DC Pulse // 1Q 2024 in Review

Research, regulations, returns and trends

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MFS DC Takes

How well do participants understand target date funds?

Solid understanding of some target date features...

78% understand TDFs get more conservative as they get closer to retirement

78% see TDFs as an easy way to diversify with one investment

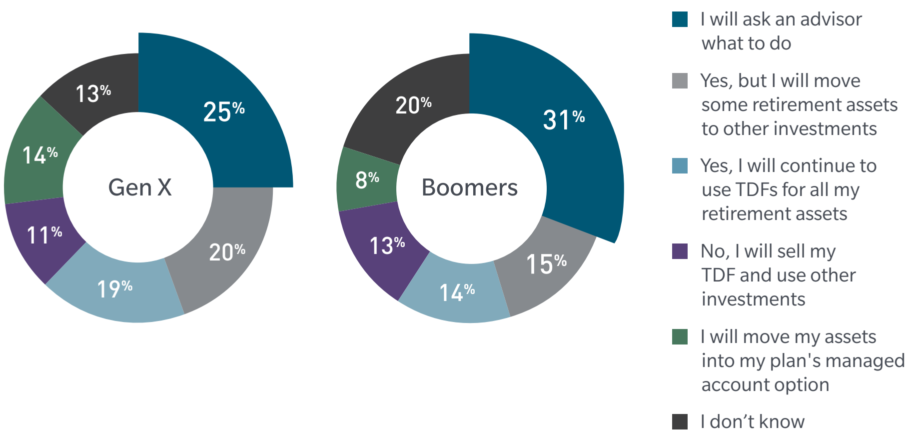
...but more education may be needed on others

65% believe TDFs provide a guaranteed stream of income in retirement

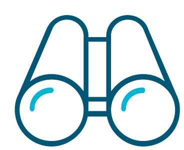
59% believe TDFs provide a guaranteed rate of return

56% believe TDFs invest entirely in cash or other low risk investments in retirement

No clear path on how participants will use TDF's in retirement

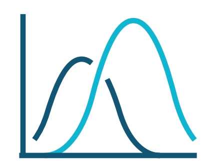


Sponsor Spotlight: Adding to the Confusion



40% Actively encourage participants to stay in plan after they retire

BUT



67% Have TDFs with a "through retirement" glidepath that continues to get more conservative through retirement

Sources

MFS 2023 Global Retirement Survey, US respondents. Top Q: Please indicate the extent to which you agree with each of the statements below about TDFs. Percentages represent the sum of respondents that chose strongly agree or agree with each statement. This question was posed to respondents that answered they are invested in a TDF. Bottom Left Q: When you retire, do you expect to continue in a TDF? A target date fund is a fund whose allocation to stocks and bonds is designed to become more conservative as you near retirement or reach a certain age. TDFs = target date funds.

MFS 2023 DC Plan Sponsor Survey. Bottom Right Q: A. Does your plan want to keep participants' assets in the plan after they retire? B. Does the glidepath end at retirement age or does the portfolio continue to get more conservative through retirement?

DC Regulatory and Legislative Happenings

401Kids

In January, Democrats introduced 401Kids Savings Account Act of 2024, bicameral-proposed legislation aimed at creating children's savings accounts, which could be used toward college, starting a business, housing or retirement savings.

The proposed bill would create a savings account for all newborns and children under age 18. Families could contribute up to $2,500 per year toward the accounts and lower- and moderate-income families would receive federal support. Participants could withdraw funds starting at age 18.

The accounts would be built on state 529 plan platforms and managed by state treasurers.

Federal Auto-IRAs

In February, Representative Richard Neal introduced the Automatic IRA Act of 2024.

The proposed legislation would require employers with more than 10 employees, who do not have a retirement plan, to automatically enroll workers in IRAs or similar vehicles at a rate of at least 6% and increases annually to 10% of compensation beginning in 2027.

The bill would carve out employers who have enrolled in state programs by 2027.

Many retirement firms and trade groups have voiced support for the bill.

CITs in 403(b)s...maybe

In March, the House of Representatives passed H.R. 2799, Expanding Access to Capital Act.

In the legislative proposal, 403(b) plans managed under ERISA would be given the authority to use collective investment trusts (CITs).

The bill was passed along party lines. It now moves to the Senate, but the timeline for consideration is not clear.

As a reminder, SECURE 2.0 updated required tax law to permit CITs in 403(b) plans but did not make necessary changes to the securities laws.

Final Fiduciary Rule

In April, the DOL released the Retirement Security Rule, defining who is an investment advice fiduciary under ERISA.

During the public comment period, the DOL received approximately 425 substantive comment letters and nearly 20,000 petitions to the proposal.

In final form, the rule replaces the historical five-part test with a two-part standard.

The rule and amendments to class prohibited transaction exemptions (PTEs) generally take effect on September 23, 2024, with a one-year transition period after the effective date for certain conditions in the PTEs.

Sources

https://www.congress.gov/bill/118th-congress/senate-bill/3716/text?s=1&r=2.

https://democrats-waysandmeans.house.gov/media-center/press-releases/neal-introduces-automatic-ira-bill.

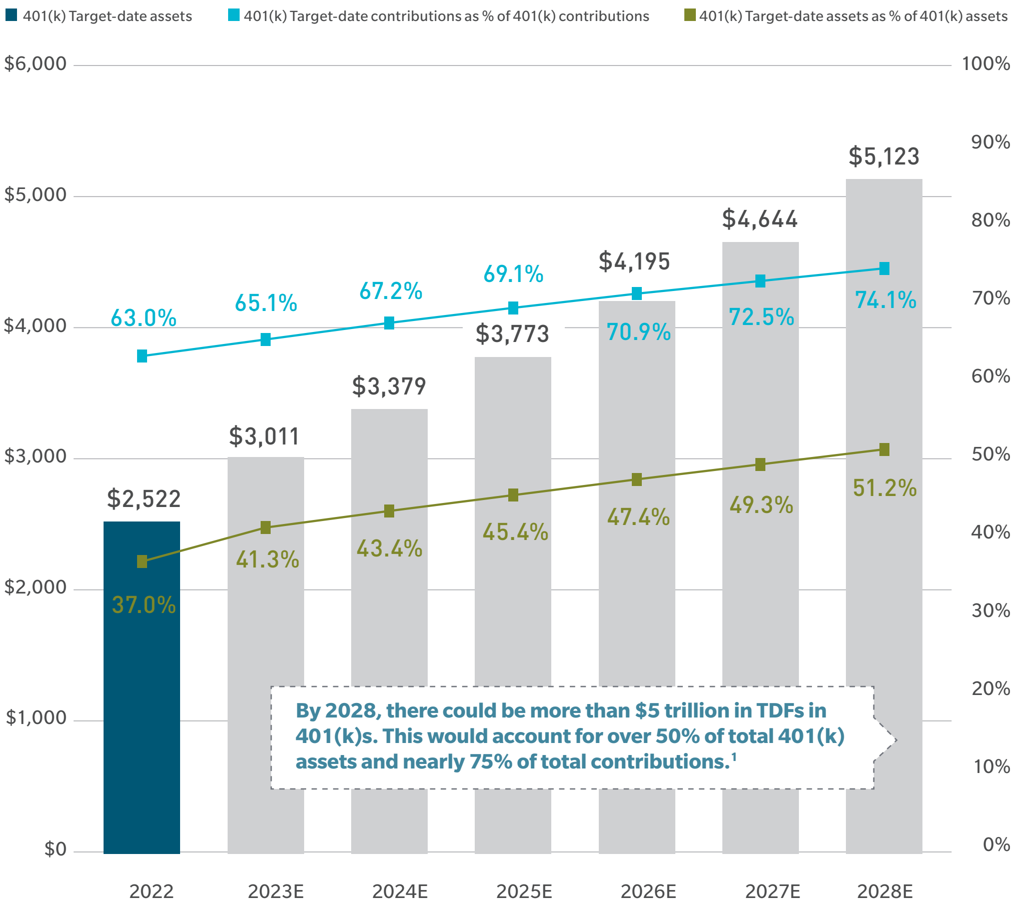
https://clerk.house.gov/Votes/202478.

https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/retirement-security-rule-and-amendments-to-class-pte-for-investment-advice-fiduciaries

DC Market Data

Projected growth of target date funds, but will participants stay in plan?

Growth of TDFs in 401(k)s[1]



Should I stay or should I go?

Plan Distribution Behavior[2]

PARTICIPANTS AGE 60 AND OLDER BY TERMINATION YEAR CHART	1 YEAR	3 YEARS	5 YEARS
Remain in plan no installments	29%	18%	**13%**
Remain in plan taking installments	3%	3%	**4%**
Rollover	38%	46%	52%
Cash + Combination	30%	33%	31%
Total	100%	100%	100%

Only 17% of people stay in plan after 5 years.

30% of participants take cash outs, but they are typically small balances and represent only 9% to 12% of assets.[2]

Reasons cited for IRA Rollover(s)[3]

70% Job change, layoff, or termination

43% Retirement

7% Other

Most retirement-age participants leave their employer's retirement plan within five years of separation from service, mostly as a rollover to an IRA.[2]

Approximately how long until you moved the account balance from your former employer's 401(k) plan?[4]

56% Made a change less than 6 months after separation

73% That number increased within one year, and

84% Within 3 years.

Does your target date and plan design take participant behavior into consideration?

Sources

[1] The Cerulli Report, U.S. Defined Contribution Distribution 2023, Adapting to Fiduciary Trends in the Advisor-Sold Market.

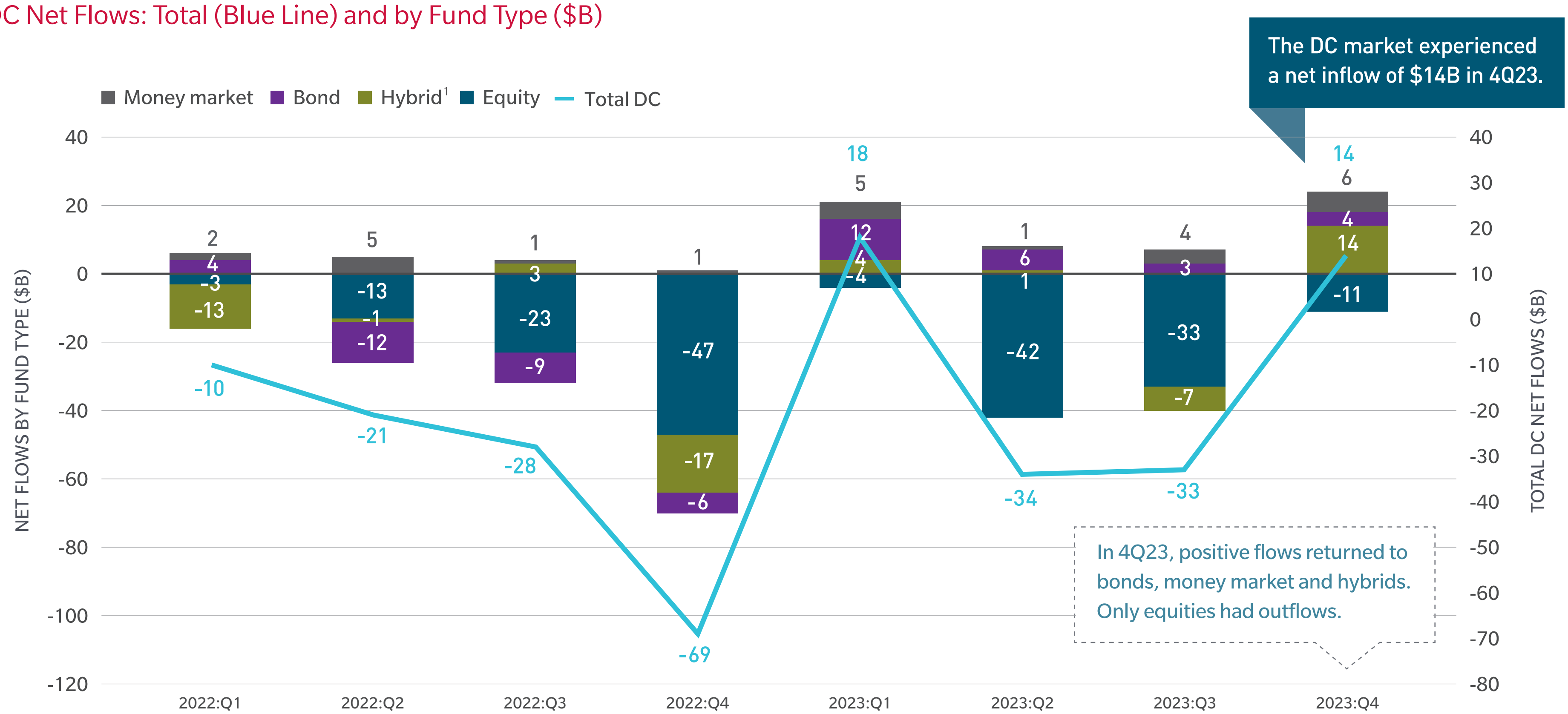
[2] Vanguard, Retirement distribution decisions among DC participants, February 2023.

[3] ICI Research Perspective: The Role of IRAs in US Households' Saving for Retirement, 2024.

[4] The Cerulli Edge U.S. Retirement Edition, The Retirement Plan Rollover Issue, 4Q 2023.

DC Market Data

DC Net Flows: Total (Blue Line) and by Fund Type ($B)



DC plan assets reached $10.6 trillion, of which $7.4 trillion was held in 401(k) plans.

Sources

Investment Company Institute. 2024. "The US Retirement Market, Fourth Quarter 2023" (March 2024). https://www.ici.org/system/files/2024-03/ret_23_q4_data.xls.

[1] Hybrid funds invest in a mix of equities and fixed-income securities. The bulk of lifecycle and lifestyle funds is counted in this category.

Note: Components may not add to the total because of rounding. Data is as of the most recent date for which there is available data.

Investment Index Returns

As of March 31, 2024

BENCHMARK	10 YEARS	5 YEARS	3 YEARS	1 YEAR	YTD	3 MONTHS
BALANCE						
Illustrative 60/40 Portfolio	8.52%	9.30%	5.94%	17.97%	5.94%	5.94%
EQUITY						
S&P 500	12.96%	15.05%	11.49%	29.88%	10.56%	10.56%
Russell 1000® Growth	15.98%	18.52%	12.50%	39.00%	11.41%	11.41%
Russell 1000® Value	9.01%	10.32%	8.11%	20.27%	8.99%	8.99%
Russell 2000®	7.58%	8.10%	-0.10%	19.71%	5.18%	5.18%
MSCI EAFE	4.80%	7.33%	4.78%	15.32%	5.78%	5.78%
MSCI Emerging Markets	2.95%	2.22%	-5.05%	8.15%	2.37%	2.37%
MSCI ACWI	8.66%	10.92%	6.96%	23.22%	8.20%	8.20%
FIXED INCOME						
Bloomberg US TIPS	2.21%	2.49%	-0.53%	0.45%	-0.08%	-0.08%
Bloomberg US Aggregate	1.54%	0.36%	-2.46%	1.70%	-0.78%	-0.78%
Bloomberg Global Aggregate	2.21%	0.80%	-1.29%	4.14%	0.01%	0.01%
CASH						
Cash	1.39%	2.07%	2.70%	5.52%	1.37%	1.37%

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Sources

SPAR, FactSet Research Systems Inc., MFS analysis. Illustrative 60/40 portfolio comprises 60% S&P 500 and 40% Bloomberg US Aggregate and is rebalanced monthly. This hypothetical example is for illustrative purposes only. MSCI indices shown are net returns. Returns for the Bloomberg Global Aggregate Index are hedged to USD.
Cash is based on returns for the FTSE 3-month Treasury Bill Index.
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Disclosures

Survey methodology

Source: 2023 MFS Global Retirement Survey.

US Results. Methodology: Dynata, an independent third-party research provider, conducted a study among 1,000 Defined Contribution (DC) plan participants in the US on behalf of MFS. MFS was not identified as the sponsor of the study.

To qualify, DC plan participants had to be ages 18+, employed at least part-time, actively contributing to a 401(k), 403(b), 457, or 401(a). Data weighted to mirror the age/gender distribution of the workforce. The survey was fielded between March 15–April 13, 2023.

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