Wilmington Trust: 401(k) Plan Sponsor's Guide to 2022

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V2 Operator: At this time, let's being today's event 401(k) Plan Sponsor's Guide to 2022. I would like to introduce your moderator for today, and that is Dan Colluccio, Administrative Vice President, Senior Retirement Plan Consultant, Wilmington Trust. Dan, you have the floor.

Dan Colluccio: Great. Thank you so much, Jessica, and thanks, everybody, for investing the time today. Super excited about our dialogue here. When you think about our advisory business at Wilmington Trust, I'm very fortunate to lead a group of advisors who focus day in and day out on helping companies administer their 401(k) or their 403(b) plans that they offer to their employees. When you think about it, our team, we live, breathe and sleep retirement plans every single day. Now let's think about you. You're operating a business. You might be running human resources. Or you may be operating the finances for an organization. Oftentimes the 401(k) isn't the main thing that you're focusing on. And that's exactly why we're here today. We want to make this easy for you.

So today, we're going to cover three main things. First, we're going to give you a roadmap on how you could prepare for the year ahead. Second, we're going to have a discussion with some investment experts from Wilmington Trust and Fidelity to talk about the business environment and market outlook going forward. And then third, as we're having this discussion together, we're going to talk about investment menu considerations for you as a plan sponsor. Just as Jessica mentioned before, these sessions, they're always best if they're interactive. So if you do have questions, I want to encourage everybody to use the chat feature so that we can get to those questions that are on everybody's mind here today.

Now some of you may know that I am blessed with three little boys. I've got a 6 year old, a 4 year old and a 2 year old. Over the last two years during this COVID environment, my wife and I have really enjoyed going hiking with our three little guys. And when I was thinking about today's conversation, I was thinking about a trip that we took to the Adirondacks. My wife and I took our kids up there, and in three days, we did three big hikes and we reached the summit on three mountains. So our three boys did three hikes, three mountains in three days.

And let me tell you, your retirement plan, it's not as challenging as climbing a mountain, but there's a lot of similarities. I say this because there's three main mountains, so there's three main things as a plan sponsor that you're going to need to tackle in the year ahead.

Also, as we were taking our journey between our mountain climbs, we had to prepare each day for what our next journey was going to be. And so throughout the year, there are things as a plan sponsor that you could do to prepare for your journey ahead, which we'll talk about.

Then lastly, my wife Jenny, she always says that it's her job to keep our boys safe. We want to keep you safe because obviously there's risks that are inherent by offering a retirement plan to your employees. So there's things that you can do to keep you safe and to manage risk. Let's talk about that a little bit. Let's talk about these mountains that you're going to need to climb. And again, don't worry; it's not a herculean task.

The first mountain you're going to need to climb as you prepare for the year ahead, it's actually happening right now, whether or not you know it. It's very important at the beginning of the year to do your plan testing. If your plan is not a safe harbor plan, there are some timelines that you're going to want to make sure that you meet. Plan testing, you should work with your record keeper and your administrators to provide to them your census and your questionnaire by the end of this month, if not early February. The reason why I say that is because there's an important deadline that happens March 15. It's a deadline to issue any corrected distributions as a result of those tests. So again, remember, each year you have to go through your annual compliance testing. You do it at the beginning of the year so that you can meet that deadline. If you don't pass the test, that's not a bad thing. You're not in trouble. You just have to make refunds or corrections by that March 15 time frame so you can avoid a 10% excess tax.

Also, when you do these tests, it looks at what the participants contributed into the plan. If there were any excess deferrals done by participants, you have until April 15 to go ahead and correct those excess deferrals. So it's a really, really good time, the first mountain to climb is the beginning of the year. Get your census information in, get your questionnaire done with your record keepers so they could have the time -- if you do fail those tests, they could have the time to meet those deadlines of March 15 or April 15.

Now for those who are safe harbor plans, you have time, so you don't have to meet these deadlines that are kind of right behind us here. If you are a safe harbor plan, you may already know that you automatically pass your average deferral percentage and your average contribution percentage testing. So the January/February time frame is not as strict. But you are going to want to take a look at those census files and those questionnaires with your record keepers usually by the end of the first quarter so that if you do have any excess deferrals, you can meet that April 15 time frame.

So first mountain behind us. Let's move to mountain number two, and that's your 5500 filing. That's the filing that you need to do with the IRS each year. This really isn't too much of a burden, especially if you're one of those businesses that has less than 120 eligible employees. If you have under 120 eligible employees for your retirement plan, you're going to be filing a short form 5500 with the IRS. Really, all you have to make sure that you do is when your record keeper or TPA provide you the 5500 information, review that for accuracy and make sure it gets filed by July 31. You always can extend your filing to October 15, whether you are a short form filer or a long form filer. But oftentimes we see plan sponsors want to tackle and get this away behind their desks in that July 31 time frame. Now for those of you who are saying I always do it October 15, well you're likely one of those plans that gets audited. And if you have over 120 eligible participants for a 401(k), the IRS requires you to have that plan audited. So you need to make sure the audit and your 5500 are filed by October 15.

Now a tip here for you all. If you are an audited plan, it's always best to set up a fiduciary file. Fiduciary file is a great thing to do because it allows you to put the documentation

around your 5500 in one place. And when your auditor is requesting these details, it's very easy to pull from your fiduciary file. It helps to streamline that audit and that 5500 process.

Now your little mountain, and this is probably your easiest mountain, the third one, and that's participant notices. At the end of the year, December 1 specifically, is at the end of the year by December 1, there's certain notices that the IRS requires that you send to participants. You want to make sure that those notices are sent out. Many of the providers that you may work with, your record keepers, your third party administrators, they may be doing this for you. But some record keepers and administrators, they may give you the forms, but it would be your responsibility as a plan sponsor to send them out. What's important here is to understand who's helping you with the notices and who is sending them out, just to make sure that you are in compliance with the proper notifications to participants.

So again, there's three mountains that you need to climb. One's happening right now, especially if you are not a safe harbor plan, and that is with your plan testing. Then make sure you get your 5500 filed. And then lastly, get those notices out to the participants.

Now through our journeys in climbing these mountains, we had to make sure that we were prepared. We had to make sure we were fit for the journey ahead. So I want to encourage every plan sponsor to take check-in times throughout the year to address important things around your 401(k). And there's two important check-ins that you want to do. The first is around the plan design. You think about the labor market right now and how challenging it is. Well, benefits are a big part of that. So the plan design really drives the features that are available inside your retirement plan. What you want to do, and ideally in the second quarter of the year, what you want to do is you want to review the design of the plan. If you did not pass compliance testing at the beginning of the year, it may be highly compensated employees are getting refunds.

What are some strategies that you could take to maybe pass testing? Is safe harbor something you want to explore? Or are auto enrollment features or better employee education, are these things that you want to explore to help with plan testing? Is your benefit and the features in the benefit competitive in the marketplace? So looking at perhaps some competitors and what their 401(k) benefits are and evaluating whether or not you want to adjust things. So between the compliance testing at the beginning of the year, between your 5500, always a good time to think about plan design.

The other thing you want to do is you want to make sure that you have your annual 401(k) plan review. During that annual 401(k) plan review, you want to make sure you're touching on the plan design, addressing any investment considerations. You want to make sure that you're aware of your responsibilities and your fiduciary duties. You want to make sure that you are working with the right service providers to help you along this plan. Oftentimes we see 401(k) teams look at their annual review at the beginning of the year because they want to see, okay, what happened the year previous. Other times we see plans do that annual review right around that September time period. And the reason why that is is because if there are any important changes, like adding safe harbor or adding auto enrollment features, those need to be done before the end of the year, and notices need to be provided to participants December 1. So the more that you can get ahead of that, the better you can be positioned if your team does want to make a change, that you have the time to get those notices out.

So last thing, keeping everybody safe. I think when you look at ERISA, when you look at your responsibilities, the best thing that you could do is have a process. Now hopefully understanding the three mountains that you need to climb and hopefully taking time to

review the plan design and taking time to review your plan as a whole can help you build in a process. But document, document, document. If you document this process, keep it within a file for your committee. That really helps to insulate you from any risk.

So, super excited about the next piece of our dialogue here today. We're going to transition over to the business outlook and the economic outlook, and excited to have retirement plan experts join us for the dialogue. I do want to introduce Claus and Lauren here today. Lauren Mance, she is with Wilmington Trust and a part of Wilmington Trust's Investment Committee. She's part of the investment committee that oversees Wilmington Trust's retirement and institutional custody services. She's go over 10 years of experience on the investment side. And prior to joining Wilmington, she had leadership roles at Vanguard and PNC. So, super excited to have you join us for this discussion, Lauren.

Lauren Mance: Thanks, Dan.

Dan Colluccio: Then we also have Claus. So we have Dr. te Wildt, which hard to pronounce the last name, which is why I'll probably go by Claus. But super excited to have you here, Claus. You're with Fidelity Investments, Senior Vice President within the Capital Markets Group for Fidelity. I think what excited me most about Claus's bio was that he's been with Fidelity for almost 15 years on the capital markets side, so he's no new player to this game. But prior to that, he actually founded a business. I know we've got a lot of business owners on the line, and so he's got experience in operating a business, but then also understanding the economic environment. So really excited to have you join us here for this discussion, Claus.

Claus te Wildt: Thank you, Daniel.

Dan Colluccio: So let's dive right into it. No more stories about mountains. Let's talk about markets. When you think about the market, the S&P 500 was up 28.7% in 2021. A lot of investors, a lot of business owners are wondering, is this market momentum and this market growth sustainable? And as we were chatting, we actually got a question, and one of the questions was what's the risk of a market correction? We think about right now, year to date the S&P's actually down almost 5% through yesterday. So I guess it's maybe a good place to start the dialogue here. And Claus, if you could start, help us understand your outlook on the market environment, and really what is the risk of a correction for equities?

Claus te Wildt: Thank you, Daniel. It's a great question. I do believe that we are going through a correction at the moment. When we go through those, I always remind myself of the value proposition of the equity market. If you go back in history and look at the last 100 years, the value proposition of the equity market was, and I think it will be going forward, is that on average you make about 8% per year. Three out of four years the market is up. Three out of four years the market is up. But in exchange, you have to endure about three corrections, or 5% per year, one correction of 10% per year. Every three years, one that is greater or around 15%. And every six years, you get a big one that is greater than 20% and can be a lot bigger than 20%. So that's the batting average.

Normally when I sort of start at the beginning of the year, I focus on the 8% average annual return and that the market is up three out of four years. But given that we are in a correction right now, I think I focus more on the what you have to endure, which is those corrections.

If you think about those corrections, the small ones shouldn't really scare you. The small ones are really buying opportunities, if you will. They are just par for the course. They

are just noise. What should scare you are the big ones. The ones where the market is down 20%, 25%, 30% that happens every six years. That's the ones you want to be really nervous about. And if you think about these big ones, all of these big ones coincidented with an economic recession in the US. All of them. So when you go through them, I always ask myself is this a big one or a small one, or to ask this question more specifically, are we likely to go into a recession? Because if we are not going into recession, we only have a small correction. It's a buying opportunity. The big ones are the recessions.

And on that front, are we going in a recession? I don't see it happening in the US this year. I'm actually quite optimistic. The reason being is it has multiple reasons for that, but the biggest one is that we are beating COVID. I think omicron is actually a blessing in disguise. I don't know if you've seen the charts in South Africa, but South Africa was ground zero of omicron, and you had just a huge spike in cases and you had a huge drop in cases. What we found in South Africa is that after that spike, South Africa has basically reached herd immunity, because anybody who is still alive has either had the disease already or is vaccinated. And you have reached this herd immunity state in South Africa at that point.

I think the whole world is going to go the same way it played out in South Africa. And if you look at the charts in New York right now, if you look at the charts in Massachusetts -- I'm located in Boston. If you look at the charts in Boston, they resemble -- they're about two weeks behind the South African charts, but they resemble those charts. Our team believes that in four to six weeks, that the US will probably have reached herd immunity, and maybe in two or three months, the whole world will have reached herd immunity.

And by the way, that is also, if you look historically, how pandemics end. If you go all the way back to the Spanish flu, if you look at all the SARS, all the flus that we've had over the last 150 years, they all lasted two years and they all ended with a variant that was very, very contagious but not that deadly. That's exactly what we have here with omicron.

So if we are right on omicron, then we can normalize our lives again, and I think that it's going to lead to a huge pickup in the economy. We have about 10 million open jobs right now. If all these concerns about omicron and child care and health care and health are going to go away, those jobs are going to be filled. That is going to create higher earnings, more earnings, a lot of consumer spending. There's a lot of pent up demand. Obviously we want to travel again, we're going to do things. That's going to lift economic growth.

And so I'm actually looking at this very, very positively, and I think we have a strong economy after we have gone through this omicron wave where this country is unfortunately going through right now. So we should have a good year in the economy, and normally that leads to a good year in the equity market as well. The market thinks earnings are going to rise within 8% and 10% per year. And that's probably the best estimate that you can get of what's a market guess, because normally stock prices follow earnings. So I would relax about this current correction here.

Lauren Mance: Echoing what Claus said, we believe that this current volatility can be used as a buying opportunity, and we expect continued economic growth in the US. That said, when it comes to retirement investing, we're worried about those big downturns and those big corrections that Claus was talking about. So even though we're not necessarily expecting one, when planning for retirement, you need to anticipate and plan for a potential correction and allocate portfolios accordingly. Investors with a longer time horizon can be invested more aggressively because they have time to recover from those corrections.

But as you near retirement, have less exposure to equities, be more conservative, because having any correction could potentially impact your plans to retire.

Also, participants need to understand the importance of rebalancing their portfolios. As Dan mentioned, we've had some great growth in the stock market over the last several quarters. Making sure that you don't accept that portfolio drift and rebalance back to the allocation that makes sense for you.

Dan Colluccio: That's great. Thanks for that. When we think about retirement plans, our plan sponsors are building menus for the participants to select from that cover a whole bunch of different markets, whether they're stock markets, fixed income markets, US, international, and there's a lot of different ways to access these markets. One debate that's been out there has been around using index options and active options to access the markets for plan investment menus. Lauren, I'd love your thoughts on what committees should consider as they're looking at investment menus that might have index or active as solutions to consider from.

Lauren Mance: Sure. We believe lineups should include a mix of both passive and active options -- excuse me, passive and active options. So for passive or index options that track the benchmark, those typically make sense for markets that are more efficient, and plan sponsors should be focused on the cost of those passive investments and the tracking error. Whereas active management makes sense in markets where portfolio managers can add alpha and protect against downside during market volatility, so in less efficient markets like emerging markets or small cap. When choosing active investments, plan sponsors should also look at cost, but look at and evaluate the performance, past performance of the fund kind of track record, the organization and the team that's managing the portfolio, and the various risk metrics that's been associated with the strategy.

Claus te Wildt: Maybe, Daniel, if I could add two things to what Lauren just said. I wholeheartedly agree with everything she said. The one thing that I wanted to sort of point out here is -- actually two things I want to point out. The first thing I wanted to point out is if you as a plan sponsor make a decision between an actively managed strategy or passively managed strategy, and you look at performance and track record, what I would encourage you is to compare the actively managed strategy not to the index, but to a passively managed strategy as well. Because what you will find is that in certain asset classes, a passively managed strategy, even though it is called passive and it strives to follow the index, it is not able to follow the index and is actually underperforming the index significantly.

Areas like high yield and floating rate, for example, what you will find is that passive strategies actually significantly underperformed those benchmarks. And so you would make a misleading decision for your clients than if you would pick the active managed -- sorry, the passive strategy just because the active strategy has also struggled against the index. So that's my first point. By the way, the active high yield strategy on average still beats the passively managed strategy in high yield and floating rate. So that's my first point. Compare apples to apples. Compare actually strategies, active versus passive and not an active strategy against an index. So that's one.

Number two is sort of -- I love Lauren said about emerging markets that you might want to consider being active there. Let me sort of give you one aspect of it, sort of what might make more intuitive sense to you. So some of you might not be -- or some of you, your clients might not be familiar what an inefficient market is. But think about it. The Chinese equity market is a big part of the index right now. So if you invest in a passive strategy in emerging markets, you are going to buy and own a lot of China. We believe at

Fidelity right now that China is turning away from capitalism and becomes a little bit more state run, not that friendly to foreign investors, and it's trying to regulate a lot of the companies there. You might have seen some of the headlines last year. And for that reason, you probably want to own a little bit less in China than the indices would lead you right now. So to me, that is an example where an actively strategy managed a lot more sense because there are certain things going on in big parts of the benchmarks that you not necessarily want to be exposed to.

Dan Colluccio: I think that's great. So think about it; a lot of the plan sponsors that are on the line, this may be hieroglyphics around active and passive and different asset classes. And I think that's why it's so important that you work with an advisor. And to Claus's and Lauren's point, you're evaluating the strategies relative to the important things -- apples to apples, as Claus had mentioned before -- and not necessarily looking at an active strategy compared just to an index, and looking how the passive strategies do in that space. I think working with a fiduciary advisor coaches you through this so you don't have to do all this. We could show you or your advisor could show you each of the strategies and make it simple so that you can make the best decisions as you create investment menus for the participants to select from.

You did mention China there, Claus, and we did get a question from the audience here around China and around supply chain issues. The question was, do you see in the future China losing or gaining ground on the US? And maybe if you could address the supply chain issues that have bottled up over the previous months and maybe the outlook there.

Claus te Wildt: Yes, that's a great question and obviously a big concern. Let me rephrase that question a little bit. Instead of speaking out supply chain issues, let me address a broader picture of inflation, and that sort of involves then a discussion of supply chains as well.

I've actually, because it became such a big topic, I've decided to for myself put a list together of things that, in my opinion, are causing inflation in the US. You can think about it from a demand perspective, as a supply perspective. Demand perspective is demands for certain goods and services has increased significantly, and the production of those goods and services has been steady, and because you have these imbalances, prices are going to rise. Or you can see it the other way that demand is constant, but supply has been falling, and because of that, prices are rising.

If you sort of think about what has happened is I'm in the camp that most of the rises in inflation right now are COVID related, and because of that are transitory. Not all of them. You can talk about those that I don't think are COVID related and are here to stay. But if you think about it from a supply and demand perspective, when COVID hit, all of us had to stop travel, all of us had to stay in the house and we couldn't go out to restaurants, we couldn't go to movies, theaters, concerts, none of this we could do anymore. We saved a lot of money. And what we decided to do with that money is buy stuff. We shifted some of the spending that we had on services and travel into goods, and we bought more stuff. So we increased the demand for goods.

At the same time, because of COVID, the supply of goods was falling. China has a zero COVID policy, which means that China is shutting down a factory if they have one case of COVID in their factory. And because of that, a lot of the factories have been part of the time in China been closed. Part of the harbors have been closed in China because of this zero COVID policy. The Philippines and Vietnam are other countries where we get a lot of goods from. They don't have a zero COVID policy, but they still have COVID. Because they sometimes had outbreaks in towns and factories, they had to temporarily close those factories as well.

When the goods reached our shores here, because of COVID, our harbors couldn't operate in full capacity. We couldn't unload those boats. We don't have enough trucks right now to unload those boats and bring the stuff from the harbors into sort of the shops and distribution centers because people couldn't get child care, they were concerned about their own health. They were short staffed as well. And so you had this increase in demand from services to goods at the same time when the supply of goods was falling. And that for the most part has driven up prices.

Now if we are right on COVID and we are in the last inning of COVID here, COVID should be over for the world in the next two or three months, a lot of these issues are going to go away. The herd immunity in China, in the Philippines and Vietnam will allow these factories to operate with full capacity again. We are going to get people back and work in the US and they work in the harbors and unload those boats, back in the trucks, into distribution centers. We are getting more goods. And by the way, we are shifting our spending then as well. We are not buying all those stuff anymore. We are going to go out and travel.

So I think there's a lot of issues here where inflation is, my opinion, has topped here and should recede over the remainder of the year. So I'm fairly optimistic that if we are right on COVID and omicron, I think that should help the inflation issue here as well.

Lauren Mance: One thing to add, and we agree with what Claus was saying as far as the supply chain issues going into this year should continue to ease and similar with inflation. But since we're talking about retirement, one thing that is interesting to note is that we are seeing historically high retirements, and one is because of COVID. And then as Claus mentioned, people have a lot of money, so they are spending it on goods, but they're also using it to retire, especially after the gains they've had in the stock market.

And also we're seeing the impact of baby boomers. As they're nearing retirement age, we're expecting there to be retirements. And lastly, the yolo effect. People going through COVID, realizing that they like to stay home, they like to be with their families, and this could potentially have an impact on the labor market. So we do expect things to get better and we do expect people to be going back into the working world, which should help with the supply chain issues. But it'll be -- we'll continue to monitor the impact on this increase in retirements that we're seeing.

Dan Colluccio: So as we have this discussion, it sounds like there's a positive view for equities in the long term and omicron could be moving behind us. One of the questions we got from the audience was around interest rates. And we think about the Fed and when they see the market growing at certain paces, they then start to change their interest rate policies. So maybe can you speak to the interest rate outlook and what impact that could have on the stock market going forward?

Claus te Wildt: Yes, and it's a very good question. And obviously the market in the short term has reacted very, very negatively. Having said that, there's actually a saying on Wall Street which is, don't be afraid of the first rate hike; be afraid of the last. The meaning behind the saying is that the first rate hike is a reflection that the Federal Reserve thinks that the economy is actually now in good enough shape that they can raise interest rates a little bit. Be afraid of the last is sort of meaning it's sort of when they raise the rates the last time, that's just before the recession, the next recession. That last hike was a mistake because it was already a weakening economy that was then kicked into the recession by the last hike that was in effect.

We are just at the beginning of this rate cycle. I'm in the camp that we should not be afraid of this rate hike at all. First of all, just look at our experience. I can't see anybody

here, but I would imagine we have all had experience with interest rates. If the Fed goes from 0% short term interest rates to 1%, is anybody in their experience thinking that these are high interest rates when interest rates move up from 0% to 1% at the end of the year? Maybe. I would still consider that historically very, very low and very, very accommodative. So I would, just from an experience perspective, relax about this.

And also, if you look at sort of the experience, historical experience what the equity market does, what the equity market does three months after the first rate hike? The equity market is a little shaky. It tries to sort of see how the market is reacting to it. But six months after the first rate hike, the market is normally up significantly. It's up about 1.8%, which is almost an annual return number.

If you look at sectors, by the way, there's this feeling right now that when the Fed starts to raise rates, that you should just be in cyclicals, meaning financials, energy, industries and materials. If you look at the history, by the way, the number one performing sector after the first rate hike 12 months out is actually technology. If you think about this, technology's actually very, very cyclical. Semiconductors is probably the most cyclical sector in the world. Think about almost anything you buy has a semiconductor. Google and Facebook are advertising business, a very, very cyclical industry. I would sort of, at least from an equity market perspective, I would suggest relax about interest rates. Don't be afraid of the first one. It's a reflection of a normalizing stronger economy that leads to stronger growth, to stronger corporate profits normally and I think the market will be able to look through this.

Dan Colluccio: That's great. As it relates to committees and their menu design across the investments, Lauren, having this discussion about the equity markets, having this discussion around the interest rate environment, inflation, any thoughts to how committees should be looking at either the stock or the fixed income portions of their menu designs?

Lauren Mance: I think when it comes to uncertainty in the fixed income markets, it's important for plan sponsors to give the participants an opportunity to diversify that fixed income portfolio. And this even goes back to the active versus passive conversation we had before. But having, say, one intermediate core bond fund will expose your participants to a lot of duration risk. So offering things like high yield or non-US debt, offering things like TIPS can help the participants diversify that fixed income portfolio and help balance the impact of rising rates.

Dan Colluccio: That's great. Well, I do want to leave some time for questions here, and I do see some coming through, so I want to encourage everybody to use the chat. Let's take some time here now to go through some questions from the group. I see one question coming in here. And Claus and Lauren, please feel free to grab what you feel fit. The question directly is how do you think government spending has affected inflation in the short term versus the long term prospects? Any thoughts there?

Claus te Wildt: It has affected inflation a little bit, but probably not as much as you might think. As I sort of mentioned before, I think it's mostly COVID that drove it. But the big transfer payment certainly added to the fuel and allowed more people to buy goods than they wouldn't have if you wouldn't have had these generous unemployment benefits during the period. So it contributed to that. But the main driver was, in my opinion, really that you had an increase in demand due to changes in spending preferences due to COVID and a drop in supply.

I would argue it's not the spending necessarily that has driven inflation higher, but I think some of the energy policies might have increased to inflation. For good reason, we are trying to fight global warming here. What the Biden administration has done is has

discouraged investments in oil and natural gas here. The Europeans are doing the same thing, by the way. They're promoting alternative energies and discourage investments in oil and natural gas. And that policy obviously is sort of increasing the -- I'm sorry. That policy is obviously decreasing the supply of energy to the country and to the world because not a whole lot of new drilling is happening in oil and gas. But at the same time, because we are getting back active again, the demand for energy has increased. At the same time, the alternative energies are just not ready in scale yet to step in yet. And I think those policies, very well intentioned, have probably led to this increase that we see in oil prices and in natural gas prices.

Dan Colluccio: Awesome. Another question's coming in here, I think more around broader asset allocation. When you look at getting closer to retirement, the conventional wisdom is own more bonds. Own more bonds the older you are. Own less equities the older you are. And I guess that's been challenged a bit. I'd love the group's thoughts on asset allocation right now, knowing that we may be in an environment where interest rates are increasing and that might have a negative effect on bonds and how we should be thinking about asset allocation. Any thoughts there?

Lauren Mance: I think as I mentioned earlier, as we near retirement, you want to be more conservative because you don't want to open yourself up to that risk that comes with a potential market correction and impacting your ability to retire. But you bring up a good point in that when we're facing rising rates, as I mentioned earlier, having a balanced fixed income portfolio or looking at other assets classes outside of just traditional bonds will help you have that balanced portfolio and help tilt the portfolio to be more conservative without just taking all of that interest rate risk on.

Dan Colluccio: My only thought would be here is that maybe if I can say from a participant and a plan sponsor perspective, you're going to have so many employees that have different financial experiences throughout their career. And as you have those individuals who are getting closer to retirement, it's important that they have a plan or they have the ability to support a plan and speak to somebody, because asset allocation discussions around stocks and bonds are going to be unique to that individual and their financial situation.

So I think the 401(k) vehicles that we all offer to the employees who are part of your organization, they help individuals get to retirement. They help them start a saving strategy, invest in the markets for growth over their careers. But as they're thinking about, well, what do we do next, I think it's a great opportunity for those individuals to then tap into the resources from the providers that you're working with, whether they're the Fidelitys, the Empowers, the record keepers of the world, or whether there's financial advisors that can support their planning strategy around asset allocation. Again, it's great to give the tools to those employees which are within those fund menus. Then when it comes to specific asset allocation, I just think it's so important to work with partners who can give you those resources so that ultimately those individuals can be successful around their unique plans. I don't know if I interrupted you, Claus. Was there anything else that you wanted to opine there on that allocation?

Claus te Wildt: I'm not an expert in plan design, so forgive me if this is going the wrong direction. But I feel like it might be too much to ask for a lot of individuals to make a decision, should I buy high yield, should I buy emerging debt, should I buy floating rate. But there are actually packaged solutions now. We have something which is called a Strategic Income Fund. I'm sure Empower and all of them have something similar to that that actually actively manages a portfolio that is sort of more credit oriented, and because of that is not as rate sensitive and can therefore absorb some of the rising rates a lot better. So I think it might make sense to consider having products like that in the menu as well.

Dan Colluccio: That's great. We have another question came in here, not so much investment focused, but more on the plan design focused around what happens if you fail your top heavy test? And remember, at the beginning of the year, that's when you're going to want to do your compliance testing where the plan is going to be reviewed for things like your top heavy test, your average contribution percentage and your average deferral percentage. There are some ways to help correct top heavy testing that it's important to go over with your advisor. There's safe harbors that can be put in place around employer contributions. Also you could explore who are the key employees at the organization and whether or not they should or should not be key employees. So if you get into a situation where your plan may be at risk of becoming top heavy, there are things that can be considered to help solve for that imbalance. So again, important I think as we talk about those mountains that you climb. In between those mountains, make sure that you're reviewing the plan design, and if top heavy is something that is of concern, really exploring what your plan's options are around correcting that.

The last question that we'll take here before we wrap it up with a question to you all as part of the audience. I do see here, in a rising rate environment, is there a preference for value to growth, mid to small cap stocks, anything I guess more tactically there that's being asked that Claus or Lauren, you'd opine on?

Claus te Wildt: What I would suggest to you is that you either of the both right now that we should diversify within asset classes. If you want me to tell you what I think you should buy is I think what I would do is I would pair large cap growth with small cap value. Large cap growth is the cheapest growth style box. Small cap value is the cheapest value style box. I think together, they are going to be a good pair going forward. And the market has been going back and forth within value and growth over the last 18 months. I believe that's going to continue because the market doesn't have any history to go with based on sort of what happens after you end a pandemic. So I think it's going back and forth going forward as well, and you want to have exposure in both, and I like that combination of small cap value and large cap growth.

Dan Colluccio: I think the only thing I'd again make mention on is when you think about the employer sponsored retirement plans, it's allowing diversification for the participants to select from. It maybe not be as tactical in their big nest egg. Because oftentimes the 401(k) might be the largest asset for an employee outside their home when they retire. And so I think it's about being diversified, taking a long-term approach inside the 401(k). When we try to trade inside of our 401(k)s, it could come with challenges and risks. So as a plan sponsor, what's most important is to have a diverse investment menu available for the participants to select from. You have a process around monitoring that investment menu. And again, document, document, document really to help you in managing risk.

So now a question for the audience here. We're going to be selfish, because we've heard from you the previous webinars, we've heard from you on what you want to hear next. And so what we'd love everybody to do is really to answer this polling question on what you want Wilmington Trust to share with you next from a webinar or a content perspective. What you could do is you could actually click to the left of the presentation here around one of these items on what you'd like us to cover. Would you like us to cover plan sponsor fiduciary training? Do you need help there? Do you want to understand plan design trends? So what are other retirement plans doing from a design perspective to be competitive in this marketplace? Strategies to improve employee wellness. Do you want to learn from other's mistakes around 401(k) fiduciary mishaps? Let us know what you want to hear going forward. We always want to make sure that the content that we're delivering to our clients is certainly top of mind for what they want. I'll give it another few moments. I see a lot of individuals responding to the survey, so thank you. Thank you very, very much.

And before we close our discussion, I just want to say a big thank you. I want to say a big thank you to our existing clients for your partnership. Hopefully you found value in today's dialogue, and our team of retirement plan experts are committed to help you along this journey. For those of you who are not partners of Wilmington Trust, thank you for joining the conversation today, and I hope you found the information valuable. We certainly look forward to the opportunity to be your partners going forward and giving you information so that you can be more successful on managing your 401(k) plan. Because it shouldn't be a mountain, your 401(k). That mountain is your business. That mountain is your role within your organization. But hopefully we can make it easy for you as you do tackle a task, which is being a plan fiduciary.

Our team, as you'll see here, is outlined here. All retirement plan experts. We live, breathe and eat retirement plans every day, so we encourage you to reach out to us. But again, thank you for taking the time. Claus and Lauren, thank you for your very valuable insights. We had a lot of questions from the audience, so that shows me that your information was valuable and the teams do want to learn more from experts like yourself. So thank you. Jessica, I'm going to pass it over to you. I think you have a survey and some closing comments, so I'm going to pass it back to you, and again, thanks everybody for taking the time.

V2 Operator: Great. Thank you so much, Dan. And thanks again everybody for joining us for today's sessions, 401(k) Plan Sponsor's Guide to 2022. Once we close out the webcast here in just a moment, you will see a survey pop up on your web browser window. If you could take a few minutes to fill out that survey, we would definitely appreciate your feedback on today's session. Again, I just want to thank everyone and have a great rest of your day.