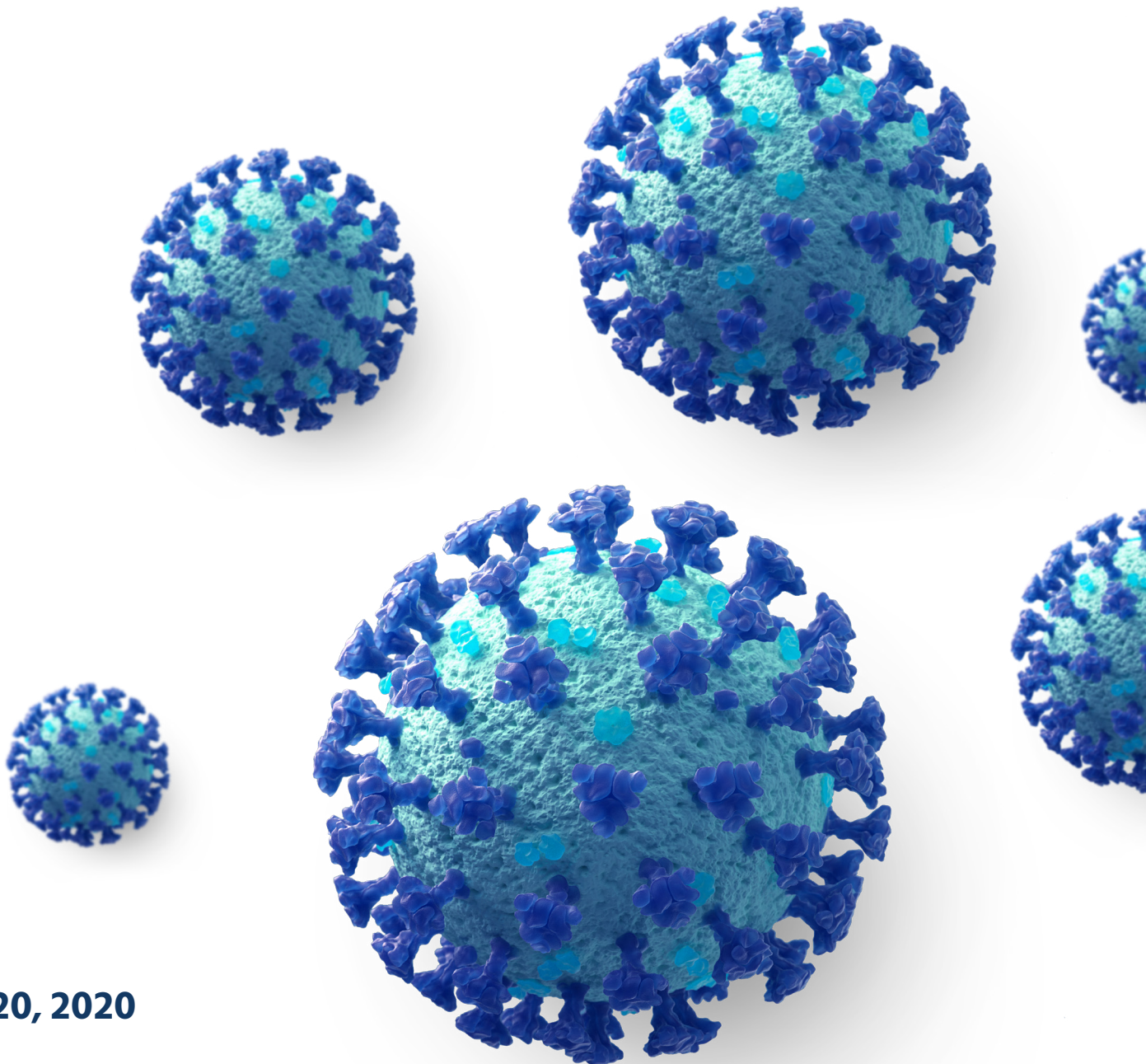


Navigating DC during market volatility and COVID-19



April 20, 2020

The global implications from the coronavirus (COVID-19) are a sad reality with repercussions that are still largely unknown. We know that understanding what is best for your participants, while balancing business needs, may require that difficult decisions be made. We are here for you.

It is paramount to remember that plan fiduciaries have the responsibility to do what is in the best interest of participants, and your defined contribution (DC) plan is designed as a long-term investment vehicle to save for retirement. While the time horizon to retirement is short for some in your population, the majority will have a longer period to recover before they retire and draw down assets. One of the most important things to continue to do at this time is to manage to the long-term strategy you have set out for your DC plan.

Many plan sponsors are looking for steps to take to help support DC plan participants during this health, financial and societal crisis. We have identified nine areas for plan sponsors to focus on, which may benefit your participants during this time:

1/ Communications

Identify what information about market volatility and long-term investing has been provided to your participants historically, including the targeted communications to those participants nearer retirement who may feel they have a short-term investment horizon. Take stock of what information participants have received recently and determine if any additional outreach would be helpful. Volatility will likely continue over the coming weeks, so establishing a plan for outreach in partnership with your recordkeeper is key.

2/ Understand your participant activity

Obtain feedback from your recordkeeper regarding the activity of your participants. We would anticipate an increase in the number of calls to the call centers and visits to the plan's website, but are there material transactions taking place as a result? Note that in similar environments, we have seen the number of transactions increase, but the overall volume of transactions in terms of assets is typically not particularly large. Also, look at whether participant response is consistent. For example, more transactions in the 2055 target date fund than the 2020 target date fund will highlight that more younger participants are reacting, versus older participants. Inquire about any increase in requests regarding hardship withdrawals, loans, distributions or any changes to deferral rates. Reviewing participant activity could highlight where targeted communications to different segments of your population may be helpful.

3/ Hardships and loans

There will be employees who will have short-term financial pressures resulting from workplace disruptions. Their priority will be meeting short-term financial needs, and retirement planning will be secondary at best. While we believe an overall long-term focus is largely appropriate, it is important to consider this reality if you have impacted employees.

We anticipate sharply increased demand by plan participants to access their accounts to meet immediate financial needs. The Coronavirus Aid, Relief, and Economic Security (CARES) Act passed by Congress and signed on March 27, 2020, includes a number of provisions to help retirement plan participants and sponsors deal with the financial fallout from the COVID-19 pandemic. The package makes it easier for DC plan participants affected by the virus or the resulting economic downturn to access their retirement savings. The key provisions are:



Employers sponsoring DC plans can let participants take up to \$100,000 in “coronavirus-related distributions” by December 31, 2020 without paying a 10% penalty tax on withdrawals made before age 59½.



DC plans can temporarily raise the loan limit—usually the lesser of \$50,000 or 50% of the vested benefit—for affected participants. For 180 days after the bill’s enactment, affected participants can borrow up to the lesser of \$100,000 or their entire vested benefit.



For all new or existing plan loans to qualified individuals, any repayment due before December 31, 2020, can be delayed by one year (with interest charged during the delay, if applicable).

Mercer’s Law & Policy Group is closely monitoring legislative developments.¹ Recent information related to actions around COVID-19 can be found [here](#).

Plan sponsors may also want to consider design changes, such as permitting additional loans to be initiated for at least a period of time. While expanding loan provisions could be counter to meeting retirement adequacy needs, offering an additional loan could prevent participants from taking a more permanent withdrawal. An alternative option for accessing capital outside the DC plan is making available access to a short-term lending provider that offers loans at a much lower interest rate than payday loan providers.

¹ Mercer does not provide legal advice. You should contact your attorney before making any decisions with legal implications.



4/ Review your investments with a long-term view

An investment structure that includes a broad range of investment options provides participants with the building blocks necessary to create a diversified portfolio, which can help provide protection of assets in periods of market volatility. While you may be monitoring withdrawals and exchanges between funds during this time, we caution against making changes to investment options based solely upon “feedback” from this type of participant activity. If you have concerns about any particular investment option, speak with your investment consultant before considering any action. Mercer is continuing to closely monitor the over 11,000² strategies we rate and would be glad to discuss any questions.

5/ Custom multi-manager funds

Make sure you are aware of rebalancing guidelines and requirements in your investment policy statement for any custom multi-manager funds. Reach out to your recordkeeper, trustee and/or custodian to verify they are managing to specified rebalancing guidelines, and whether they are experiencing any liquidity pressures or elevated transaction costs that may warrant an alternate approach to rebalancing or managing liquidity. For those plan sponsors without specific rebalancing guidelines, now may be the time to revisit and update policies. Mercer suggests rebalancing halfway to target allocations once maximum or minimum policy ranges for underlying managers are reached.

² As of 12/31/2019. Includes sub-advised strategies.

6/ Fund changes and re-enrollments

Some plan sponsors may have investment option or recordkeeper changes underway. In these scenarios, it is important to think about potential risks and opportunities that might be present during heightened market volatility and to minimize any required blackout period. For like asset class fund transitions (e.g., changing large cap equity funds), be they in-kind security exchanges or a sale and purchase, we find that the implications are relatively small versus trading between asset classes (e.g., moving equity to fixed income) at this time, as long as market exposure is maintained throughout the transition.

Undertaking full plan re-enrollments where assets are being sold on a large scale and defaulted into a Qualified Default Investment Alternative (QDIA) may present higher transaction costs and greater potential for uncertain performance implications broadly.

It may be beneficial to engage a transition manager to help facilitate transitions, maintain market exposure and manage trading in the most efficient manner. Mercer is able to assess the risks associated with making transitions within or between asset classes, as well as advise on the most cost-efficient way to conduct transitions. We can also help to evaluate and select a suitable transition manager to aid in managing any transactions.

In the current market environment, allowing participants to transact through a fund change or transition can be beneficial. For plans able to do so, we suggest avoiding a blackout period if it is in the best interest of participants. If implementing a blackout period is unavoidable, we suggest limiting the period to as short a time as operationally possible.

7/ Company match

Given the economic implications on businesses, plan sponsors may find they are faced with the need to reduce benefit costs, including employer contributions. Where employers decide they need to pursue such options, consideration could be given to plan changes that provide financial flexibility without a direct change to the level of the employer contribution. Prospectively moving to funding contributions less frequently, changing eligibility requirements or implementing vesting requirements may be palatable alternatives to more dramatic changes. As plan sponsors consider alternatives, it is important to plan for sufficient lead time to consider long-term implications, communicate and implement changes. Mercer can support match design modeling and assist plan sponsors in thinking through how to balance financial constraints, while providing meaningful benefits to employees.

8/ Company stock

Company stock funds are a concentrated holding that continues to be offered in some plans. While we appreciate that the current environment may impact the feasibility of making significant changes, market volatility highlights the risk of company stock as an undiversified option. We offer the following considerations for plan sponsors concerned about participant exposure to company stock:

- Consider placing limits on allocations to company stock, if such limits do not already exist, to facilitate the benefits of diversification.
- Explore hiring an independent fiduciary to solely oversee the company stock fund.
- For plans in the process of sunseting company stock, evaluate your timeline and whether modifications are appropriate given the current market environment.

As always, engaging legal counsel to ensure a holistic understanding of the above actions is key.



9/ Be familiar with service provider business continuity plans

It is critical to understand how your service providers (recordkeeper, investment managers, consultants, etc.) are responding to COVID-19, to ensure that participant services and investment management operations continue to be delivered without interruption. For example, as remote working increases, you should know how your recordkeeper will maintain call center operations and what measures they are taking to ensure that online access for participant information or transactions is uninterrupted. As it relates to investment managers, having an understanding of trading and operational back-up plans to meet increased demand on servers is also critical. If you have not received this information from your providers yet, we recommend you reach out and request it.

Mercer's Business Resiliency Plan can be found [here](#).

There will inevitably be additional challenges ahead as governments and policy makers around the globe refine and coordinate health and economic responses to COVID-19. It is important to remember that eleven years ago during the Global Financial Crisis, many plan sponsors had to navigate a situation similar to what we face now. Those who managed to the long-term time horizons for DC plans have since experienced the benefits that come during the period of recovery. We are here to support you and your participants as you work through the difficult decisions that may follow.

**Please bookmark Mercer's
dynamic [Coronavirus microsite](#)
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