SEI TRUST COMPANY AND NASDAQ FUND NETWORK

Educating asset managers, RIAs, plan sponsors, and consultants on trends in the U.S. retirement market.

New trends on the horizon for the U.S. retirement market

Changes are on the horizon for defined contribution (DC) plans, thanks to a combination of evolving investor demands driving new product innovations, coupled with the increased popularity of CITs in the DC market, and a potential change coming to the SECURE 2.0 Act allowing CITs to be included in 403(b) plans. Together, these present new opportunities for asset managers, plan sponsors, and RIAs to reshape their retirement plan product lineups.

Innovations for in-plan retirement income

As DC plans have replaced defined benefit (DB) plans as the primary U.S. workplace savings vehicle, employees have gained flexibility and portability—ideal for a more mobile workforce—but have lost access to a guaranteed, steady income stream in retirement. This move to DC places the responsibility squarely on the individual participant for both determining the investment allocation and managing accumulated savings in retirement (i.e., the “de-accumulation” phase). Participants face myriad risks in managing their own drawdown process, which include not only market risk but also the potential to overspend and thus outlive their savings.

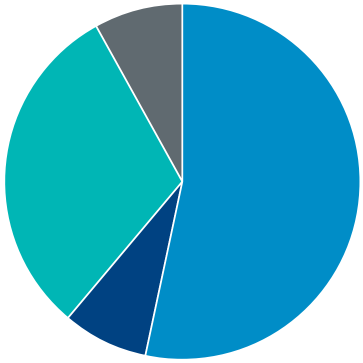
Recently, several factors have combined to drive the renewed interest for in-plan retirement income solutions. First are the growing plan sponsors' concerns about the risks faced by their retiring participants, and a belief that robust solutions within the DC plan may be the best way to manage the risks. At the same time, new legislation has reduced plan sponsors' past fiduciary concerns about offering in-plan income solutions. In this brief, SEI and the Retirement Leadership Forum (RLF) highlight some of the trends occurring in the retirement market:

- Innovative solutions: How the industry is looking to solve the retirement income problem today
- The role of CITs in enabling in-plan retirement income
- The potential for CITs to be included in 403(b) plans

A proliferation of new products

In 2022, retirement income has returned to the top of the product development priority list for many asset managers and insurers. A recent RLF survey of asset managers found that 54% of firms in the DCIO space currently have a retirement income solution and 39% are in the process of building one (Figure 1).

Figure 1 | DCIO retirement income product development efforts in high gear (or to be built within 12 months)



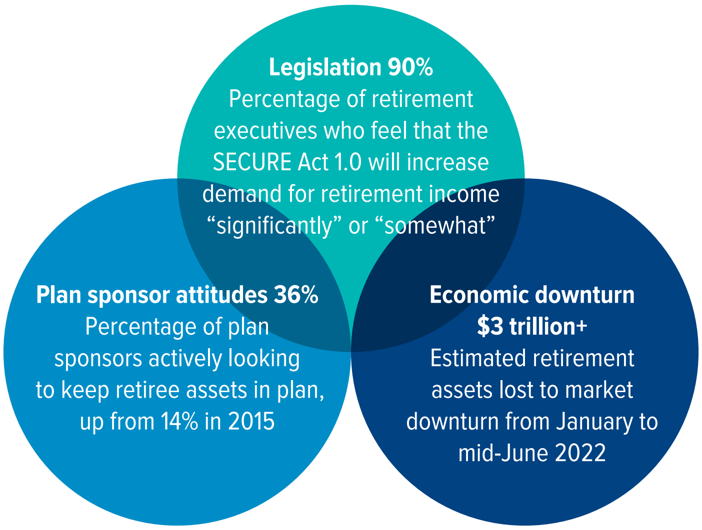
n = 13
Source: RLF 2021 In-Plan Advice and Income Survey

Given the poor adoption of past products, why are asset managers rolling out new solutions? Three developments have stoked their optimism around retirement income (Figure 2).

- **First,** over the last decade, plan sponsor interest in keeping participants in the plan after retirement has increased. A 2022 study from PIMCO[1] found that 36% of plan sponsors are actively looking to keep retirement assets in plan, up from 14% in 2015. The reason behind plan sponsors' increased interest in keeping assets is twofold: 1) to get better pricing for the plan (plans with higher assets generally are charged less); and 2) to allow retirees to benefit from pricing and products available within their DC plan (but perhaps not available through a retail IRA). Regardless of the reason, the trend heightens the urgency of implementing solutions to assist participants in the drawdown phase.

[1] PIMCO, *US Defined Contribution Consulting Study,* 2022.

Figure 2 | Drivers of renewed interest in retirement income product development



Source: RLF Secure Act Survey 2020, PIMCO, Boston College Center for Retirement Research

- **Second,** in December 2019, Congress passed the SECURE Act (Setting Every Community Up for Retirement Enhancement). Among other provisions, SECURE offers a safe harbor for plans that offer annuities, specifically protecting the plan sponsor against liability if the insurer behind the annuity is unable to meet its obligations to plan participants. As noted earlier, the fear of litigation prevented broader adoption of in-plan retirement income products in the past; SECURE removes this roadblock.
- **Finally,** and most recently, the stock market downturn that began in January 2022 has highlighted the perilous position of plan participants on the eve of retirement and the value of guaranteed income. All told, retirement accounts have lost more than $3 trillion in market value as of mid-June 2022, according to calculations from the Boston College Center for Retirement Research. Because participants in their later years hold the majority of retirement assets (investors in their 50s and 60s hold 63% of all 401[k assets][2]), older workers nearing retirement are disproportionately affected by market volatility.

The role of CITs in enabling in-plan retirement income

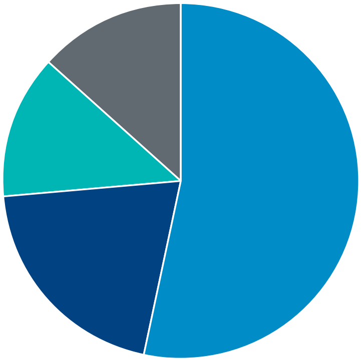
As new opportunities emerge in the retirement income space, collective investment trusts (CITs) are again at the center of many asset managers' product development efforts. More than half of the new in-plan products hitting the market today are in a CIT structure (Figure 3). They are a natural fit in the retirement income space for two reasons:

- **CITs offer a high level of flexibility that is important to the development of in-plan retirement income products.** For example, a CIT makes it much easier to include annuities alongside equities and fixed income in a single vehicle. In fact, the income-focused target date funds from BlackRock and Income America both chose to use a CIT structure. This is also true of the periodic payout funds from Schroders and Legal & General (Figure 4). Even though these products do not include annuities, CITs allow these firms to include the broader range of investment types they need to ensure a steady stream of income in retirement.

[2] EBRI/ICI, 401(k) Asset Allocation, Accounts Balances, and Loan Activity in 2019, May 2022.

› **CITs' ability to deliver asset management at a lower cost is important to the success of the in-plan retirement income products.** Cost is often cited as one of several reasons that past products failed to gain traction. If CITs can lower the cost of in-plan retirement income products by even a few basis points, they will help lower the barriers to broader implementation and acceptance of DC plans.

Figure 3 | Vehicle used by asset managers for most recent in-plan retirement income product



n=15
Source: RLF 2021 Retirement Income and Advice Survey

Figure 4 | In-plan retirement income products launched since 2020

Product type	Description	Recently launched products
In-plan annuity	Fixed or variable annuity designed to accept periodic investments in a DC plan, and based on these investments over time, payout guaranteed income at retirement.	•Allianz **Lifetime Income+** •Nationwide **Indexed Principal Protection**
Target date fund with annuity options	Traditional target date funds that include an allocation to annuities (or the right to purchase an annuity at a future date). The annuity typically replaces some or all of the allocation to fixed income.	•BlackRock **LifePath Paycheck** •Income America **5ForLife** •Nationwide **Lifetime Income Builder TDF** •JP Morgan **SmartRetirement Plus**
Target payout funds	Mutual funds that target a specific payout, such as 5%, but without the guarantee of an annuity. Income is generated by investing in credit funds and **buy-and-maintain** strategies.	•Legal and General **Retirement Income 2040 Fund** •Schroders **Income Plus**

Pending legislation allowing CITs to be included in 403(b) plans

Earlier this year, the House of Representatives passed the SECURE Act 2.0. We are awaiting the approval of the final version of this legislation which the industry strongly believes will include a provision allowing 403(b) plans to invest in CITs. If approved, this legislation will create significant opportunities for asset managers and plan sponsors to grow their U.S. retirement practice by expanding CIT distribution to the $1.26 trillion 403(b) market.[3]

[3] 2021 PlanSponsor 403(b) Market Survey.

SEI Trust Company's expertise and turnkey operational platform designed for CITs

Whether you are seeking to implement your investment strategy through a CIT for the first time or are evaluating options with respect to an existing CIT, SEI Trust Company (STC) will lead asset managers through the process to establish and manage a collective investment trust.

With over 30 years of expertise servicing CITs, SEI Trust Company's experienced, professional staff has the in-depth knowledge required to support the unique demands of CITs. As of April 1, 2022, SEI manages 570 funds across 167 global asset managers. Working with STC as a trustee for your CIT business, you'll benefit from:

- **Exceptional service.** STC has dedicated trust officers whose sole focus is to oversee the operations and administration of each of the assigned CITs. They also interface with RIAs, consultants, and plan sponsors, as needed.
- **Investment management oversight.** Led by the Chief Investment Officer, STC has a dedicated team of investment experts who will oversee the management of each CIT in order to meet applicable regulatory requirements, ensuring that the CIT remains in compliance with its investment guidelines.
- **Distribution support.** Our team can provide insight into the retirement industry through market intelligence and best practices. In a timely manner, the team can assist in navigating the retirement and recordkeeping environments, helping to streamline the agreement and onboarding processes for new plan investors into a CIT.
- **Technology.** To gather insight and key information about the retirement market and CIT-related information, STC has a robust website that houses industry briefs, webinars, quarterly regulatory updates, and other educational information. The website serves as a secure portal from which to access all CIT-related documents and reports.
- **Legal and compliance oversight.** STC is supported by a number of in-house attorneys who provide expertise on regulatory and legal requirements, contract negotiations, and vendor oversight. The trust company also has a dedicated General Counsel who is an experienced ERISA attorney.
- **Accounting and administration.** SEI's accounting and administration group has been a leading provider of CIT services for several decades, both for STC-established CITs as well as CITs offered by other bank and trust companies. This places us in a unique position to understand the distinct needs and requirements of a CIT and enables us to leverage the expertise, technology, and infrastructure to ensure the best structure and product design for your needs.
- **Transfer agency services.** Integral to the CIT operation is creating the trading channel involving each CIT, and the plan and its respective record-keeper. Our institutional transfer agent's best-in-class technology platform makes it seamless for third-party administrators to trade CITs.

Benefits of CITs

- Quickly establish and bring to market faster than other competing vehicles
- Benefit from lower costs due to different regulatory requirements
- Offer multiple fee classes for investors based on size, relationship, and other factors
- Access a variety of asset classes, including target date funds and some alternatives
- Benefit from fiduciary oversight, including investment management expertise
- Offer a simpler, more attractive product structure to growing retirement plans, especially those looking for customized solutions
- Opening of foreign markets (if applicable) handled by the trustee, rather than the plan or its custodian

For select CITs, SEI Trust Company works with the Nasdaq Fund Network to provide symbols and price discoverability. The CIT symbols are searchable on hundreds of platforms, and available to millions of institutional and retail investors daily.

If you have questions or want to know more about CITs, contact: Robb Muse, Executive Vice President, SEI Trust Company, **rmuse@seic.com.**

If you have questions or want to know more about NASDAQ NFN or other services that NASDAQ offers, contact: Aidan Shue, Nasdaq Fund Network, **nasdaqfundnetwork@nasdaq.com.**

About SEI Trust Company

SEI Trust Company ("STC") is a non-depository trust company chartered under the laws of the Commonwealth of Pennsylvania, which provides trustee, custodial, operational, and administrative services to various collective investment trusts. STC was formed in June 1989, is a wholly owned subsidiary of SEI Investments Company (NASDAQ: SEIC), and is regulated and examined by the Pennsylvania Department of Banking and Securities.

The company's sole business line is the servicing of collective investment trusts, and through its network of strong relationships with advisers, distributors, and other service providers, it is able to offer flexible products that can be marketed to the US retirement plan market. STC provides trustee, accounting, valuation, administrative, and fiduciary services, including investment management for CITs. STC utilizes the services of various investment advisers, sub-advisers, and providers of accounting and administrative services (including affiliates) in connection with its responsibilities for maintaining CITs. As of June 30, 2022, STC was trustee to more than 540 funds and over US $173 billion in assets.

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About Nasdaq Fund Network

Nasdaq Fund Network (NFN) facilitates the collection and dissemination of performance and valuation data for investment products making it discoverable to one million-plus institutional and retail investors daily. Today NFN covers 35,000-plus instruments across a variety of asset classes, countries and currencies.

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Source: "Innovations for in-plan retirement income," SEI and the Retirement Leadership Forum (RLF), 2022.