

The logo consists of the text 'Fi360' in a white, sans-serif font. The 'i' has a dot, and the '3' is a simple numeral. The '6' and '0' are also simple numerals. The entire logo is centered within a white square frame.

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A Fiduciary Guide to the CARES and SECURE Acts

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Topics

This is not your typical Fi360 Webinar

Overview – SECURE and CARES Acts

- Purpose
- Key Provisions
- Ramifications for advisors and their clients

Conclusions and practice management suggestions



SECURE Act Overview – Purpose and Background

Title: Setting Every Community Up for Retirement Enhancement

Purpose: Help Americans save for retirement

Legislative History:

- Passed U.S. House of Representatives in July 2019 by a vote of 417 -3
- Passed Senate on 12/19/19 as part of a package of spending and tax-extension bills
- Signed by President Trump on December 20, 2019



SECURE Act Overview – Purpose and Background

Why it matters*

- One in five Americans (21%) have NO retirement savings at all
- One in three Baby Boomers (33%), the generation closest to retirement age, only have between \$0-\$25,000 in retirement savings
- Three quarters of Americans believe it is "not at all likely" (24%) or only "somewhat likely" (51%) that Social Security will be available when they retire
- Nearly half (46%) of adults have taken no steps to prepare for the likelihood that they could outlive their savings

* Statistics taken from the 2018 Northwestern Mutual Planning and Progress Study conducted by Harris Poll



SECURE Act Overview – Key Provisions for Plan Participants*

Encourage plan participants to save more, and accumulate longer

- Auto escalation for participant contributions increased from 10 to 15 percent
- Repeal of maximum age for contributions to a traditional IRA
- Required Minimum Distribution (RMD) pushed back to age 72
- Extend DC plan eligibility to more part-time workers

Help plan participants manage liquidity

- Portability of lifetime income options in qualified DC plans, 403(b) plans or governmental 457(b) plans (fiduciary safe harbor for selection of lifetime income provider)
- Credit card loans from DC plans banned
- Penalty-free plan distributions for childbirth or adoption expenses up to \$5,000

*See “Key SECURE Act Provisions and Effective Dates” from NAPA
<https://www.napa-net.org/news-info/daily-news/key-secure-act-provisions-and-effective-dates>

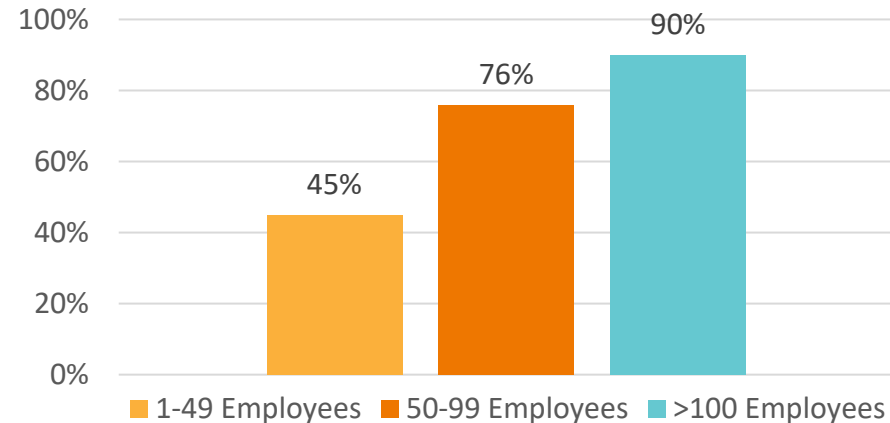


SECURE Act Overview – Key Provisions for Employers

The Act seeks to encourage small businesses to offer retirement plans

- Incentives for mostly small business owners to create 401(k) plans or join MEPs
 - Allows unrelated employers to join a pooled employer plan (PEP)
 - Relief from MEPs “bad actor” rule
- Tax credits to defray plan setup costs

Percentage of Small Companies that have a Retirement Plan



SECURE Act Overview – DOL, IRS Guidance

Plan Sponsors Must Comply with Mandates to Retain Tax-Preferred Status of Plans

- About one-third of SECURE Act changes are mandatory
- Most provisions took effect Jan. 1, 2020.
- Practitioners have been “peppering” officials with questions for months – news report
- Topics include
 - Birth/Adoption benefit
 - Plan eligibility of part-time workers
 - Stretch IRA changes

SECURE Act Guidance From IRS to Roll Out in Phases:*

- Near-Term (this spring)
- Interim (summer)
- Long-Term (end of the year)

DOL Guidance Seems to Have Been Overtaken By CARES Act Response

*Treasury comments came in late January, prior to COVID-19 crisis that may have impacted schedule.



Profile of “Small Businesses”*

- Definition of small business: independent business with less than 500 employees
- 5.9 million small businesses account for:
 - 99.7% of all U.S. firms with paid employees
 - 47.3% of private sector employees
 - 64.9% of net new jobs in U.S. from 2000 – 2018
- 98.5% of all high-tech employers are small
- 23.3% of small employers are home based; 65.3% of professional, scientific, and technical services and 70% of information sector small businesses are home based
- 89% of all employers have fewer than 20 employees

Source: U.S. Small Business Administration

<https://advocacy.sba.gov/2019/09/24/frequently-asked-questions-about-small-business/>



CARES Act Overview – Purpose and Background

Title: Coronavirus Aid, Relief, and Economic Security Act

Purpose: Battle COVID-19 and its economic effects

Legislative History:

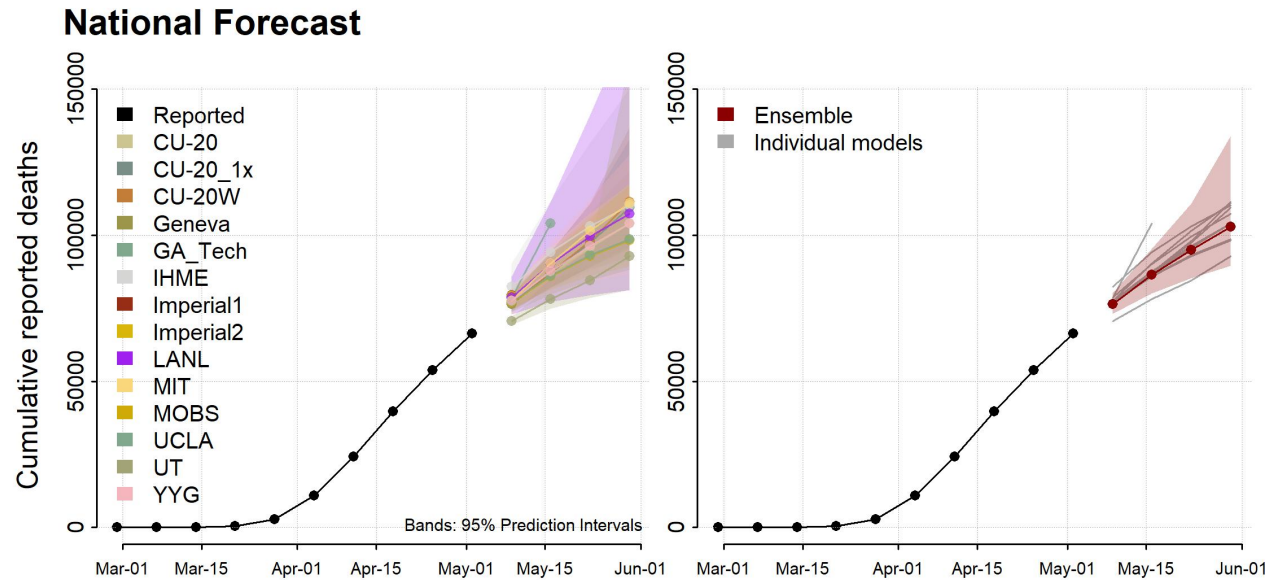
- Signed by President Trump on March 27, 2020
- Authorized more than \$2 trillion in spending
- Paycheck Protection Program and Health Care Enhancement Act (CARES Act 2.0) signed into law April 24, 2020
- Additional CARES funding is expected

Why it matters

- COVID-19 health crisis in the U.S. continues to grow, amid intense policy debates
- Economic crisis marked by uncertainty and instability, but resilience



CDC Forecast for COVID-19 Deaths in the Next Four Weeks



- These forecasts show cumulative reported COVID-19 deaths since February and forecasted deaths for the next four weeks in the United States.
- Models make various assumptions about the levels of social distancing and other interventions.

* U.S. Center for Disease Control, May 6, 2020 update
<https://www.cdc.gov/coronavirus/2019-ncov/covid-data/forecasting-us.html>



CBO's Economic Projections for 2020 and 2021

	2020 Q1	2020 Q2	2020 Q3	2020 Q4	Annual 2021	Annual 2020
Real GDP (% Change from preceding quarter)*	-0.9	-11.8	5.4	2.5	NA	NA
Real GDP (% Change, annual rate)*	-3.5%	-39.6	23.5	10.5	-5.6**	2.8**
GDP (Trillions of dollars)	21.6	19.1	20.1	20.7	20.4	21.3
Unemployment Rate (%)	3.8	14.0	16.0	11.7	11.4	10.1
Interest Rate on 3-month T-Bills	1.1	0.1	0.1	0.1	0.4	0.1
Interest Rate on 10-year T-Notes	1.4	0.6	0.7	0.7	0.8	0.7

Footnotes:

* Real values are nominal values that have been adjusted to remove the effects of changes in prices

** Data are shown on a fourth-quarter-to-fourth-quarter basis.

Source: Congressional Budget Office Blog, posted by Phill Swagel on April 24, 2020

<https://www.cbo.gov/publication/56335>



CARES Act Overview – Key provisions: Keeping American Workers Paid and Employed

Paycheck Protection Program

- Loans for payroll obligations
- Emergency grants to cover business operating costs,
- Mechanism for loan forgiveness
- Program funding increased and rules tightened under CARES 2.0

Subsidies for certain small business loans and grants (for business concerns, nonprofit organizations, veterans organizations or tribal businesses)

Economic Injury Disaster Loans (EIDL) for small businesses (expanded in CARES 2.0)

Temporary financing of workers with reduced hours (versus layoffs) in states with participating programs (not applicable to seasonal, temporary, or intermittent workers)

Relaxed bankruptcy provisions for small businesses and consumer debtors



CARES Act Overview – Key provisions: Assistance for American Workers, Families and Businesses

Additional \$600/week Federal Pandemic Unemployment Compensation, supplementing unemployment benefits paid by states

One-time payments (“recovery rebates”) for individuals with adjusted gross income (AGI) under \$75,000 and married couples with AGI < \$150,000 + \$500 per child

Increased payroll tax credit for retaining paid employees when the business is fully or partially suspended (generally limited to \$10,000 of eligible wages/employee)

Added retirement plan flexibility

- Penalty-free withdrawals (up to \$100,000) from DC plans; taxable over 3-years; repayable
- Temporary increase in plan loan limits and delayed repayments
- Waives RMD from DC plans and IRAs for 2020

Forbearances and moratoriums on foreclosures and evictions

Other forms of tax relief

- Net operating loss deduction limitation temporarily removed and carryback options expanded
- Increase in business interest expense deduction



CARES Act Overview – Other Key Provisions

Supporting America's Health Care System in the Fight Against the Coronavirus

- Address issues with the supply of drugs and equipment
- Address issues with the availability and pricing of COVID-19 Testing
- Expand coverage and payment for telehealth services
- Enhance some Medicare payment provisions
- Delay required contributions to single employer DB plans
- Various financial relief measures for those pursuing higher education
- Relaxed limitations on paid sick leave and in the Family Medical Leave Act



CARES Act Overview – Other Key Provisions

Economic Stabilization and Assistance to Severely Distressed Sectors of the United States Economy

- \$500 billion in loans to airlines, financial institutions, and other critical sectors
- New Special Inspector General with Treasury
- Consumer credit and rights protections

Coronavirus Relief Funds

- \$150 billion for states, territories, local governments and Indian tribes to help pay for Coronavirus-related expenses (overseen by Treasury)
- \$100 billion for eligible health care providers to cover costs and lost revenue



CARES Act Overview – Agency Guidance and COVID-19 Relief

SEC Disclosure Guidance on PPP Program for Small Advisory Firms

- As a fiduciary, adviser must make full and fair disclosure to clients of all material facts
- When seeking a PPP loan, advisers should disclose nature, amounts and effects of such assistance
- Ex.: To pay salaries of employees with primary responsibility for advisory functions



CARES Act Overview – Agency Guidance and COVID-19 Relief

DOL Relief

- EBSA Disaster Relief Notice 2020-01
- General fiduciary compliance guidance – Plan fiduciaries should make reasonable accommodations to prevent the loss of benefits or undue delay in payments due to Covid-19 outbreak; guiding principle is to act reasonably, prudently, and in the interest of covered workers and beneficiaries
- Also provides temporary relief from certain deadlines related to plan loans or distributions, forwarding participant payments and withholdings, if due to COVID-19 outbreak

IRS Guidance Coming Out Slowly



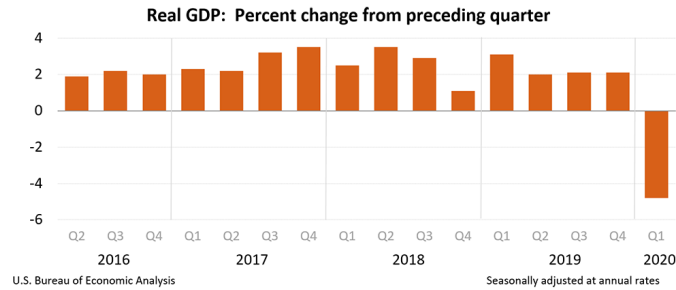
Conclusions

1. There is a dichotomy between purposes of the SECURE and CARES Acts
 - SECURE Act: managing longevity risk/saving for retirement
 - CARES Act: managing liquidity risk/accessing retirement savings and managing credit
2. The current environment favors holistic advice; this is likely to be a trend
 - Financial planning
 - Team of specialists
3. Plan sponsors and participants are impacted by the Acts; retirement advisors must understand provisions of the Acts and ramp-up their client communications
4. Small businesses (owners and employees) have an acute need for financial advice, especially very small businesses (fewer than 50 employees)
 - This market presents near-term challenges to serve, but long-term opportunities
 - Different types of small businesses have different needs
 - Small technology and professional services businesses – many of them home-based – may be an attractive niche
 - Greatest need is liquidity management); retirement plans are longer-term projects
5. Great technology and communications practices are essential
 - “Intimacy-from-afar” is here to stay



Recommendation 1: Provide advice in a long-term context

- ✓ Public Health: The COVID-19 crisis is acute but temporary



- ✓ Economy: GDP and employment are sensitive to shocks, but the economy is resilient

- ✓ Markets: Long term, the trend is your friend



Recommendation 2: Define your clientele and assemble your team

The Acts are complicated and multi-dimensional, spanning many disciplines (credit, accounting and tax, legal, financial, etc.)

Each clientele has unique characteristics and needs (e.g. small business niche)

Holistic, integrated advice is needed (comprehensive financial planning, in-house team, network of experts)

Narrow your clientele, broaden your scope

Retirement advisor decisions

- Plans and/or participants
- Large or small employers
- Plan types
- Product and service providers



Recommendation 3: Leverage technology and develop a communications plan to achieve “intimacy from afar”

The “Trust Equation” captures factors that enhance client relationships:

$$\text{TRUST} = (\text{CREDIBILITY} + \text{RELIABILITY} + \text{INTIMACY}) / \text{SELF-ORIENTATION}^*$$

*Source: “The Trusted Advisor”, a book by David Maister, Charles Green, and Robert Gaiford, 2001



Recommendation 3: Leverage technology and develop a communications plan to achieve “intimacy from afar”

A recently released survey from CFA Institute® concludes that three themes are contributors to investor trust today**:

- Information – the less investors feel informed the less they trust the financial system; transparency and education are factors in information and knowledge
- Innovation and proactive use of technology – nearly half of retail investors with an adviser trust their investment firm more because of technology
- Investors’ desire for influence and control – this desire is evident in expectations for greater customization in communications

Advisors and clients are finding that intimacy can be achieved or even enhanced by remote interactions: video conferencing, small audience educational webinars, phone calls, and personal messaging

** “Earning Investors’ Trust: How the Desire for Information, Innovation, and Influence is Shaping Client Relationships”, survey results from CFA Institute®, 2020 <https://trust.cfainstitute.org/report/>



Recommendation 4: Adopt a fiduciary-focused approach

CFA Institute's "Earning Investors' Trust" Survey found:

- Retail investors identify "Trusted to act in my best interest" as the most important attribute when hiring an investment adviser; however, poor performance was the top reason for clients to leave an adviser
- While 75% of retail investors believe their financial adviser is legally required to place the client's best interest first, only 35% said their adviser always does so
- Many investors (especially those over 45) report that their trust "must be constantly earned and maintained over time."

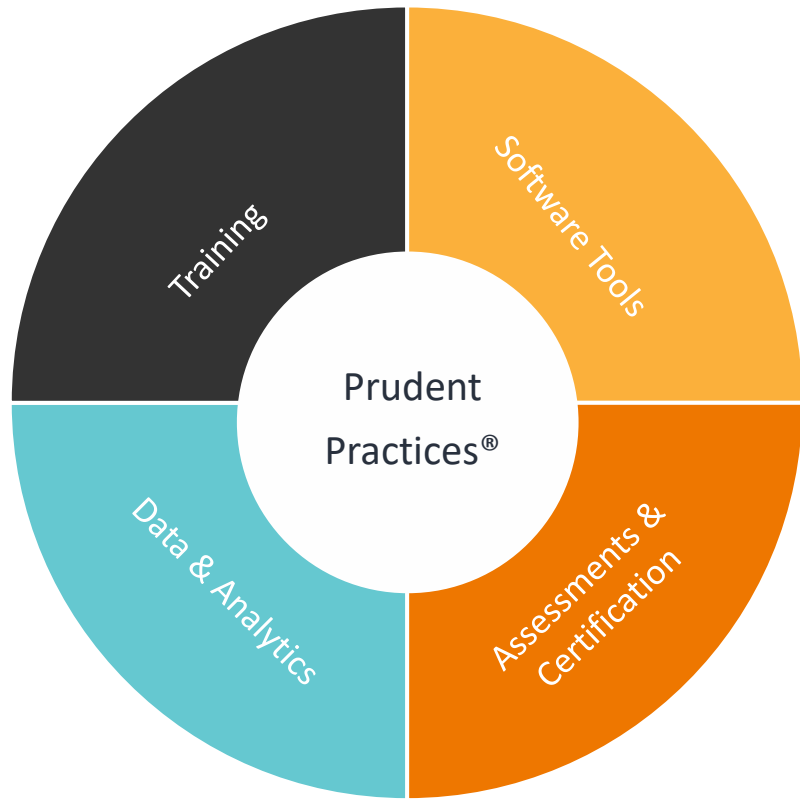


Recommendation 4: Adopt a fiduciary-focused approach

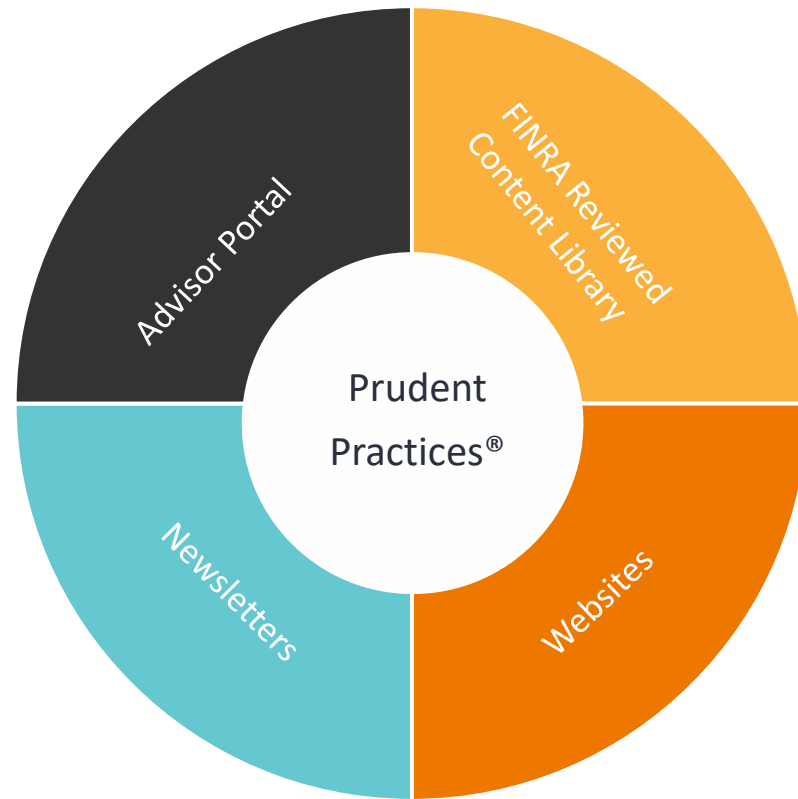
Reg BI's Four Obligations	Fi360's Fiduciary Precepts
Disclosure	Account for costs Manage conflicts of interest
Care	Diversify to manage risk and return Prudently select fiduciary and non-fiduciary service providers Control and account for costs
Conflict of Interest	Avoid or manage conflicts of interest
Compliance	Follow laws and governing documents
	Prepare and follow an investment policy statement Monitor service providers Monitor and assure conformity to fiduciary obligations



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Broadridge Advisor Solutions
will help you transform your business



Thank you!

Please submit questions using the GoToWebinar interface.

Additional questions can also be sent to info@fi360.com
or call our Client Success Team at 844.394.9960.



Resources:

- Slide 19:
 - DOL Relief: Available at <https://www.dol.gov/agencies/ebsa/employers-and-advisers/plan-administration-and-compliance/disaster-relief/ebsa-disaster-relief-notice-2020-01>
 - IRS Guidance Coming Out Slowly: Available information at the IRS's Coronavirus Tax Relief Page: <https://www.irs.gov/coronavirus-tax-relief-and-economic-impact-payments>

