Honorable Mention

By Editorial Staff *Thu, Aug 20, 2020*

U.S. equity funds on pace for record outflows: Morningstar; Insurers remain vulnerable to bond downgrades: AM Best; 'Schwab Plan' web-based planning tool unveiled; Fidelity retirement accounts keep growing; Prudential assumes Boise Cascade pension risk; SIMON adds Symetra annuities to its platform.

U.S. equity funds on pace for record outflows: Morningstar

Morningstar, Inc. this week reported estimated U.S. mutual fund and exchange-traded fund (ETF) flows for July 2020. Overall, long-term mutual funds and ETFs collected $43 billion in July, marking their fourth consecutive month of inflows. Total inflows from April through July were $164 billion, slightly more than half of the $327 billion of outflows that affected those funds in March.

Highlights from Morningstar's **report** about U.S. fund flows for July 2020 include:

Taxable-bond funds continue to see strong inflows, gathering $86 billion in July. This is the group's second-highest monthly tally behind June's $92 billion record. In contrast, U.S. equity funds had record outflows of nearly $46 billion in July, and their $147 billion of outflows for the year to date puts the group on track for its worst annual outflows ever, surpassing 2015's record outflows of $63 billion.

Sector-equity funds continue to attract investors and collected $3 billion of inflows in July. Investors have targeted sectors such as technology and health that could benefit from social distancing policies, work-from-home arrangements, e-commerce, and the search for a coronavirus vaccine. However, investors dropped out of sectors hit hard by government-imposed lockdowns or weak demand, including real estate and natural resources.

Commodities funds posted another strong month in July, drawing in $8 billion and bringing year-to-date total inflows to nearly $39 billion. Investors continued to seek protection in precious-metals funds, pouring $4.0 billion into SPDR Gold Shares and a total of $3.5 billion into iShares Gold Trust and iShares Silver Trust.

Morningstar debuted two environmental, social, and governance (ESG)-related data points to its fund flows analysis in July: the Morningstar Sustainability Rating and Morningstar Low Carbon Designation. U.S. equity funds with 4- or 5-globe ratings and a Low Carbon Designation have had net inflows thus far year-to-date in 2020, while most other combinations saw net outflows for the same period.

Among fund families, iShares topped the list with $19 billion of inflows in July. Much of that went into taxable-bond funds, including investment-grade and high-yield corporate-bond ETFs. The Federal Reserve continues to be active in those segments, but its purchases do not account for the majority of iShares' flows. Meanwhile, many active managers saw outflows, including Dimensional Fund Advisors, American Funds, Oakmark, and Primecap.

Insurers remain vulnerable to bond downgrades: AM Best

Recent macroeconomic uncertainty due to the COVID-19 pandemic is a concern for insurers' balance sheets as corporate bonds constitute a majority of the insurance industry's assets, according to a new AM Best special report.

The Best Special Report, titled, "Corporate Bond Holdings Pose Risk to Insurers' Balance Sheets," states that the corporate bond sector has been hit on two different fronts.

- First, many companies have taken advantage of the low interest rate environment, and as a result, are more highly leveraged than they were a decade ago.
- Second, a cut in corporate earnings due to closures of nonessential businesses and the significant rise in the unemployment rate will severely hamper earnings.

Corporate bonds account for nearly 70% of the bond portfolios of each of the three insurance segments. Bonds from industries such as services, manufacturing, retail, energy and public utilities will be affected more negatively than others. Many of these sectors already had heightened below-investment-grade ratings as of year-end 2019.

According to the report, the leverage bubble may have led to a downward migration in credit quality, but the pullback in consumer demand is likely to exacerbate the credit crisis for borrowers.

State shutdowns have sparked a rise in new bond sales, driven by companies trying to borrow their way through the economic downturn. The shutdowns also have driven a surge in the number of bonds trading at distressed levels, with a greater potential for defaults. Companies with heightened exposures to the aforementioned vulnerable industries will be at a higher risk of experiencing downgrades and defaults.

In aggregate, the industry's exposure to these sectors appears to be modest; however, individual insurers with larger allocations to these industries may face balance sheet risks.

Less than 20% of the bond portfolios of almost 90% of the property/casualty and health rating units are allocated to these sectors, versus just 47% of life/annuity (L/A) rating units. The 20 rating units with the largest exposures to the high-impact sectors are predominantly L/A companies. Some insurers also have large amounts of below-investment-grade assets in these sectors, although less than 2% of the rated companies have exposures that exceed 20% of capital and surplus.

If liquidity becomes a factor for many U.S. bond holdings, the macroeconomic environment could prompt many insurers to re-evaluate portions of their asset holdings and lead to redistribution across market sectors and risk classes.

'Schwab Plan' web-based planning tool unveiled

Charles Schwab has launched a free digital financial planning tool designed to help investors establish and stay on track toward their personalized retirement goals. Called the Schwab Plan, the service is available to all Schwab retail clients with no minimum asset requirement.

"With this move, Schwab is now the only large retail brokerage to offer complimentary financial planning to all clients, combined with no account minimums for individual investors, zero commission online equity, option and ETF trades, and a satisfaction guarantee," a Schwab release said.

To begin the planning process, clients complete a short questionnaire, and in as little as 15 minutes they can generate a retirement plan that shows retirement goals and probability of funding those goals, a comparison of an individual's current asset allocation to a recommended allocation based on plan inputs, and suggested next steps.

Schwab Plan can also aggregate and factor in accounts held outside of Schwab. While Schwab Plan is available to clients at no cost, any investments they ultimately make may incur costs such as fund operating expenses and advisory fees.

Schwab Plan's algorithm considers a range of variables, such as desired retirement age, retirement goals, social security expectations, portfolio risk profile and asset allocation, and various income sources.

In conjunction with the launch of Schwab Plan, Schwab has also created an online Financial Planning Hub that features an array of goals-based calculators, tools, and educational planning content to help investors get quick answers on topics such as retirement, saving for college, and buying a home.

Investors can find out if they are saving enough for retirement, determine how much they can afford to withdraw in retirement, get an estimated monthly college savings goal, and plan for a home purchase using a mortgage calculator. The Financial Planning Hub is available to both Schwab clients and non-clients.

In March 2019, Schwab, in its capacity as a registered investment advisor, introduced Schwab Intelligent Portfolios Premium, a digital subscription-based financial planning and automated investing service which provides unlimited access to a Certified Financial Planner, interactive planning tools, and a personalized roadmap for reaching financial goals.

Schwab Intelligent Portfolios Premium charges an initial one-time $300 fee for planning and a $30 monthly subscription after that ($90 billed quarterly), which does not change at higher asset levels. Investors who prefer a more in-depth or one-on-one planning experience can work with a financial consultant in a local Schwab branch.

Fidelity retirement accounts keep growing

Stock market gains and steady investor behavior drove a 20% increase in contributions to traditional and Roth IRAs in the second quarter of 2020, Fidelity Investments reported this week. Contributions to 401(k) and 403(b) accounts, from employees and their employers, remained steady.

“Nearly 90% of employers continued to offer matching contributions to their employees over the last quarter, despite the unsteady business landscape,” said Kevin Barry, president of Workplace Investing at Fidelity Investments.

Highlights from Fidelity’s Q2 2020 analysis include:

The average IRA balance was $111,500, up 13% from 1Q2020 and slightly higher than the average balance of $110,400 a year ago. The average 401(k) balance increased to $104,400 in Q2, a 14% increase from Q1 but down 2% from a year ago. The average 403(b) account balance increased to $91,100, an increase of 17% from last quarter and up 3% from a year ago.

More than three quarters (76%) of workers received an employer contribution in Q2, with the average employer contribution reaching $1,080. Over the last four quarters, a record

88% of 401(k) savers received an employer contribution, with employers contributing an average of $4,030 per account over the last 12 months.

While organizations across the country were taking steps to address the financial impact of the economic downturn, Fidelity found that only 11% of employers suspended their 401(k) company match in Q2. Of the 11% of employers that suspended their company match, 32% indicated they plan to reinstate their match in the next year and 48% plan to reinstate as soon as financially possible. Only 6% of employers indicated they currently have no plans to reinstate their match.

Extended tax season saw record flows into IRAs and other retail retirement accounts. Investors continued to leverage IRAs and other retail retirement accounts, including SEP, SIMPLE and Rollover IRAs, as the extended tax season helped contribute to a record $82.1 billion going into these accounts through July of 2020.

IRA contributions in the first half of 2020 were up 22% from this time last year, with an 18% increase in the number of contributing accounts. Contributions to Roth IRAs were up 33% and participation up 25% from the same time last year. Overall, new IRA accounts opened in the first half of 2020 were up 33% over last year.

Almost nine out of 10 individuals (88%) contributed to their 401(k) in Q2, a slight drop from last quarter's record high of 89% but still in the top five averages since 2002. Less than one percent (0.8%) of 401(k) savers stopped saving in the quarter, while 9% increased their contribution rate.

Among 403(b) accounts, 96% of individuals either maintained or increased their contribution rate in Q2. Among 403(b) accounts specifically in the health care industry, which includes workers at hospitals and health networks, 96% of individuals maintained or increased their contribution rate in Q2.

The past quarter saw Millennials maintain a focus on contributing to their retirement accounts, with the number of IRA accounts owned by Millennials in Q2 2020 increasing by 23% since Q2 2019. In particular, Millennials continued to prefer investing in Roth IRAs, with a 36% year-over-year growth in the number of contributing accounts and a 50% increase in the amount of Roth IRA contributions.

Investors continue to use managed accounts for retirement savings. More than 25,000 individuals enrolled in Fidelity's Personalized Planning and Advice at Work managed account solution in Q2, bringing the total number of enrollees to more than 60,000 year to date and representing over $3 billion in 401(k) assets. In addition, visits to Fidelity's Planning and Guidance Center, which helps create a strategy for retirement savings, increased 22% in Q2 compared to a year ago. In June alone, visits to Fidelity's website for individuals saving within a 401(k) or 403(b) increased 42% over June of 2019.

The CARES Act was signed into law in late March 2020 in response to the economic fallout of the COVID-19 pandemic. By early April, 98% of Fidelity's workplace clients had adopted the CARES Act distribution provisions, which allowed their employees to tap their savings to cover financial needs related to the economic downturn.

As of the end of Q2, 711,000 individuals had taken a CARES Act distribution from their retirement account, which represents 3% of eligible employees on Fidelity's workplace savings platform.

The overall average withdrawal amount was $12,100, while the median withdrawal amount was $4,800. Individuals continued to seek out information on the CARES Act and COVID-19 issues, as Fidelity's COVID-19 information website was viewed more than 1.3 million times in the quarter.

Prudential assumes Boise Cascade pension risk

Prudential Retirement, a unit of Prudential Financial, Inc. (NYSE: PRU), has completed its fourth and final pension de-risking transaction with Boise Cascade Company (NYSE: BCC), the Idaho-based wood products manufacturer and building materials distributor.

Prior to this final transaction, Boise Cascade had transferred U.S. pension plan assets to Prudential in three phases: $152 million in April 2018; $125 million in August 2018; and $20 million in September 2019.

"The final transaction in our three-year engagement with Boise Cascade represents the first time a plan sponsor has been able to guarantee the cost of a plan termination early in the lengthy termination process by transferring all of the risks to an insurer," Peggy McDonald, senior vice president and actuary, Prudential Retirement's Investment & Pension Solutions, said in a release.

The transaction used one of three structures for plan termination examined by McDonald and the Prudential Retirement Pension Risk Transfer team. Those structures will be described in an upcoming white paper, "Unlocking Value in Pension Plan Terminations."

"Until now, plan sponsors haven't been able to calculate the actual cost of unwinding a plan until the end of the termination process, which can take a year or more," McDonald said. "This approach provided Boise Cascade with cost certainty early in the process by securing a buy-in contract under which Prudential assumes the lump sum election rate risk."

SIMON adds Symetra annuities to its platform

SIMON Annuities and Insurance Services LLC has expanded its product shelf by adding Symetra Life's fixed indexed annuities and structured variable annuities to the SIMON annuities platform and digital marketplace for wealth managers, SIMON announced this week.

Both Symetra product lines are now available on SIMON's Marketplace, which provides pre- and post-sale analytics to financial professionals serving the retirement needs of clients. The Symetra product lineup will expand to include fixed annuities later this year.

Advisers can now explore Symetra annuity products and features, run allocation and income analytics, and access product-specific marketing literature from within SIMON's interactive platform.