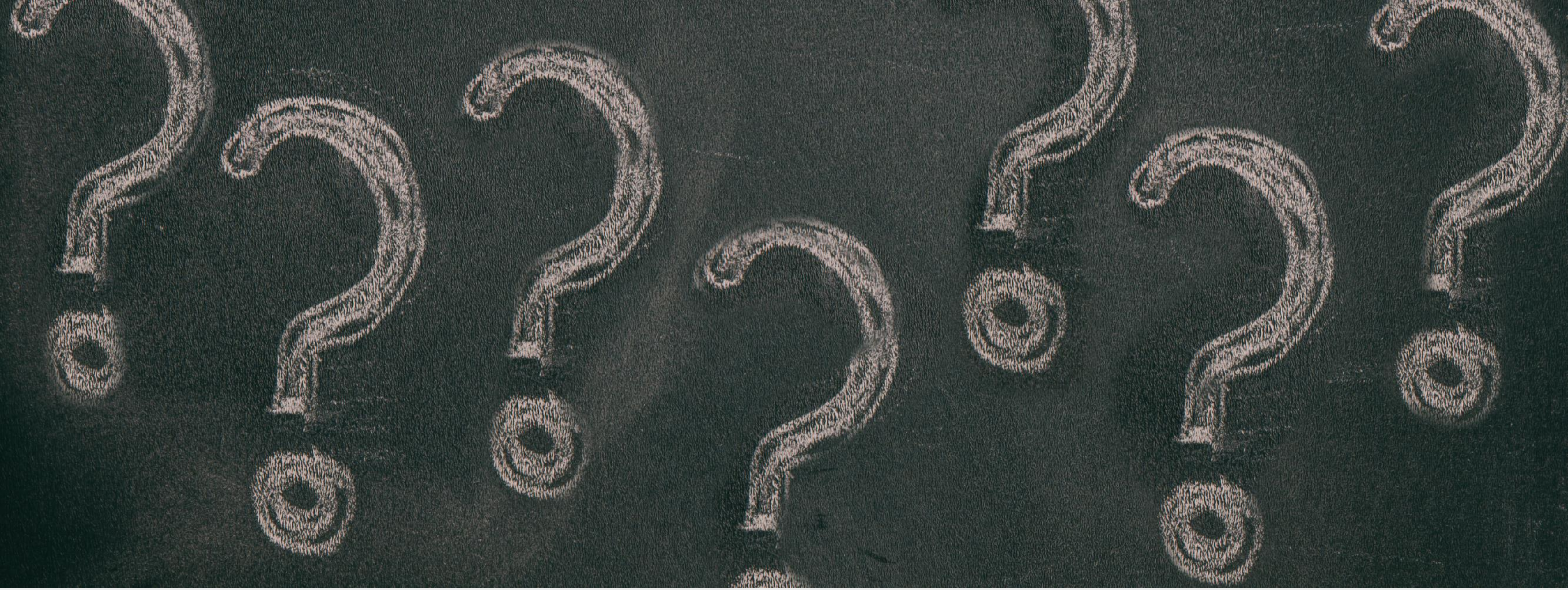

POLLING QUESTION

PLEASE SHARE YOUR THOUGHTS

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CARES Act:

Implications for Retirement Security of American Workers

EBRI Policy Forum

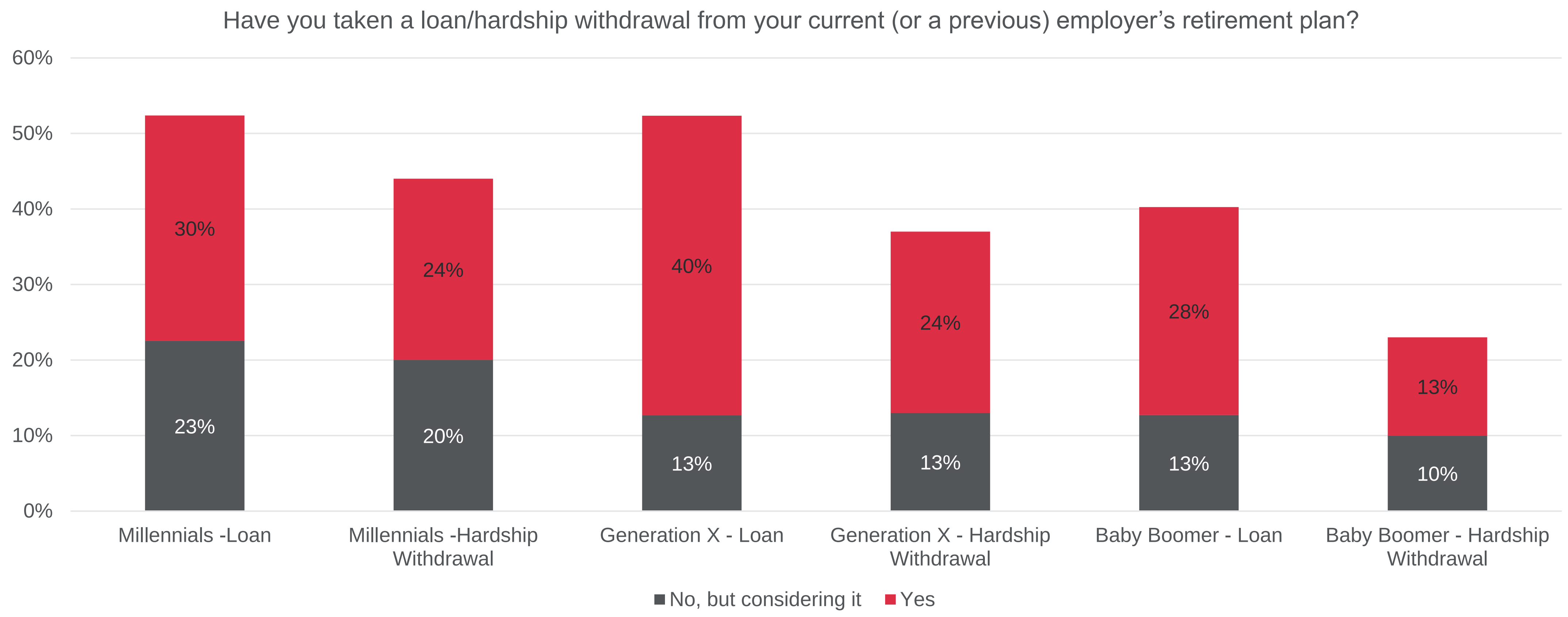
Bridget Bearden
Director, Institutional Marketing
June 29, 2020

Agenda

- What we learned about early access behaviors before Covid-19
- What we learned about financial well-being during the early days of Covid-19
- How we leverage our experience and observations to help participants navigate uncertainty

Early access behaviors before Covid-19

Early access is prevalent, particularly among Gen X and Millennials

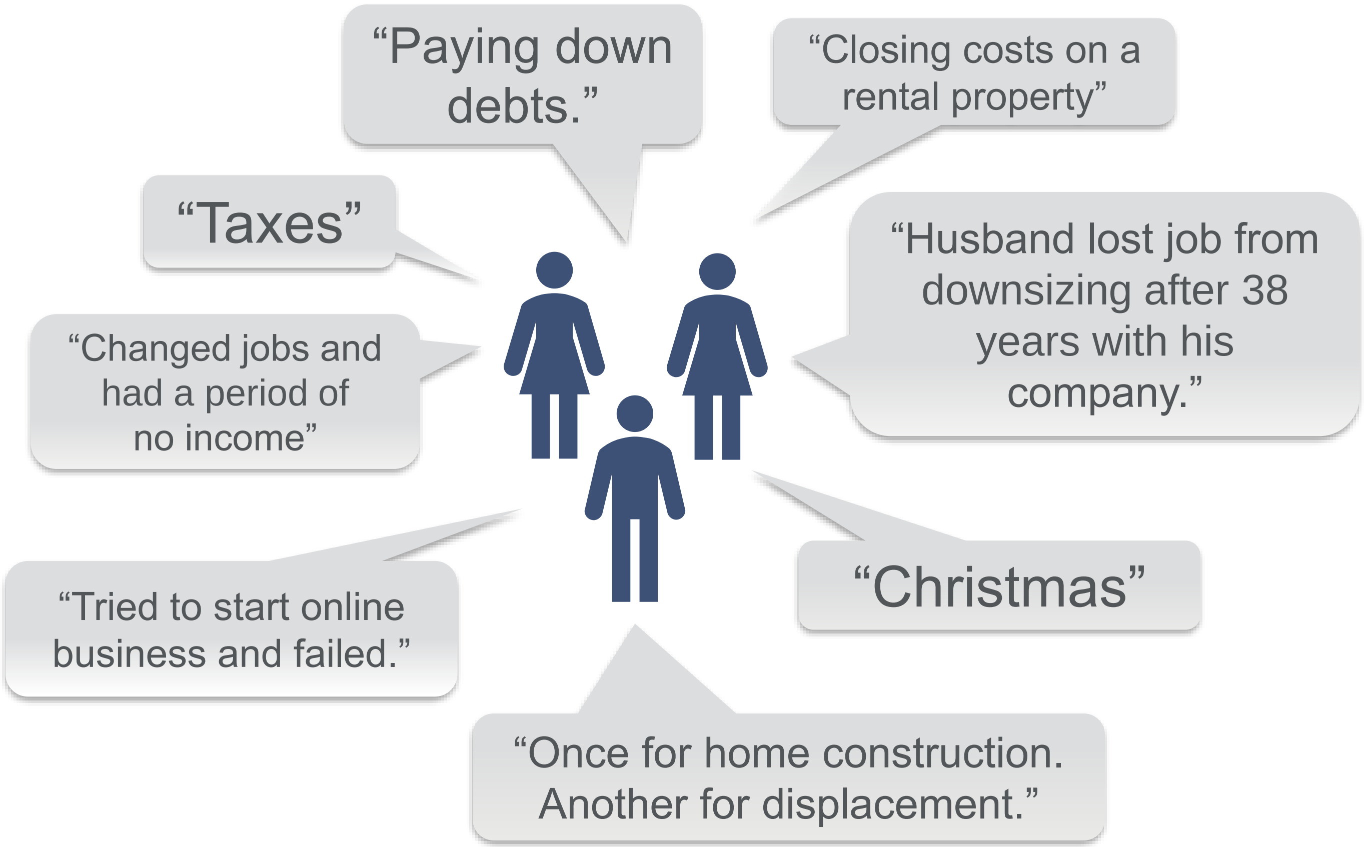


Based on a survey of 1,238 retirement plan participants fielded on the Qualtrics platform in November 2019.

Edelman Financial Engines research.

There are many reasons why participants access retirement assets early

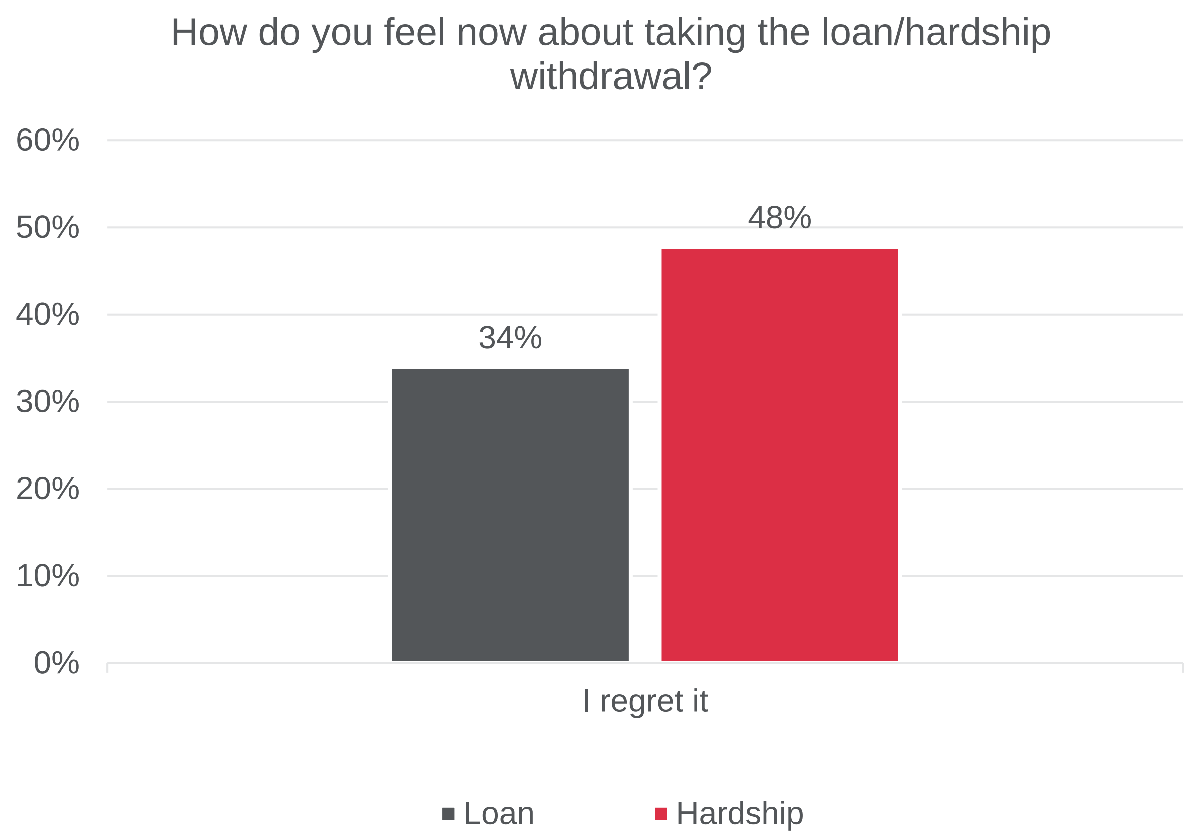
Loan		Hardship
#1	Mortgage/rent	#1
#3	Medical expenses	#2
#2	Credit card debt	#4
-	Natural disaster	#3
#4	Major purchase	-



Based on a survey of 1,238 retirement plan participants fielded on the Qualtrics platform in November 2019.

Edelman Financial Engines research.

Many participants regret their decision



More than half

of participants that accessed assets early said **talking to a financial adviser or coach prior to the decision would have been helpful**

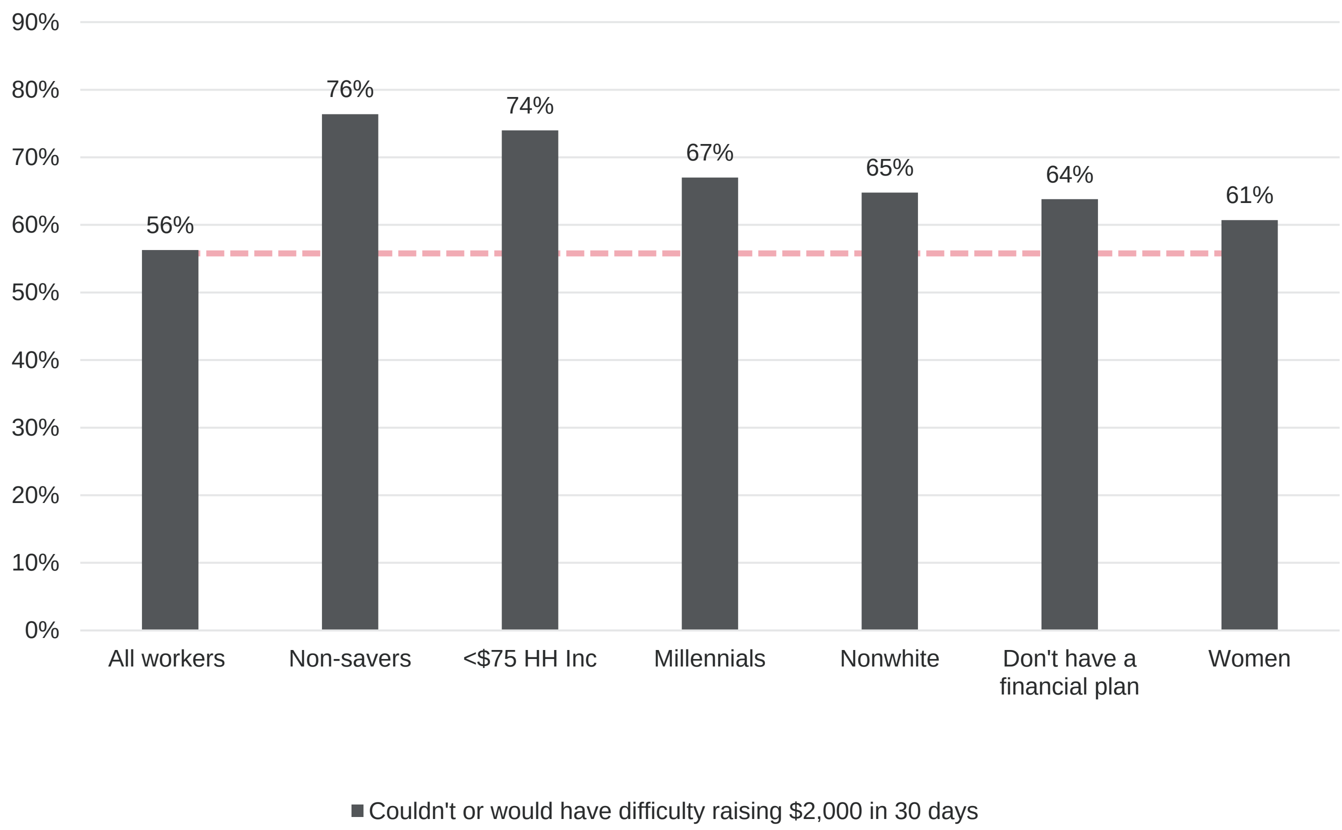
Based on a survey of 1,238 retirement plan participants fielded on the Qualtrics platform in November 2019.

Edelman Financial Engines research.

Financial well-being & concerns in early days of Covid-19

Financial well-being at risk for many

How difficult would it be for you to raise $2,000 in 30 days for an emergency?



47%

agreed they have
a lot of financial stress
in their lives

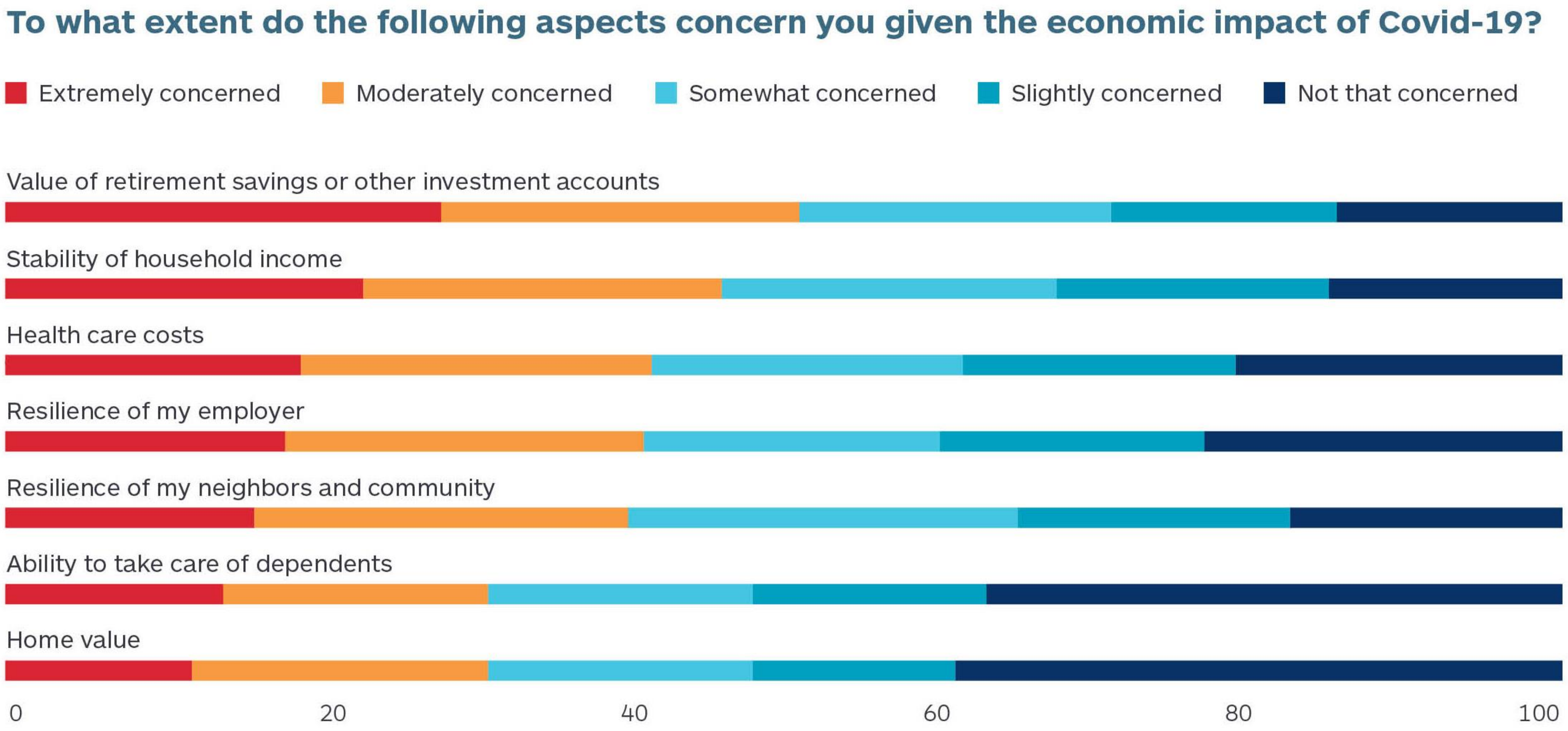
38%

described their
financial situation as
poor or *just getting along*

Based on a survey of 1,077 employees fielded on the Qualtrics platform in April 2020.

Edelman Financial Engines research.

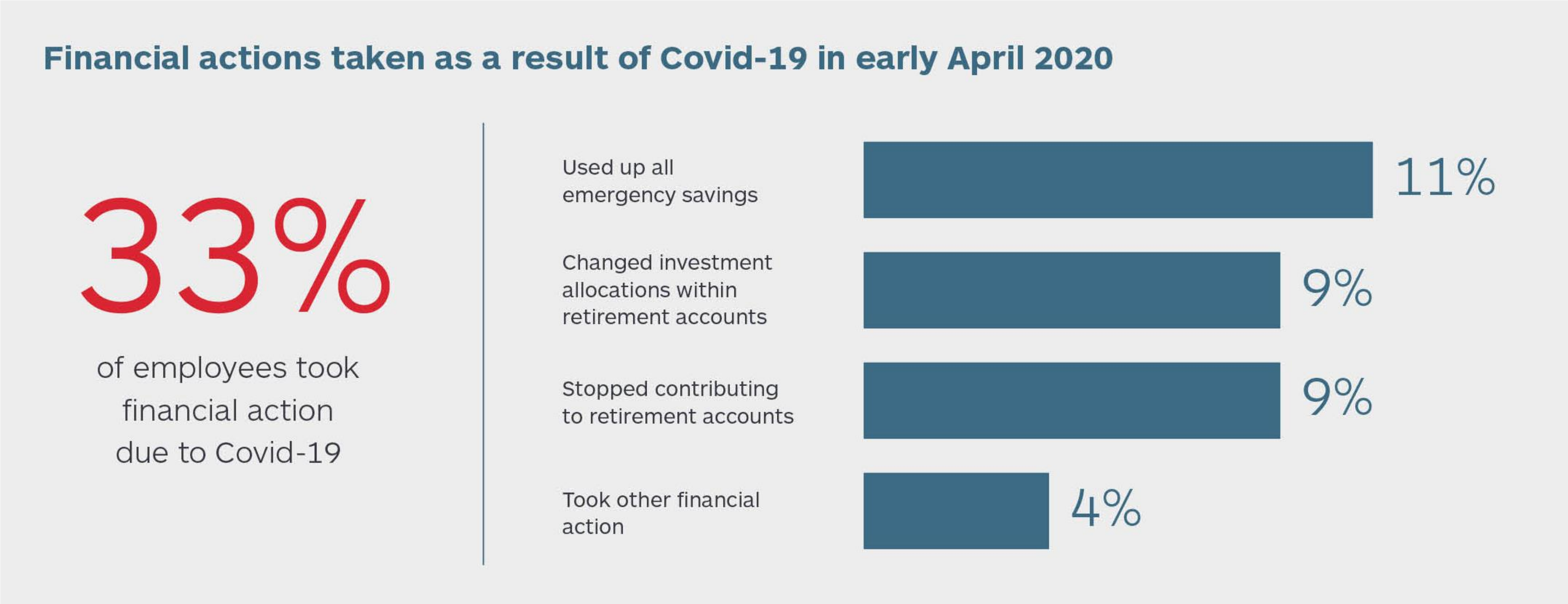
85% of U.S. workers hold some level of concern about the stability of their household income



Based on a survey of 1,077 employees fielded on the Qualtrics platform in April 2020.

Edelman Financial Engines research.

One in three U.S. workers took financial action as a result of the crisis



Based on a survey of 1,077 employees fielded on the Qualtrics platform in April 2020.

Edelman Financial Engines research.

Our approach and message to participants

We help participants navigate uncertainty

- **Launched a new, comprehensive participant education program on volatility**
- **Shared program results with plan sponsors on a weekly basis**
- **Saw engagement rise throughout the period measured by email open rates, visits to landing page, and in-bound calls**
- **Delivered content and tools to millions of retirement plan participants to inspire confidence and drive productive actions**

Guidance on CARES Act access provisions:

Understand the implications and consider all options

Understand the implications…

Distributions

Tax implications

Suspended contributions

Missing out on long-term growth

Distributions can be paid back

Loans

Missing out on long-term growth

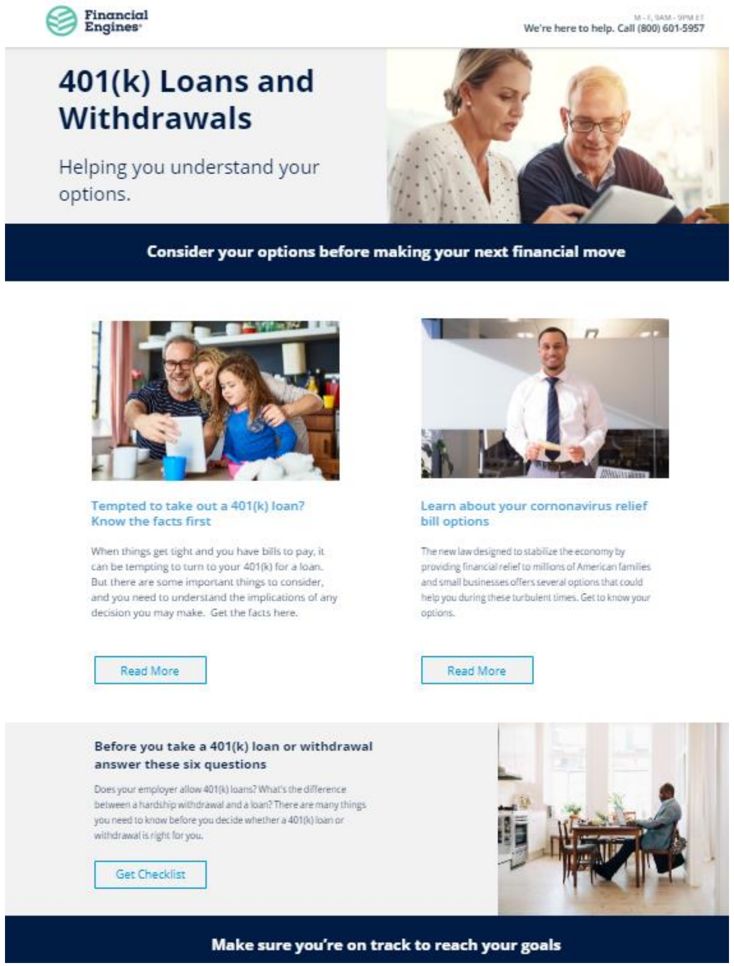
Loan repayment

Penalties and taxes for defaulting on a loan

Money in 401(k) is protected from creditors and protected from bankruptcy

…and consider all options

- ✓ Ask lenders and service providers for concessions
- ✓ Reduce expenses and replace lost income through other CARES Act provisions
- ✓ Reduce or suspend retirement plan contributions
- ✓ Use emergency savings
- ✓ Trim expenses
- ✓ Home equity line of credit
- ✓ Personal line of credit
- ✓ Introductory credit card offers



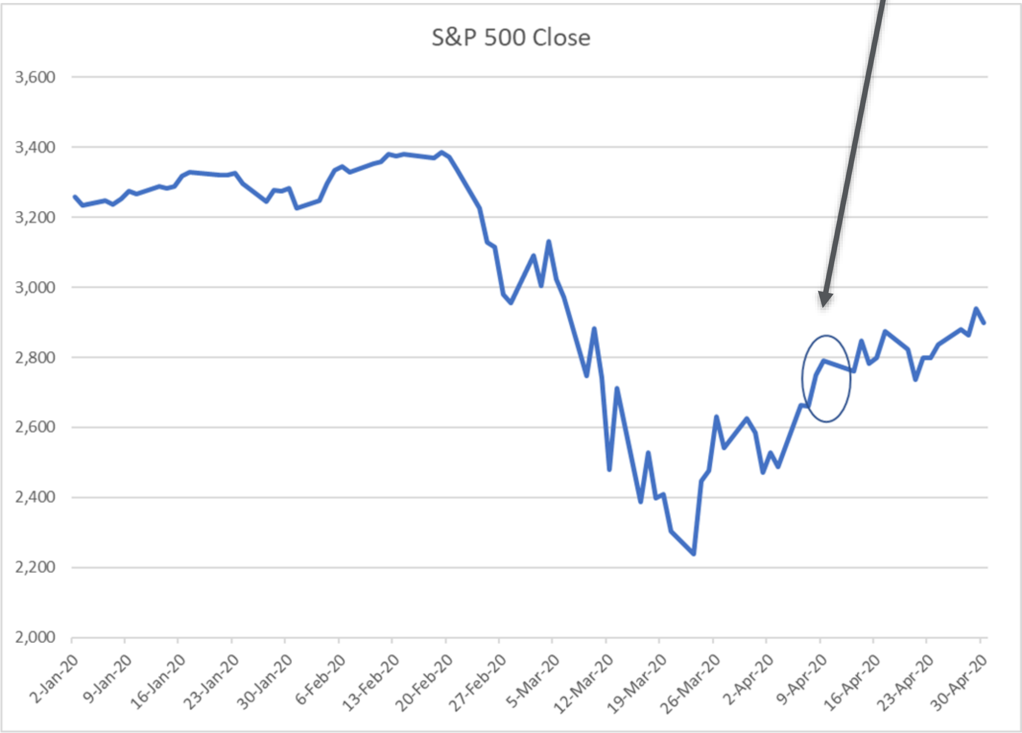
Preserving retirement savings for *when one can no longer work*

- **CARES Act is not the first policy that has enabled early access to retirement savings**
- **Policy increasingly appears to encourage access for a myriad of life events**
- **Such policies could be enhanced by:**
  - Employer-sponsored emergency savings provisions
  - Ensuring participants get a second opinion on distribution decisions

Appendix

Survey methodologies

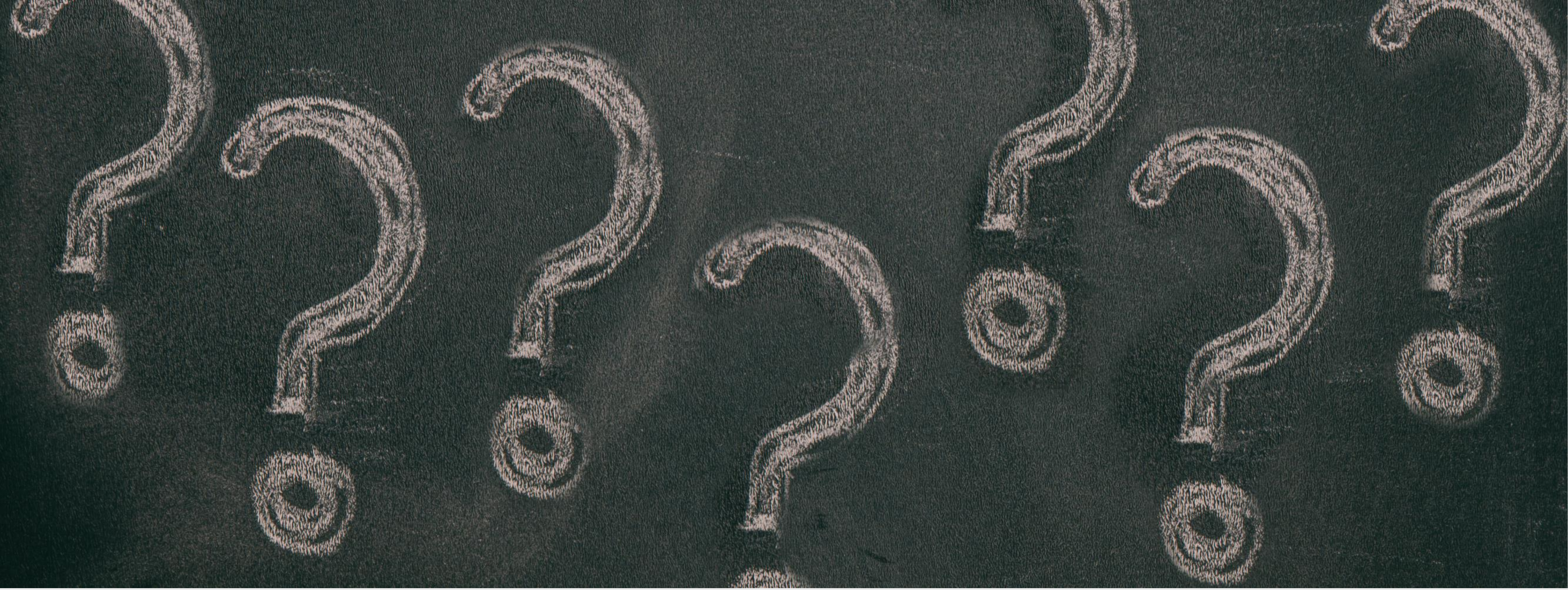
Second survey in the field from
April 6-11, 2020



- Slides 4-6: Based on a proprietary survey of 1,238 retirement plan participants fielded on the Qualtrics platform in November 2019.
- Slides 8-10: Based on a proprietary survey of 1,077 employees fielded on the Qualtrics platform in April 2020.
- Respondent quotas for age and employer size were set to increase representativeness.
- Aggregate data is reported at 95% confidence with a +/-3% margin of error.

Edelman Financial Engines research.

Disclosures



POLLING QUESTION

PLEASE SHARE YOUR THOUGHTS

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Q&A

TOMORROW'S EVENT

Register at ebri.org

EBRI SUMMER POLICY FORUM WEBINAR
JUNE 30, 2020
1-2 PM

The New Landscape: COVID-19's Impact on Defined Benefit Plans

Featuring:

Christopher Bone, former Director of the Policy, Research and Analysis Department (PRAD), Pension Benefit Guaranty Corporation
Jason Russell, Senior Vice President and Actuary, Segal Consulting
Bruce Cadenhead, Partner, Global Chief Actuary, Mercer
Jack VanDerhei, Research Director, EBRI

UPCOMING EBRI PROGRAMS

Members-Only Research Round-Up Webinar – July 15

Savings and Caregiving in the Age of COVID 19, American Savings Education Council Meeting – July 22

Retirement Confidence Survey Findings: Financial Wellness & Debt Webinar – July 28

COBRA, Chronic Conditions and Spending Webinar – August 4

Winter Policy Forum – December 10

Please visit ebri.org for more information.

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