1. **Remind me what protections are in place through the plan's trust?**

Here is a great article on the subject and a summary:

It is important to remember that your qualified plan assets are safe. This safety arises from the following factors:

- Plan assets held in a trust are separate from assets of the employer/plan sponsor, custodian, trustee, broker, investment manager or adviser.
- Such assets are protected from the creditors of an employer, custodian or trustee in the event of bankruptcy or insolvency.
- If a custodian or trustee has gone bankrupt or out of business, a new trustee will be appointed.
- Under the "exclusive benefit rule" of ERISA, retirement plan assets cannot be comingled with any other accounts of the employer, custodian or trustee.
- SIPC and FDIC insure 401(k) plans as well as other types of defined contribution plans that permit participant-directed investments

White Paper on ERISA Trust Requirement (A0021733-6).DOC (wagnerlawgroup.com)

2. **"What if any impact will the current environment have on Stable Value or GIC funds?" "What potential broader impacts could we see on stable value funds, specifically any concerns surrounding wrap coverage constraints as these portfolios are significantly under book value? any concerns regarding a similar run on these funds if the market to book becomes an item of public focus?" "Will the bank failures have any impact on stable value or other cash equivalents?" "What potential broader impacts could we see on stable value funds, specifically any concerns surrounding wrap coverage constraints as these portfolios are significantly under book value? any concerns regarding a similar run on these funds if the market to book becomes an item of public focus?" "Have the recent events impacted our recommended SV managers in any way?"**

What we typically see in periods of market turmoil is participants actually flocking to stable value so we will be on the lookout for put queues relative to cash inflows this quarter with managers. No immediate concerns with cash flows in or out, at this time.

From a wrap provider standpoint, SVB is not a wrap provider. There aren't that many bank wrap providers anymore like their used to be - SSGA and Royal Bank of Canada are two that come to mind that are still involved. Most wrap coverage in the industry is from insurance companies like Metlife, PacLife, Mass Mutual, Prudential, etc. If one wrap provider fails, right now there is an excess amount of wrap capacity available to managers so they should be able to get that part of the portfolio wrapped either by the remaining wrap providers on the portfolio or pull from their approved list of wrap providers. No concerns with wrap capacity at this time or with certain providers.

GICs are issued by insurance companies, not banks.

3. **What is the book to market ratio of Vanguard, Putnam, Fidelity & Charles Schwab Stable Value Funds?**

Based on feedback from managers, exposure to regional banks within stable value portfolios is limited. If funds were to hold bonds in a defunct bank, the impact to the M/B ratio would hinge on if they are able to get any of their investment returned. Otherwise, the market value of those bonds would be marked to zero and would be a negative to the M/B ratio. Again, funds have not been reporting meaningful exposure to SVB, Signature, etc. For this to be a material impact.

Fixed income markets have reacted to the overall news and we have seen dramatic declines in interest rates. For example, the yield on the 2 year Treasury on March 8th was 5.06% and closed at 3.97% on March 15th – and was trading lower than that through out the day. A steep decline in rates, particularly short-term rates, would provide positive pressure for the market value of stable value funds. We would expect market to book ratios to have increased as of the time of this writing. The market is closely monitoring the Federal Reserve's actions as it relates to any further interest rate hikes. If interest rates increase back to previous levels, we would expect market/book ratios to remain in the 91%-93% range. If rates continue to fall, we'd expect market/book ratios to push closer to 95%. The magnitude of any rate movement will be the largest determining factor for market/book fluctuations.

4. **I have a client that is converting their recordkeeping to Schwab. Some participants have seen the headlines and expressed concern about Schwab and whether they need to reconsider the transition. It would be helpful to have some statistics regarding the conservative nature of Schwab, the fact that participant assets are held in trust and therefore safe and protected, etc. Proactive communication to plan sponsors can help prevent reactive and uncoordinated responses. "What can/should we be obtaining from Schwab to assure ourselves (and our participants) that making the move to Schwab as recordkeeper (and Schwab Bank as trustee) remains prudent/rock solid/does not put our retirement plan assets at risk? "**

Schwab is considering a communication to recordkeeping clients now based on feedback we have provided. I'm not sure if they will or will not provide this. In the meantime, here is a link to information on Schwab's overall financial strength as an organization:

Perspective on recent industry events | About Schwab

We have no concerns with Schwab as an entity or recordkeeper at this time.

5. **Once a distribution is requested and a check is drawn, are the dollars removed from the trust and are they invested in a bank deposit account or a money market account? are they still considered plan assets (plan sponsor liable)?**

Yes, once approved for distribution, the assets are generally invested in some type of cash product and held at a vendor-approved bank for disbursement. Plan sponsors have a responsibility to make sure participants and beneficiaries receive their benefits owed. We got some insight from the DOL around this topic when they released guidance around uncashed checks and a plan sponsor's responsibility to find missing participants.

Part of a plan sponsor's responsibility is to understand the procedures of the Recordkeeper throughout the disbursement process. Given this, we believe plan sponsors could be liable for assets awaiting disbursement, yes, however, as a practical matter plan sponsors generally have very little say in how the recordkeeper performs this function. These procedures will be listed in the plan's recordkeeper service agreement, most likely with the float policy disclosure.

6. **"It's not specific but clients have asked broadly how have their 401k's been impacted as plan sponsors. The broader question is sometimes more difficult to answer than the specific question as there are many different avenues to take.**

General impact is assumed to be with asset managers, particularly intermediate term bond funds and mid to large cap domestic funds. A screening tool will be available on the Retirement Plan Blog soon.

7. **"Any potential exposure to the most likely regional banks through Stable Value or TDF accounts as well as other preferred actively managed funds?**

I don't think we want to be in the habit of guessing which regional banks may be more risky than others but we can pull the exposure to SVB and if there are other bank failures in the future we can add a screen for those too. It's important to remember that the holdings data we get from managers is on a lag, so it's not necessarily indicative of what they are holding this moment or in the future.

8. **Will CAPTRUST be generating a report showing retirement plan exposure to the banks that failed? The reporting generated at the start of the Russia invasion was extremely helpful to put clients at ease and provided easy proactive outreach.**

Yes, this will be available on the Retirement Plan Blog very soon.

9. **Are there retirement plan recordkeepers with significant exposure to troubled banks on their asset management side that may be problematic. I heard that one particular insurance company had $117 million invested in SVB alone; though the name of the insurer was not identified; there was a concern expressed about that insurer's future solvency.**

I'm honestly not sure. I have a feeling those stories will come out of the woodwork over time but I haven't heard of anyone overallocated to certain banks or SVB.

10. **"What type of exposure do our mutual funds have to financials?**

Financials is a broad GIC Sector but we could screen for banks within a mutual fund, yes. Again, not sure we want to be alarmist and bring that information to plan sponsors when there is no recommendation to move out of any strategies at this point. If a client specifically asks, we can pull the data but I think we should try and steer clear of it for many reasons.

11. **Is our recordkeeper in danger of going bankrupt due to their holdings and/or that they also have a bank?**

Not that we are aware of. We have not heard of any recordkeepers in danger of any insolvency, even ones related to banks.

12. **Specific action pertaining to 3(21) clients. What response with 3(38) team have for our discretion clients? Recordkeepers, and brokerage options- any exposure?**

There is no specific action recommended for clients unless they want to take this opportunity to better understand the functioning of their SDBA, if offered, and/or the distribution process and procedures followed by the plan's recordkeeper.

13. **Are any Vanguard or BlackRock Funds in jeopardy?**

    Not that we are aware of, no. Here is a good summary from Vanguard specifically if that's helpful:

    IIGBP032023-final.pdf

    Exposure to Silicon Valley Bank, Signature Bank securities in Vanguard funds | Vanguard

14. **"Have we received any further information from Schwab to support the stability of their brokerage platform that is shareable?" "Clients are asking about Schwab self-directed brokerage windows."**

Yes, please see the below blog posting for Schwab SDBA:

Schwab - Bank Demand Account Q&A (sharepoint.com)

In summary: The cash component in the sweep account is insured up to $250k per participant, subject to aggregation with any other accounts held at those banks by that individual. Securities invested in the brokerage account are segregated from the general assets of the bank under SEC protections. Those assets are not available to general creditors and are protected. Furthermore, there is SIPC insurance available to protect in the cases of insolvency and fraud. Considering the additional SIPC insurance provided by Schwab, each investor is insured up to $149.5 million per customer, up to $1.15 million of which may be in cash.

Additionally, For disbursements, float assets are held at Charles Schwab Trust Bank (CSTB), not Schwab Bank. Per the float disclosure, they are "comingled" with other CSTB assets, the focus of which is directed Trust and Custody services for employee benefit plans. There are no loans from CSTB, etc. outlined in the attached Bank Safety brochure.

Bank_Safety_Brochure.pdf

Currently there are not any options to change the Cash Sweep feature at the sponsor level in PCRA, brokerage accounts do offer multiple cash features. Individual account holders can buy out of their cash position at any time with no restriction.

15. **Is there fiduciary risk if a problem develops with the self-directed brokerage account? Does the plan sponsor have any protection here? "Want input on whether the SVB related events impact the liability equation for plan sponsors offering SDBAs" "Do we (plan sponsor) have fiduciary responsibility to know what is held in self-directed brokerage accounts?**

The implementation of the decision to offer a SDBA and the ongoing monitoring of the SDBA are likely to be considered a fiduciary act subject to ERISA. Thus, a plan sponsor's selection of the SDBA vendor and any product features should be performed in accordance with ERISA's fiduciary provisions. Examples of factors that a plan fiduciary may consider could include the provider's experience providing the service and the fees associated with the service. It is not well tested whether the plan sponsor would have any responsibility over the usage of a cash sweep option within the SDBA but it may be prudent to ask and document what the sweep investment option is for your SDBA service and understand if there are multiple options available.

It is widely thought that ERISA 404(c) protection extends to a participant's individual investment decisions regarding the investment options within their SDBA although this is largely untested in court. Under this assumption, plan sponsors would not be liable for any loss that results from such exercise of participant control.

A plan fiduciary would have no obligation to monitor the investments offered under the SDBA where the investment options offered within the SDBA are not considered "designated investment alternatives." The Department has stated that SDBAs are not themselves "designated investment alternatives" for purposes of participant disclosure rules. However, there are some caveats to consider:

- If the plan sponsor exercises control over the options offered it is less clear whether the Department or the courts would characterize a fiduciary as "designating" investments made available within a SDBA where the fiduciary limits those investment options made available within the SDBA.
- Plan fiduciaries that monitor the SDBA's performance and investment data risk exposing themselves to claims that the investments offered within the SDBA are "designated investment alternatives" under the plan.

We do know that Schwab uses a bank demand account as their SDBA sweep, Fidelity uses a money market vehicle, and Empower uses the Dreyfus Insured Deposit account for 401(k) and a money market fund for 403(b).

"What exposure is there (if any) to sweep or holding accounts at our Recordkeepers?"

Usually sweep accounts are money market vehicles but in some cases a sweep account could use a bank demand account vehicle as is the case with Schwab's SDBA and disbursement account. There could be exposure to a bank with the investment option used for disbursement, forfeitures, ERISA accounts, or SDBA – really anywhere cash is being held. While bank demand accounts may also be offered as direct option within a 401(k) plan, we do not generally recommend them and therefore have fewer than 5 allocations across our DC book of business.

"What about CITs since they can be bank products?"

The assets are not commingled with any other assets…the assets are held in trust for the exclusive purpose of those investors. The creditors of an insolvent custodian or trustee have no recourse against the assets of the trust which is regarded as a separate legal entity.

Trustees and managers for CITs within qualified plans are subject to ERISA as well and the trustees are subject to fiduciary controls and the duty to avoid prohibited transactions, etc.