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Investment Corner | Participant Engagement | Fiduciary Perspective | On the Horizon

Retirement plan committees: the impact of inclusion and diversity

The future of defined contribution

next

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Letter from the Editor

"The more things change, the more things stay the same."
— Jean-Baptiste Alphonse Karr

After a decade-long stretch of U.S. economic growth and outsized stock market returns, we are heading into the second half of 2019 from a much different place than we were a year ago. At that time, both fixed income and equity markets agreed that the U.S. outlook was bright and that the economic expansion was going to last a good deal longer.

Now, we are clearly in the later stages of the economic cycle. And while we do not think the cycle is over just yet, we do expect a period of slower growth and tighter financial conditions, both of which translate into lower investment returns.

So, what can plan sponsors do in this environment to come? In this issue of *next,* we offer tips for managing participant outcomes in the late cycle. In addition, we give guidance on running an effective plan committee and how to address the growing retirement gender gap. We round out the issue by looking ahead at the emerging trend of student loan repayment features within 401(k) plans.

While financial conditions and markets are changing, your commitment to creating positive retirement outcomes for your employees has not. And neither has ours. With a 100-year legacy of providing retirement solutions and income, Nuveen has supported our clients in this mission, and we hope to continue for the next 100 years.

We hope you enjoy this issue of *next.*

Peter T. Whitman

INVESTMENT CORNER

Continuing the journey: three tips for navigating participant outcomes in the late cycle

After a decade of economic expansion following the global financial crisis, many are wondering if we are near the end of the economic cycle, and whether recession could be on the horizon. Although we are clearly in the later stages of the economic cycle, it isn't over quite yet. While we do not foresee a recession in the near future, global economic growth for the rest of 2019 is forecast to be slower than it was in the past; the low-volatility, high-return environment that characterized most of the past decade is not likely to persist.

While plan sponsors cannot control or predict the course of the markets or economy, there are steps you can take to prepare your retirement plan and participants for the environment to come.

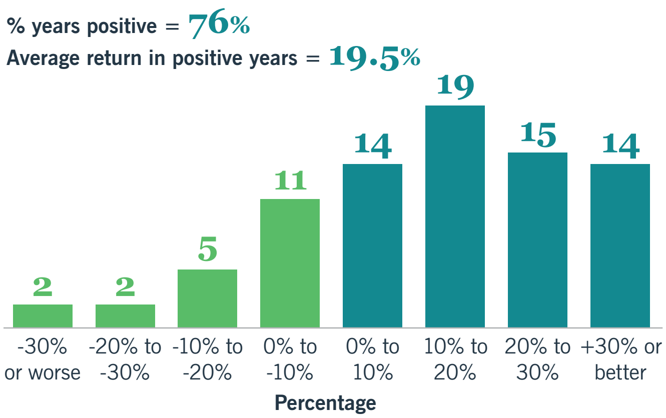
1. Staying on course

Volatile or uncertain markets can be jarring for participants, causing some to panic and make emotional investment decisions in their retirement plans. Even though investment wisdom tells us to buy low and sell high, emotions can often result in the exact opposite — buying high and selling low. Research into human behavior has shown that investors dislike losses twice as much as they like equivalent gains. Plan sponsors recognize this. According to the TIAA 2018 Plan Sponsor Retirement Survey, 69% of plan sponsors indicated that market volatility is a very significant or somewhat significant issue for plan participants' financial security in retirement. But it's helpful to look at the long term.

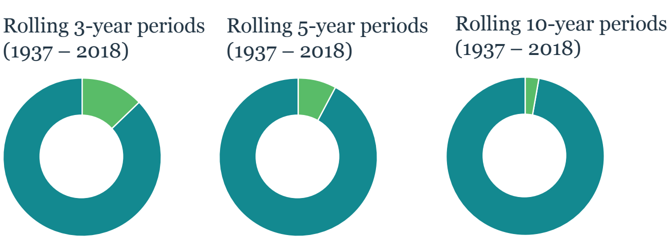
FIGURE 1.

Equity markets tend to go up more than down

U.S. equities total returns (# of calendar years 1937 – 2018)



Rolling performance for 3-, 5- and 10-year periods (1937 – 2018)



Charts do not represent the past performance of any Nuveen Fund. For fund performance visit nuveen.com.

Source: Factset, as of 31 Dec 2018. **Past performance is no guarantee of future results.**

While past performance cannot guarantee future results, U.S. equity markets tend to go up more than down (Figure 1). Consider that since 1937, U.S. stocks have been positive 76% of calendar years with an average total market return of 19.5%.[1] And when markets do decline, they tend to recover quickly. The majority of equity downturns have been modest (decline of 5%-10%), with the market fully rebounding in one month, on average. When markets fluctuate, participants may feel the need to act, but with a long-term investment horizon, such as saving for retirement, history has shown that best action is no action at all.

During periods of short-term volatility, however, plan sponsors are often one of the first lines of defense when participants begin to question how their retirement account balance will fare during a changing market environment. Reminding participants to stay focused on their long-term investment goals and resist the urge to try to time the market may feel easier said than done, but a look at recent history may help keep participants in their seats.

The average 401(k) account balance fell 25.8 percent in 2008, and then rose from 2009 through year-end 2013.[2] Overall, the average account balance increased at a compound annual average growth rate of 10.9 percent from 2007 to 2013, to $148,399 at year-end

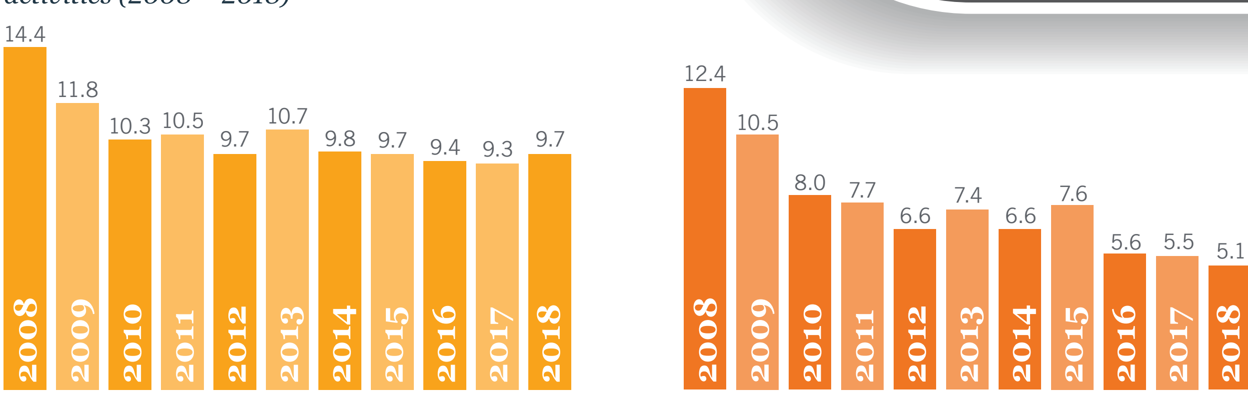
1 Source: Factset, Nuveen, as of 31 Dec 2018.

2 Source: Employee Benefit Research Institute, *What Does Consistent Participation in 401(k) Plans Generate? Changes in 401(k) Account Balances,* 2007 – 2013, Issue Brief 418, September 2015.

FIGURE 2.

Most plan participants remained committed to their asset allocations

Defined contribution plan participants' investment activities (2008 – 2018)



Changed asset allocation of **account balance**   Changed asset allocation of **contributions**

Source: Holden, Sarah, and Daniel Schrass,. 2019 "Defined Contribution Plan Participants' Activities, 2018." ICI Research Report (May).

2013.[3] Participants who stayed the course were able to benefit from the market's recovery. The charts below show that 401(k) participants weathered the 2008 – 2009 downturn by maintaining their retirement account activity.

2. Not all ports are safe

Another common reaction to market volatility or a downturn is for participants to get out of the market altogether and move to cash. While this may feel "safe," it often results in one of the biggest costs of market timing: missing out when the market unexpectedly surges upward and losing the opportunity to gain from some of the best-performing moments. Take the financial crisis in 2008. Many pulled money out of stocks and stock mutual funds in their 401(k)s and retirement plans as the market plunged. This can lead to underperformance. In Figure 3, we took a look at how the change in value for $100,000 invested in different asset classes through various market cycles. Investing $100,000 in the S&P 500 at the peak of the market in October 2007 and then selling as the market bottomed in February 2009 resulted in approximately a 50% loss, bringing the value of the original $100,000 down to $49,831. On the other hand, staying in the market throughout the decline and the subsequent rebound would have resulted in positive performance of 137%, more than doubling the original investment. Being out of the market even briefly can mean missing out on short-term market recoveries: Consider that S&P 500 returned 18% from July 2009 – January 2010.

While most plan participants should have a mix of asset classes in their retirement plan, not just equities, the point to drive home is that staying invested over the long term can help participants retire with the assets they need to sustain a comfortable lifestyle.

3. Pack well and be prepared

Speaking of mixed asset classes, participants often don't understand the benefits that diversification can bring to a portfolio. Uncorrelated asset classes can help participants take advantage of market upswings, while potentially minimizing losses during downturns. Figure 4 shows how various asset classes performed quite differently over the past ten years.

3 Ibid.

FIGURE 3.

Jumping out of the market at the wrong time can hurt a portfolio

Performance of $100,000 invested on 01 Oct 2007 (market peak)

	Account balance as of 28 Feb 2009	Peak to trough cumulative return 1 Oct 2007 to 28 Feb 2009	Account balance as of 31 Mar 2019	Full cycle cumulative return 1 Oct 2007 to 31 Mar 2019
S&P 500 Index	$49,831.52	-50.2%	$237,431.93	137.4%
30-day Treasury Bill (cash proxy)	$102,566.38	2.6%	$106,464.92	6.5%
Average Target Date 2035 Fund (Age 35-40 in 2007)	$51,660.01	-48.3%	$163,915.24	63.9%

Source: Morningstar, Nuveen, as of 31 Dec 2018.

FIGURE 4. The case for diversification across asset classes

Annual returns for key indexes ranked in order of performance (2009 – 2018)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Emerging Market Equity 78.51	Small Cap Equity 26.85	U.S. Fixed Income 7.84	Real Estate 27.73	Small Cap Equity 38.82	Real Estate 15.02	Large Cap Equity 1.38	Small Cap Equity 21.31	Emerging Market Equity 37.28	Cash Equivalent 1.87
High Yield 58.21	Real Estate 19.63	High Yield 4.98	Emerging Market Equity 18.23	Large Cap Equity 32.39	Large Cap Equity 13.69	U.S. Fixed Income 0.55	High Yield 17.13	Non-U.S. Equity 24.21	U.S. Fixed Income 0.01
Real Estate 37.13	Emerging Market Equity 18.88	Non-U.S. Fixed Income 4.36	Non-U.S. Equity 16.41	Non-U.S. Equity 21.02	U.S. Fixed Income 5.97	Cash Equivalent 0.05	Large Cap Equity 11.96	Large Cap Equity 21.83	High Yield -2.08
Non-U.S. Equity 33.67	High Yield 15.12	Large Cap Equity 2.11	Small Cap Equity 16.35	High Yield 7.44	Small Cap Equity 4.89	Real Estate -0.79	Emerging Market Equity 11.19	Small Cap Equity 14.65	Non-U.S. Fixed Income -2.15
Small Cap Equity 27.17	Large Cap Equity 15.06	Cash Equivalent 0.10	Large Cap Equity 16.00	Real Estate 3.67	High Yield 2.45	Non-U.S. Equity -3.04	Real Estate 4.06	Non-U.S. Fixed Income 10.51	Large Cap Equity -4.38
Large Cap Equity 26.47	Non-U.S. Equity 8.95	Small Cap Equity -4.18	High Yield 15.81	Cash Equivalent 0.07	Cash Equivalent 0.03	Small Cap Equity -4.41	Non-U.S. Equity 2.75	Real Estate 10.36	Real Estate -5.63
Non-U.S. Fixed Income 7.53	U.S. Fixed Income 6.54	Real Estate -6.46	U.S. Fixed Income 4.21	U.S. Fixed Income -2.02	Emerging Market Equity -2.19	High Yield -4.47	U.S. Fixed Income 2.65	High Yield 7.50	Small Cap Equity -11.01
U.S. Fixed Income 5.93	Non-U.S. Fixed Income 4.95	Non-U.S. Equity -12.21	Non-U.S. Fixed Income 4.09	Emerging Market Equity -2.60	Non-U.S. Fixed Income -3.09	Non-U.S. Fixed Income -6.02	Non-U.S. Fixed Income 1.49	U.S. Fixed Income 3.54	Non-U.S. Equity -14.09
Cash Equivalent 0.21	Cash Equivalent 0.13	Emerging Market Equity -18.42	Cash Equivalent 0.11	Non-U.S. Fixed Income -3.08	Non-U.S. Equity -4.32	Emerging Market Equity -14.92	Cash Equivalent 0.33	Cash Equivalent 0.86	Emerging Market Equity -14.58

Source: Callan, 2019.

But all of this may be overwhelming for participants who don't know how much to allocate to each asset class, and when. A professionally managed portfolio strategy, such as a target date fund, may help alleviate some of this burden. A target date fund gradually adjusts the mix of equity and fixed income investments from more aggressive to more conservative as the participant's targeted retirement date approaches. Because they automatically rebalance over time to align with participants' time horizons and risk appetites, target date funds may keep participants from falling into the common trap of selling after asset prices fall.

Encourage greater savings

The S&P 500 Index has returned more than 10% on average over the past ten years, but we do not believe U.S. stocks are poised to deliver returns of that caliber over the next five to ten years. After such a stretch of stellar performance, participants may need to brace for an era of more modest investment returns. So what's the answer? Encourage participants to address something they can control, which is how much they contribute. The combination of lower expected returns and longer life expectancy makes it even more important for participants to contribute as much as they can.

If participants are reluctant to contribute more during down markets, remind them that their payroll contributions are able to buy more shares with the same dollar amount. As long as the market follows its historical trend of upward movement, this strategy of "dollar-cost averaging" may help build wealth over time.

As markets downshift, there will be more market declines. What's important is how participants react. While no two participants will have the same retirement time horizon, goals or risk tolerance, there are fundamentals that can apply across the board: staying the course, proper diversification and consistent saving can all lead to improved retirement outcomes.

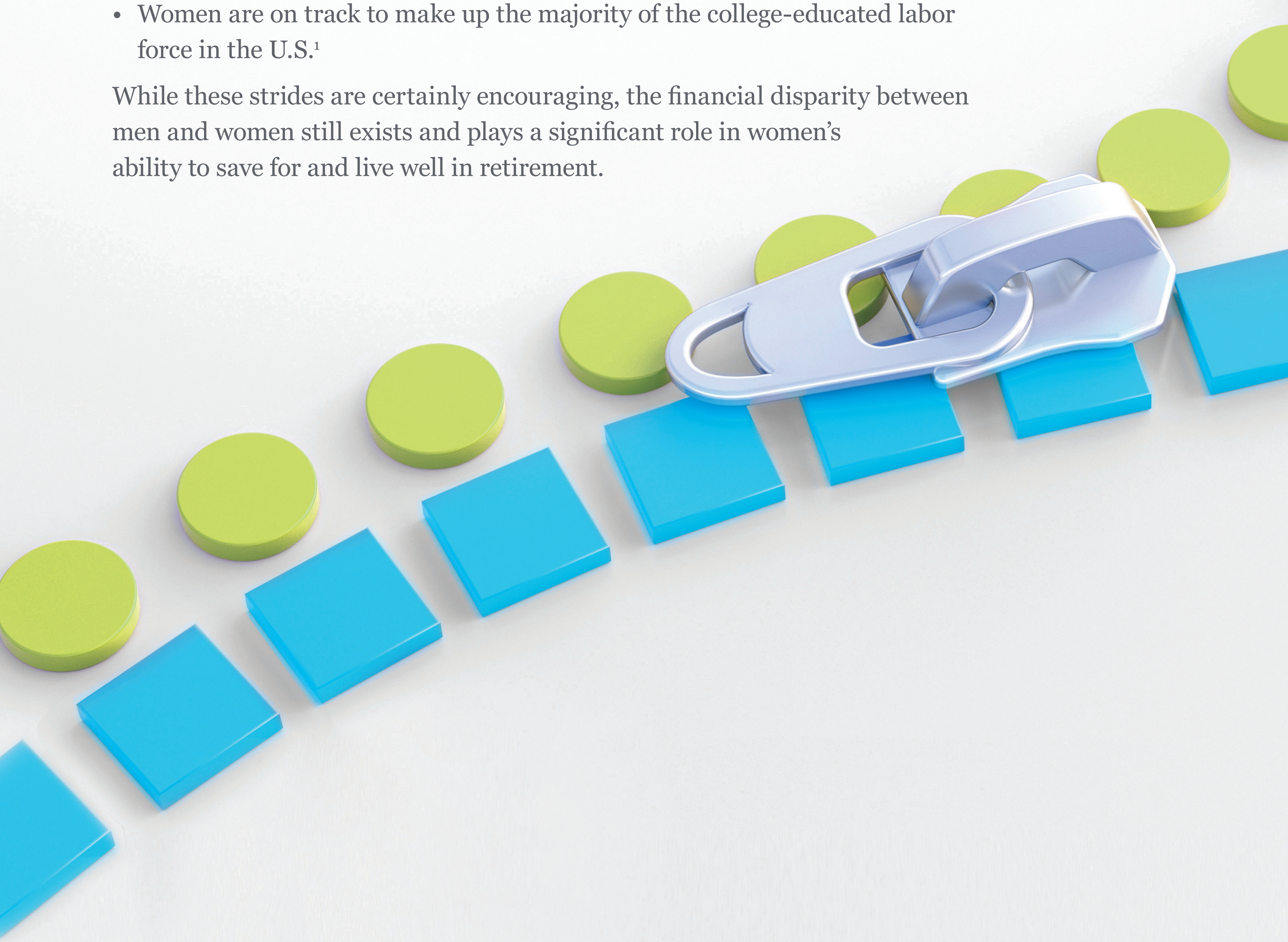
PARTICIPANT ENGAGEMENT

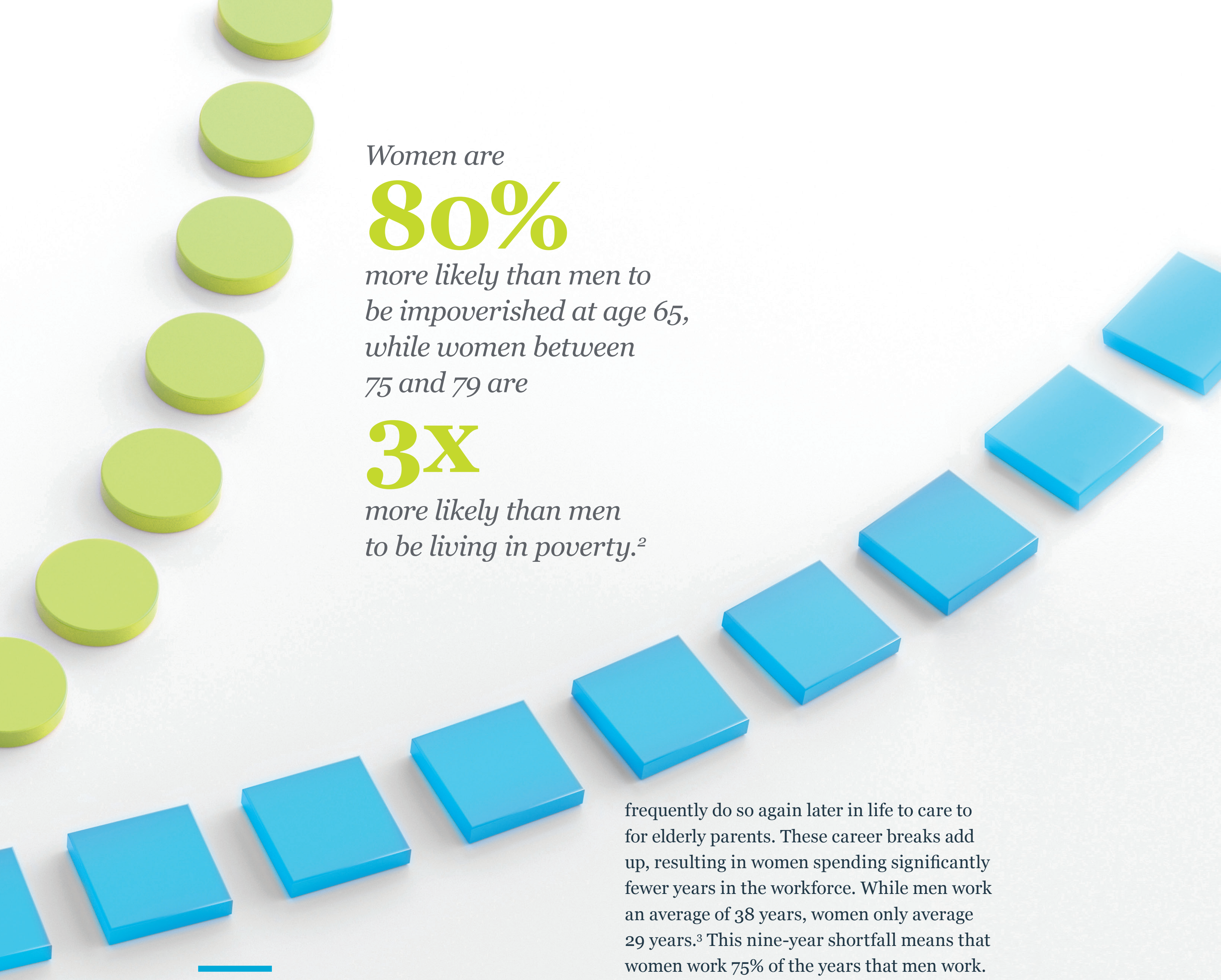
Narrowing the gender retirement gap

So far, 2019 has yielded some significant milestones for women:

- A record number of women are serving in the 116th Congress
- Nearly half of Time magazine's 100 Most Influential People are women (the most ever since they began publishing the list in 2004)
- Women are on track to make up the majority of the college-educated labor force in the U.S.[1]

While these strides are certainly encouraging, the financial disparity between men and women still exists and plays a significant role in women's ability to save for and live well in retirement.





Women are

80%

more likely than men to be impoverished at age 65, while women between 75 and 79 are

3x

more likely than men to be living in poverty.[2]

Building savings

Throughout their careers, when both men and women are building their retirement savings, women tend to be disadvantaged by three key issues:

1 Women work fewer years over the course of their lives.

The retirement industry often thinks about life stages in three simple categories — child, working adult and retiree — and often assumes workers stay in the workforce for about 40 years. However, the reality often looks very different for women. Many women temporarily leave the workforce to care for children, and frequently do so again later in life to care to for elderly parents. These career breaks add up, resulting in women spending significantly fewer years in the workforce. While men work an average of 38 years, women only average 29 years.[3] This nine-year shortfall means that women work 75% of the years that men work. This fact alone makes it immediately obvious that women need to save a higher percentage of their salary during their working years.

FIGURE 1:

Lifetime years in the workforce by gender

	Men	Women
Full employment	40	40
Childcare	-0.5	-5.5
Elder care	-0.6	-1.2
Expected employment	39	33
Social security data	38	29

Source: Pew Research Center May, 2014 and the Social Security Administration.

1 NPR, June 20, 2019: "New Report Says Women will soon be majority of college-educated U.S. Workers."
2 Continuing Challenges to Women's Financial Future, National Institute on Retirement Security, 2016.
3 Pew Research Center May, 2014 and the Social Security Administration.

2 Women earn less than men.

Deemphasizing careers during both the beginning and middle stages impacts more than just total years worked: It also limits the rate of pay for women. In the general population, women still only earn $0.80 on the dollar relative to men, amounting to an annual gender wage gap of $10,169.[4] And the wage gap for working mothers is even greater than for women overall. Mothers with full-time, year-round jobs are only paid $0.71 for every dollar paid to fathers.[4] Career breaks exacerbate this pay gap and impact more than just total years worked, they also limit the potential growth of pay for women.

3 Women tend to take on less investment risk.

Studies show that women are generally more risk averse than men when managing personal finances, and may therefore invest their portfolios somewhat differently, striving to protect the assets they have. They are also less likely to endure risk in hopes of generating higher returns.[5] One of the keys to long-term investment success is the ability to take well-chosen risks, notably equity risk, the principal source of long-term investment returns. With this difference in risk preferences, women may experience underperformance over long periods of time, resulting in smaller retirement balances.

Living in retirement

On top of the saving constraints, women often have higher expenses during retirement due to increased longevity. Living longer naturally equates to having greater healthcare expenses. However, the data suggests there is more to the story. According to the Department of Health and Human Services, from the age of 65 forward men will spend $18,251 per year on healthcare, while women will spend $19,558. The reason for this 7% additional spending is twofold: Women are more likely to have periods where they suffer through a chronic illness and, because they tend to outlive their spouses, they are much less likely to benefit from a spouse as a caregiver. Healthcare expenses are also set to rise at a rate of 5.5% per year between 2018 and 2027, a growth rate that will impact the financial security of many women.[7]

It is clear that women are challenged with a significant gap between their expected needs and expected resources in retirement. With women making up half of the U.S. labor force, employers have the opportunity narrow the gender retirement gap.

Women

Work 75% of the years[2]	Earn 80% of the compensation[4]	Are more risk averse[5]	Live 4 years longer[7]	Often become sole providers	Spend more on health care[6]
Less time	**Lower compensaton**	**Risk averse**	**Live longer**	**Sole provider**	**Healthcare expenses**
BUILDING SAVINGS			**LIVING IN RETIREMENT**		

Maintaining the conversation

While the gender pay gap is a mainstream topic, the gender retirement gap is not. Increasing the awareness of the challenges women face in retirement can lead to creating more positive outcomes. The needle is moving in terms of women being more empowered and attuned to improving their financial futures, and employers can play a key role in helping them achieve retirement security.

4 National partnership for women and families, America's Women and the Wage Gap. May 2019.
5 van Geen, Alexandra. "Risk in the Background: How Men and Women Respond." (2013).
6 Centers for Medicare and Medicaid Services, 2019.
7 World Health Organization, 2016

Empower with knowledge

By being made aware of their unique challenges during the savings and retirement phases, women can better plan and prepare for how to fulfill their long-term financial savings needs.

Make it personal

Consider targeted communications that are specific to women's needs. Education campaigns may cover topics around general financial planning, time away from the workforce, long-term care, supplemental and healthcare savings strategies.

Keep it simple

Whether the goal is to get women into a retirement plan, increase their contributions or even diversify their investments, the key is to make the process simple. Actions should require 'one click' or even have the option to make changes in real time during education meetings. Automatic plan features — including auto-enrollment and escalation — should be set to levels that maximize savings opportunities and garner the full employer match, if available.

Promote extra ways to save

Women in particular need to ensure they are maximizing every opportunity available to them to enhance their retirement savings to make up for the shortfall. Employees that reach age 50 are eligible to go beyond the normal limits with catch-up contributions to IRAs and 401(k)s within the calendar year. This is a great way for women, especially those who may have taken time out of the workforce, to catch up on contributions and boost retirement savings.

FIDUCIARY PERSPECTIVE

Forming a highly effective retirement plan committee: the impact of inclusion and diversity

A team is **157%** *more likely to understand the consumer when one team member matches the target demographic.*

Source: McKinsey, February 2016.

The retirement plan industry is constantly evolving. To keep pace, plan fiduciaries should be continuously evaluating their approach to plan design and governance. In today's environment of increased litigation and plan design innovation, having a highly effective retirement plan committee has never been so important.

An effective committee can help fulfill fiduciary responsibilities, navigate increasingly complex plan requirements and minimize the risk of litigation. At the same time, the committee is charged with staying on top of innovations and emerging trends that may have the potential to impact their plan participants' outcomes — an increasingly difficult task, given shifting employee demographics within the workplace.

Today's workforce is getting older and spanning more generations, is much more diverse than ever before and is more highly educated.[1] This is good news on many levels. Numerous studies show that more diversity across the workforce leads to better results.

A study written up in Scientific American looked at 1.5 million academic papers and **"found that papers written by diverse groups receive more citations and [had] higher impact factors than papers written by people from the same ethnic group."**[2]

Research from Tufts University indicates that **diverse members of a jury perform better than homogeneous groups when making decisions** due to broader recognition of facts and longer deliberations.[3]

A selection of researchers from Columbia, MIT, University of Texas-Dallas, Northwestern and other prestigious universities studied stock picking in ethnically homogeneous and diverse groups. **More diverse teams made more accurate pricing decisions,** leading to fewer bubbles in the market. Their picks were 58% better than the picks of the homogeneous groups.[4]

Credit Suisse echoes McKinsey's findings in its own study,[5] finding that **large businesses with women on the board outperformed male-only boards.**

If academics, corporate boards, juries and employees all benefit from diversity, we can assume retirement plan committees can benefit too. But, we don't have to assume.

Studies have also shown that diverse committees achieve better decisions than those that are less diverse.[6] Adopting an inclusive and diverse approach can bring a wide range of perspectives, allowing the committee to better serve participants from all demographics. Having different backgrounds can help create a strong governance structure.

1 Source: "Meet the US workforce of the future: Older, more diverse, and more educated," Deloitte Review, Issue 21, July 2017.

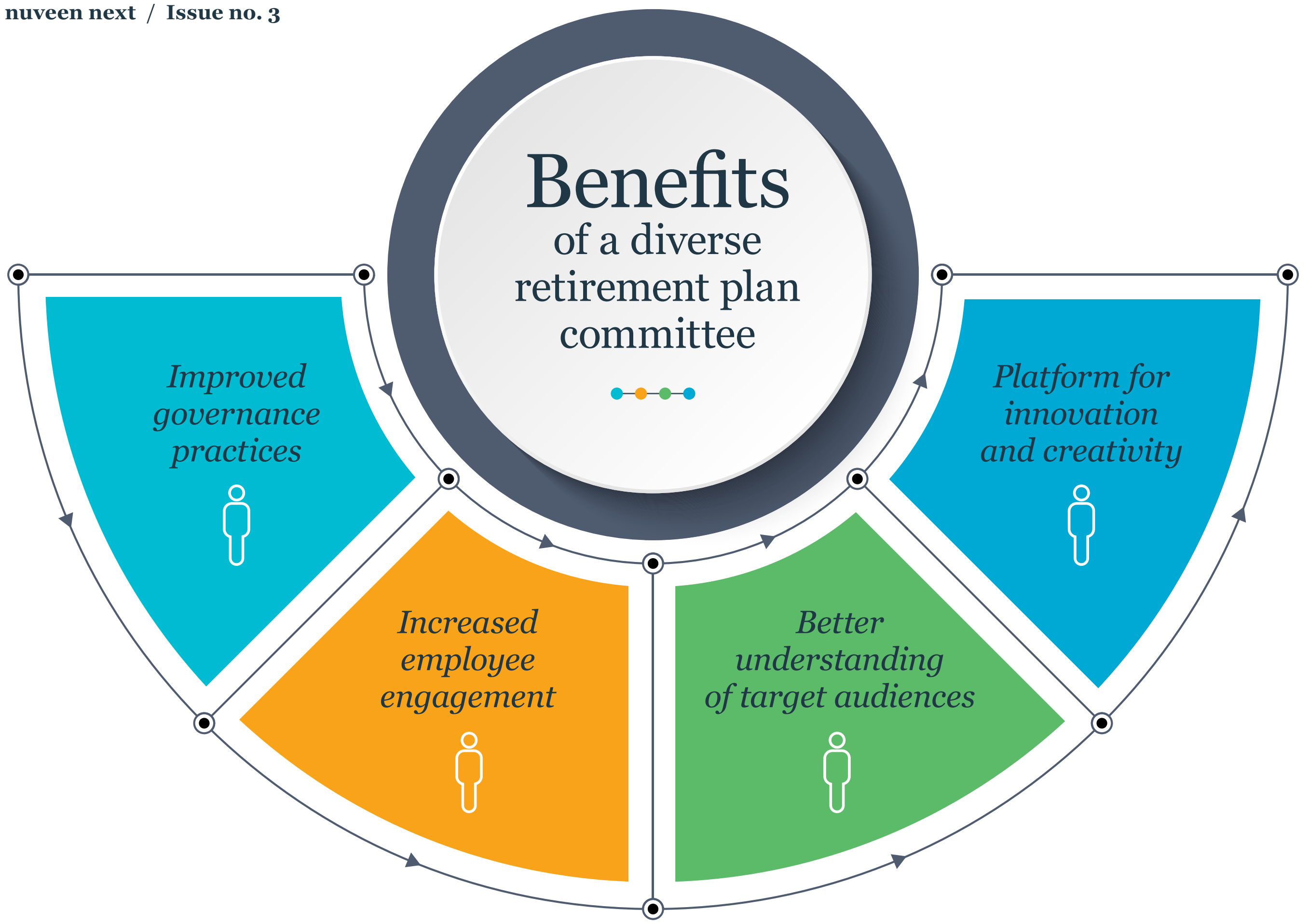
2 Source: "How Diversity Makes Us Smarter," Scientific American, October 2014.

3 Source: Racial Diversity Improves Group Decision Making In Unexpected Ways, According To Tufts University Research, April 10, 2006

4 Source: 7 Studies That Prove the Value of Diversity in the Workplace, September 2017. https://blog.capterra.com/7-studies-that-prove-the-value-of-diversity-in-the-workplace/

5 Source: Credit Suisse Research Institute, "Gender Diversity and Corporate Performance," August 2012.

6 Source: Forsyth, Donelson R. 2019. Group dynamics.



Best practices of highly effective plan committees

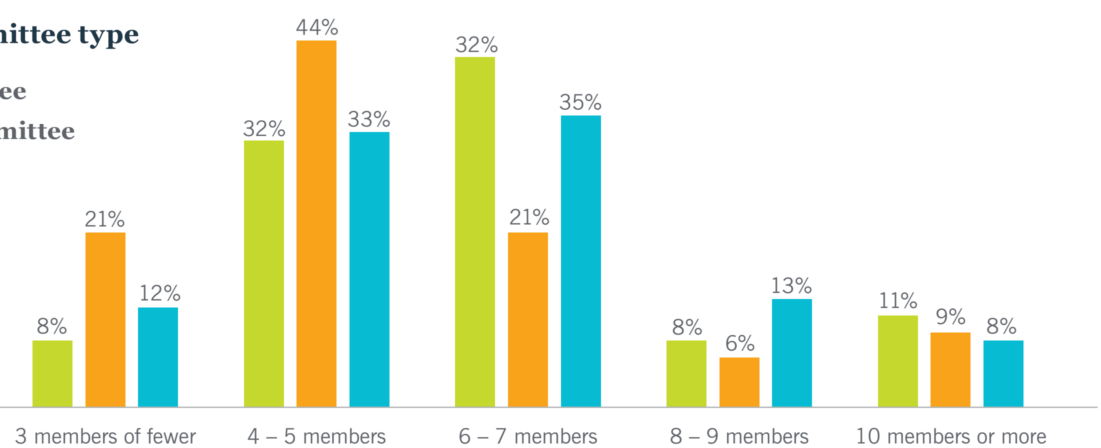
While there are many factors that contribute to the effectiveness of a committee, diversity should be considered as a key component. Consider these best practices when forming or evaluating your retirement plan committee.

SELECT THE RIGHT NUMBER OF MEMBERS

First is determining the right size for the committee. Depending on plan size, committees typically range from three to seven members, though five seems to be the ideal recommendation for effective decision-making. An odd (not even) number of members helps eliminate the risk of a tie and indecision. It is also a good idea to appoint a chairperson and a secretary to ensure that a proper cadence is followed and detailed records are kept.

FIGURE 1:
Average size by committee type

- Investment Committee
- Administrative Committee
- Single Committee



Source: The Best Ways to Govern DC Plans, Callan 2017.

CONSIDER COMMITTEE DEMOGRAPHICS

Consider how diverse characteristics could enhance the committee decision-making through different perspectives. Generally, there is representation from human resources, finance and legal. While committee members don't need to be experts in investing, they should have a basic understanding of retirement plans and/or financial markets.

> ***Defining diversity:***
>
> *Diversity comes in many forms. Gender, race, religion, age, culture, socioeconomic background, education and functional expertise all contribute to adding unique perspectives to plan decisions.*

UTILIZE A COMMITTEE CHARTER

A prudent committee may also develop a charter to outline fiduciary responsibilities and ongoing governance required to oversee a retirement plan. The charter should clearly reflect the committee's structure (consistent with the committee formation best practices described above), as well as the committee's member roles, objectives and responsibilities consistent with ERISA's guiding principles.

Basics of committee charter

- Establish the committee's authority
- Define the committee's purpose
- Determine the committee's structure
- Formalize the committee's procedures
- Delegate authority and assign responsibilities and duties
- Create processing for selecting and managing vendors
- Outline the committee's reporting needs
- Set procedures for performing updates and protecting committee members financially

THOROUGHLY DOCUMENT DECISIONS AND PROCESSES

Following a thorough and prudent process will help enable the committee to effectively fulfill its fiduciary obligations. It is critical to have through documentation not only around plan decisions, but also the logic that was applied in order to come to those conclusions. Consider the following as best practices:

- Written fiduciary acknowledgment for committee members
- Investment policy statement (including a QDIA policy, if applicable)
- Meeting minutes

Participants have a variety of unique needs, so it's imperative to have a broadened perspective and deeper understanding of whom the committee is there to serve. An effective plan committee is the foundation of retirement plan decision-making and the key to building a plan that helps participants reach successful retirement outcomes.

ON THE HORIZON

Student loan repayment programs

An unlikely bridge across the workforce generational divide

We often talk about how the differences among millennials, Gen Xers and baby boomers, such as how to manage them differently, their different motivations and how to communicate differently. It's easy to overlook common threads as they emerge. A surprising — and rather unfortunate — example is the continuous increase of college loan debt and the stress it can put on employees.

Over the past ten years, college tuition for both private and public schools has increased at a faster rate than average household income, as shown in Figure 1. Now add in other expenses like increasing healthcare costs, and it's no wonder college loan debt is skyrocketing!

It's a diverse student body

People often incorrectly associate this debt problem with millennials, but it's becoming much more pervasive. For example, in 1992, 85% of families with student loan debt were those with a head younger than 45 years old. By 2016,[1] this percentage had fallen to 66.7%. In its place, families with heads aged 45–54 showed significant growth in the share of those with student loan debt, increasing from 8.9% in 1992 to 19.5% in 2016.[1] The reality is, this trend shows no signs of slowing. As the number of individuals receiving undergraduate degrees increases, so too does the demand for advanced degrees. The number of parents and grandparents co-signing loans has increased as well. This has become so mainstream, there's even a gameshow about paying off student loans!

At the same time, recent studies show that there is a direct correlation between financial stress and workplace performance. For example, 25% of employees report that issues with personal finances have been a distraction at work. Of those distracted, 43% say that they spend three hours or more at work each week thinking about or dealing with issues related to their personal finances, and 15% report missing work occasionally as a result.[2]

Implementing programs to mitigate employees' financial stress is a win-win for employers and employees. Even beyond financial wellness and productivity, such programs can help recruit employees and increase firm loyalty and retention efforts. This is nothing new. Many companies have been offering tuition reimbursement programs and 401(k) match programs for years. Student loan repayment programs are an innovative evolution of benefits under the "financial wellness" umbrella that address a very real need for employees.

1 EBRI Issue Brief No. 467, December 6, 2018
2 PwC 2018 Employee Financial Wellness Survey

Not only has the percentage of families with college debt increased, but also the amount owed.

The median amount owed rose from
$5,363 in 1992 to $19,000 in 2016
(both in 2016 dollars). The average amount owed had a similar increase — going from $11,751 to $34,293.

Source: EBRI Issue Brief No. 467, December 6, 2018

FIGURE 1.
10-year growth rates (2008 -2017)

Average annual growth rates between 2008-2017

- **Real median household income (U.S.)**
- **Public four-year institution fees and tuition**
- **Total personal healthcare expenditures**

Sources: U.S. Census Bureau, Real Median Household Income in the United States [MEHOINUSA672N], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/MEHOINUSA672N, June 25, 2019.

CollegeBoard, Trends in College Pricing 2017

US Inflation Calculator, 2019

Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

Ready to choose a major

There's more than one approach to student loan repayment programs for employers to consider, each with benefits and drawbacks. Some examples are listed below.

Refinancing support

Some employers have partnered with a single provider or a platform of providers to give employees easy access to refinancing options to help employees understand the options available to them and potentially lower their monthly loan payments. Employers may also include incentives for employees to refinance their loans.

Direct loan payments

Increasingly, employers are making direct payment on employees' student loans. Employers often pay a specific dollar amount over a specified period of time, up to a cap. Employers may also choose to match the employee's loan payment(s), up to a specified amount.

Student loan 401(k) match

Recognizing employees' common dilemma between paying off student loans and saving for retirement, some employers are beginning to match an employee's student loan payment with a contribution into the employee's 401(k) account.

Financial wellness tools

Until recently, many tools and calculators offered to employees focused on savings and income in retirement. Employers – via industry service providers – are expanding access to financial-planning tools that include loan repayment guidance and education.

It's important to note that each one of these solutions can be fraught with complexity and can cause unintended consequences for both employees and employers. Legislators and regulators are stepping in to try to help.

Support from Congress

Over the past six months, a number of proposals were raised in both the House and the Senate. They attempt to address this growing issue in various ways including:

- Increasing awareness of tuition costs
- Enhancing the vehicles used for paying back student loans
- Enhancing employee benefits to include student loan repayment options

Still undeclared

The appeal of student loan repayment programs is growing across multiple employee demographics, and it's possible for employers to meet employee demand by structuring a program that creates a win-win: The employee is able to pay off loans faster and save for retirement, which may alleviate financial stress; the employer benefits from increased employee productivity and loyalty. However, offering student loan repayment programs is still a very new type of employee benefit, and therefore is going to continue to evolve. We encourage employers to think about these programs in the context of their financial wellness and overall benefit program efforts and understand what approach might be best suited to optimize the outcomes for their specific employee demographic.

Regulatory and legislative proposals to watch

Reauthorization of Higher Education Act (HEA) of 1965

- Introduced by the Trump administration 03.18.19
- Last reauthorization was in 2008 (typically done every 4 to 6 years)
- Current state: undergraduate students capped at $57K (lifetime), but no limit for parents taking out the loans
- President Trump and Secretary of Education proposals:
  - Cap the amounts that students and families can borrow for post-secondary schooling (no mention of cap amount)
  - Simplifying student loan repayment and expanding the Pell Grant program to low-income students who are enrolled in short-term career training programs
  - Reorient the Higher Education Act and focus more on workforce needs

S. 889 – The Net Price Calculator Improvement Act

- Introduced by Sen. Grassley – IA, Sen. Smith – MN, Sen. Ernst – IA on 3.27.19
- Require schools to put their calculators on webpages where students and families are likely to look for cost and admissions information. Would also authorize the Department of Education to develop a "universal calculator" that lets students answer a standard set of financial and academic questions to get cost estimates from many schools, so they could better compare costs across institutions.

S. 3771 – Retirement Parity for Student Loans Act

- Introduced by Sen. Wyden – OR on 12.18.18
- Allows certain employer-sponsored retirement plans to make matching contributions for an employee's student loan payments as if the loan payments were salary reduction contributions to the retirement plan.

S. 460 – Employer Participation in Repayment Act of 2019

- Introduced by Sen. Warner – VA and Sen. Thune – SD on 2.12.19
- Allow employers to contribute as much as $5,250 tax-free to their workers' student loans

H.R. 1084 – Family Savings Act of 2019:

- Introduced by Rep. Kelly – PA on 2.7.19
- Expands 529s to allow for repayment of student loan debt

A study guide:

How employers are helping ease the burden of student loans

ABBOT LABORATORIES

This healthcare company is helping its employees repay student loans and save for retirement. If an employee contributes 2% of their paycheck to student loan repayment, Abbott will provide a 5% match to the employee's 401(k) retirement plan.

TRAVELERS COS.

Travelers will match whatever payments employees are making toward their student debt, up to 5% of their salary or a maximum of $6,500 a year, to the 401(k) accounts of those employees. Employees do not need to contribute directly to their 401(k) plans to be eligible for the new perk.

ESTEE LAUDER

The international beauty conglomerate provides employees up to $10,000 in contributions to their student loan repayments. Eligible employees receive $100 a month to pay down their loans directly.

PRICEWATERHOUSECOOPERS (PWC)

The global accounting and consulting firm offers employees at certain levels of the firm $100 per month (up to $7,200) toward an employee's student loan debt.

Source: Thecollegeinvestor.com, "These companies offer student loan repayment assistance," May 23, 2019.

Forbes, "Student Loan Repayment Is The Hottest Employee Benefit Of 2018," October 18, 2018.

For more information, please visit us at nuveen.com

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Glossary

The **30-day Treasury Bill** is a short-term debt obligation backed by the Treasury Department of the U.S. government with a maturity of less than one year.

The **Bloomberg Barclays Global Aggregate ex U.S. Bond Index** is an unmanaged index that comprises several other Bloomberg Barclays indexes that measure the fixed income performance of regions around the world, excluding the U.S.

The **Bloomberg Barclays U.S. Corporate High Yield Bond Index** measures the USD-denominated, high-yield, fixed-rate corporate bond market.

The **FTSE EPRA/NAREIT Developed Index** is designed to track the performance of listed real estate companies and REITS worldwide. By making the index constituents free-float-adjusted, liquidity, size and revenue screened, the series is suitable for use as the basis for investment products, such as derivatives and Exchange Traded Funds (ETFs).

The **MSCI Emerging Markets Index** is a free-float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. The MSCI World Index is a free-float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets.

The **MSCI World index** consists of the following 23 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

The **Russell 2000® Index** measures the performance of the small cap segment of the U.S. equity universe, which includes approximately 2000 of the largest securities based on a contribution of their market cap and current index measurement.

The **S&P 500® Index** is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic economy.

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