



Investment Consulting Services

State Teachers Retirement System of Ohio (STRS Ohio)

October 18, 2023

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STRS Ohio Investment Committee Discussion Topics

Investment Committee Discussion Topics

Slides

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Introduction to Aon and The STRS Ohio Team



Aon Investments USA Inc.

\$2.805T

in U.S. assets under advisement¹

\$119.8B in U.S. discretionary assets across **190** clients²

Global Footprint

\$3.981 Trillion in global client assets³

\$154.3 billion in global discretionary assets⁴



More than

320

U.S. colleagues⁵

140+

Professionals dedicated to Investment Manager Research, including **116** dedicated to alternative strategies⁶

9.2/10

Aon Client Experience Survey

510

U.S. client relationships⁷ including

- Private & Public Pension Plans
- Defined Contribution Retirement Plans
- Endowments and Foundations
- Health Care
- Non-Profit
- Taft-Hartley Plans



Independent and objective advice – Revenue primarily derived from investment advisory services

Experience

Depth of Resources

Thought Leadership

¹ As of 3/31/2023, represents U.S. retainer non-discretionary assets

² As of 6/30/2023, total assets under management represents \$119.8B in U.S. discretionary assets under management advised by Aon Investments USA Inc.

³ Combined figures which includes assets as of 6/30/2022, total assets under management represents \$160.9B in global discretionary assets under management advised by AIUSA and its global affiliates. As of 6/30/2022, Townsend had assets under management of approximately \$22.8B. When calculating assets under management, Townsend aggregates net asset values and unfunded commitments on a quarterly basis. Townsend relies on third parties to provide asset valuations, which typically takes in excess of 90 days after the quarter end. Therefore, assets under management have been calculated using 3/31/2022 figures where available but may also include 12/31/2021 figures. Assets under management are calculated quarterly. Non-US assets under advisement have been calculated as of 6/30/2022 where available but may also include 3/31/2022 or 12/31/2021 figures if 6/30 was unavailable. Non-US assets are calculated and provided to AIUSA by our non-US affiliates. Project asset values may not be as of 6/30/2022 and may reflect the value of the assets at the time the project was completed. Projects are included if Aon recorded positive revenue from the project client between 7/1/2021 – 6/30/2022.

⁴ As of 6/30/2023, total assets under management represents \$154.3B in global discretionary assets under management advised by Aon Investments USA Inc (\$119.8B) and its global affiliates.

⁵ As of 3/31/2023

⁶ Total combined research staff as of 6/30/2023 includes GIC-I Manager Research Staff, and Townsend colleagues from advisory, portfolio management, and strategy teams. Offshore, Innovation, and Support staff represent additional colleagues. Some team members have cross team responsibilities or reporting lines outside the manager research function, includes Aon Investments and its global Aon affiliates, including Townsend.

⁷ As of 3/31/2023, contains both discretionary and non-discretionary U.S. retainer clients

Client Team



Steve Cummings, CFA

Executive Sponsor

- Steve has served in many capacities over his three decades plus with the firm including, most recently, as the Global Head of Aon Investments.
- Member of Client Advisory Team and manages a team of Consultants.
- Steve serves as the primary consultant for select retainer and project clients.
- Steve's client work has included the coordination and implementation of multiple defined benefit and defined contribution plans into a consolidated structure for a multi-billion-dollar corporate client and the oversight of complex alternatives programs for several large public funds.
- Steve joined EnnisKnupp (the predecessor firm to Aon Investments) in 1989 as a consulting and later re-joined in 2000 as the president and Chief Executive Officer.
- Based in Aon's Lincolnshire, IL office.



Beth Halberstadt

Senior Partner - DC Strategist

- Beth leads Aon's U.S. DC Investment Practice, responsible for delivering innovative investment and plan design solutions for DC clients and driving growth and thought leadership for the firm.
- She is a member of the U.S. Investment Executive Committee, chairs the PEP Oversight Committee and participates in the U.S. Investment Management Committee meetings. She is a member of the DOL's ERISA Advisory Council.
- Beth has over 30 years of experience in retirement and investments. Prior to joining Aon, she spent 15 years leading a large retirement program for over 4,000 employers, she served as CFO to a \$4.5B Collective Investment Trust and was an Executive Director of a trust board.
- Beth joined Aon in 2013 to lead the launch of the Discretionary/OCIO DC Solutions and has transitioned over 40 clients to a discretionary model.
- Beth earned a B.S. in mathematics from the University of Wisconsin-Madison.

Bios as of January 2023

Client Team



Mike McCormick, CFA

Lead Consultant

- Serves as a primary consultant and manages 12 consulting assignments. If retained there are plans to reduce client assignments.
- Member and manages a component of the firm's client advisory group.
- Clients range in size from ~\$100 million to ~190 billion.
- Contributed content for the International Foundation of Employee Benefit Plans' Trustee Handbook.
- Attended Loyola University Chicago, B.B.A. in Finance and Economics.
- Currently pursuing a Master's in Finance from the Harvard Extension School.
- Volunteers on a student managed portfolio at Loyola University.
- 16+ years of experience in the investment industry; joined Aon in 2007.
- Based in Aon's Chicago, IL office.



Raneen Jalajel, CFA

Lead Consultant

- Serves as a primary consultant and manages 9 consulting assignments.
- Member and manages a component of the firm's client advisory group.
- Clients range in size from ~\$65 million to ~100 billion.
- Works with public and corporate retirement systems, endowments, and foundation.
- Attended Lewis University, B.B.S. in Finance and Economics.
- Responsibilities include advising clients with all aspects of their investment programs including asset allocation strategy, investment policy development, manager selection, DC investment structure review, and peer fee benchmarking.
- Formerly served 7 years on the firm's trust and custody team.
- 12+ years' experience in the investment industry; joined the firm in 2011.
- Based in Aon's Chicago, IL office.

Bios as of October 2023

Aon Team



Subject Matter Experts and Resource Teams



Aon's Key Differentiators

01

The Right Experience

A firm and consulting team with significant DC consulting experience for large sophisticated programs

02

Our Focus on Participant Behavior & Outcomes

Our advice is focused on helping to improve participant outcomes utilizing behavioral finance to facilitate good decision making through investment structure & plan design

03

Innovative Tools and Analytics

Use of quantitative tools to evaluate participant behavior, risk profile, and retirement income adequacy

04

More Than Just Investment Support

44 DC research investment professionals¹ evaluating TDFs, managed account providers, record keeping vendors, retirement income solutions, performing fee benchmarking, and more!



¹As of 6/30/2023

Depth of Client Experience



Service

Experienced team offering customized service
- call our references!

Representative Public Defined Contribution



- Anne Arundel County Public Schools
- Florida Prepaid College Board
- State Board of Administration of Florida
- Commonwealth of Massachusetts
- Nebraska Investment Council
- FDIC
- County of Fairfax
- Fairfax County Public Schools
- Washington Metropolitan Area Transit Authority
- City of Jacksonville
- Government Of District Of Columbia

Representative Private Defined Contribution



- Kaiser Foundation Health Plan, Inc.
- University of Washington
- Yale University
- Price Water House Coopers LLP
- Ernst & Young
- Medtronic
- Home Depot
- Sempra Energy
- Stanford University
- Bayer Corporation
- GE Healthcare

Data as of: 3/31/2023, includes U.S. retainer clients

Representative Client list as of most recent quarter-end. Inclusion in this list does not represent a recommendation or endorsement of Firm's products and/or services, nor are they exclusively representative of the product(s) discussed herein.

Clients included in this list are the institutional clients which have provided written consent to Firm to be named in marketing materials. It is not known whether all clients listed above approve or disapprove of Aon or the advisory services provided.

A Proven DC Leader

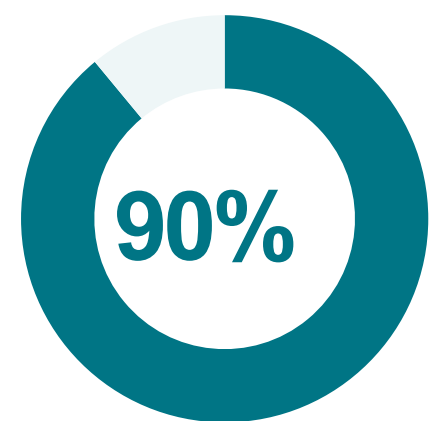


600+ Plans

includes 401(k), 403(b), 457, 529 and HSA¹

\$1.536T

in total assets in DC plans¹

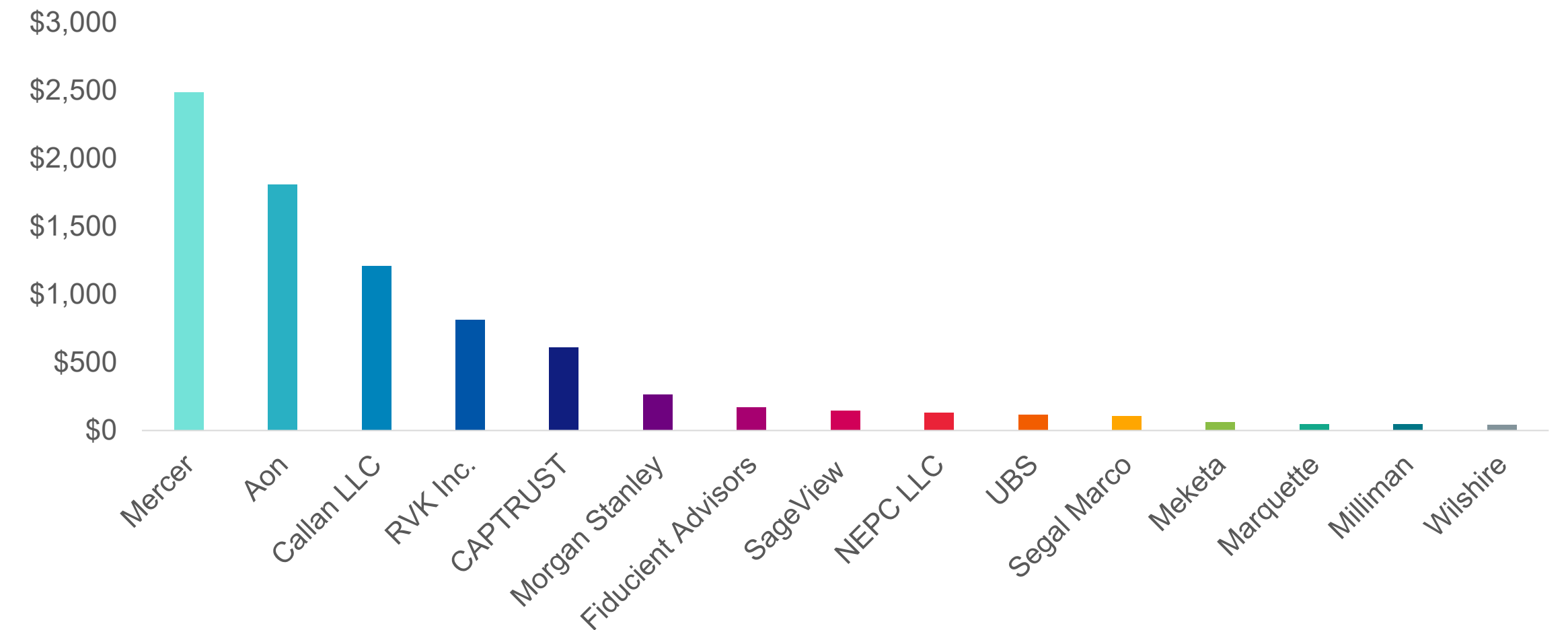


of DC clients are in an advisory model¹

\$43.3B

in DC AUM²

Global DC Plan Assets* (Billions)



*Aon Assets are U.S. Assets only

Source: Pension & Investments, 2022 Investment Consultants Survey, 66 firms participated in the survey. The rankings are based on the industry data reported by Pensions & Investments as of 06/30/2022. The rankings are based on the worldwide assets under advisement reported by each advisor who supplied data to Pensions & Investments. Of the total survey, the subset in this chart represents those with global defined contribution assets under advisement reported by each advisor who supplied data to P&I. The survey does not report on any undisclosed facts about any of the advisors who participated in the survey that could call into question the validity of the underlying data. The survey does not state or imply that the rankings represent the quality of advice provided by any advisor who participated in the survey. The survey discloses the complete list of advisors who participated in the survey. The data may not represent any one client's experience because the data reflects the cumulative asset growth across the entire sampling of the clients of each advisor who participated in the survey. The data is not indicative of the future performance of advisors who participated in the survey. The survey was conducted by Pensions & Investments. No advisor paid a fee to participate in the survey.

¹ As of 3/31/2023, represents U.S. retainer clients

² As of 6/30/2023, total assets under management represents \$43.3B in U.S. discretionary assets under management in defined contribution plans

North America DC Multi-Asset Solutions Team Overview

Leading Advisor¹

\$297B

TDF Research
Assets Under Advisement²

\$242B

Custom TDF
Assets Under Advisement

\$416B

Custom Core
Assets Under Advisement

Client Focused¹

367

DC clients²

42

Custom clients

Depth in Experience

44

investment professionals

Cross-Functional Subject Matter Expertise

Client Service

Public Equity

Fixed Income

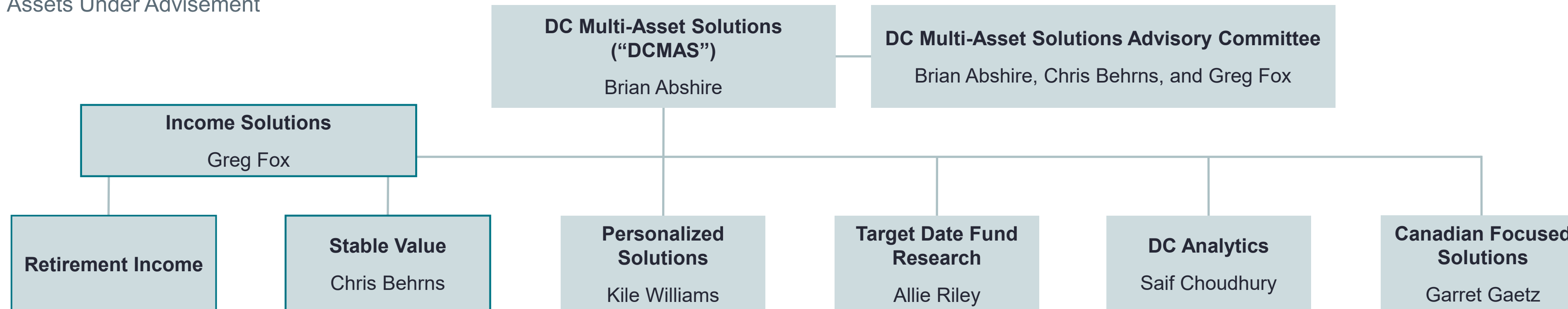
Real Estate

Liquid Alternatives

Investment
Policy Services

Global Asset Allocation

Retirement Income



Note: All data as of June 30, 2023, unless noted otherwise

¹Representative of U.S. clients only

²As of March 31, 2023

Review of STRS Ohio Defined Contribution Plan



Aon's DC Investment Philosophy

Participants aren't saving enough; **Automation** services can help

Governance is critical; including a **focus on Fees**

Investment decisions should be based on **accepted theoretical principles and empirical data**



Majority of participants do *not* form **efficient** portfolios


Investment option structure impacts participant behavior

Simplicity helps enhance the likelihood of success


Focus on both the **Savings** (accumulation) and **Spending** (retirement) phase of life

Participant Investment Menu Behavioral Finance

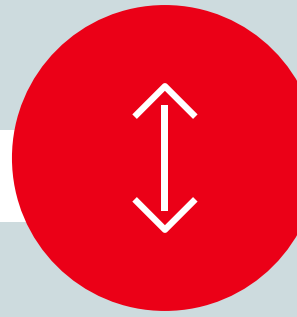
DC plan sponsors continue to grapple with offering the right number of fund choices...



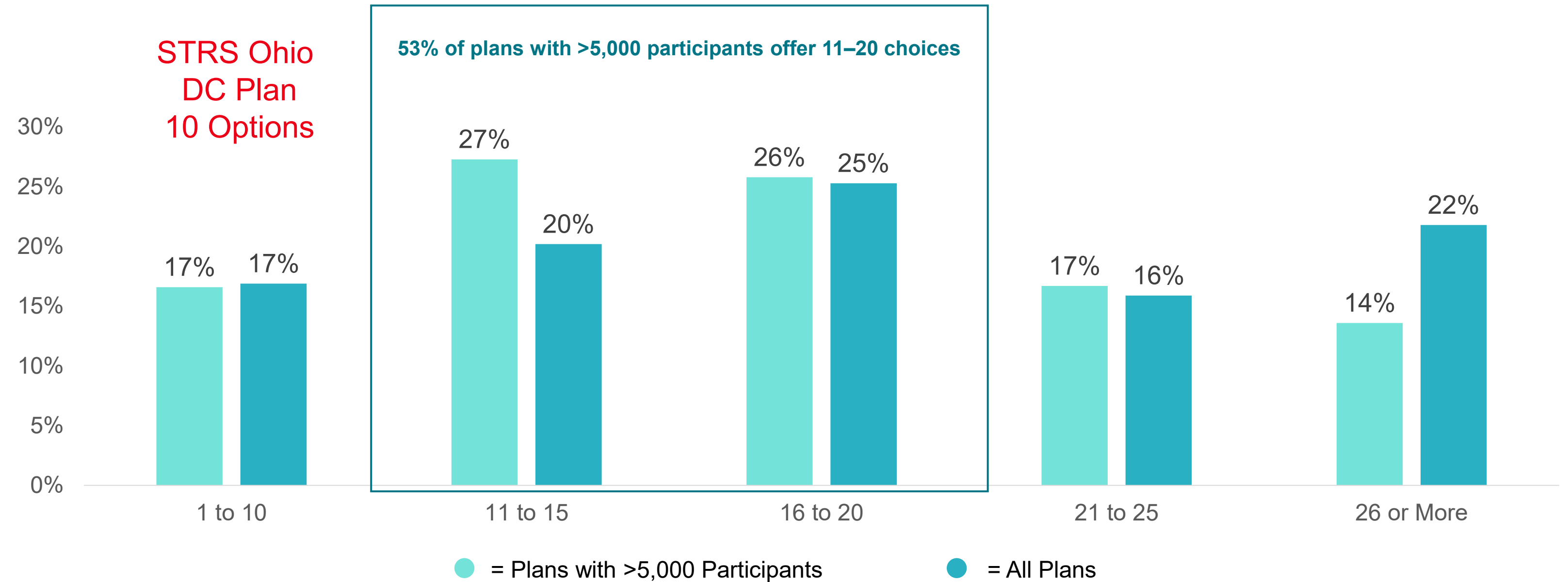
Less Choice
Menu Consolidation
Fewer Fund Options
Broader Mandates



More Choice
Large Menu
More Fund Options
Specialized Mandates



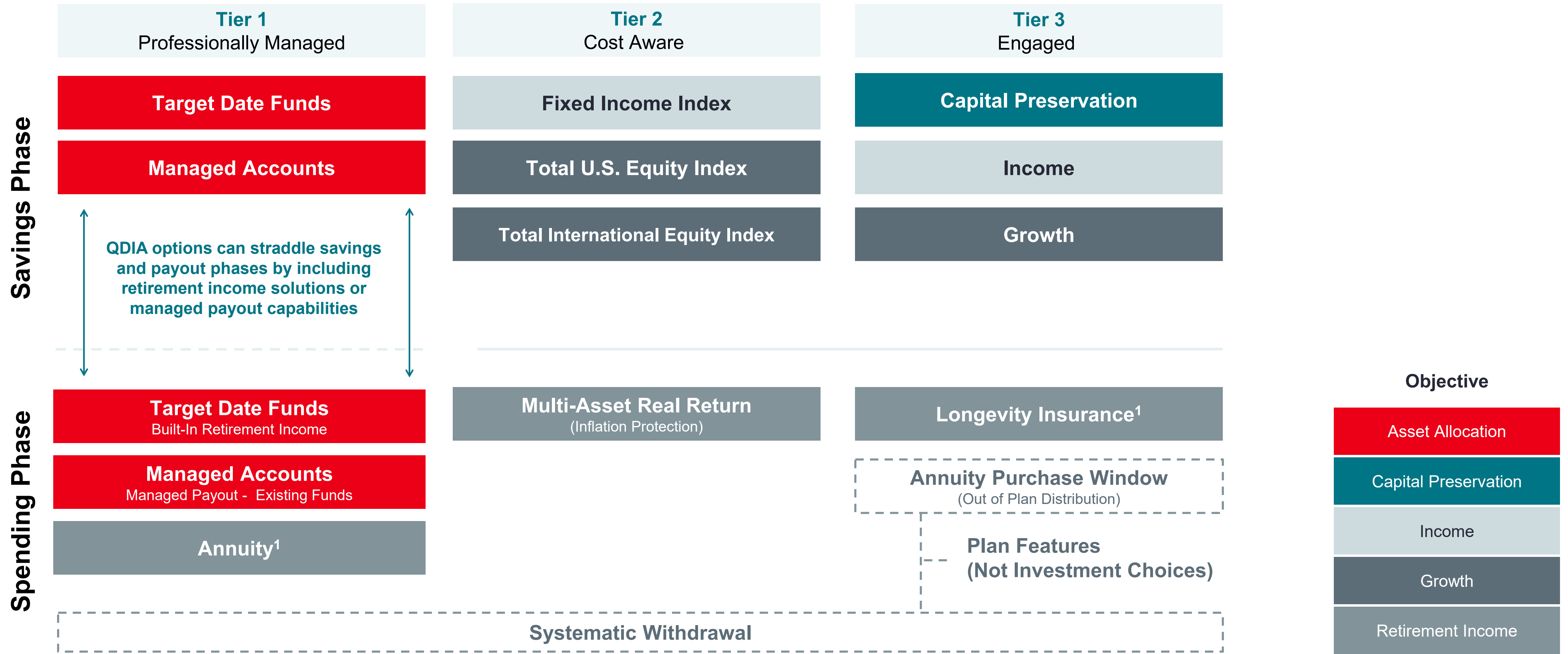
Number of Investment Options: Distribution of Results¹



← The trend in recent years has been for plans to reduce the number of investment options available to participants

¹ Source: Plan Sponsor Council of America "63rd Annual Survey – PSCA's Annual Survey of Profit Sharing and 401(k) Plans." 2020 Target date fund suites are counted as one option. Current plan information as of 6/30/2022

Investment Menu Structure



¹ Solution can be offered either as in-plan or out-of-plan option. For illustrative purposes only.

Current Investment Structure – STRS of Ohio (10 options)

Aon's Observations

Observations and Considerations

Tier 1

- Conduct glide path suitability analysis using participant demographics

Tier 2

- Consider reducing overlap exposure within the U.S. equity options by removing the STRS Russell Midcap Index Choice
- Consider reducing overlap exposure within the international equity options by removing the STRS World ex USA Index Choice

Tier 3

- Examine the merits of stable value vs. money market (future implementation)
- Consider broadening the U.S. Large Cap active option to include small and mid-equity
- Consider the merits of active management within fixed income and international equity
- Discuss the current philosophy for offering REITs given the overlap exposure to equities
- Evaluate retirement income options

STRS Ohio DC Plan information as of 6/30/2022
 Percentage of assets in STRS Ohio DC Plan's investment options are referenced in parenthesis
 The STRS Total Guaranteed Return Choice 2022 held 0.7% of the Plan and is closed to new investments

1 Mixed Asset Funds “Do it for me”

Target Date Funds
Target Choice (15%)

2 Passive “Do it myself” Low Cost

U.S. Bonds
STRS U.S. Universal Bond Index (8%)

U.S. Large Cap Equity Index
STRS Russell 1000 Index Choice (20%)

U.S. Small-Mid Cap Equity Index
STRS Russell Midcap Index Choice (3%)
STRS Russell 2000 Index Choice (13%)

International Equity Index
STRS MSCI World ex USA Index Choice (8%)
STRS MSCI ACWI ex USA Index Choice (1%)

Specialty/Real Estate Index
STRS REIT Index Choice (6%)

3 Active “Do it myself” Alpha Expectations

Capital Preservation
STRS Money Market Choice (9%)

U.S. Large Cap Equity
STRS Large Cap Core Choice (16%)

Objective

Asset Allocation
Capital Preservation
Income
Growth
Retirement Income

Proposed Investment Structure – STRS of Ohio (9 options)

Aon's Observations

1 Mixed Asset Funds "Do it for me"

Target Date Funds
Target Choice

2 Passive "Do it myself" Low Cost

U.S. Bonds
STRS U.S. Universal Bond Index

U.S. Large Cap Equity Index
STRS Russell 1000 Index Choice

U.S. Small Cap Equity Index
STRS Russell 2000 Index Choice

All Cap International Equity Index
STRS MSCI ACWI ex USA Index Choice

3 Active "Do it myself" Alpha Expectations

Capital Preservation
Stable Value Fund

U.S. Bonds
Active Core Plus Fixed Income

All Cap U.S. Equity
Multi-Manager White Label Fund

All Cap International Equity
Multi-Manager White Label Fund

Objective

Asset Allocation

Capital Preservation

Income

Growth

Retirement Income

Preliminary investment structure is subject to change and should not be considered investment advice.

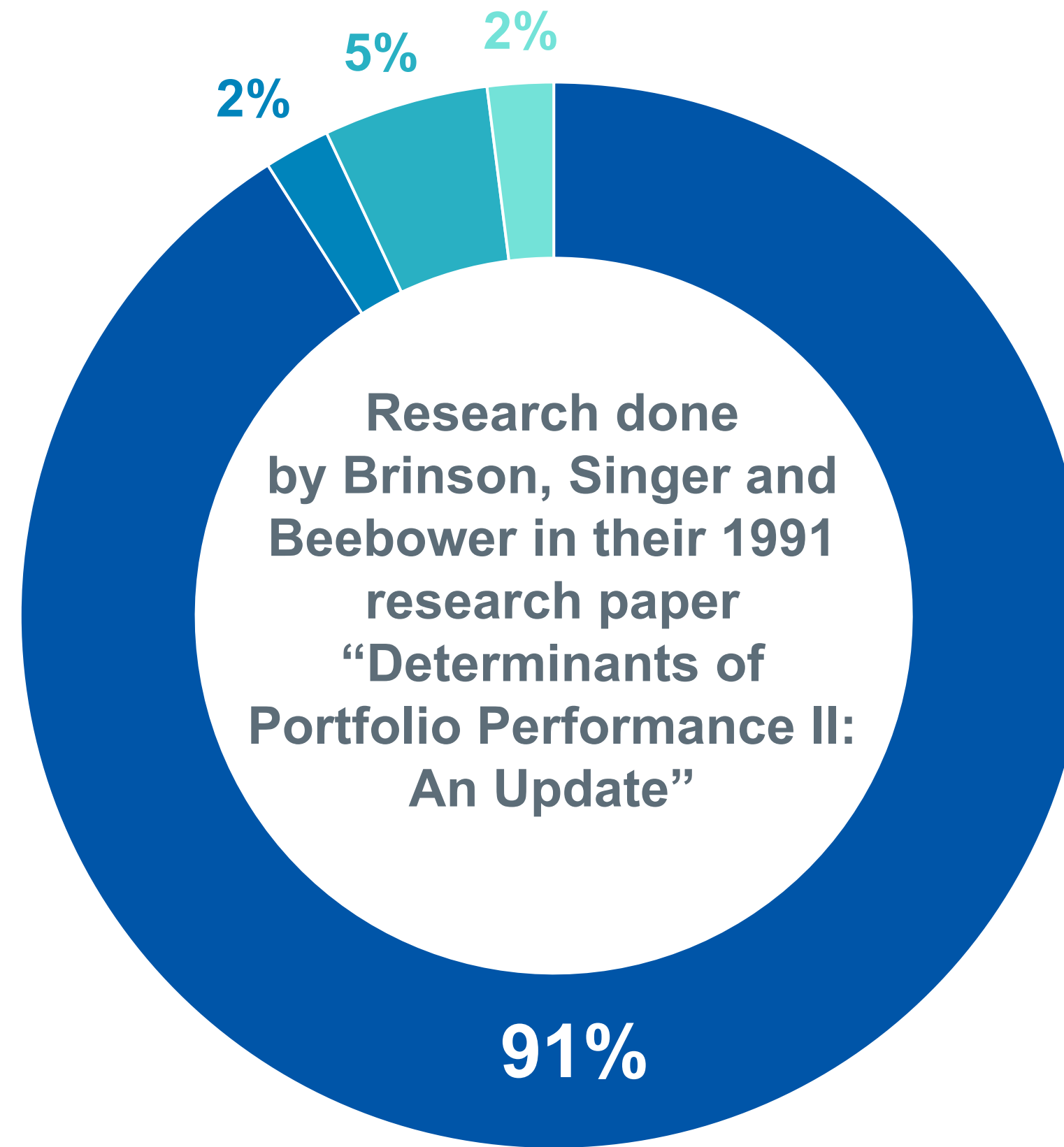
Asset Allocation

Principal driver of long-term returns for most investors



Long-term asset allocation (which asset classes to use and in what percent) explains more than 90% of the difference in returns between investors

Selecting investments that are appropriately diversified can create efficient outcomes



● Long-Term Target Asset Allocation
● Active Security Selection (Managers)

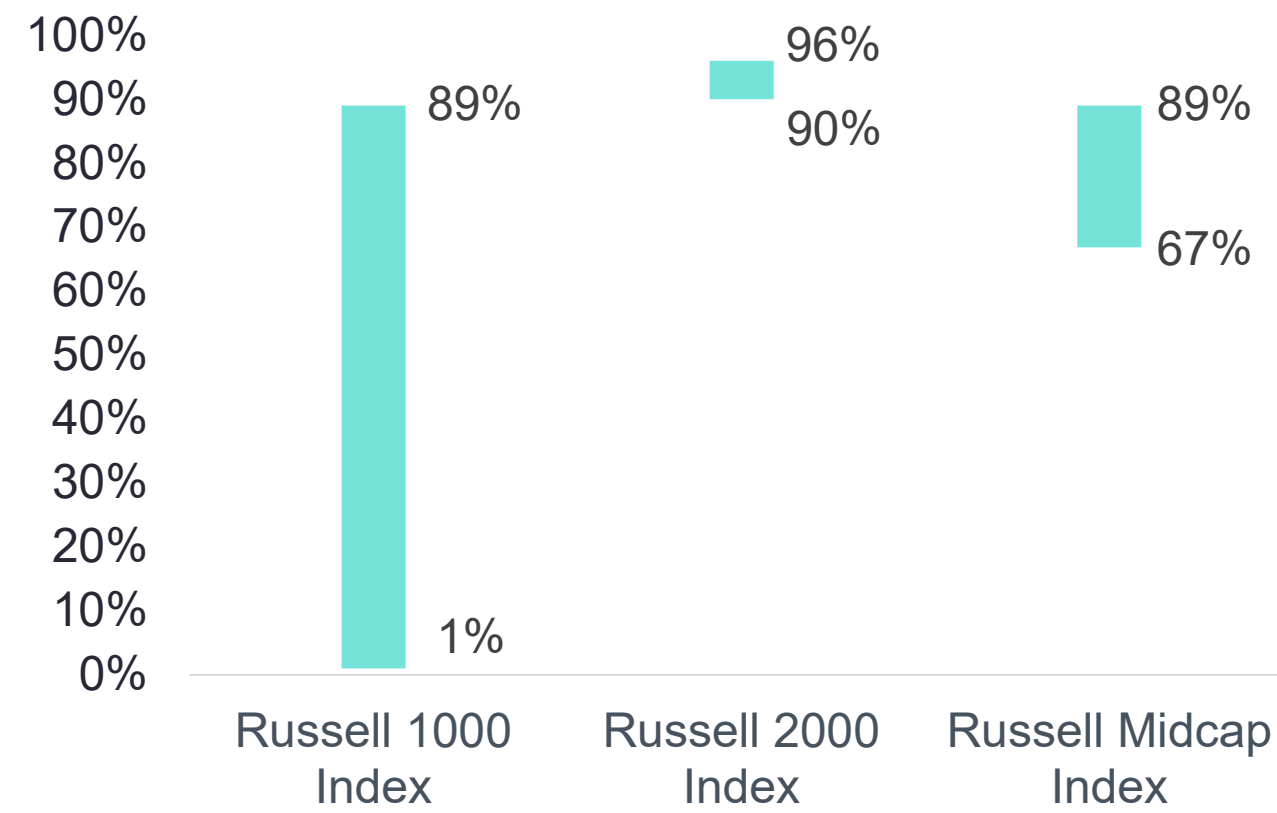
● Short-Term Allocation Changes
● Unexplained

Diversification does not ensure profit nor does it protect against loss of principal. Diversification among investment options and asset classes may help to reduce overall volatility.

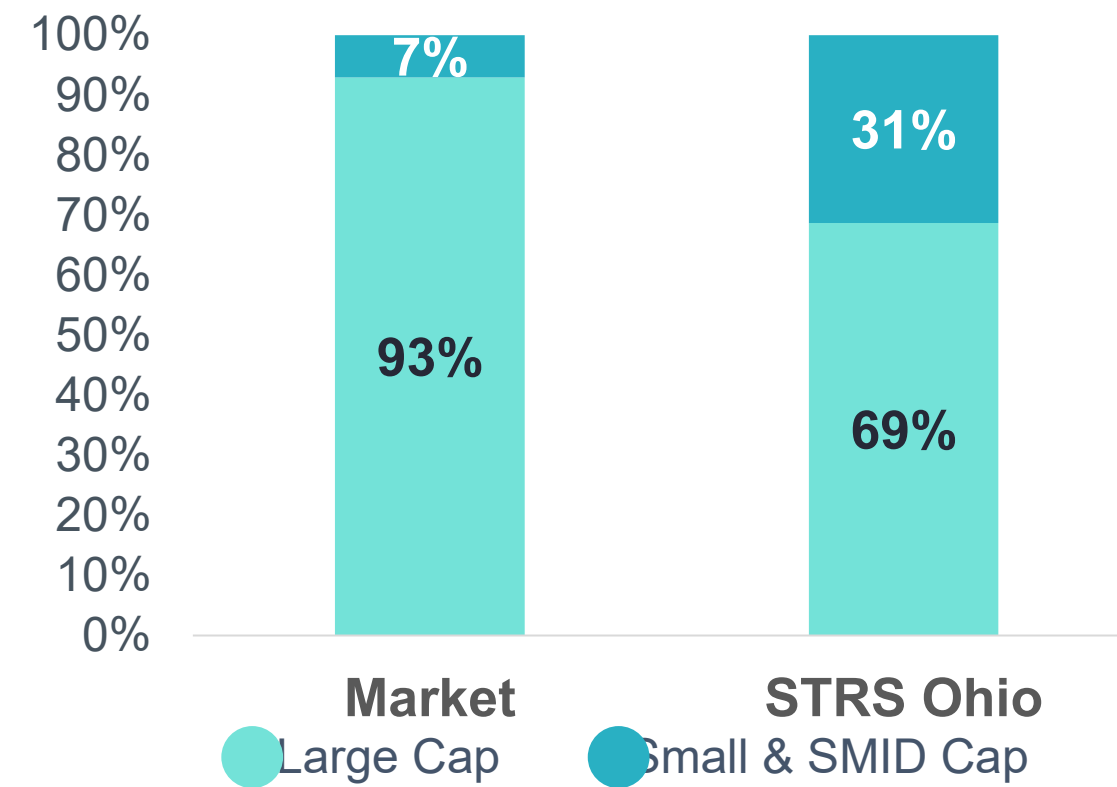


The Impact of Plan Structure Decisions

STRS Ohio Benchmark Coverage of the U.S. Market



U.S. Equity Capitalization Split



Annualized Investment Returns (August 31, 2023)

	1	3	5	10
	Year	Years	Years	Years
Russell 1000 Index	15.4%	9.9%	10.8%	12.6%
Russell 2000 Index	4.7%	8.1%	3.1%	8.0%
Difference	10.8%	1.8%	7.6%	4.6%
Russell 1000 Index	15.4%	9.9%	10.8%	12.6%
Russell Midcap Index	8.4%	9.3%	7.4%	10.0%
Difference	7.0%	0.7%	3.4%	2.5%

The U.S. Equity Offering & Benchmarks Encourage Misfit Risk and a Small Cap Overweight

~Half of Active Risk is Misfit (could be achieved passively)

Current Allocation Has an Expected Active Risk of 1.9%

Past performance is no guarantee of future results. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees and expenses.

Russell 1000 Index – A capitalization-weighted index that measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.

Russell 2000 Index - A capitalization-weighted index of the smallest 2,000 stocks in the Russell 3000 Index. The index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

Russell Mid Cap Index - A capitalization-weighted index of the 800 smallest stocks in the Russell 1000 Index. This index is a broad measure of mid-capitalization stocks.

Defined Contribution Plan Oversight



Aon Partnership – Much More Than Reviewing Performance

Investment Structure Review

- Evaluate number/types of funds
- Review Industry practices/trends



Participant Level Analytics

- Review plan participation and demographic information
- Monitor trends and behaviors to make informed decisions



IPS Review

- Assess and update the IPS and Plan Documents



Fiduciary & Legal Update

- Monitor legal and regulatory developments
- Stay up-to-date on fiduciary best practices



Administrative Fee Benchmarking

- Examine how investment and administrative costs compare to benchmarks



Share Class Review

- Address potential for lower-cost holdings



Fiduciary Training

- Helping you to understand and manage your role as a fiduciary



Target Date Fund and Managed Accounts Review

- Deep dive evaluation of current offering and market comparisons
- Incorporates DOL's tip for TDF selection and monitoring



Analytics That Go Beyond Traditional Investment Analysis



Deploying Quantitative Tools to Help Manage Your DC Program

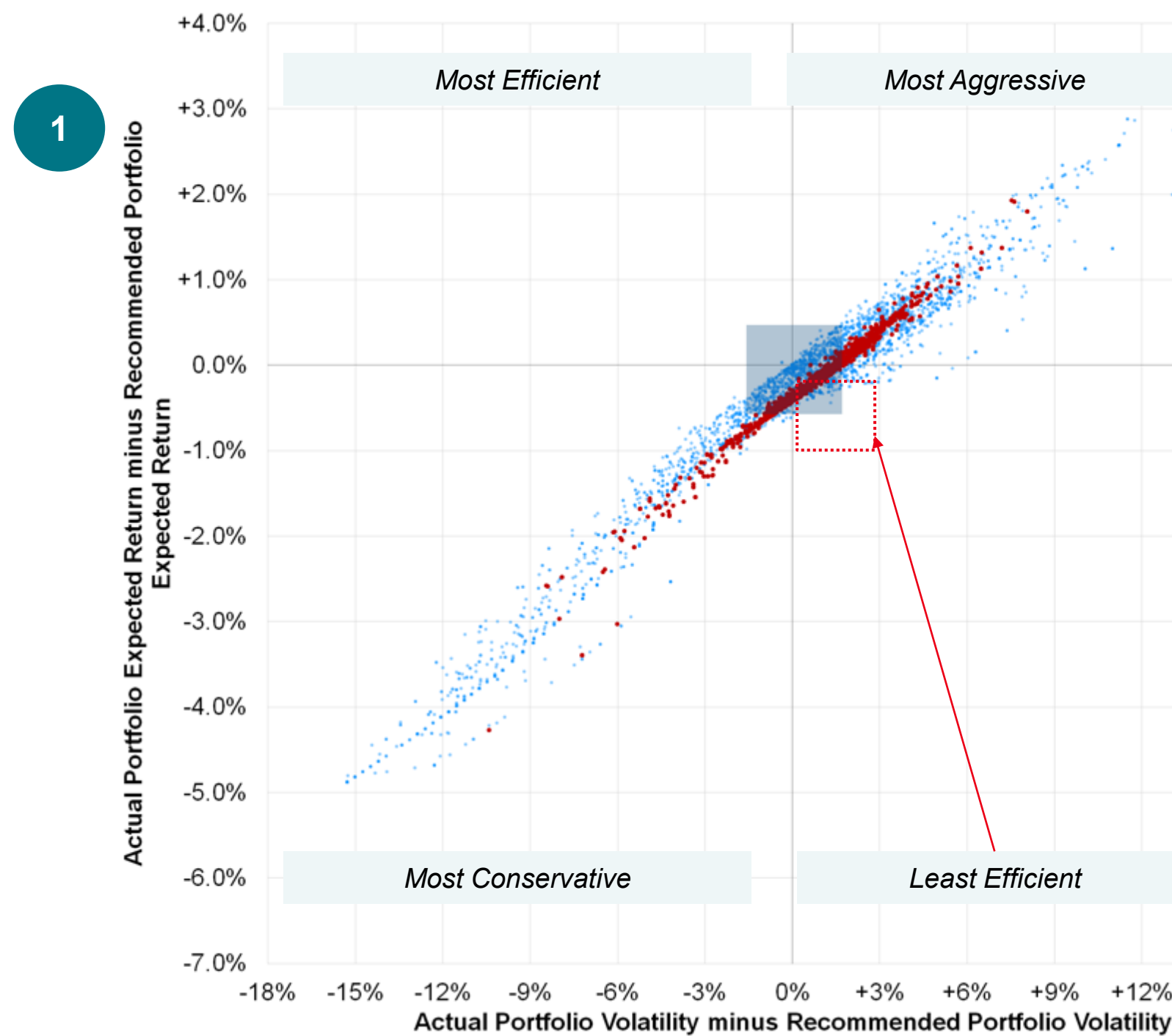
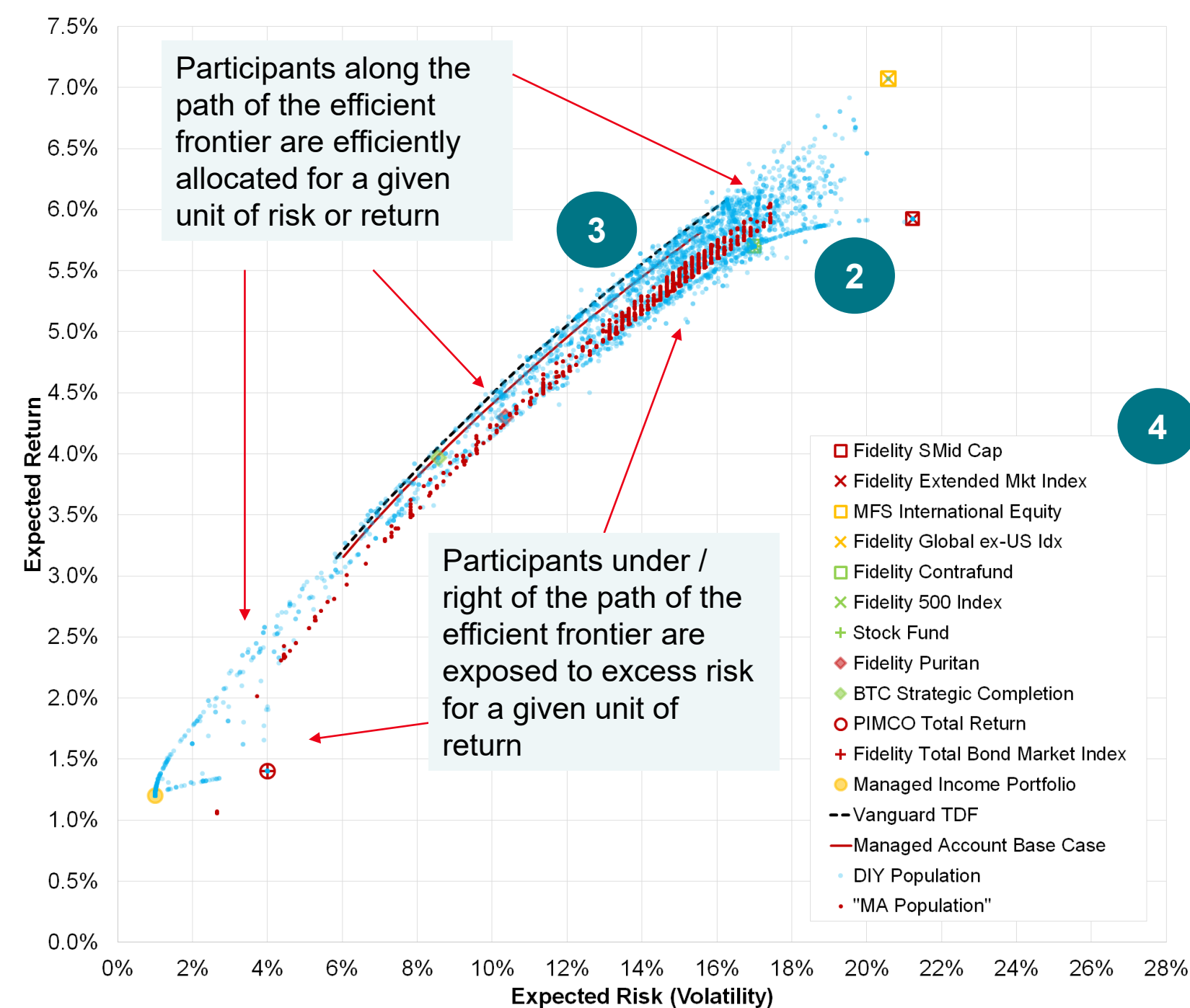
- Innovative analyses that leverage vast amounts of participant and industry data
- Valuable insights into participant behavior and investment decisions
- Useful information on retirement readiness, including custom analyses of employee populations through the lens of diversity, equity & inclusion related criteria

Sample Aon report images provided for illustrative purposes only.

Assessing Participant Investment Efficiency – Illustrative

How are participants using the Plan today? What are their asset allocation, risk, and savings choices? How does this compare with their retirement income needs?

Line-up Usage:	% of Ppts	% of Assets	Avg Age	Avg # Funds	Risk Level	# of Ppts	% of Ppts
Tier 1 (Professionally Managed)	15%	18%	45.2	1.0	Reasonable	4,276	57%
Tier 2 (Cost Access)	14%	20%	58.9	2.4	Excessive	1,275	17%
Tier 3 (Looking to Outperform)	34%	45%	51.7	3.6	Insufficient	1,737	23%
Tier 1 + 2 or 3	19%	29%	50.4	2.7	Inefficient	172	2%



1. Examine participant allocations with **Individual Investment Efficiency (IIE)** analysis of the plan
2. Evaluate **investment structure** to facilitate smart and efficient portfolio decisions
3. Evaluate **target date funds** versus alternatives for generating outcomes
4. Investigate best **implementation** of investment options offered

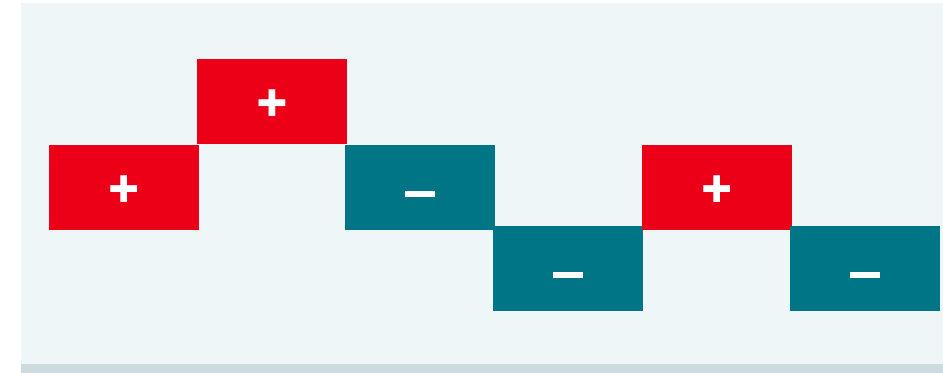
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Assessing Target Date Fund Glide Path Suitability – Illustrative

Aon Baseline Glide Path Risk Level

Aon Baseline Glide Path Risk Level

- Glide path starting point for the average plan
 - BLS data
 - Aon Retirement Adequacy Study



Demographics:

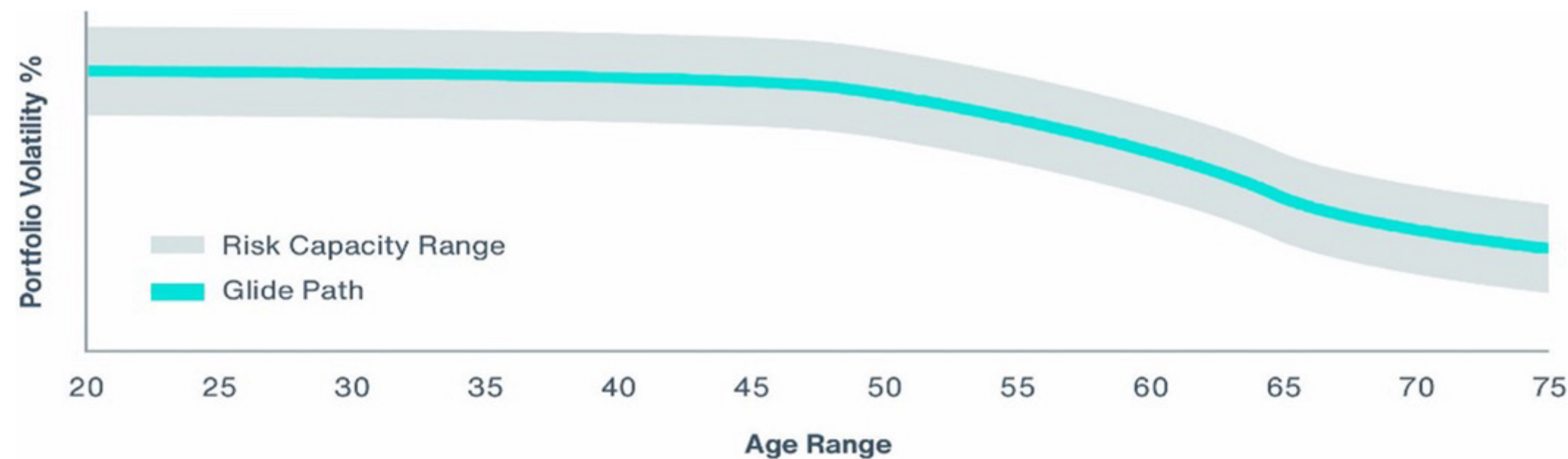
- Pension Benefits
- Longevity
- Expected Retirement Age
- Income Predictability
- Pay Level
- Employee/Employer Contributions

Recommended Glide Path Risk Level

Modifies the Baseline glide path risk for plan/company specific factors

Comparison to Existing Glide Path

Compare recommended glide path risk to current implementation



Tolerance band around recommended glide path risk level

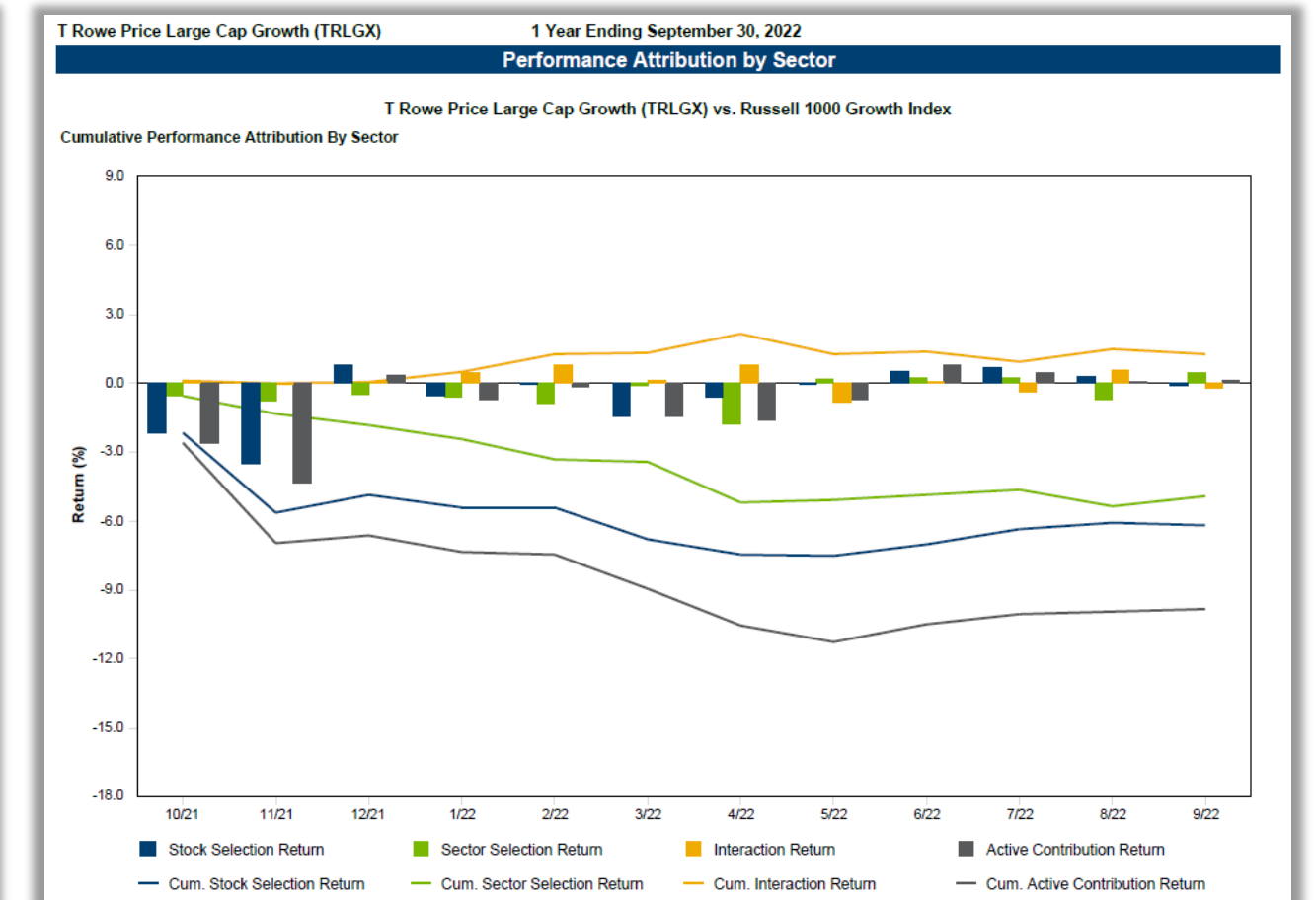
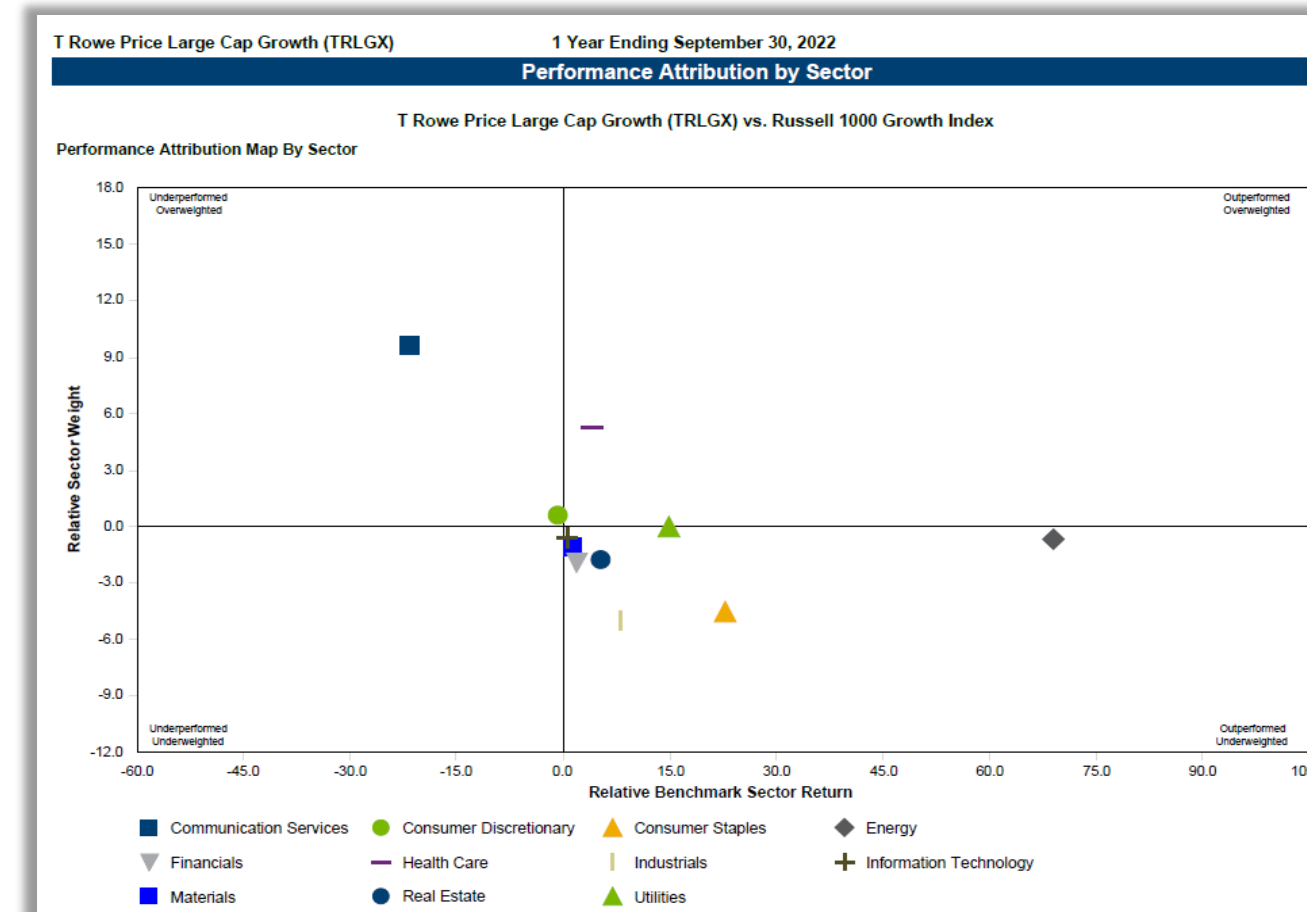
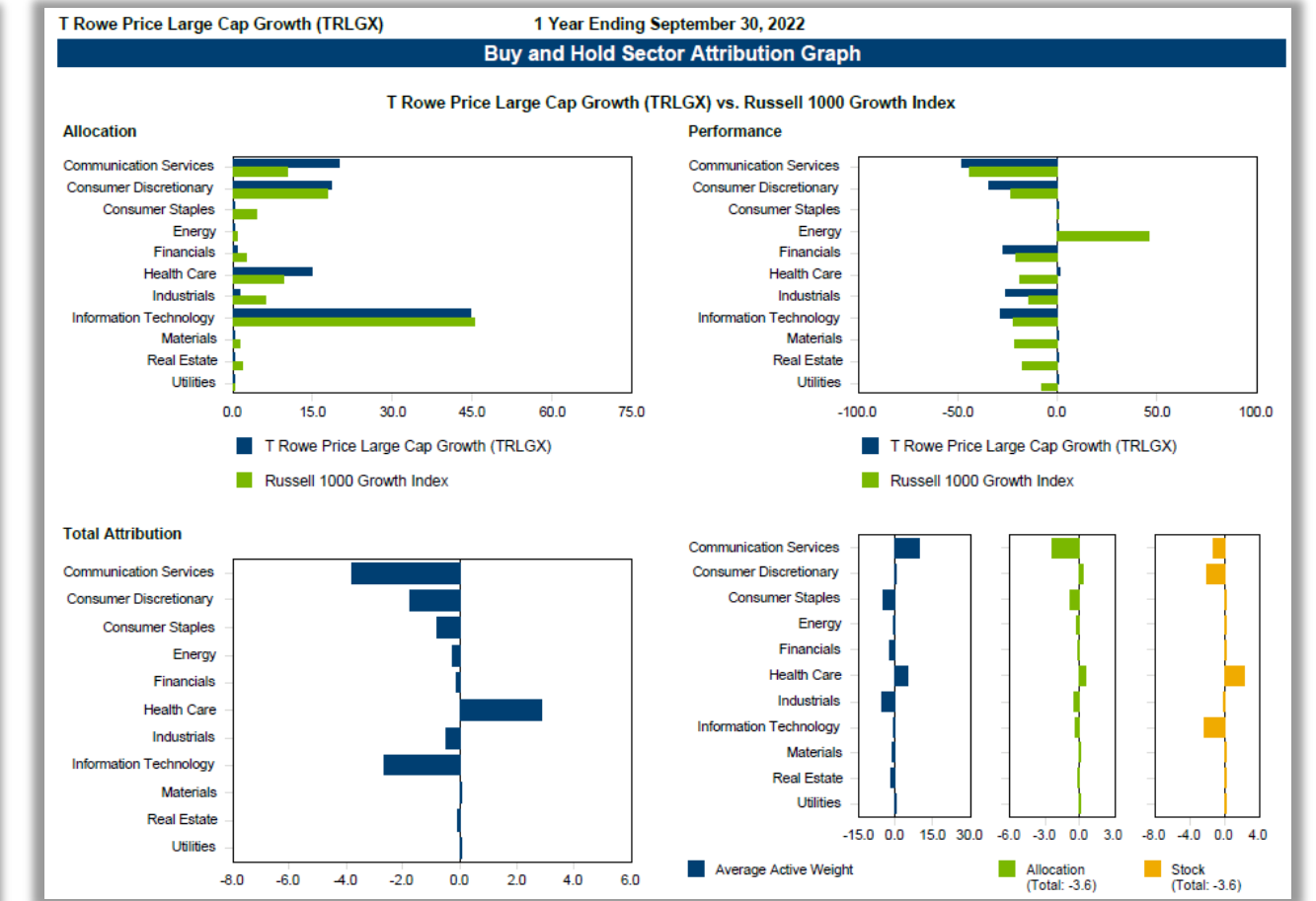
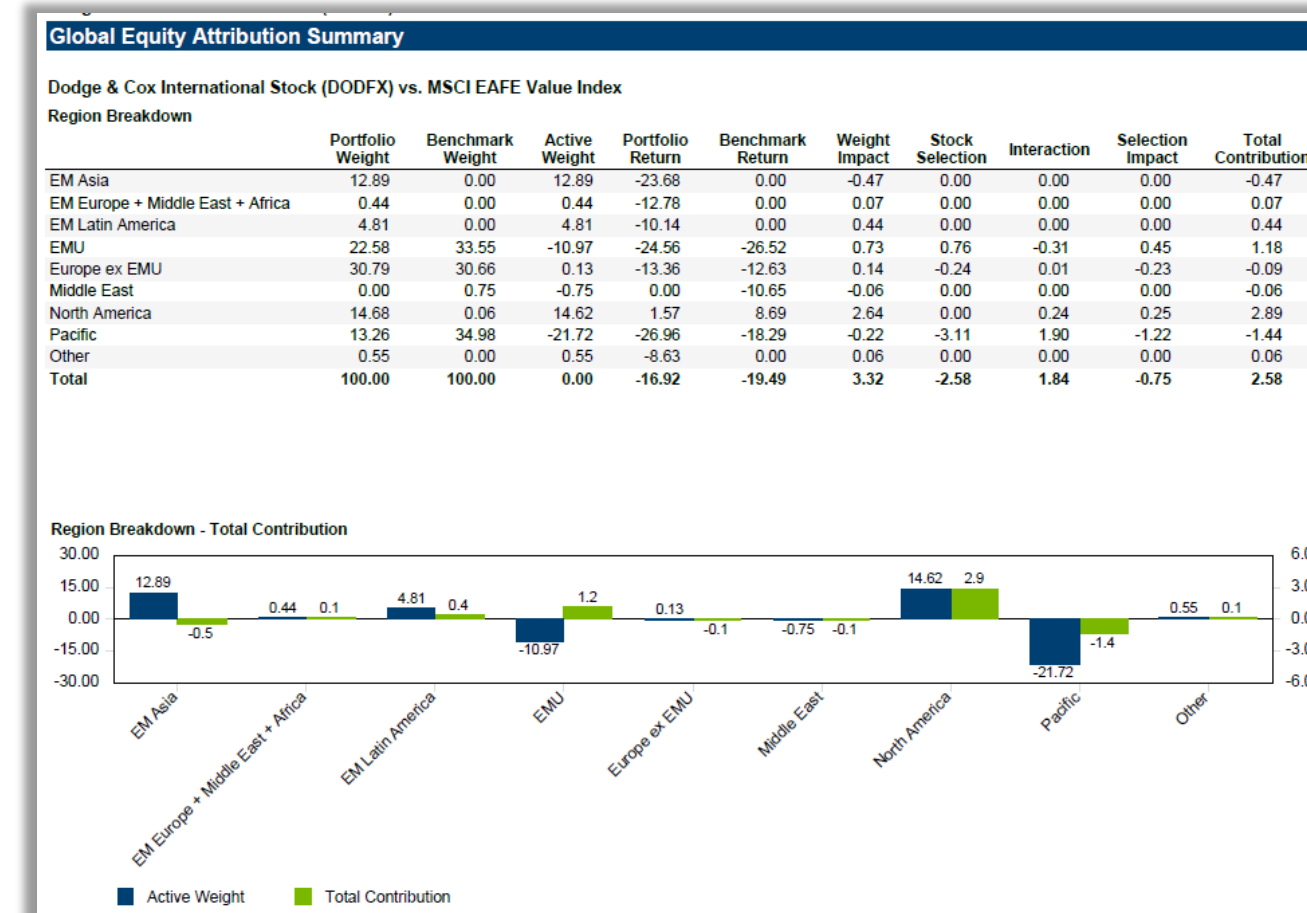
Review glide path fit on a periodic basis or when plan changes are expected to alter the demographic profile

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Performance & Attribution Analytics

Access to Customizable Tools & Reports

- Integrated with performance reporting systems
- Leverage returns-based and holdings-based data for multiple asset classes
- Evaluate contributions to performance based on sector, region, allocation decisions, security selection, etc.
- Ability to customize reports to specific client needs



Charts provided for illustrative purposes only.

Recordkeeper Search Experience



DC Plan Consulting Team (Recordkeeper Consulting)

25
Vendors in
database

20 Professionals

Average 27 years of DC experience

58

in 2022, we performed market bids for 58 clients, and 28 of those went to full vendor search

897

Datapoints in our Administrative Fee and Service Benchmarking Database

166

In 2022 we performed fee benchmarking for 166 defined contribution plans



Experienced DC Professionals

Our team offers decades of DC plan consulting experience, and is supported by our robust database of recordkeeper and fee information

Defined Contribution Plan Governance and Education



Typical Client Governance Services

We support what Aon believes are best practices



Governance Materials

- Clear and concise appointment materials, charters (and other policies) that avoid trip-wires



Fiduciary Training

- Periodic training
- Informal (but robust) participative session



Annual Workplan

- Outline of all activities in the Committee's purview
- Informed by appointment materials, recent legislation and litigation, and our best thinking



Oversight Agendas

- Developed from an oversight perspective
- Not just standing meeting topics



Meeting Minutes

- Meeting minutes (and books) that intentionally create a discoverable record



Vendor Fee Benchmarking

- Understand fee structure and confirm fees are reasonable
- Review and update service agreement
- Document due diligence efforts

Our governance services are flexible – we develop scope in partnership with our clients, according to their needs

Agenda/Ongoing Calendar

Defined Contribution

Topic	Suggested Frequency	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Recurring Quarterly Topics									
Aon Thought Leadership	Quarterly	●	●	●	●	●	●	●	●
Capital Markets Overview	Quarterly	●	●	●	●	●	●	●	●
Fund Performance	Quarterly	●	●	●	●	●	●	●	●
Investment Manager Updates	Quarterly	●	●	●	●	●	●	●	●
Fund Fee Analysis	Quarterly	●	●	●	●	●	●	●	●
Legal & Compliance Update	Quarterly	●	●	●	●	●	●	●	●
Annual Activities									
Review of Investment Policy Statement	Annually	●				●			
Target Date Competitive Review	Annually		●				●		
DC Plan Cost Analysis	Annually			●				●	
Vehicle and Lower Fee Share Class Availability Review	Annually				●				●
Periodic or Ad Hoc Topics									
Investment Program Review (Review option line-up, consider custom options, etc.)	Every 2–3 years	●							
Individual Investment Efficiency Review	Every 2–3 years	●							
Target Date Suitability	Every 2–3 years		●						
SDBW Dashboard	Every 2–3 years			●					
DC Benchmarking/Trends	Every 2–3 years				●				
Retirement Income Education	Every 2–3 years					●			
Investment Advice/Managed Account	Every 2–3 years						●		
Live Fee Benchmarking	Every 3 years							●	
Investment Program Analyzer	Every 2–3 years								●
Fiduciary Training/Refresher Briefing	Ad Hoc								

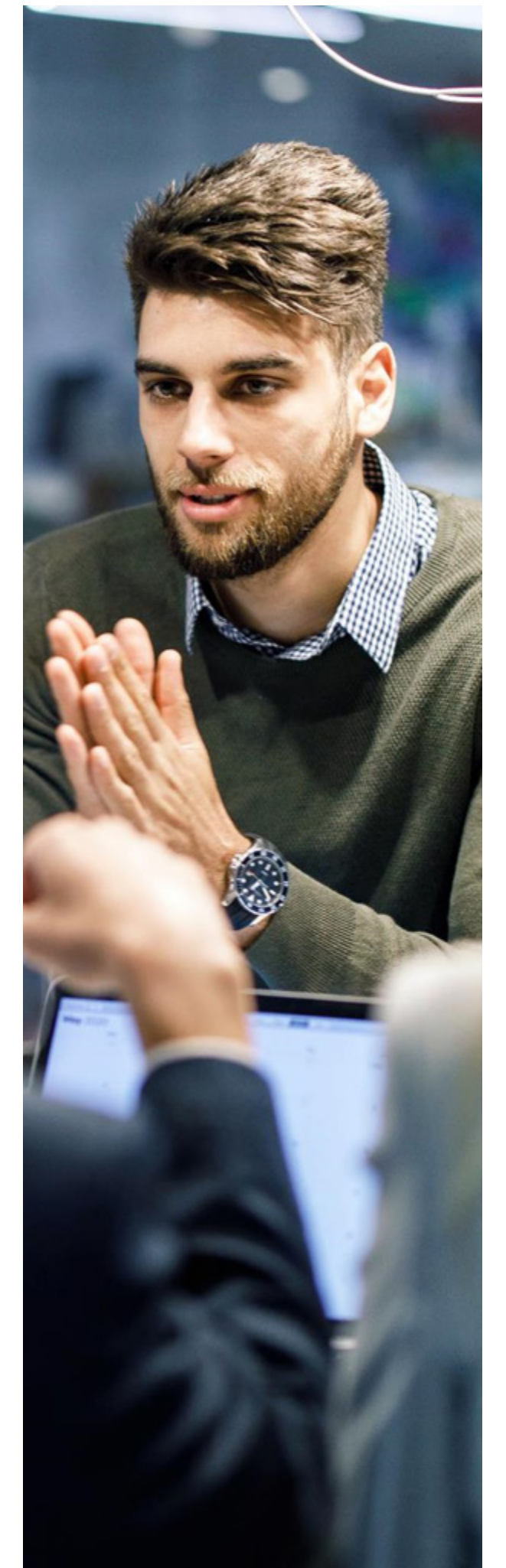
Sample report for illustrative purposes only. Not all client experiences are the same and implementation periods may vary significantly from those presented based on a client's specific circumstances.

Client Onboarding



Dynamic and Comprehensive Plan – How We Work Together in Year 1

Routine Activities	Special Topics
Kick Off/Transition <ul style="list-style-type: none"> • Confirm annual calendar and work plan • Gather background and reaffirm committee/staff preferences 	
Committee Meeting 2 <ul style="list-style-type: none"> • Performance and Market Review • Investment Monitoring and Manager Updates • Investment Fee Review • Fiduciary Update 	<ul style="list-style-type: none"> • Investment Structure Review (number and types of options) • Individual Investment Efficiency Study Results
Committee Meeting 3 <ul style="list-style-type: none"> • Performance and Market Review • Investment Monitoring and Manager Updates • Investment Fee Review • Fiduciary Update 	<ul style="list-style-type: none"> • Target Date Fund (“QDIA”) Review and PEOPPL Analysis • Portfolio Construction and Manager Review • Manager Searches (if needed)
Committee Meeting 4 <ul style="list-style-type: none"> • Performance and Market Review • Investment Monitoring and Manager Updates • Investment Fee Review • Fiduciary Update 	<ul style="list-style-type: none"> • Mapping Analysis • Update Investment Policy Statement
Committee Meeting 5 <ul style="list-style-type: none"> • Performance and Market Review • Investment Monitoring and Manager Updates • Investment Fee Review • Fiduciary Update 	<ul style="list-style-type: none"> • Total Plan Cost Analysis • Lowest Cost Share Class Review
Committee Meeting 6 <ul style="list-style-type: none"> • Performance and Market Review • Investment Monitoring and Manager Updates • Investment Fee Review • Fiduciary Update 	<ul style="list-style-type: none"> • Vendor Review (if desired) • Retirement Income Education



For illustrative purposes only. Not all client experiences are the same and implementation periods may vary significantly from those presented based on a client’s specific circumstances.

Fee Proposal



Fee Proposal

General Consulting Services Fees	Defined Benefit and Health Care	Defined Contribution	Bundled
Year 1*	\$400,000	\$85,000	\$475,000

*Annual Escalator Fee is 3%

Bundled Fee Proposal

The table above reflects the total annual fee for all services outlined in section 3.0 Scope of Engagement from the RFP

- 01** The Right Experience

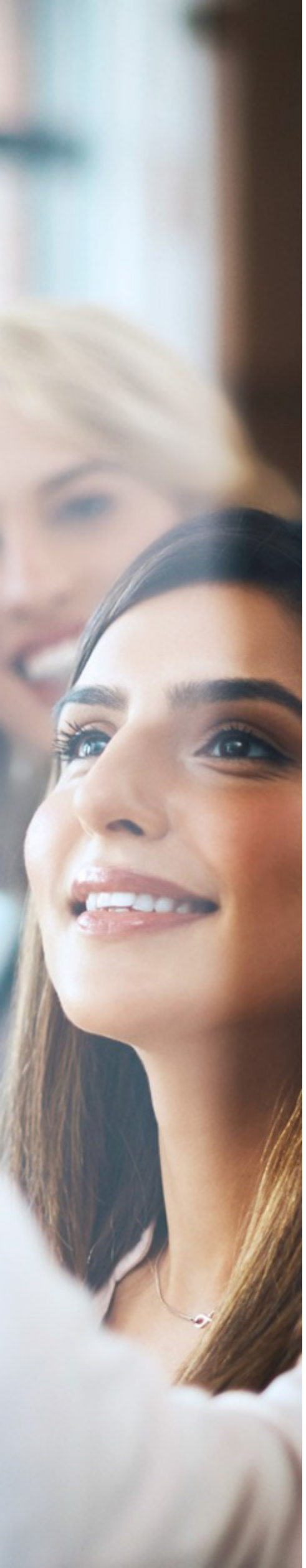
A firm and consulting team with significant DC consulting experience for large sophisticated programs
- 02** Our Focus on Participant Behavior & Outcomes

Our advice is focused on improving participant outcomes utilizing behavioral finance to facilitate good decision making through investment structure & plan design
- 03** Innovative Tools and Analytics

Use of quantitative tools to evaluate participant behavior, risk profile, and retirement income adequacy
- 04** More Than Just Investment Support

44 DC research investment professionals¹ evaluating TDFs, managed account providers, record keeping vendors, retirement income solutions, performing fee benchmarking, and more!

¹As of 6/30/2023



Thank You

Q&A

Appendix

Aon Quarterly Legal Consulting & Compliance Update





Third Quarter 2023

Aon Quarterly Update

Retirement Legal Consulting & Compliance

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Third Quarter 2023

Editor's Note

by Susan Motter

Summer 2023 has been a scorcher so far! And, we (pun intended) at the *Quarterly Update* are here to bring on more heat with reporting on hot areas of interest to our readers!

This edition of the *Quarterly Update* opens with an article about an exciting opportunity for plan sponsors with pension plans that have 401(h) account assets. A reduction in retiree medical plan coverages and greater investment performance has led to overfunded 401(h) accounts in some pension plans. Plan sponsors, looking to access stranded 401(h) account assets (perhaps since a plan termination is on the horizon and 401(h) account assets must first be exhausted before the plan can be wound up), are keen on finding a solution. Our first article discusses an Aon-developed solution that may be of interest to our readers with 401(h) accounts in their pension plans.

Litigation against plan fiduciaries involving alleged fiduciary breaches and issues of plan governance continue to make the rounds on many court dockets. We include reporting on two noteworthy cases. First, we update our reporting on *Hughes v. Northwestern Univ.* This case, remanded by the Supreme Court to the Seventh Circuit, continues to emphasize the importance of developing the strongest possible fiduciary process and administrative record supporting fiduciary decision-making. The second litigation-focused article reports on a recent Sixth Circuit decision involving plan governance (including the ability to delegate authority) and how plan governance may impact the standard of review used by a court in litigation.

We close out this edition of the *Quarterly Update* with an update on two SECURE 2.0 related topics. One of the more interesting provisions of SECURE 2.0 is the law's requirement that a new Retirement Savings Lost and Found be established by the Department of Labor (DOL) by no later than December 29, 2024. We include an article describing what we know to date as far as the reporting requirements for plan sponsors to build this DOL database. We also include an article on the Internal Revenue Service's (IRS's) Notice 2023-43 which provides plan sponsors interim guidance on the ability to make self-corrections of certain inadvertent plan failures under the IRS Employee Plans Compliance Resolution System (or EPCRS). As more guidance is issued by the DOL and IRS related to SECURE 2.0 topics, we will continue to update our reporting in future editions of the *Quarterly Update*.

If you have any questions or need any assistance with the topics covered, please contact the author of the article or Tom Meagher, our practice leader.



Finally! A (Partial) Solution for Stranded 401(h) Account Assets

by Dan McFall and Tom Meagher

Many employers have over the course of time established and funded 401(h) accounts in their pension plans. These accounts are used to pay retiree medical expenses for employees who are treated as having retired under the pension plan.

The reduction in the number of employees covered by retiree medical plans coupled with superior investment returns on 401(h) account assets has resulted in 401(h) accounts being overfunded and unlikely to be used fully for the foreseeable future.

While this has led many an employer to bemoan their inability to access substantial 401(h) account assets, Aon recently worked with a client and the Internal Revenue Service (IRS) to open a path forward to permit the 401(h) account assets to be used for active medical plan expenses under certain prescribed circumstances.

In Private Letter Ruling (PLR) 202305001 (issued on February 3, 2023), the IRS agreed with Aon's position that active participants eligible for a pension benefit based on an age 59½ in-service distribution option should be treated as "retired employees" under the pension plan and thus permitted to have medical benefits reimbursed from a 401(h) account. This newly determined "retired" status allows the 401(h) account assets to be used to reimburse the employer for the medical expenses incurred by these active pension plan participants.

In issuing the PLR, the IRS has opened the door—albeit a small crack—such that employers having pension plans with 401(h) accounts may now access those assets for active employee participants over age 59½, provided that the pension plan is amended to permit in-service distributions for employees age 59½ or older.

As part of the employer's representations to the IRS, they had to indicate that the 401(h) account assets were not accumulated by reason of a Section 420 transfer and that the employer did not have a contractual obligation to fund active or retiree health benefits.

While Aon had an active role in helping the employer obtain the PLR, the ruling technically may only be relied upon by the employer that requested it. Nonetheless, the ruling does provide other employers with a view to how the IRS may treat a similar situation. There are several other issues that can arise if an employer is going down this path, and we would be pleased to discuss them with you in more detail if accessing 401(h) account assets may be of interest. Please do not hesitate to contact the authors of this article or your Aon consultant for more information.



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Seventh Circuit Reconsiders Prior *Hughes* Decision

by Hitz Burton



On March 23, 2023, on remand from a 2022 Supreme Court decision, the Seventh Circuit Court of Appeals, in *Hughes v. Northwestern Univ.*, reconsidered three fiduciary breach allegations that the Supreme Court held warranted further consideration. Those three claims included allegations relating to (i) the failure of plan fiduciaries to properly monitor designated investment options; (ii) the payment of excessive recordkeeping fees; and (iii) the retention of various duplicative designated investment options resulting in confusion and poor investment decisions by participants. The Seventh Circuit, in rejecting specific parts of Northwestern's motion to dismiss, held that the allegations contained under items (i) and (ii) warranted further deliberations and remanded the case back to the federal district court for further action.

With respect to the allegation regarding the failure to prudently monitor, the *Hughes* decision found that the selection of a designated investment option under a retirement plan carries with it the obligation to systematically review such investment option at both the time of the investment's initial inclusion in the qualified retirement plan's designated fund line-up and at regular intervals thereafter. The Seventh Circuit's holding here relies, in large part, on the Supreme Court's 2015 decision in *Tibble v. Edison Int'l*, which we previously summarized in the **First Quarter 2015** issue of our *Quarterly Update*.

To support its allegations that the recordkeeping fees paid by the Northwestern University Retirement Plan and the Northwestern Voluntary Savings Plan (Northwestern DC Plans) were excessive, the *Hughes* plaintiffs argued that fiduciaries for these plans failed to (i) solicit bids from competing providers; (ii) negotiate with existing recordkeepers over contractual fees; or (iii) meaningfully evaluate the possibility of consolidating recordkeeping services with a single entity.

Fiduciaries concerned about responding to allegations which are the same as or similar to items (i) and (ii) above should focus on creating a robust and detailed record of the steps taken to negotiate the best possible fee structure and services agreement for participants. The goal of this administrative record should be to demonstrate that the decisions reached by the fiduciaries are, in the words of the instant *Hughes* decision, "within a range of reasonable judgments" understanding the "difficult tradeoffs" that fiduciaries must inevitably evaluate when entering into fee and level of service negotiations with a recordkeeper.

The consensus view of commentators reacting to this latest decision in the litigation involving *Hughes* is that, on balance, the decision is likely to encourage additional fee litigation. While likely accurate, it may also be helpful to realize that many of the plaintiffs' allegations likely resulted from Northwestern's prior decision to have the Northwestern DC Plans jointly administered by the Teachers Insurance and Annuity Association of America (TIAA) and the Fidelity Management Trust Company (Fidelity). To support this arrangement, Northwestern specifically argued that (i) TIAA's traditional annuity product was popular with many participants in its Northwestern DC Plans; and (ii) removing TIAA as a recordkeeper would result in a penalty for participants with amounts invested in the traditional annuity product. While the Seventh Circuit found both of these arguments "reasonable," it also found that the arguments did not explain why Northwestern did not take substantive steps to reduce recordkeeping expenses by negotiating with TIAA or Fidelity for rebates, additional revenue sharing, or through other means.

As such, the *Hughes* decision once again emphasizes the importance of developing a prudent process and the strongest possible administrative record supporting fiduciary decision-making. If you would like to understand more about how to develop the strongest possible record in support of the decisions made regarding the design and administration of one or more of your qualified retirement plans, please reach out to one of the members of Aon's Retirement Legal Consulting & Compliance practice.

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Courts Again Underscore Importance of Strong Plan Governance

by Clara Kim and Tom Meagher

Plan governance includes the management and administrative oversight of a plan under the Employee Retirement Income Security Act of 1974 (ERISA). Various legal documents—such as the plan and trust agreement, committee charters or bylaws, and/or corporate delegations of authority—should state the individual or organization responsible for the various aspects of plan governance. Typically, a committee or committees will be responsible for plan governance with the authority to delegate some of their responsibilities to third parties.

Protecting a plan's claims and appeals decisions is one reason to have a strong plan governance structure in place. In a claims and appeals case, for example, plan administrators will often benefit from a court's willingness to defer to the decision of the plan administrator under the very deferential "arbitrary and capricious" standard of review. Essentially, the courts will uphold the decision of the plan administrator if the decision represents a reasonable interpretation of the plan and is supported by prior practice. In order for the arbitrary and capricious standard of review to apply, however, the plan must grant discretionary authority to the administrator to determine facts and interpret the plan. In the absence of such discretionary authority, the courts will default to a much less attractive "de novo" standard of review when analyzing a claim denial during litigation challenging the decision of the plan administrator. The de novo standard essentially permits the courts to review the facts and plan terms relating to a denial of benefits "anew" and not necessarily defer to the prior practices or interpretations by the plan administrator in reaching a final decision.

The importance of good plan governance is underscored by the Sixth Circuit Court of Appeals' recent decision in *Laake v. Benefits Committee, Western & Southern Financial Group Co. Flexible Benefits Plan et al.*, 68 F.4th 984 (6th Cir. 2023). *Laake* involved a claim for long-term disability benefits where the plaintiff argued that the Benefits Department, rather than the Benefits Committee, improperly adjudicated her claim. In *Laake*, the plan document conferred claim decision authority on the Benefits Committee and permitted the Benefits Department to "assist" the Benefits Committee. The court held that the plan's terms permitting the Benefits Department to "assist" the Benefits Committee did not constitute an explicit delegation of voting authority from the Benefits Committee to the Benefits Department to determine *Laake's* claim. Because the Benefits Committee, not the Benefits Department, was granted discretionary authority under the terms of the plan to decide claims, the plaintiff successfully argued that the employer's denial of her claim (by action of the Benefits Department) should be reviewed by the court under the de novo standard of review and not the more plan-friendly arbitrary and capricious standard. The *Laake* case highlights the importance of having and following a strong plan governance structure.

The plan governance analysis in the *Laake* case is a good reminder of the importance of having strong plan documentation in place for all of an employer's ERISA plans. From a plan administrator perspective, plans continue to be on notice to review a plan's governance structure and related processes—plan by plan—to ensure they are appropriately documented, updated to reflect new corporate, legal, or regulatory developments, and that operationally, the governance structure is followed.

Aon's Retirement Legal Consulting & Compliance consultants are available to review a plan sponsor's plan governance processes and related practices, along with providing training to plan committee members and other plan fiduciaries to the extent helpful.

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Missing Money? Try the Retirement Plan Lost & Found!

by Dan Schwallie



Section 303 of SECURE 2.0 directs the Department of Labor (DOL), in consultation with the U.S. Department of the Treasury, to create an online Retirement Savings Lost and Found no later than December 29, 2024. This searchable database is intended to permit an individual, who is or was a participant or beneficiary, to obtain information not only about retirement savings plans, but about any retirement plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), including both defined contribution and defined benefit plans. Governmental plans, church plans, and certain 403(b) plans of tax-exempt employers that do not provide employer contributions are not subject to ERISA and, therefore, are not subject to inclusion in the database.

New Reporting Requirements for Plan Sponsors

For plan years beginning after December 31, 2023, SECURE 2.0 creates new reporting requirements with respect to distributions from a plan subject to inclusion in the database. The plan sponsor must submit the following information to the DOL, at the time and in the form and manner as provided in regulations to be issued:

- The name of the plan and the name and address of the plan administrator (the plan sponsor or administrator as designated by the plan document);
- Any change in the name of the plan, any change in the name or address of the plan administrator, the termination of the plan, the merger or consolidation of the plan with any other plan, or the division of the plan into two or more plans; and
- The name and taxpayer identification number of each participant or former participant in the plan:
 - Who, during the current plan year or any previous plan year, separated from service covered by the plan and was entitled to a deferred vested benefit under the plan and with respect to whom the deferred vested benefit was fully paid during the current plan year;
 - With respect to whom any involuntary cashout was transferred during the current plan year to an IRA (individual retirement account or individual retirement annuity), along with the name and address of the designated trustee or issuer and the account number of the IRA to which the cashout was transferred; or
 - With respect to whom a deferred annuity contract was distributed during the current plan year, along with the name and address of the annuity contract issuer and the contract or certificate number.

Features of the Lost and Found

SECURE 2.0 requires that the Retirement Savings Lost and Found permit:

- An individual to search for information that enables locating the plan administrator of any plan subject to inclusion in the database to which the individual is or was a participant or beneficiary, and provide contact information for the plan administrator;
- The DOL to assist an individual in locating any plan in which the individual is or was a participant or beneficiary; and
- The DOL to make any necessary changes to plan administrator contact information on record, based on any changes to the plan due to merger or consolidation of the plan with any other plan, division of the plan into two or more plans, bankruptcy, termination, change in name of the plan, change in name or address of the administrator, or other causes.

The DOL is directed to take all necessary and proper precautions to ensure that an individual's plan and personal information are protected and to allow any individual to opt out of inclusion in the database.

Aon Can Help

Contact your Aon consultant for help in understanding the new reporting requirements as additional guidance becomes available and assistance in complying with those requirements. We anticipate that this new reporting requirement may require a significant undertaking by employers that may have engaged in a significant number of mergers and acquisitions (or M&A) transactions resulting in plan mergers and/or spinoffs.

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Interim Guidance on SECURE 2.0's Expansion of EPCRS

by Susan Motter



Since our reporting in the **Second Quarter 2023** issue of our *Quarterly Update*, the Internal Revenue Service (IRS) has released Notice 2023-43 which provides interim guidance addressing several of the changes brought by SECURE 2.0. As we previously reported, SECURE 2.0 significantly expanded the IRS's Employee Plans Compliance Resolution System (EPCRS), particularly with respect to the ability of plan sponsors to make self-corrections of plan failures without IRS involvement via a Voluntary Correction Program (VCP) submission.

This interim guidance is intended to fill the gap until the IRS can issue its update to Revenue Procedure 2021-30, the governing IRS guidance regarding the corrections of plan failures under EPCRS. In the interim, plan sponsors may rely upon the Notice in making self-corrections of certain "eligible inadvertent failures."

Self-Correction of Eligible Inadvertent Failures

What's first notable about the interim guidance is the question-and-answer (or Q&A) format that is used to provide helpful guidance to plan sponsors. What's also notable is how broadly the guidance defines an "eligible inadvertent failure"—which means more failures than ever are eligible for self-correction. Inadvertent failures eligible for self-correction must satisfy the following conditions:

- The failure has not been identified by the IRS prior to any actions demonstrating a specific commitment to implement a self-correction with respect to the failure;
- The failure is corrected within a reasonable period after the failure is identified;
- The failure is not egregious;
- The failure does not involve an abusive tax avoidance transaction (either directly or indirectly);
- The failure does not involve the diversion or misuse of plan assets; and
- The failure occurred despite the existence of practices and procedures reasonably designed to promote and facilitate compliance with the Internal Revenue Code.

In addition, certain conditions of Revenue Procedure 2021-30 which generally apply to self-corrections (e.g., application of the correction principles described in the Revenue Procedure) must also be satisfied. These general rules of applicability still apply to corrections under the interim guidance.

Other Notable Takeaways

Also worth noting from the interim guidance are:

- Certain failures are carved out from self-correction. These include the failure to initially adopt a written plan, a failure in an orphan plan, a significant failure in a terminated plan, a demographic failure not corrected using a method set forth in existing Treasury regulations, and an operational failure corrected by a retroactive amendment that conforms the terms of the plan to prior operations in a manner that is less favorable to participants or beneficiaries. Also carved out by Notice 2023-43 are failures involving the recovery of plan overpayments and automatic contribution failures. While plan sponsors wait on further guidance regarding the failures carved out from the interim guidance, we remind our readers of our reporting on the recovery of plan overpayments which can be found in the **Second Quarter 2023** issue of our *Quarterly Update*.
- Self-correction of eligible inadvertent failures does not automatically result in the waiver of an excise or other additional tax resulting from an otherwise correctible failure. However, a plan sponsor may still request a waiver through a VCP submission or a request for a closing agreement with the IRS via its Voluntary Closing Agreement Program.
- An eligible inadvertent failure is considered "identified" by the IRS when the plan or plan sponsor is under examination (i.e., audit) by the IRS. Once identified by the IRS, the plan sponsor cannot self-correct unless the plan sponsor can demonstrate a specific commitment to self-correct the failure (i.e., there must be an active pursuit of a correction). The mere completion of an annual compliance audit or the adoption of a general statement of intent to correct failures when they are discovered are not actions demonstrating a specific commitment to implement the self-correction of an identified failure.

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- Self-corrections of eligible inadvertent failures must be made within a reasonable period of time based on all relevant facts and circumstances. The guidance provides that a failure will be treated as having been corrected within a reasonable period if it is corrected by the last day of the 18th month after the failure is identified by the plan sponsor. If the correction involves an employer eligibility failure, correction is within a reasonable period if the plan sponsor stops all contributions to the plan as soon as reasonably practicable, but no later than six months, following the date the failure is identified.
- No new specified, IRS-authorized correction methods for operational failures that are common among plans are provided in the interim guidance. Revenue Procedure 2021-30, until it is updated by the IRS, remains as the source for current IRS-authorized correction methods.

Reliance by Plan Sponsors and Transition

Plan sponsors may rely on the interim guidance of Notice 2023-43 from its issue date of May 25, 2023, until such time Revenue Procedure 2021-30 is updated. For the period beginning on December 29, 2022 (the date SECURE 2.0 was enacted) to the Notice issue date, plan sponsors are permitted to apply a good faith, reasonable interpretation of the self-correction provisions of SECURE 2.0. Self-corrections made during this period in a manner that is in accordance with the Notice will be treated as having applied a good faith, reasonable interpretation of SECURE 2.0.

Currently, the IRS and the Treasury Department are collecting public comments on the Notice and other aspects of SECURE 2.0. Comments are due by August 23, 2023. In the meantime, as plan sponsors wait on additional updated guidance from the IRS, plan sponsors should continue to be diligent in their efforts to monitor the operation of their plans to ensure compliance with plan terms and the law.

Aon's Retirement Legal Consulting & Compliance consultants are here to assist you in reviewing and formalizing your retirement plan's practices and procedures, as well as provide assistance with post-SECURE 2.0 correction strategies.

Quarterly Roundup of Other New Developments

by Eric Brager, Anne Jackson, Teresa Kruse, and Mark Manning

A Scarcity of Savings

Retirement plan access is a crucial factor in determining the financial stability and security of individuals as they near retirement age. However, research indicates that women and minorities often face meaningful disparities in access to such plans. The National Council on Aging's "What Women Say™" survey notes that approximately 48% of women over age 25 report that they do not have an employer-sponsored retirement plan.¹ Similarly, the American Association of Retired Persons (AARP) noted in a July 2022 report that about 64% of Hispanic workers, 53% of African American workers, and 45% of Asian American workers lack access to an employer-sponsored retirement plan.²

Disparities in retirement plan access for women and minorities can be attributed to:

- **Wage Gap.** The Department of Labor (DOL) statistics show that on average, women are paid 83.7% of what men are paid,³ and African American and Hispanic workers are paid approximately 76% and 73%, respectively, of white workers.⁴ Lower earnings can make it more challenging for these individuals to save for retirement or participate in an employer-sponsored retirement plan.
- **Employment Type.** Women and minorities are more likely to work part-time or in low-wage jobs, which often do not offer access to retirement plans. Additionally, women are more likely to take career breaks or reduce work hours to care for children or other family members, further limiting their access to retirement plans.
- **Lack of Financial Education.** Women and minorities may also have less access to financial education, making it more difficult to understand and navigate retirement planning options.

¹ National Council on Aging and the Women's Institute for a Secure Retirement (WISER), What Women Say™: Insights and Policy Solutions for Lifelong Financial Security survey (May 2023)

² Fact Sheet, AARP Public Policy Institute, Payroll Deduction Retirement Programs Build Economic Security (July 2022)

³ Posting of Wendy-Chun-Hoon (Director of the Women's Bureau, appointed by President Biden) to U.S. Dep't of Labor Blog, https://blog.dol.gov/2023/03/14/5-fast-facts-the-gender-wage-gap#:~:text=Stats_for%20black%20and%20Hispanic%20women (Mar. 14, 2023)

⁴ Data and Results Report, Office of Federal Contract Compliance Programs, U.S. Dep't of Labor (July 1, 2020)

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The following are potential solutions:

- **Closing the Wage Gap.** Implementing policies that address pay inequity can help women and minorities increase their earnings, providing greater access to retirement plans.
- **Expanding Access to Retirement Plans.** Policies that incentivize or encourage employers to offer retirement plans to part-time and low-wage employees can help bridge the gap in access for women and minorities.
- **Financial Education Initiatives.** Providing targeted financial education and resources to women and minority communities can help improve understanding and engagement with retirement planning.

The disparities related to retirement plan access for women and minorities are complex and multifaceted. Addressing these inequalities may require a combination of policy changes, education initiatives, and cultural shifts. Contact your Aon consultant for more information about what Aon offers to help assist with these discussions.

Oh Where, Oh Where Is My Retirement Plan Account?

Robert L. Johnson, business owner of Retirement Clearinghouse, has been working with recordkeepers and policymakers to establish a national auto-portability network (APN). The APN was established to automatically transfer a participant's small balance, under \$5,000, from his or her former employer's plan to a current account.

The APN protects against cashouts of participant accounts. This "leakage" is disproportionately dominated by lower-income and minority workers, and results in tens of billions of dollars leaving retirement plans, thus reducing this group's ability to take advantage of compounded earnings and continued growth of their balances.

Last quarter, Empower, the second largest recordkeeper by assets, joined Fidelity Investments, Vanguard, and Alight Solutions in utilizing the APN. The network now represents 60 million participants and more than \$45 trillion in assets. The system of automatic transfers between retirement plans intends to mimic automatic enrollment and has proven to be effective. SECURE 2.0 allows the transfer of a participant's retirement savings from a previous employer to a new one, unless otherwise directed.

Auto-Portability Network Breach

SECURE 2.0 and the APN have been established to help protect lower-income and minority workers, but as with the establishment of many other good things, criminals have also evolved. Retirement Clearinghouse incurred a data breach. They notified 10,500 individuals that their personal data, including retirement account numbers, may have been compromised. The May 12, 2023 notice identified that their information might be at risk for fraud, as a small number of files were affected between March 15 and 16, 2023. Retirement Clearinghouse offered three months of free credit protection. As discussed in the **Second Quarter 2023** issue of the *Quarterly Update*, the additional transfer data will require more oversight and management.

Aon's Cybersecurity and Retirement Legal Consulting & Compliance consultants are available to discuss what protocols plan sponsors should consider establishing for protection.

The Revolving Door of ESG Funds

The DOL has plans to focus on implementing the finalized environmental, social, and governance (ESG) rules with an aim at making communications clearer for plan sponsors and plan participants. The finalized rule allows fiduciaries to take ESG factors into consideration when making retirement investment decisions, but they still must evaluate them on a prudent basis like they would any other factors.

Asset managers on the other hand are reacting with some concerns over the constant changing of the requirements but are consistently creating new ESG tools and initiatives. Research reflects that ESG topics and concepts are embedded in the industry despite the surrounding negative rhetoric. Firms are acknowledging there are varying reasons for adopting and not adopting ESG investment strategies, but there appears to be a convergence of opinion that ESG investing, particularly the environmental piece, is here to stay in some form.

This convergence is reflected by the recent Amazon shareholder voting on their default fund needing to be evaluated on "climate control" along with the other factors. The question of how the long-term usage of climate control will affect investments over the long term becomes a question of whether the investment is prudent. This type of question could play a role in hiring and retaining employees in the future.

Aon Investment USA Inc.'s consultants are available to discuss the impacts and evaluation processes related to ESG investments.

Zombie Plans Will Get the DOL's Attention

Several fiduciaries have discovered in the last few years that leaving a retirement plan to wither unattended is not viewed kindly by the DOL. Sometimes a plan is no longer tended by the existing fiduciary due to a death in the C suite or company bankruptcy. In other cases, a merger or acquisition leaves a retirement plan wandering without anyone administering it. Whatever leads to a plan becoming a zombie (not quite terminated and not actively operated), the DOL does not approve.

Participant consequences of a plan in this status can include (i) active participants unable to obtain loans, withdrawals, or rollovers; (ii) terminated or retired participants unable to receive distributions; and (iii) domestic relations orders and beneficiary transfers left in limbo.

In response to these situations the DOL in some instances have asked the courts to appoint an independent fiduciary for these plans and for orders to obtain equitable relief in response to ERISA violations. The Employee Benefits Security Administration obtained \$5.9 million in distributions for participants through enforcement efforts relating to abandoned plans in 2022. To help avoid a zombie plan in your future, talk with your Aon Consultant about a merger and acquisition strategy or an introduction of Aon resources to support the ongoing administration of the plan that will permit the proactive management of acquired retirement plans.

Fiduciary Fast Facts

In this edition, we are introducing a new featured section of short topics which will highlight updates in areas of interest.

- **CITs in 403(b) Plans.** While SECURE 2.0 cleared the way for 403(b) plans to use collective investment trust (CIT) vehicles by amending tax laws, it did not address securities laws that still prohibit this practice. In an effort to correct this, the House Financial Services Committee has advanced a bill that would amend securities laws such that CITs would be allowed in 403(b) plans. The bill will need to pass the full House prior to advancing to the Senate for a vote, but prospects for passage in 2023 seem good.
- **Auto-Escalation Study.** A recent study conducted by Voya Behavioral Finance Institute for Innovation has found that employers can offer higher default auto-escalation levels and frequency without decreasing participation. The study shows that using a 2% auto-escalation instead of the normal 1% doesn't materially increase the number of participants who opt out of auto-escalation. Additionally, the study found that a majority of participants were willing to auto-escalate over a period shorter than one year.
- **Final Form 5500 Rules.** The DOL, the IRS, and the PBGC have released notices that announced changes to the 2023 Form 5500 (Annual Return/Report of Employee Benefit Plan) and Form 5500-SF (Short Form Annual Return/Report of Small Employee Benefit Plan), which will be filed in 2024. The changes are expected to reduce overall filing costs and include the following changes according to the DOL:
 - A consolidated Form 5500 reporting option for certain groups of defined contribution retirement plans and improved reporting by pooled employer plans and other multiple employer plans;
 - A change in the participant-counting methodology for determining eligibility for simplified reporting alternatives available to "small plans;"
 - A breakout of reporting on administrative expenses paid by the plan on the plan's financial statements;
 - Further improvements in financial and funding reporting by PBGC-covered defined benefit plans;
 - The addition of selected Internal Revenue Code compliance questions to improve tax oversight and compliance of tax-qualified retirement plans; and
 - Technical and conforming changes as part of the annual rollover of forms and instructions.

Aon's Retirement Legal Consulting & Compliance and defined contribution teams are available to discuss and provide guidance with preparation and filing of your Form 5500.

Retirement Plan Litigation Update

Retirement plan litigation has been prevalent over the past decade impacting corporate plan sponsors, financial institutions that are also plan sponsors, and universities sponsoring 403(b) plans, among others. Defined contribution plan cases generally fall into the following three areas: inappropriate or imprudent investment choices; excessive fees; and self-dealing. Recently, several cases involving corporations, universities, and other institutions have been dismissed (in full or in part) or settled, including cases involving Baystate Health, Inc. (settled for \$500K, pending court approval); DISH Network Corp. (dismissed); Eversource Energy Service Co. (settled for \$15M); O'Reilly Automotive Inc. (dismissed); and Mutual of America Life Ins. Co. (settled for \$2.75M and other remedies).

Plan sponsors seeking to reduce their litigation risk use a variety of strategies including improving their fiduciary process for plan governance, increasing the number of passive funds in their plans, and implementing better fee transparency. Aon has a team that can review your plan governance as it applies to plan fees, investments, and decision-making processes with an eye to mitigating the risk to plan fiduciaries.

New Retirement Plan Cases

The second quarter of 2023 brought a resurgence of litigation. Although the list of recently filed cases is only illustrative, it is intended to provide a summary of the types of claims being alleged against plan fiduciaries and their committees. Excessive fees cases were brought against Tenneco Inc., CoreLogic, Inc., and the Univ. of Vt. Medical Center, Inc. Lawsuits involving abandoned plans were brought by the DOL against Environmental Instrumentation Co. and Infinisys, Inc. Two lawsuits involving an employee stock ownership plan (ESOP) and charges of self-dealing were brought against the board of directors of Churchill Holdings, Inc. (doing business as Three Churchill Mortgage Corp.), the trustee of the company's ESOP, and others and in the other case with similar claims against Asbury Carbons, Inc. A case challenging the inclusion of ESG funds in a plan was brought against American Airlines, Inc. Aon will continue to track these cases, and others, as they develop.

Please see the applicable Disclosures and Disclaimers on page 13.

Recent Publications**Defined Benefit Plan Changes of SECURE 2.0**

By Daniel Schwallie

Journal of Pension Planning & Compliance (Fall 2023)

The SECURE 2.0 Act of 2022 (SECURE 2.0), enacted as part of the Consolidated Appropriations Act, 2023, makes many changes to both options and requirements applicable to tax-qualified defined benefit plans. This article describes such changes more or less in chronological order of the years to which they apply.

Click [here](#) to download and read the article.

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Thank you to the following colleagues who contributed articles to this quarter's publication.

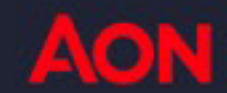
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About Aon

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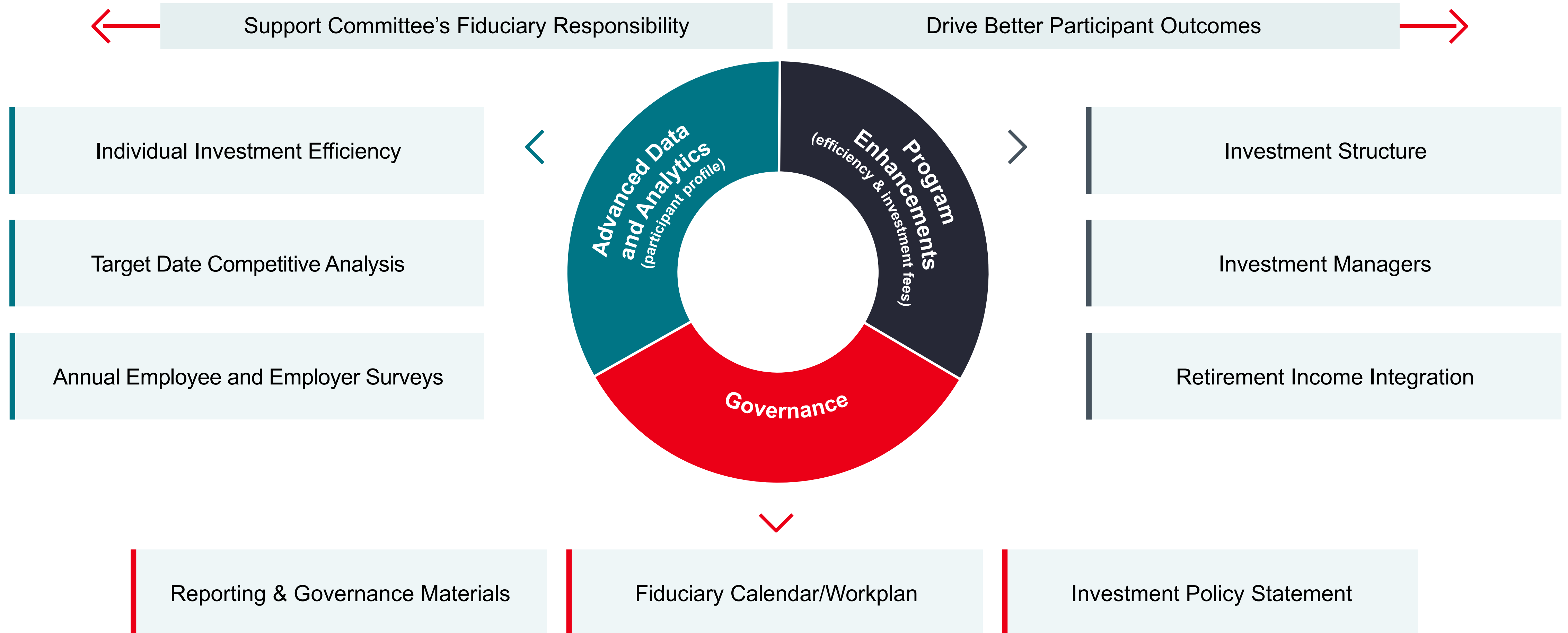


Appendix

Additional Defined Contribution Views



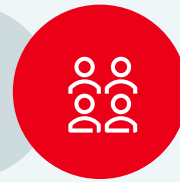
Aon's DC Plan Management Philosophy



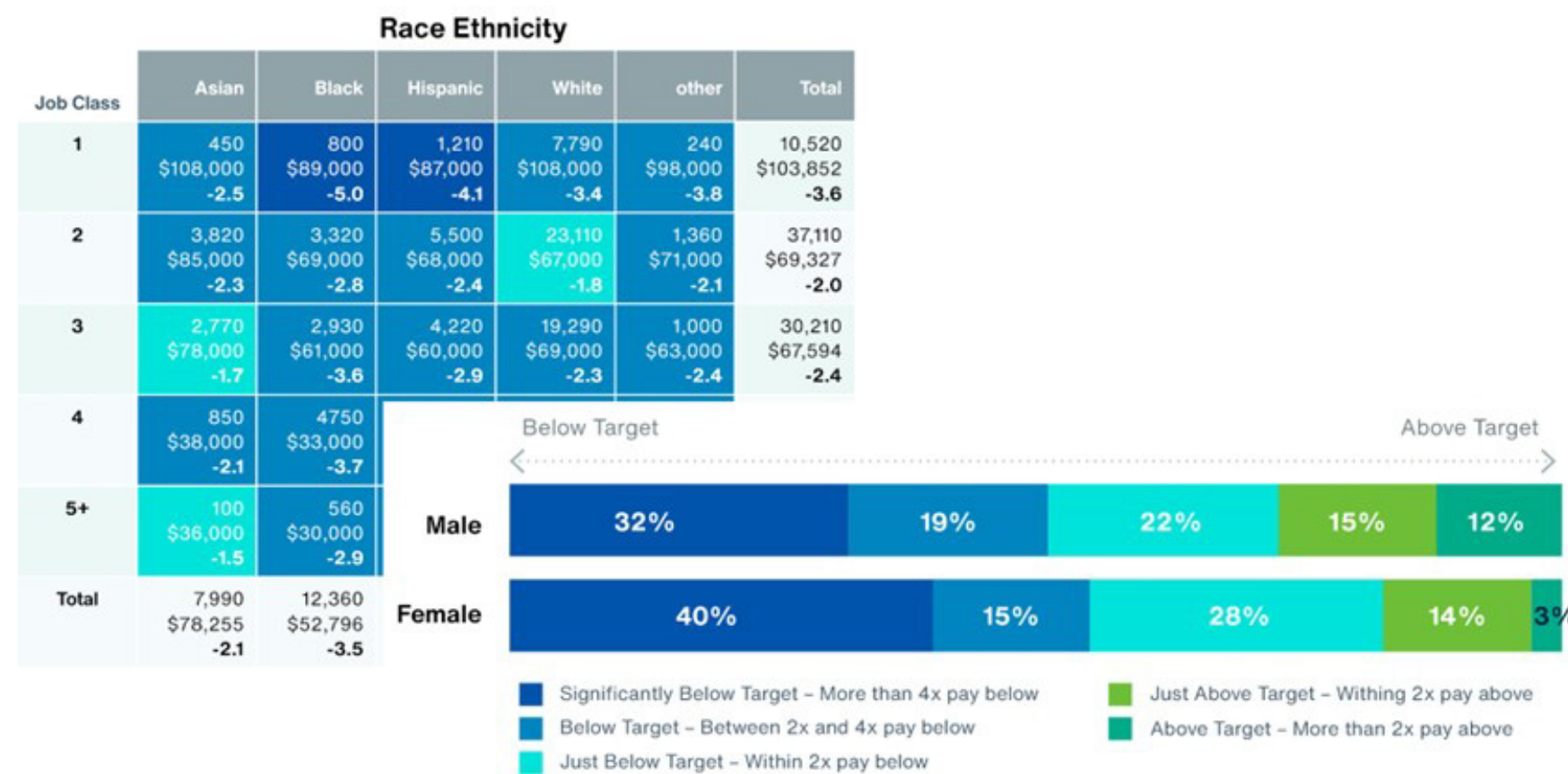
Retirement Readiness Through the Lens of Diversity and Inclusion

Only

1 in 3 workers will have saved enough to retire comfortably by age 67¹

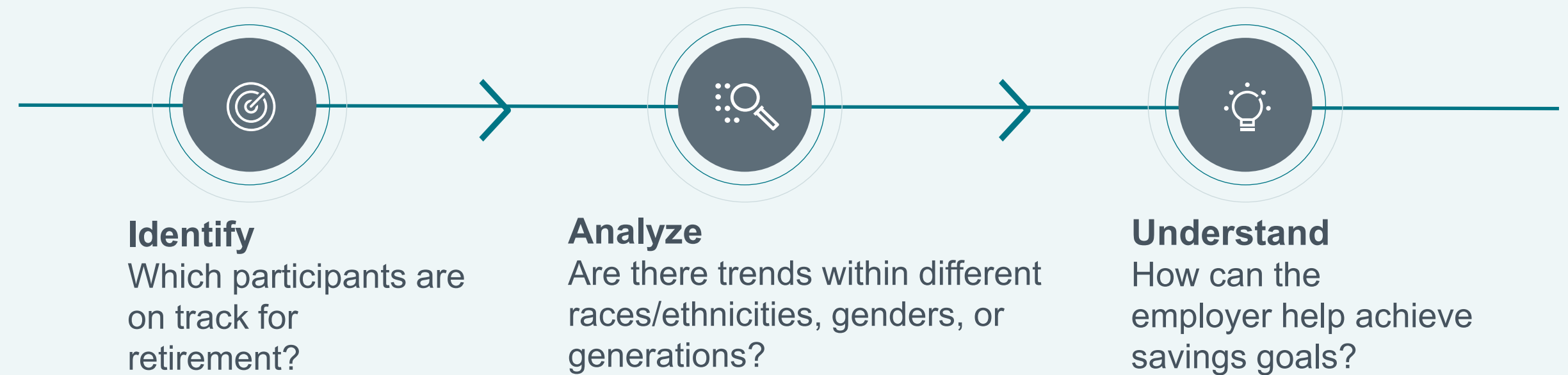


What would this result look like **focusing on race/ethnicity, gender, or generation?**



¹ Results from *The Real Deal: 2018 Retirement Income Adequacy at U.S. Plan Sponsors* based on the population of full-career contributors retiring at age 67.

Process of Study



Considerations



Actionable Items

- Plan Designs considerations
- Changes or enhancements to Investment Structure
- Financial Wellbeing in conjunction with retirement readiness
- Diverse Communications

Appendix

Investment Manager Research



Investment Manager Research – Aon’s Dedicated Team

More than 140¹ dedicated research professionals covering traditional, emerging, and alternative strategies

Liquid Investment Manager Research			Private Asset Manager Research	
Equities 16 Professionals	Fixed Income 14 Professionals	Liquid Alternatives 13 Professionals	Private Equity 16 Professionals	Real Assets 87 Professionals
<ul style="list-style-type: none"> • Global • Regional • Style • Size 	<ul style="list-style-type: none"> • Government • IG Credit • Emerging Market Debt • Absolute Return • LDI • Cash 	<ul style="list-style-type: none"> • Direct Hedge Funds • Fund of Hedge Funds • Currency • Commodities 	<ul style="list-style-type: none"> • Private Equity 	<ul style="list-style-type: none"> • Real Assets, Real Estate, Infrastructure • Advisory Solutions • Portfolio Management

Cross asset class research on emerging, minority, and responsible investing managers and strategies

¹Total combined research staff as of 6/30/2023 includes GIC-I Manager Research Staff, and Townsend colleagues from advisory, portfolio management, and strategy teams. Offshore, Innovation, and Support staff represent additional colleagues. Some team members have cross team responsibilities or reporting lines outside the manager research function, includes Aon Investments and its global Aon affiliates.

Our Manager Research Process Help Uncover New Ideas



Quantitative Screen

- InForm Assessment Score
- 20,000+ products quarterly
- Third party databases
- Network of existing contacts
- Referrals



Qualitative Due Diligence

- Identifies manager's edge
- Seven plus criteria
- In-person research meetings
- Extensive review process, people, operations and fees



Assessment and Rating

- InView database houses research
- Highest conviction buy-rated
- Buy-rated recommended to clients
- Client portal provides transparency



Portfolio Construction & Monitoring

- Specialized risk analysis tools
- Benchmark & Peer comparisons
- Custom portfolio construction & reporting via client risk/return framework



Manager Research – Operational Due Diligence



Our Operational Due Diligence (ODD) process is a multi-faceted review of:

- Corporate and organizational structure and governance
- Regulation, compliance, and audit/testing functions
- Risk management program
- Technology and BC/DR
- Service provider selection and monitoring
- **Strategy specific** trade and transaction controls
- **Strategy specific** administration and valuation
- Fund structures (when applicable)



Team of specialists responsible for ODD:

- ODD team of 15*
- Focus on experienced, senior professionals
- Core ODD team supported by data gathering and processing team



Global Operational Due Diligence Team:

- All new managers and/or products reviewed by dedicated core ODD team

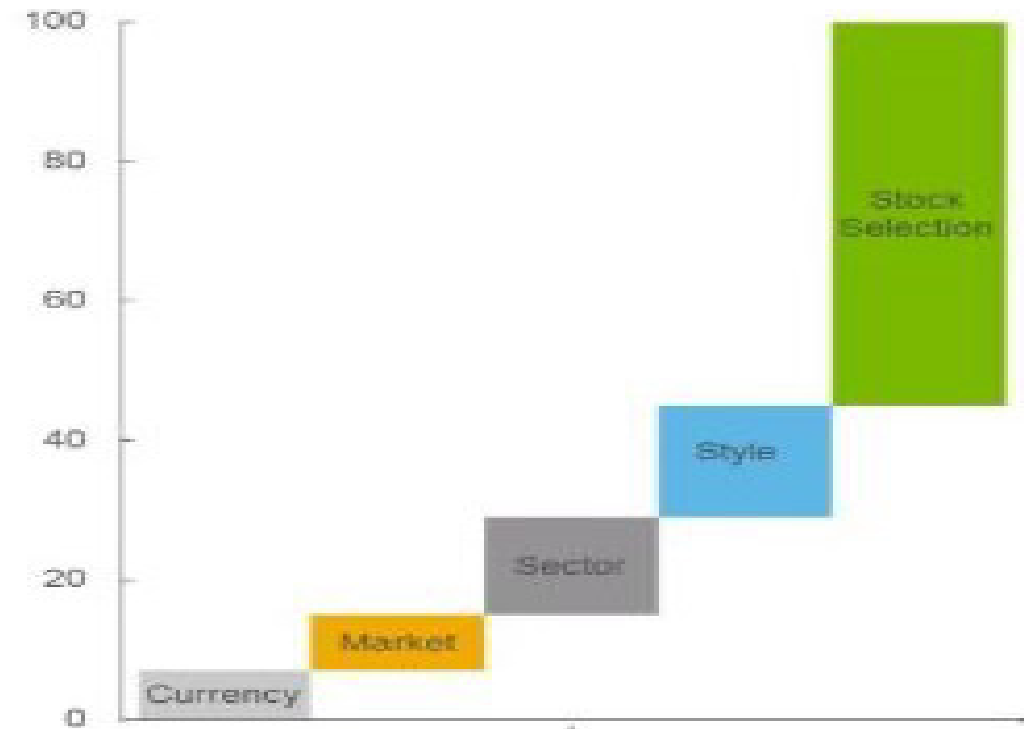


*As of 6/30/2023. Includes onshore ODD and India ODD team members.

ODD is conducted by Operational Risk Solutions and Analytics Group, which is an independent business unit from Aon Investments USA Inc. Investment advice and consulting is provided by Aon Investments USA Inc.

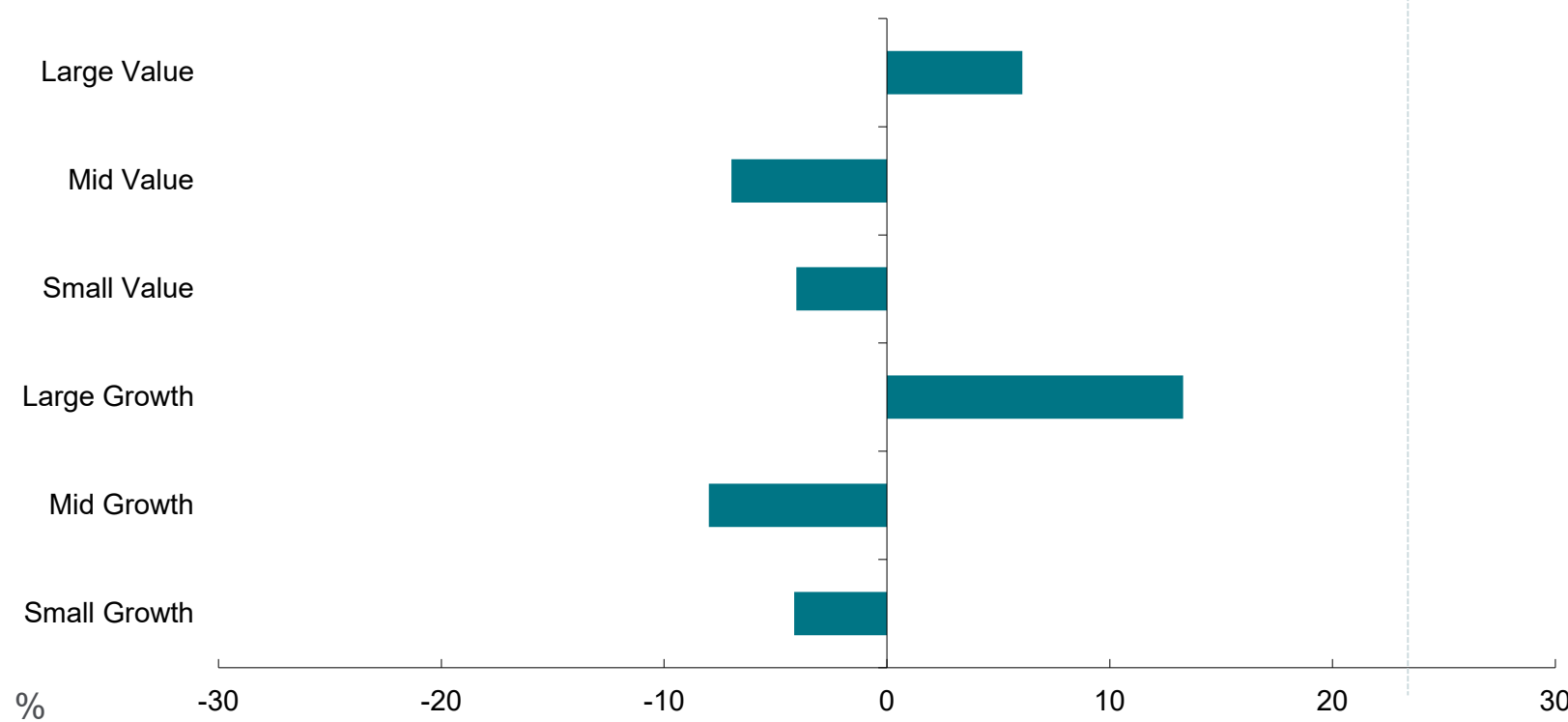
Portfolio Construction Process - Complementary Analysis

Decomposition of Active Risk



Source: Aon, Fund Managers.

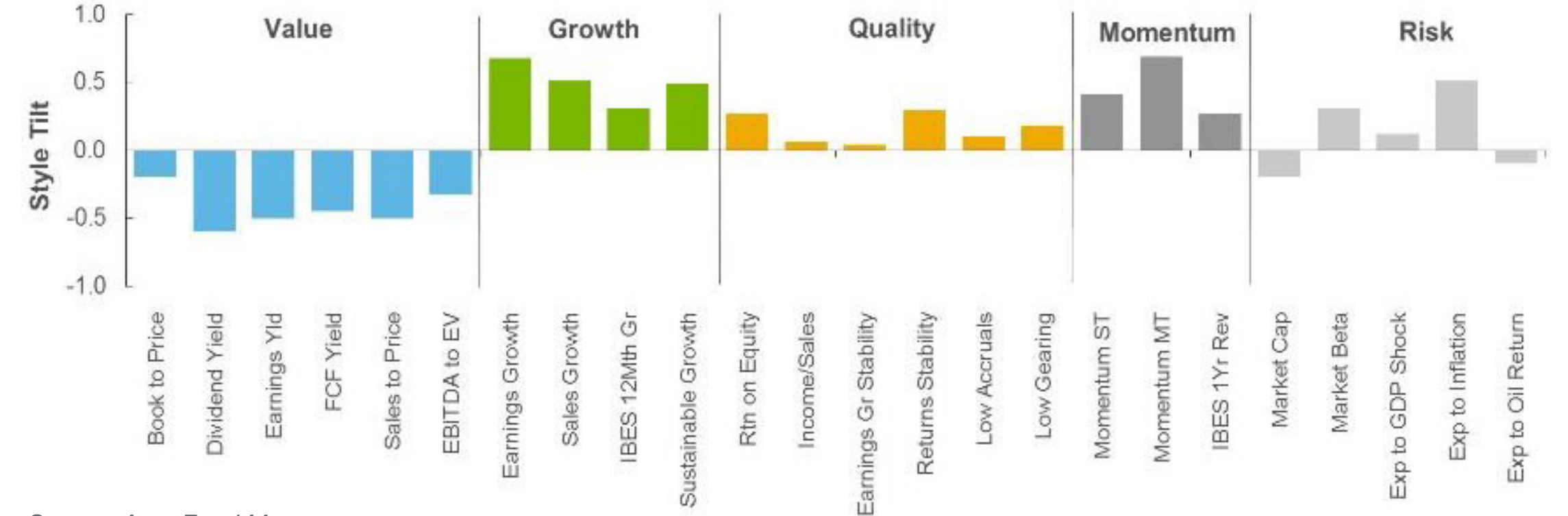
Relative Style Distribution



Source: Aon, Fund Managers

Charts provided for illustrative purposes only

Portfolio Skyline



Source: Aon, Fund Managers.

Stock Commonality

	Manager A	Manager B	Manager C
Manager A	-	10%	1%
Manager B	0.3	-	4%
Manager C	-0.2	0.1	-

Source: Aon, Fund Managers.

Appendix

Recordkeeper Search Process



The Need for a Vendor Search

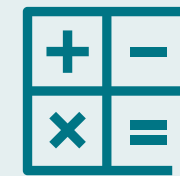
- The selection of a recordkeeper is a fiduciary responsibility and must be made in the best interest of participants.
- Fiduciaries must demonstrate that a diligent selection process was followed.

Considerations



Services

- Do participants have access to the services they need?
- Are other vendors offering tools and services that would be beneficial to your participants?
- Is the current vendor investing in technology and keeping pace with its competitors?
- Does the contract with the current vendor include service guarantees, and if so, are these being met?



Fees

- Have the current vendor's fees kept pace with the market?
- Can the fiduciaries demonstrate that a diligent fee benchmarking exercise has been conducted recently?
- Does the contract with the current vendor put fees at risk if service guarantees are not met?



Risk

- Plaintiffs in DC fee litigation have questioned why defendants have not "gone to market."
- Other relevant issues have been raised in litigation which might require attention.
- It is becoming standard in the marketplace to issue an RFP every 5-7 years.

Vendor Search Overview

Proprietary Vendor Database

- ✓ Includes:
 - 61 vendor service models¹
 - 1,000+ data points regarding services and capabilities¹
- ✓ Customizable to reflect your unique needs
- ✓ Ongoing updates to reflect new services and relevant topics, including:
 - Cyber security
 - Financial wellness

Comprehensive Fee Analysis

- ✓ In-depth analysis of vendor fees
- ✓ RFP template designed to:
 - Ensure consistency in bids
 - Capture a broad range of potential fees

Our deep knowledge of the market and what other clients pay is leveraged to help the fiduciaries arrive at a determination of “reasonableness” for the quoted fees.

Objective and Subjective Approach

- ✓ Objective scoring of database information
- ✓ Deductions for “Must Have” services that can’t be accommodated
- ✓ Subjective scoring of custom questions, reflecting your specific situation and needs

¹ As of June 30, 2023

Vendor Search Process

01

Kickoff Meeting

- Review timeline and data requirements
- Discuss goals, objectives and potential vendors
- Determine priorities and service requirements
- Discuss plan design changes, if applicable

02

Develop & Distribute RFP

- Gather plan information
- Confirm proposed investment line-up or structure
- Integrate custom questions based on specific needs
- Prepare RFP
- Notify participating vendors and distribute RFP

03

Vendors Complete RFP

- Respond to all vendor inquiries
- Collect RFP responses

04

Analyze Vendor Responses

- Clarify responses with vendors
- Analyze services, fees, and investments
- Prepare quantitative scoring and qualitative analysis

05

Vendor Presentations

- Determine agenda and discussion topics
- Present comparative analysis, and facilitate presentations on the same day
- Solicit and record feedback

06

Selection

- Solicit responses to follow-up questions
- Select a vendor and confirm approvals
- Document selection criteria

Evaluation Criteria

Services



An assessment of the vendor's service capabilities

- “Core” questions regarding the vendor's general capabilities (objectively scored)
- “Custom” questions addressing specific needs (subjectively scored)

Fees



An assessment of the vendor's quoted fees, compared against the fees quoted by the other vendors

- Fees should be weighed against the services provided.
- The fee structure being proposed by the vendor may be factored into the overall assessment.
- Transaction fees and other ancillary fees will be considered, as applicable.

Investments



An assessment of the vendor's proposed investment line-up, or its ability to accommodate the preferred investment line-up

- In a true open architecture environment, there may be no differentiation between vendors.

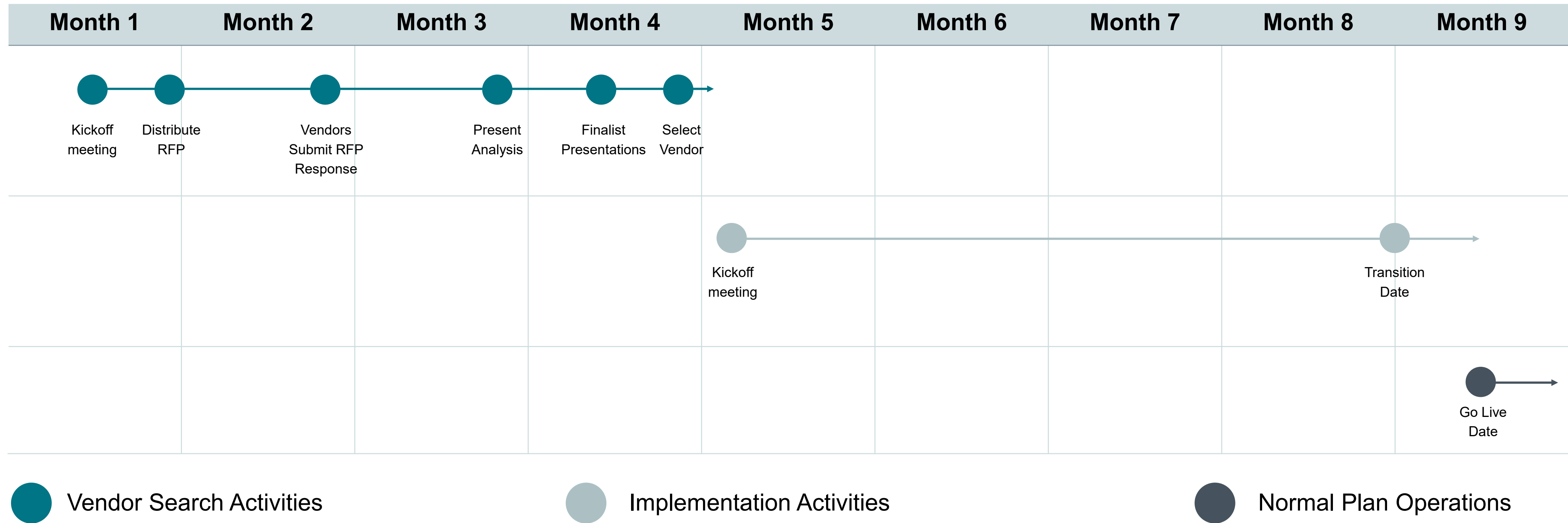
Service Categories

	Organization & Market Focus	Target market, size of organization, commitment to business, contractual requirements, etc.		Participant Experience Website, call center, mobile applications, meetings and webinars, financial planning tools, etc.
	Recordkeeping	Outsourcing, plan provision maintenance, payroll and transaction processing, etc.		Plan Sponsor Experience NPR servicing team, plan sponsor website, reporting, communications planning, etc.
	Conversion	Process, timeline, mapping strategy, etc.		Fee Flexibility & Transparency Fee structure, use of revenue sharing, fee guarantees, transparency to participants, etc.
	Regulatory & Compliance	Document services, compliance testing, gov't reporting, required notices, audit assistance, etc.		Investment Products Investment platform, managed accounts, self-directed brokerage accounts, annuities, etc.



- Our internal database includes questions in each of the above categories
- Plus *Company Stock, Non-Qualified Plan and Master Recordkeeper / 403(b)* service questions, as needed

Sample Timeline



Not all client experiences are the same and implementation periods may vary significantly from those presented based on a client's specific circumstances

Conversion Services

Kickoff Meeting

- Participate in conversion kick-off meeting
- Review all materials presented by the selected vendor
- Review proposed implementation schedule

Ongoing Calls

- Participate on all implementation management calls (typically weekly)
- Offer advice and recommendations relating to the implementation process
- Continually monitor the progress of the project to ensure milestones are achieved

Review

- Review Plan Document
- Review employee communications
- Review employee notices
- Review administration manual

Negotiation

- Assist in negotiating a final service agreement with the selected vendor
- Ensure agreement is consistent with what was proposed during the search process
- Recommend service guarantees to be incorporated in the contract

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