Welcome

2021
Employee Benefit Plan Virtual Conference

CALIBRE CPA GROUP
NOVEMBER 10, 2021

Market & Economic Update

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Disclaimer:

This presentation is not meant to be an endorsement or recommendation for specific investments. It is for educational purposes only.

2020-Present: What's Happened?

January 2020: Market has a strong start to the year with all major indexes trending higher.

Late February/early March: OPEC and Russia break-up sends oil plunging.

March 11: The World Health Organization (WHO) declares the coronavirus outbreak a pandemic. The economy shuts down.

March 20: The DJIA sinks by 916 points and the S&P 500 closes down 4.3%, marking its worst weekly performance since the 2008 financial crisis.

March 23: Fastest Bull Market to Bear Market Reversal in History

March 28: The U.S. FDA authorizes emergency use of a new, rapid coronavirus test.

April 13: 80 million Americans begin to receive their coronavirus stimulus checks.

April 14: Fastest Bear Market to Bull Market Reversal in History

May 8: Reports show the U.S. economy lost an unprecedented 20.5 million jobs in April; unemployment rate soared to 14.7%.

June 8: The National Bureau of Economic Research finds that the U.S. was officially in a recession in February, bringing an end to a historic 128 months of economic growth.

2020-Present: What's Happened?

June 9: Nasdaq hits 10,000 for the first time ever and closes at record high.

November 3: The 2020 Election

November 16-18: Moderna and Pfizer announce their COVID-19 vaccines have an efficacy of 95%. Market rallies off positive vaccine news.

November 24: The DJIA hits 30,000 for the first time.

December 14: First person in U.S. receives COVID-19 vaccine, and the vaccine rollout in the U.S. begins.

2021

January 5: Georgia Senate Run-off

January 6: The Capital Riots; NYSE announces it will delist three Chinese companies.

Mid-January: Record Highs in the Dow, S&P 500, and NASDAQ; International investments and value investments join the game.

January 15: Second stimulus checks are sent.

2020-Present: What's Happened?

January 20: Biden Inauguration. The DJIA also hits an all-time high of 31,188.

February 9: The Fed announces second extension of Paycheck Protection Program.

March 11: Biden signs his $1.9 trillion American Rescue Plan into law.

March 13: Third round of stimulus checks begin to be sent out. More than 171 million checks were sent.

April 2: The CDC reports that 30.7% of the population of the United States has received at least one dose of a COVID-19 vaccine.

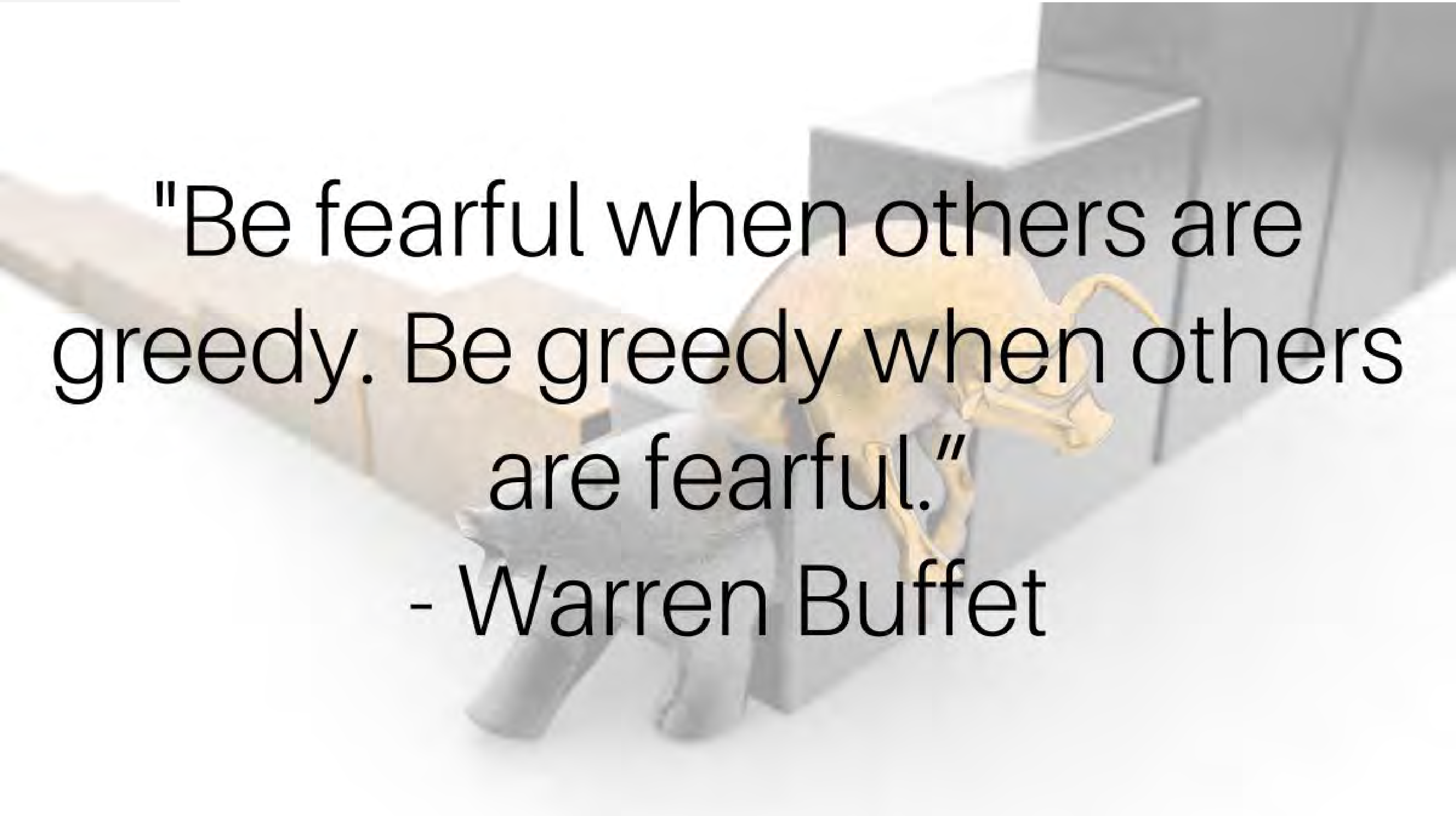
May 14: The Fed announces third extension of Paycheck Protection Program.

August 16: The DJIA closes at an all-time high of 35,625.

August 20: The CDC reports that 60.4% of the population of the U.S. has received at least one dose of a COVID-19 vaccine.

August 24: S&P 500 marks its 51st record high of 2021, matching the most in a calendar year. The NASDAQ also cracks 15,000 for the first time, marking its 30th record high of the year.

September: Biden's infrastructure bill along with debt ceiling being debated in Congress.



"Be fearful when others are greedy. Be greedy when others are fearful."
- Warren Buffet

S&P 500 Index at inflection points

S&P 500 Price Index

Characteristic	3/24/2000		10/09/2007		2/19/2020		9/30/2021
Index Level	1,527	→	1,565	→	3,386	→	4,308
P/E Ratio (Fwd.)	25.2x	→	15.1x	→	19.2x	→	20.3x
Dividend Yield	1.4%	→	1.9%	→	1.9%	→	1.5%
10-yr. Treasury	6.2%	→	4.7%	→	1.6%	→	1.5%

Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.
Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price-to-earnings ratio is a bottom-up calculation based on J.P. Morgan Asset Management estimates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.
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S&P 500 valuation measures

S&P 500 Index: Forward P/E ratio

Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	20.31x	16.78x	1.06
CAPE	Shiller's P/E	36.96	27.83	1.44
Div. Yield	Dividend yield	1.47%	2.01%	1.64
P/B	Price to book	4.09	3.07	1.29
P/CF	Price to cash flow	15.28	11.05	2.01
EY Spread	EY minus Baa yield	1.56%	0.13%	- 0.72

Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since September 1996, and J.P. Morgan Asset Management for September 30, 2021. Current next 12-months consensus earnings estimates are $214. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. *P/CF is a 20-year average due to cash flow availability.
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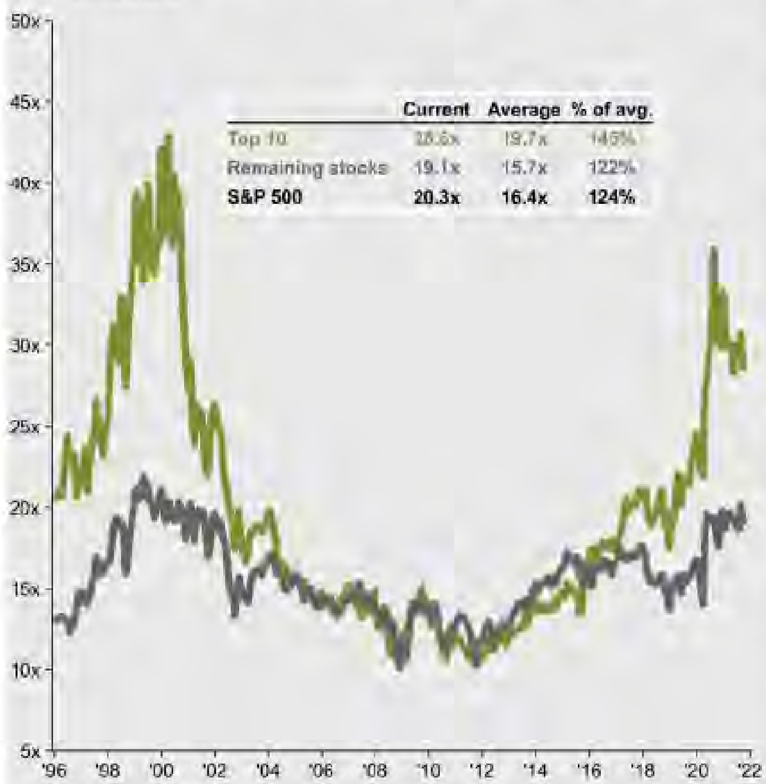
S&P 500: Index concentration, valuations and earnings

P/E ratio of the top 10 and remaining stocks in the S&P 500

Next 12 months



	Current	Average	% of avg.
Top 10	28.6x	19.7x	145%
Remaining stocks	19.1x	15.7x	122%
S&P 500	**20.3x**	**16.4x**	**124%**

Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500

Earnings contribution of the top 10 in the S&P 500

Based on last 12 months' earnings

Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each month. The weight of each of these companies is revised monthly. As of 9/30/21, the top 10 companies in the index were AAPL (6.1%), MSFT (5.8%), AMZN (3.9%), FB (2.2%), GOOGL (2.2%), GOOG (2.1%), TSLA (1.7%), BRK.B (1.4%), NVDA (1.4%), JPM (1.3%), and JNJ (1.2%). The remaining stocks represent the rest of the 494 companies in the S&P 500.
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Returns and valuations by style

10-year annualized

	Value	Blend	Growth
Large	13.5%	16.6%	19.7%
Mid	13.9%	15.5%	17.5%
Small	13.2%	14.6%	15.7%

YTD

	Value	Blend	Growth
Large	16.1%	15.9%	14.3%
Mid	18.2%	15.2%	9.6%
Small	22.9%	12.4%	2.8%

Since market peak (February 2020)

	Value	Blend	Growth
Large	17.9%	30.6%	44.9%
Mid	22.0%	29.9%	38.9%
Small	31.4%	32.8%	31.7%

Since market low (March 2020)

	Value	Blend	Growth
Large	90.7%	97.3%	111.4%
Mid	115.7%	117.5%	116.1%
Small	131.0%	123.8%	114.0%

Current P/E vs. 20-year avg. P/E

	Value	Blend	Growth
Large	15.8 / 13.7	20.3 / 15.5	28.6 / 18.5
Mid	16.0 / 14.5	20.0 / 16.4	35.3 / 20.4
Small	16.8 / 17.0	25.4 / 21.4	50.5 / 35.5

Current P/E as % of 20-year avg. P/E

	Value	Blend	Growth
Large	115.2%	130.0%	154.6%
Mid	110.5%	122.1%	173.0%
Small	99.1%	119.1%	142.4%

Source: FactSet, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management.
All calculations are cumulative total return, including dividends reinvested for the stated period. Since Market Peak represents period from 2/19/20 to September 30, 2021. Since Market Low represents period from 3/23/20 to September 30, 2021. Returns are cumulative returns, not annualized. For all time periods, total return is based on Russell style indices with the exception of the large blend category, which is based on the S&P 500 Index. Past performance is not indicative of future returns. The price-to-earnings is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates and J.P. Morgan Asset Management.
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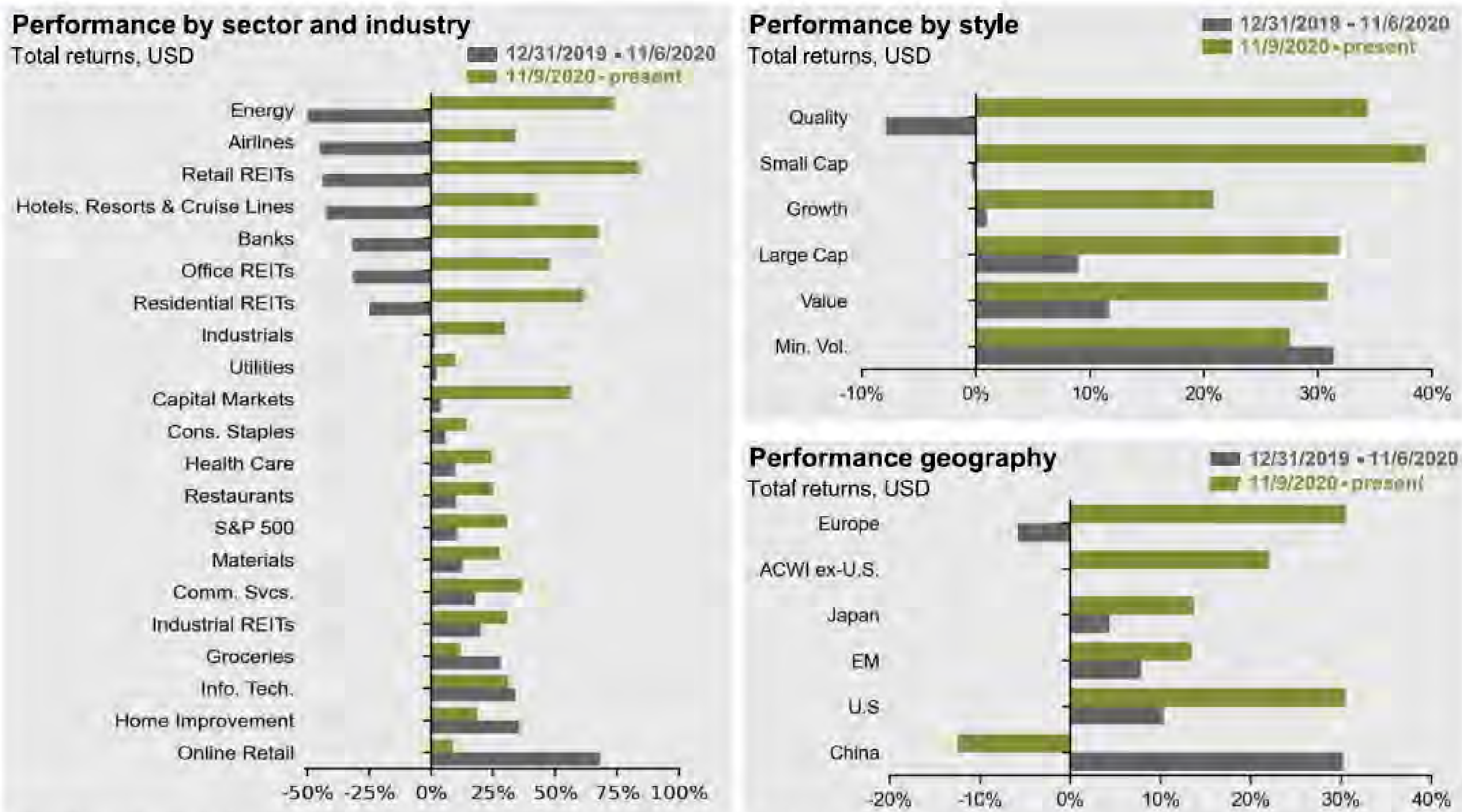
Equity performance by sector, style and geography



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. 11/6/20 was chosen as the last business day before vaccine candidate is revealed to have more than 90% efficacy against the COVID-19 virus in global trials. The company referenced is for illustrative purposes only. Indices used are as follows: China: MSCI China, AC World ex-U.S.: MSCI AC World ex USA, Europe: MSCI Europe, Japan: MSCI Japan, U.S.: S&P 500, EM: MSCI EM, Large cap: Russell 1000, Small cap: Russell 2000, Value: Russell 1000 Value, Growth: Russell 1000 Growth, Quality: MSCI USA Sector Neutral Quality, Min. Vol.: MSCI USA Minimum Volatility.

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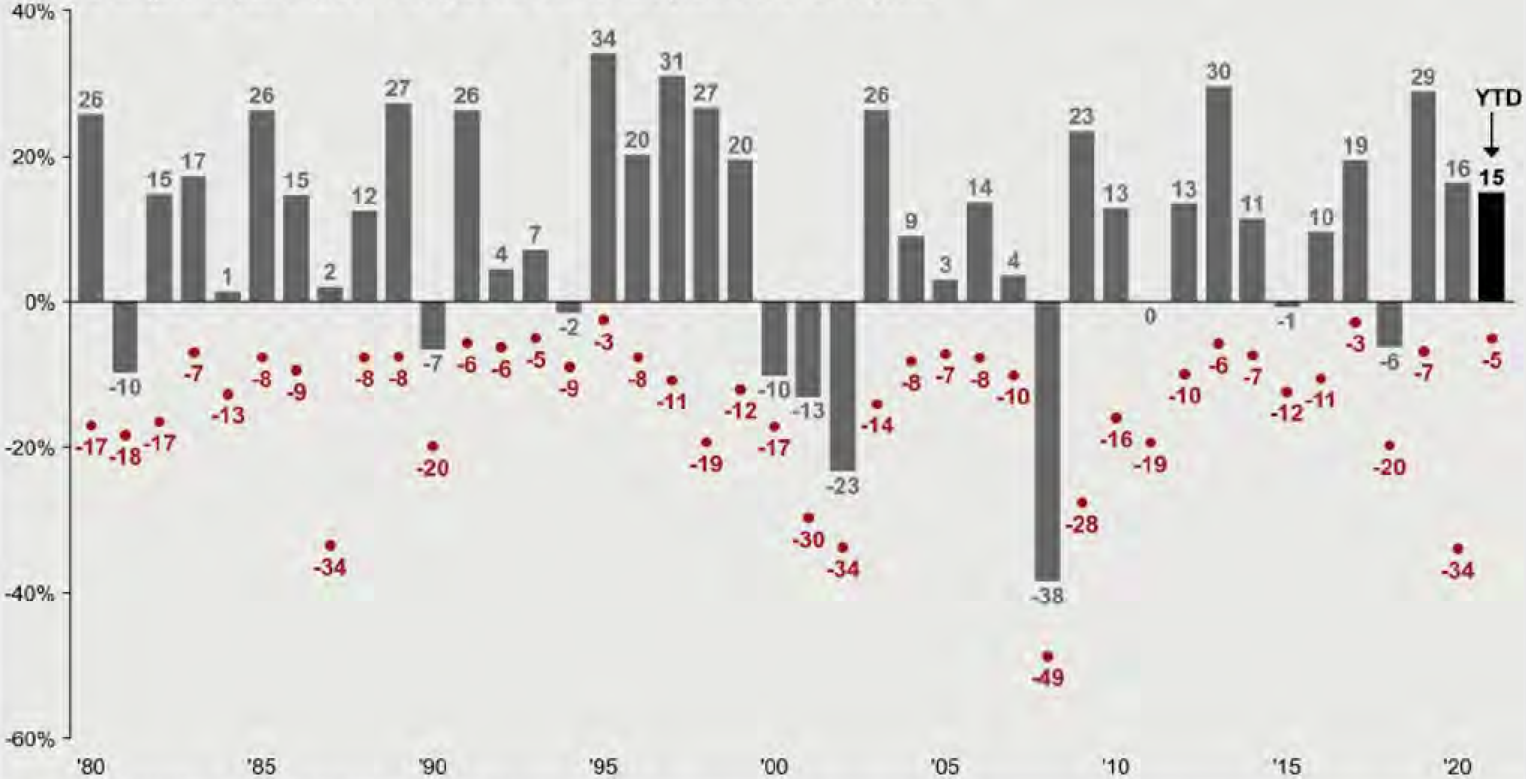
Annual returns and intra-year declines

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.3%, annual returns were positive in 31 of 41 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2020, over which time period the average annual return was 9.0%.

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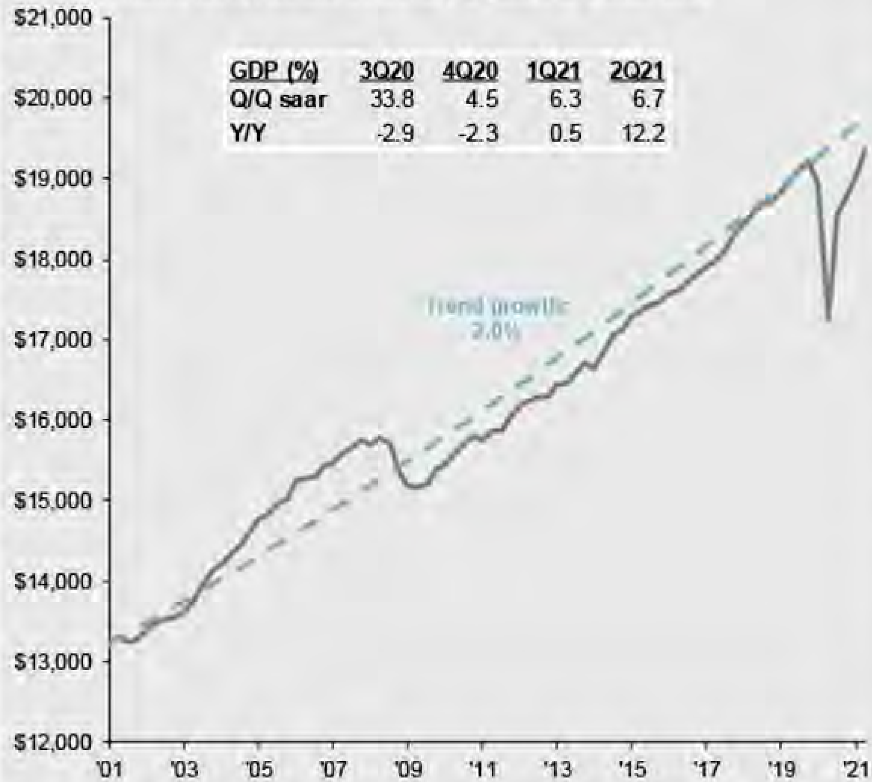
Economic growth and the composition of GDP

Real GDP

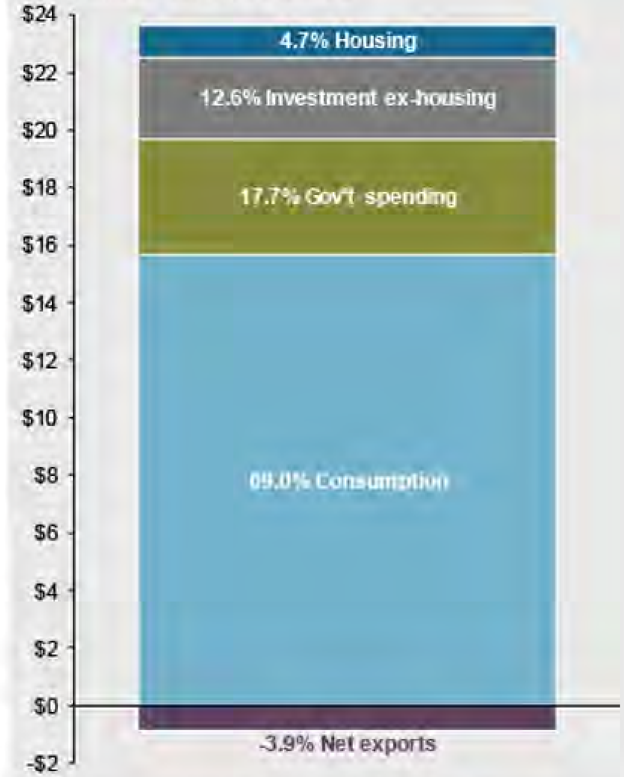
Billions of chained (2012) dollars, seasonally adjusted at annual rates



GDP (%)	3Q20	4Q20	1Q21	2Q21
Q/Q saar	33.8	4.5	6.3	6.7
Y/Y	-2.9	-2.3	0.5	12.2

Components of GDP

2Q21 nominal GDP, USD trillions



Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Trend growth is measured as the average annual growth rate from business cycle peak 1Q01 to business cycle peak 4Q19.
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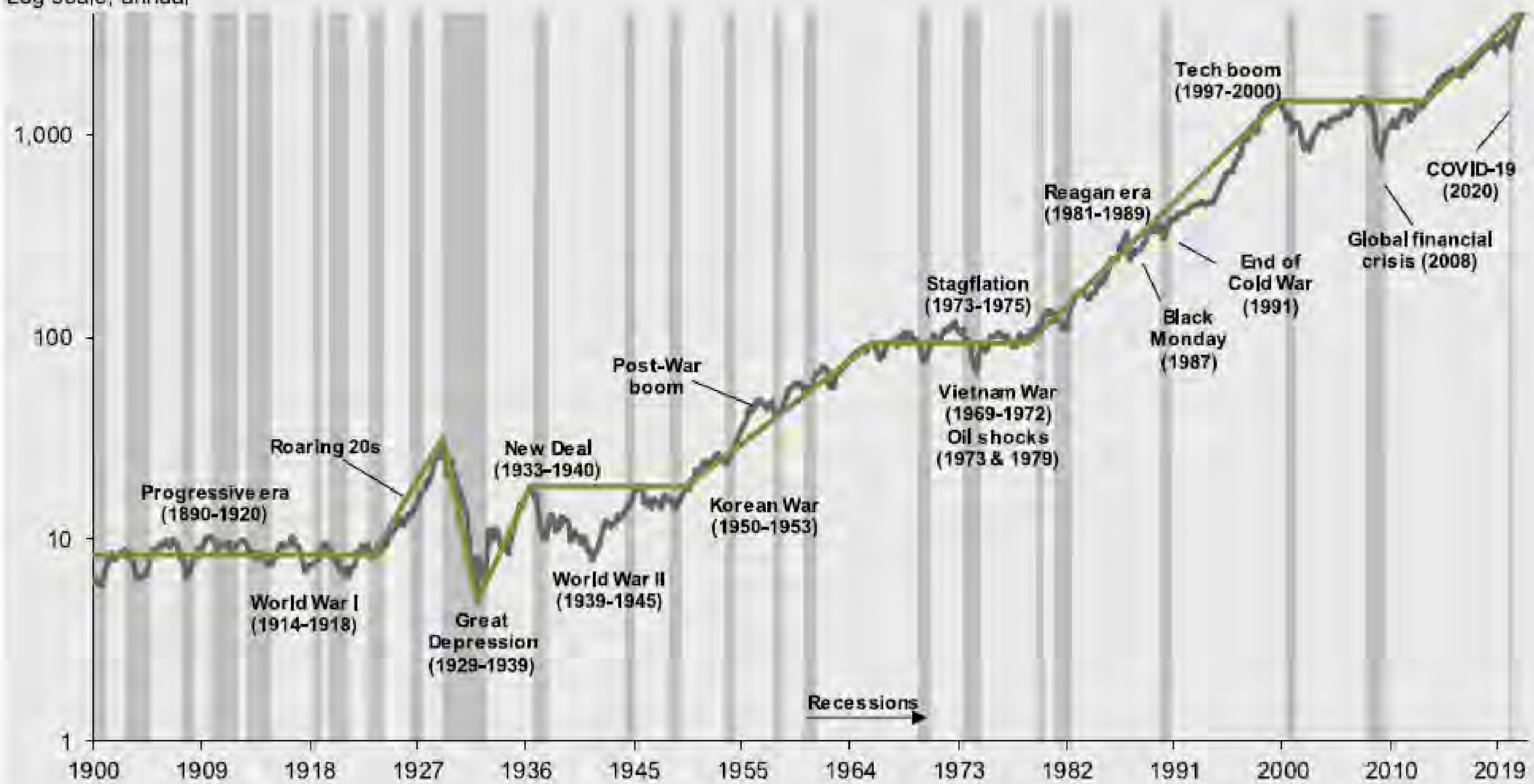
Stock market since 1900

S&P Composite Index
Log scale, annual



Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.
Data shown in log scale to best illustrate long-term index patterns. Past performance is not indicative of future returns. Chart is for illustrative purposes only.
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Federal finances

The 2022 federal budget

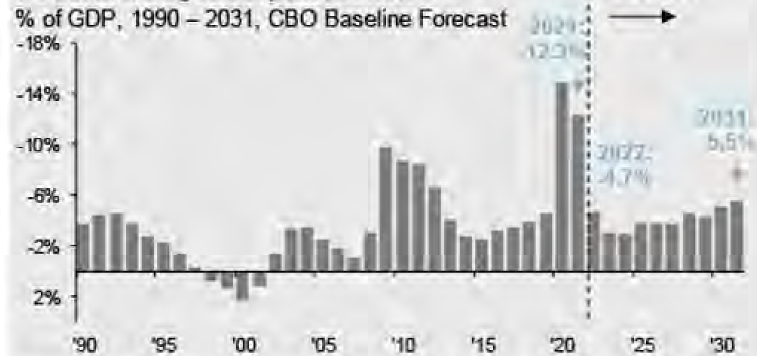
CBO Baseline forecast, USD trillions

CBO's Baseline economic assumptions

	2022	'23-'24	'25-'26	'27-'31
Real GDP growth	6.1%	1.6%	1.3%	1.6%
10-year Treasury	1.9%	2.1%	2.6%	3.2%
Headline inflation (CPI)	2.7%	2.3%	2.4%	2.4%
Unemployment	4.1%	3.8%	4.2%	4.4%

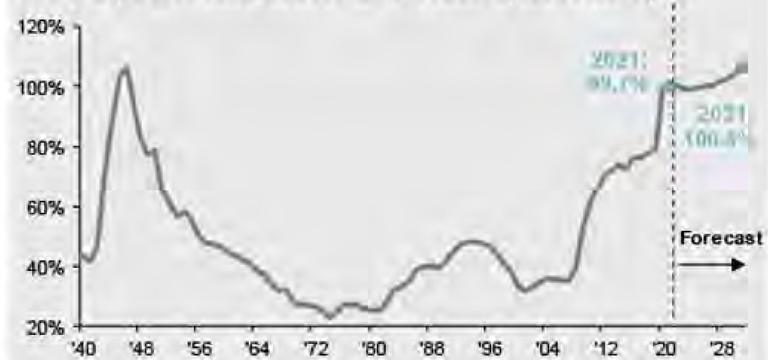
Federal budget surplus/deficit

% of GDP, 1990 – 2031, CBO Baseline Forecast



Federal net debt (accumulated deficits)

% of GDP, 1940 – 2031, CBO Baseline Forecast, end of fiscal year



Source: CBO, J.P. Morgan Asset Management; (Top and bottom right) BEA, Treasury Department.
Estimates are based on the Congressional Budget Office (CBO) July 2021 Update to the Budget and Economic Outlook, except for 2021 estimates of the federal deficit and net debt levels. These estimates and the details on the breakdown of spending, excluding net interest, are J.P. Morgan Asset Management estimates. Other spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. Note: Years shown are fiscal years. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
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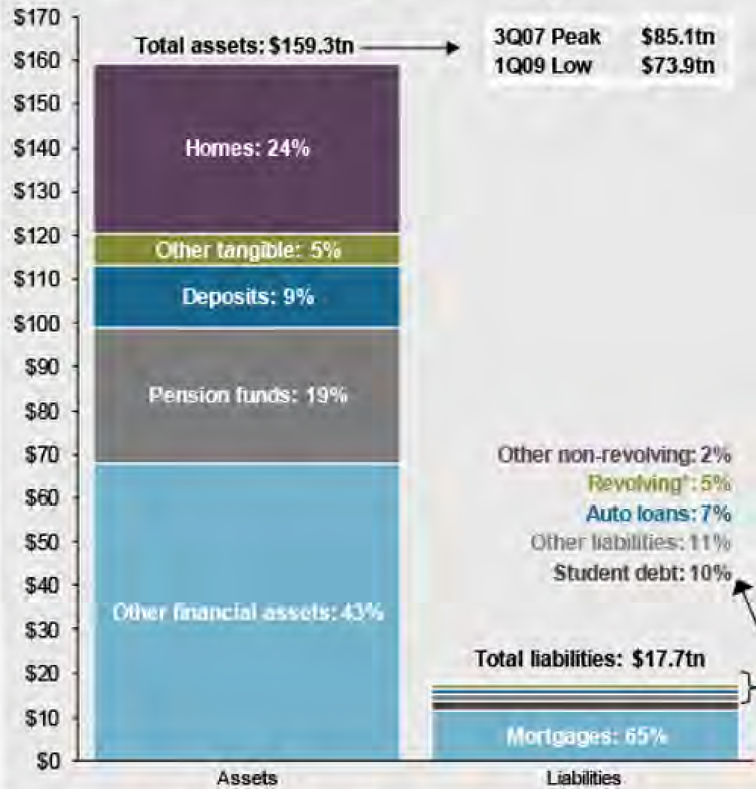
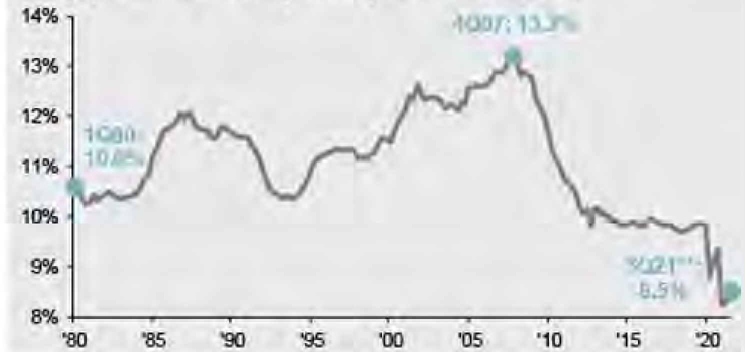
Consumer balance sheet

2Q21, trillions of dollars outstanding, not seasonally adjusted



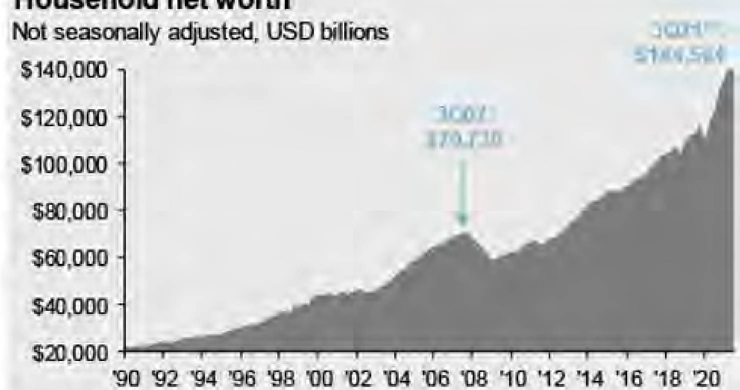
Household debt service ratio

Debt payments as % of disposable personal income, SA



Household net worth

Not seasonally adjusted, USD billions



Source: FactSet, FRB, J.P. Morgan Asset Management; (Top and bottom right) BEA.
Data include households and nonprofit organizations. SA – seasonally adjusted. *Revolving includes credit cards. Values may not sum to 100% due to rounding. **3Q21 figures for debt service ratio and household net worth are J.P. Morgan Asset Management estimates.
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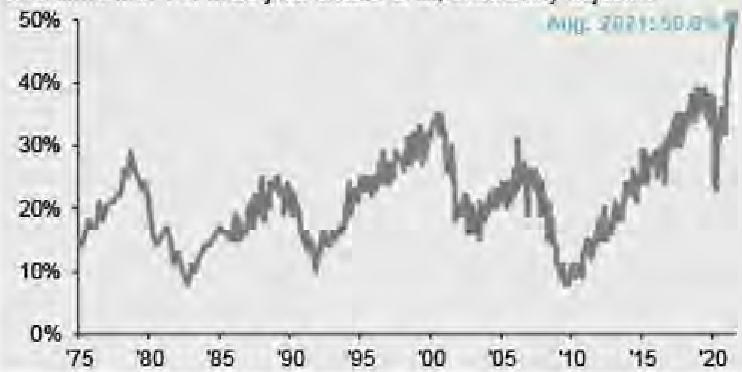
Labor demand

JOLTS Job Openings

Total nonfarm job openings, thousands, seasonally adjusted

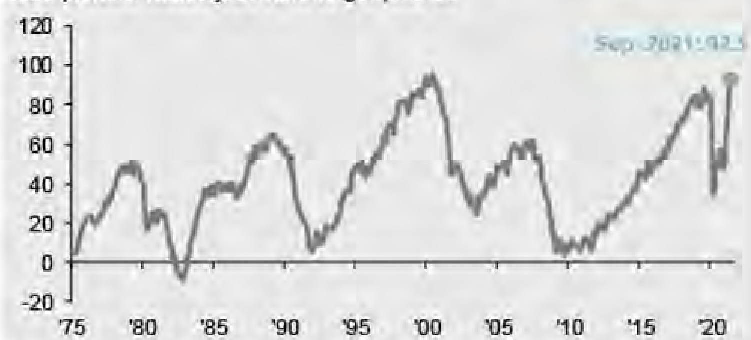
NFIB Small Business Jobs Report, jobs hard to fill

% of firms with 1 or more jobs unable to fill, seasonally adjusted



Consumer Confidence Survey, labor market diffusion index

Jobs plentiful minus jobs hard to get plus 50



Source: Conference Board, National Federation of Independent Business, U.S. Department of Labor, J.P. Morgan Asset Management. The diffusion index is calculated as the percentage of consumers reporting jobs plentiful minus those reporting jobs hard to get plus 50.
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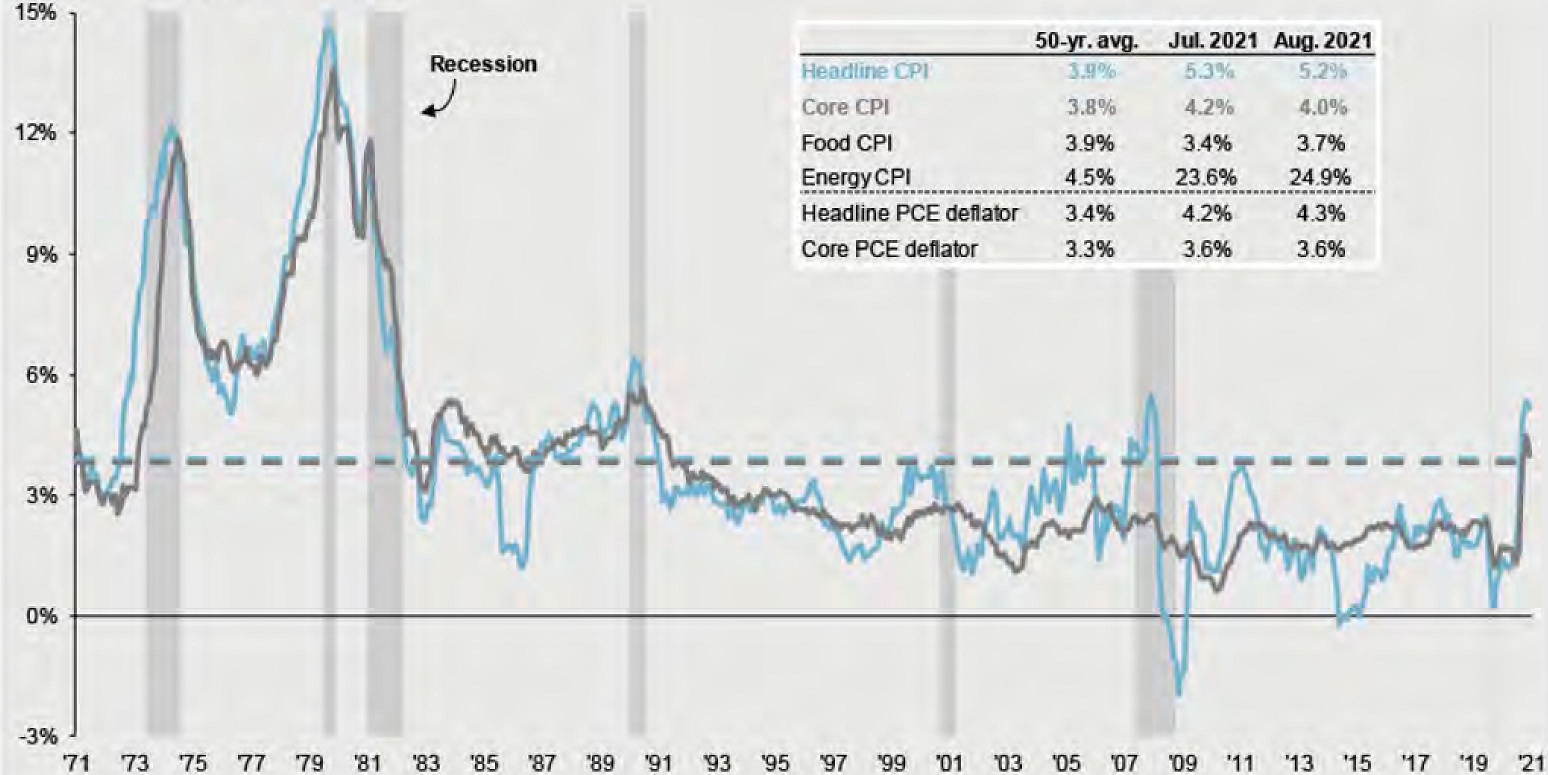
CPI and core CPI

% change vs. prior year, seasonally adjusted



	50-yr. avg.	Jul. 2021	Aug. 2021
Headline CPI	3.9%	5.3%	5.2%
Core CPI	3.8%	4.2%	4.0%
Food CPI	3.9%	3.4%	3.7%
Energy CPI	4.5%	23.6%	24.9%
Headline PCE deflator	3.4%	4.2%	4.3%
Core PCE deflator	3.3%	3.6%	3.6%

Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
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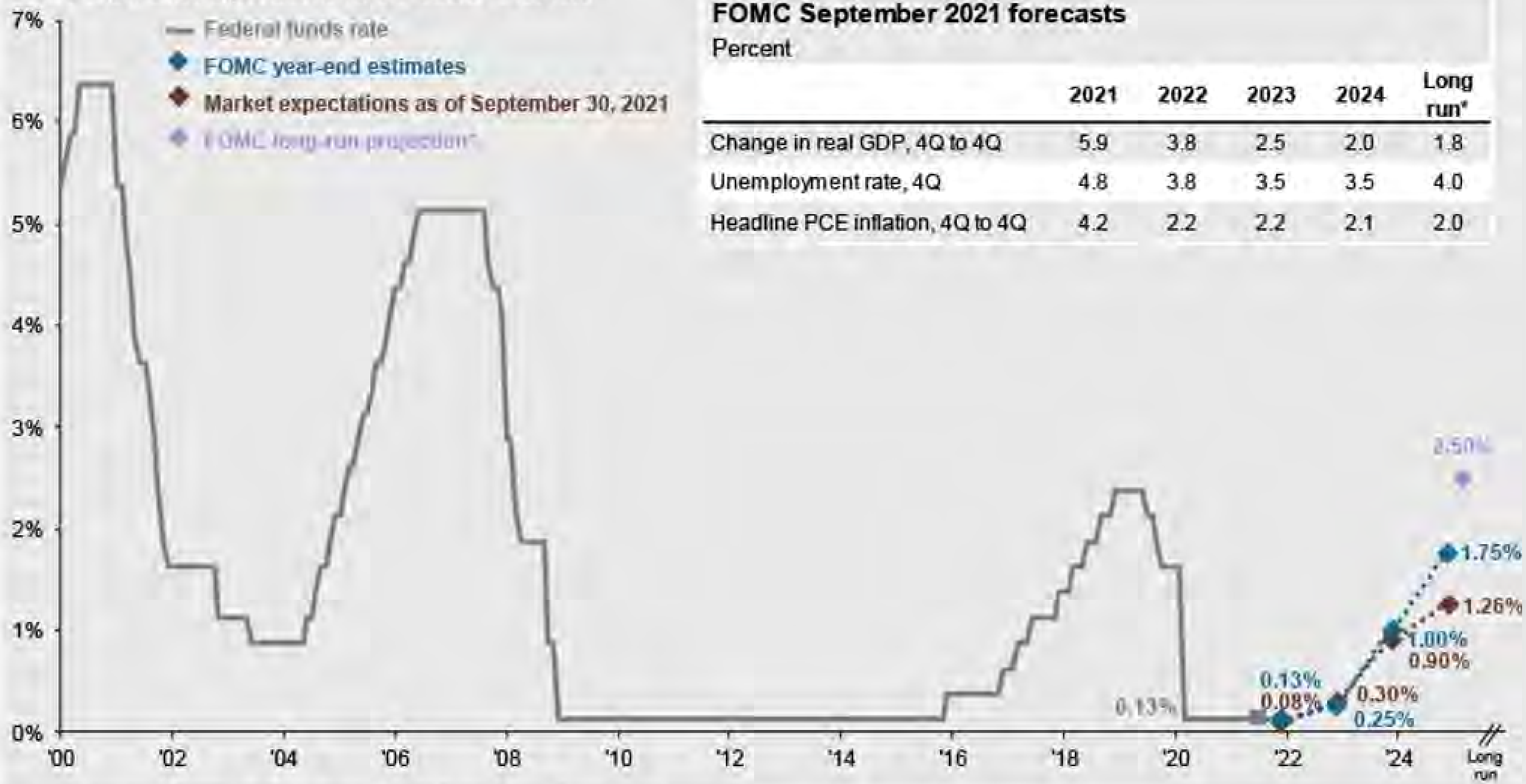
"It all comes down to interest rates. As an investor, all you're doing is putting up a lump-sum payment for a future cash flow."

- Ray Dalio

The Fed and interest rates

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC September 2021 forecasts

Percent

	2021	2022	2023	2024	Long run*
Change in real GDP, 4Q to 4Q	5.9	3.8	2.5	2.0	1.8
Unemployment rate, 4Q	4.8	3.8	3.5	3.5	4.0
Headline PCE inflation, 4Q to 4Q	4.2	2.2	2.2	2.1	2.0

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of the USD Overnight Index Forward Swap rates. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
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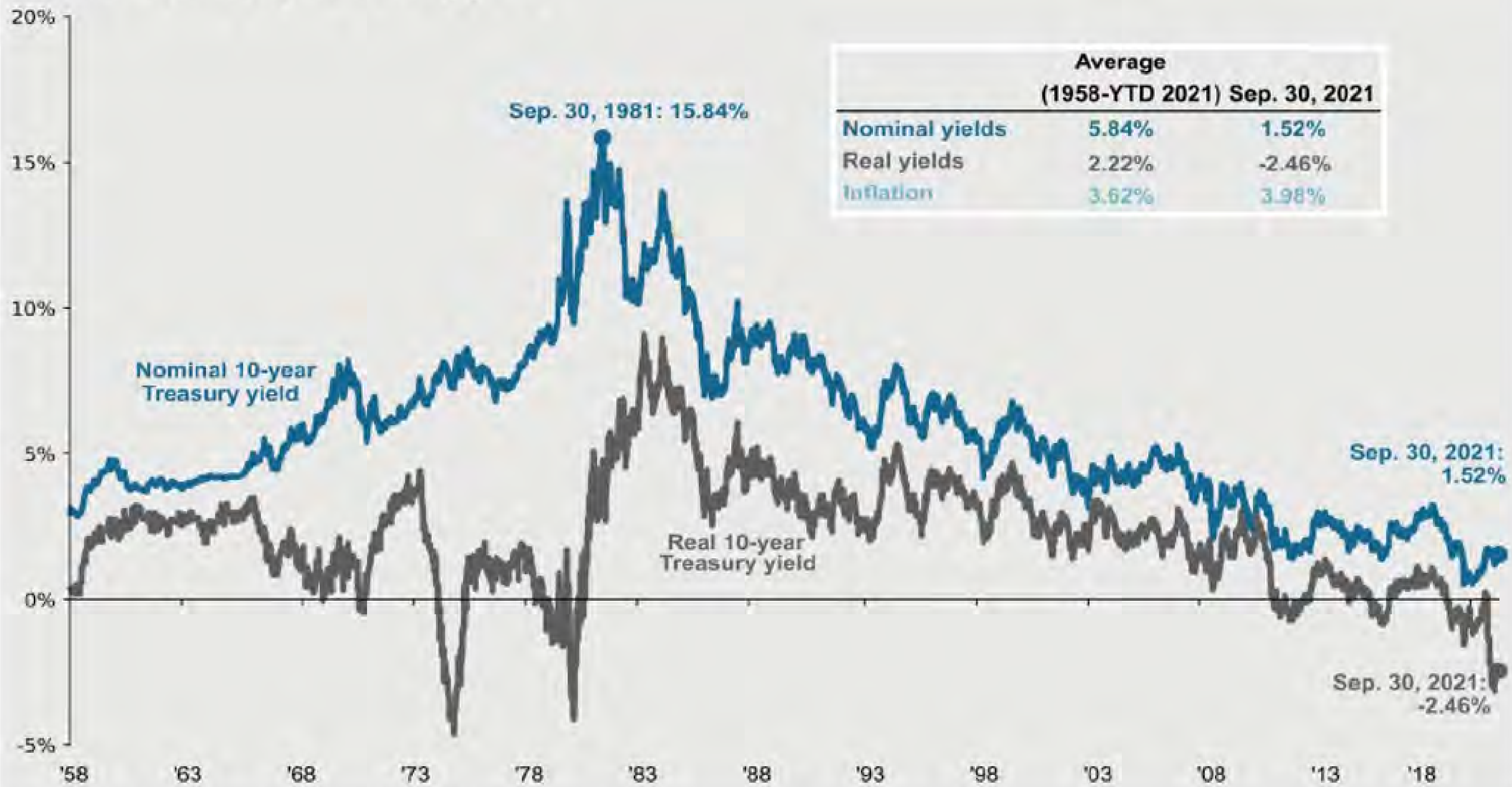
Nominal and real 10-year Treasury yields



	Average (1958-YTD 2021)	Sep. 30, 2021
Nominal yields	5.84%	1.52%
Real yields	2.22%	-2.46%
Inflation	3.62%	3.98%

Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month except for September and August 2021 where real yields are calculated by subtracting out September 2021 year-over-year core inflation.
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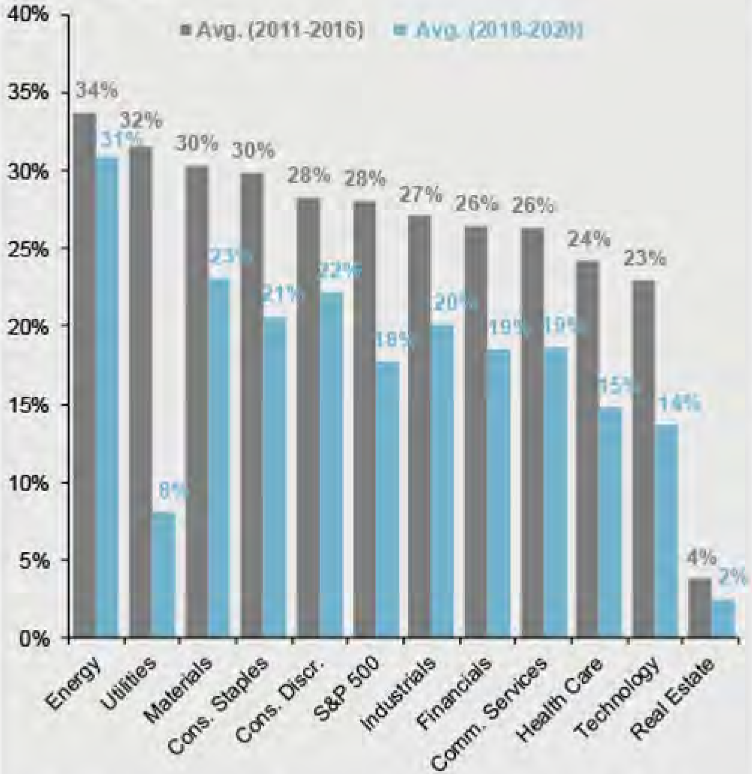
Taxes and the stock market

S&P 500 effective sector tax rates*

Annual tax rates

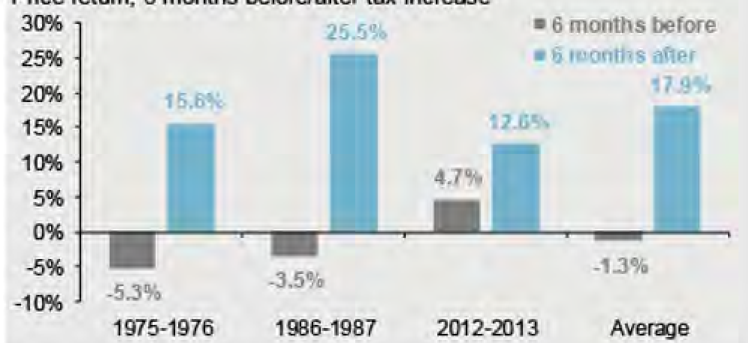


Capital gains and dividend tax rates**

1954-2021

S&P 500 performance and capital gains tax increases

Price return, 6 months before/after tax increase



Source: CBO, Compustat, FactSet, Standard & Poor's, Tax Policy Center, Treasury Department, Wolters Kluwer, J.P. Morgan Asset Management.
*Effective federal, state, and foreign taxes. **Highest marginal federal tax rates. Includes Medicare tax of 3.8% from 2013-present.
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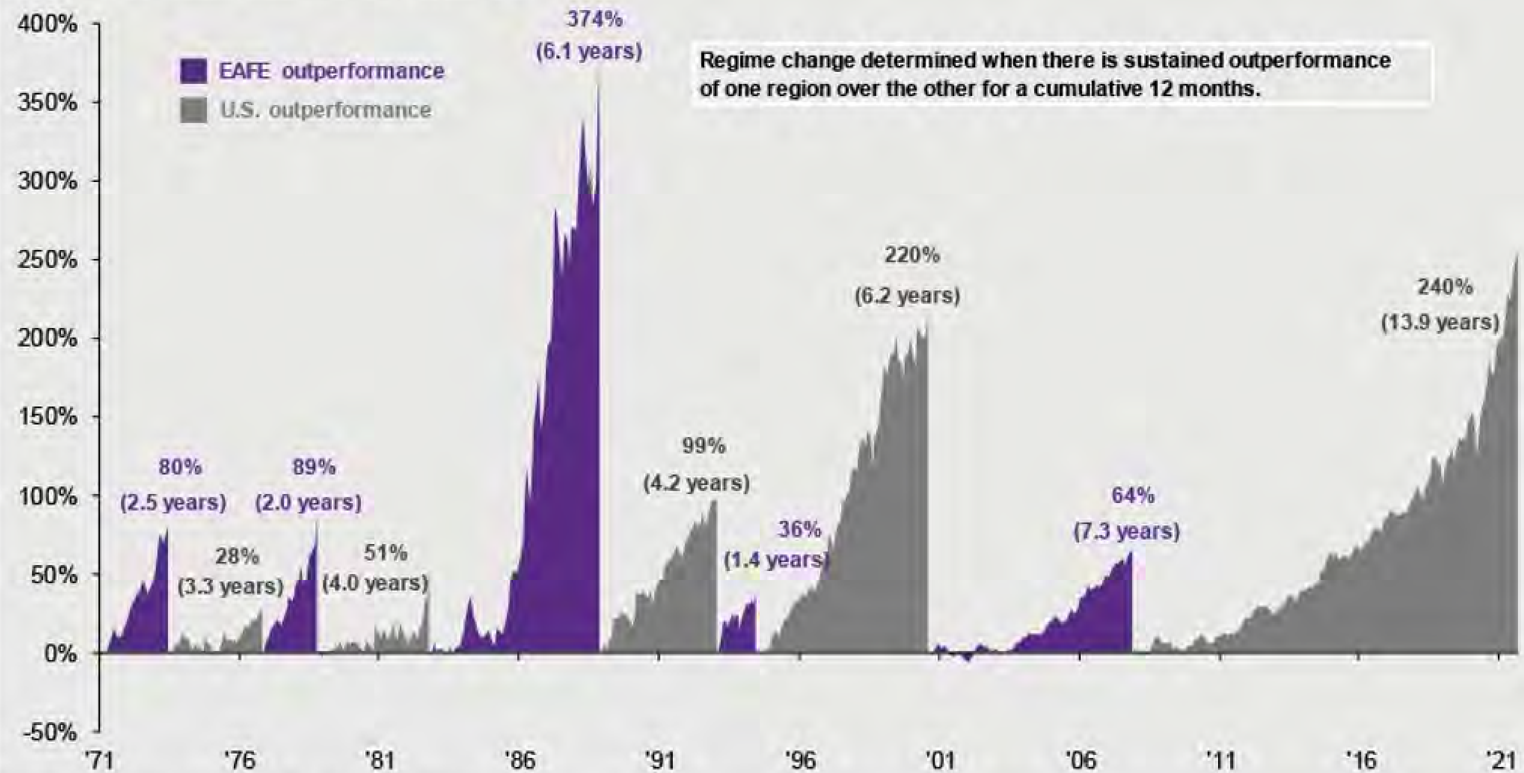
Cycles of U.S. equity outperformance

MSCI EAFE and MSCI USA relative performance

U.S. dollar, total return, cumulative outperformance*



Source: FactSet, MSCI, J.P. Morgan Asset Management.

*Cycles of outperformance include a qualitative component to determine turning points in leadership.

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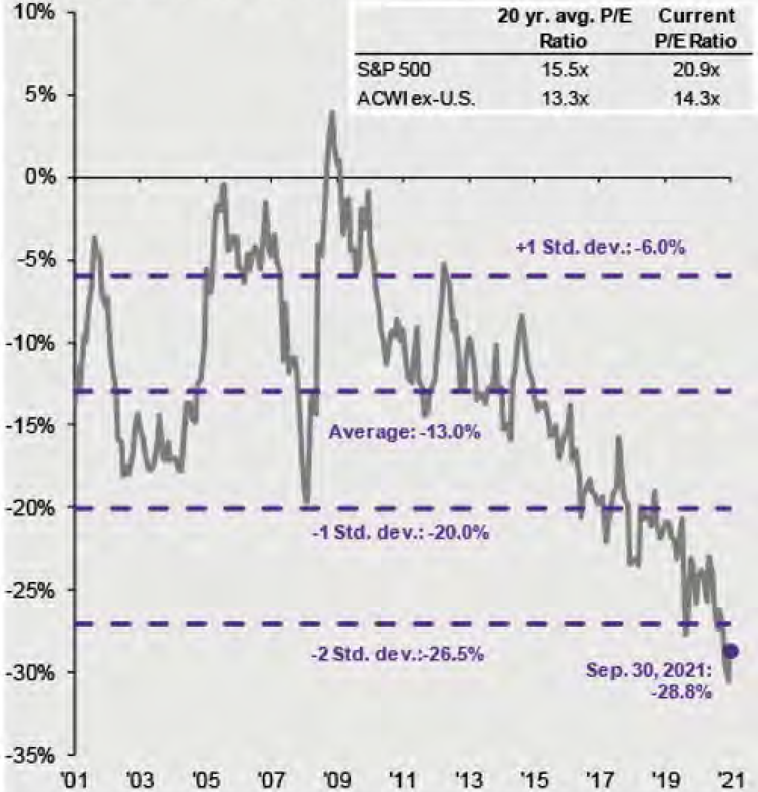
International valuations and dividend yields

International: Price-to-earnings discount vs. U.S.
MSCI AC World ex-U.S. vs. S&P 500 Indices, next 12 months

	20 yr. avg. P/E Ratio	Current P/E Ratio
S&P 500	15.5x	20.9x
ACWI ex-U.S.	13.3x	14.3x



International: Difference in dividend yields vs. U.S.
MSCI AC World ex-U.S. minus S&P 500 Indices, next 12 months

Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
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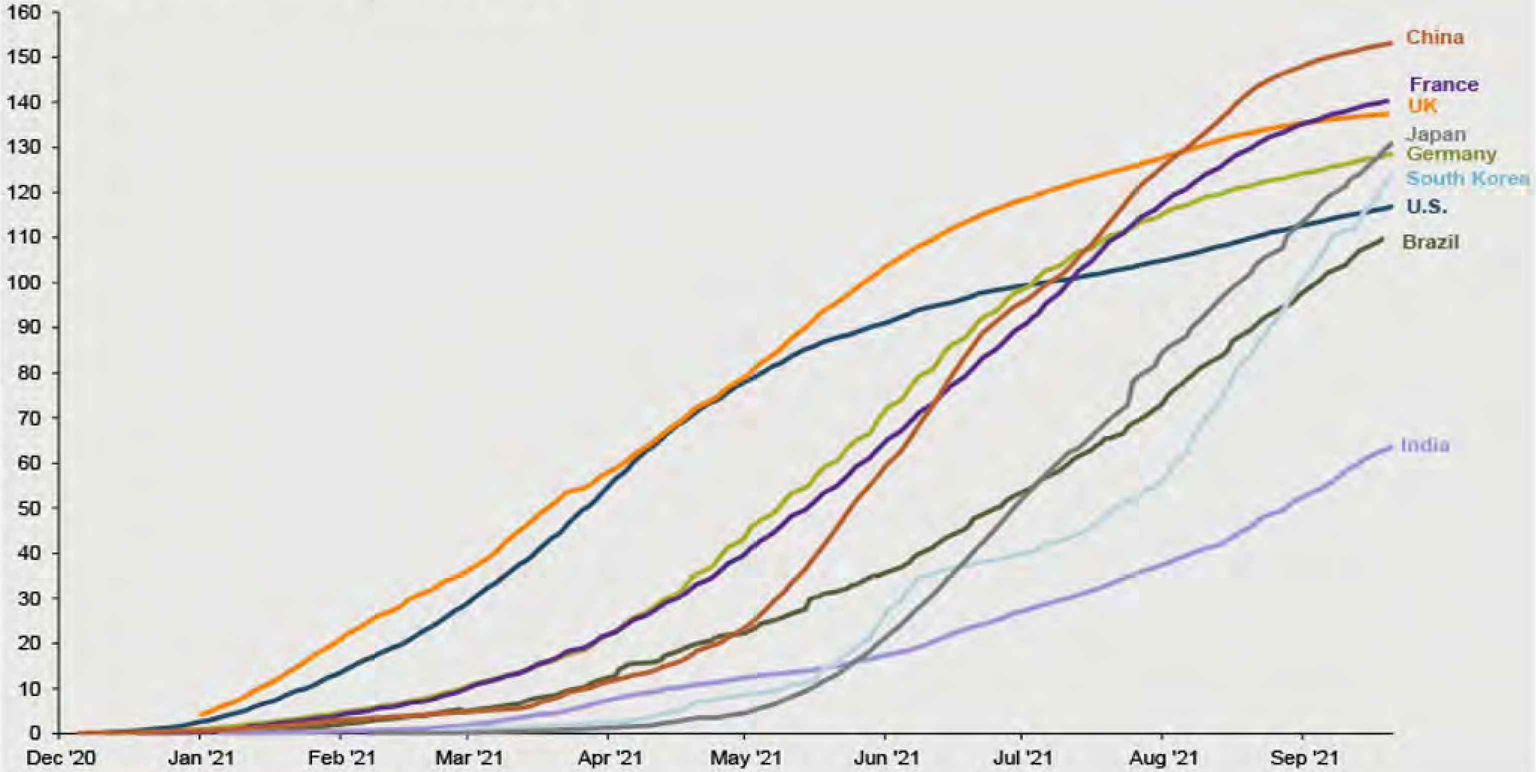
Global COVID-19 vaccinations

COVID-19 vaccine rollout

Total vaccine doses administered per hundred people



Source: Our World in Data, J.P. Morgan Asset Management.
Total vaccine doses administered per hundred people. Includes both first and second doses in the case of a two-dose vaccine regimen.
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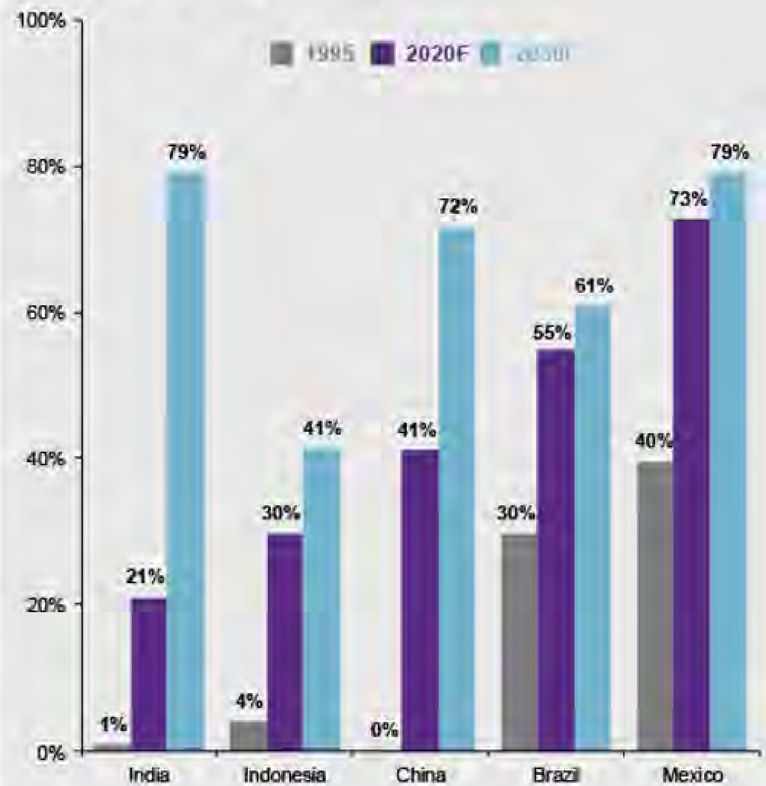
The emergence of the EM middle class

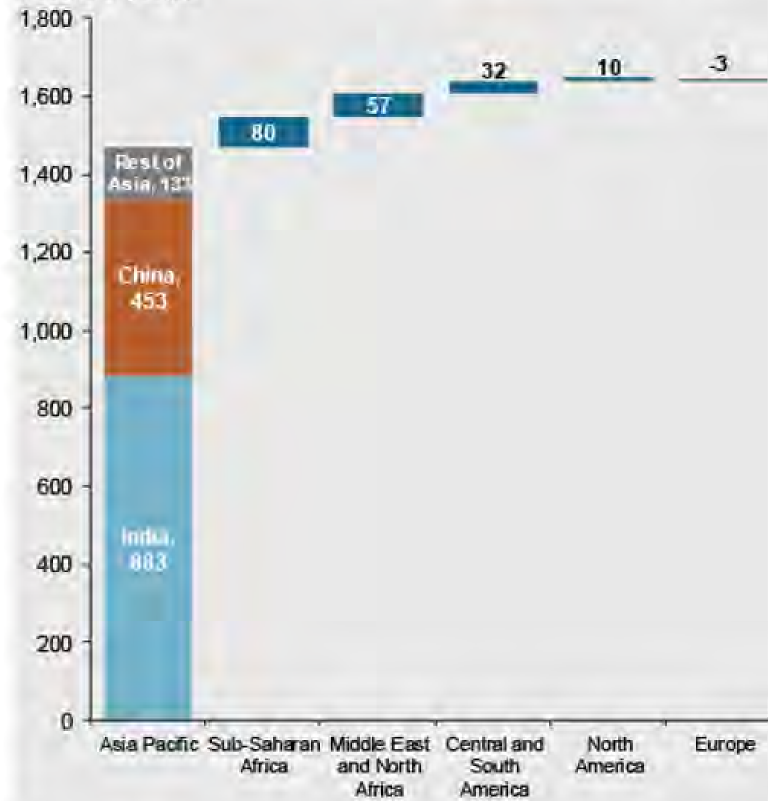
Growth of the middle class

Percent of total population



Regional contribution to middle class growth: 2020 to 2030

Millions of people



Source: Brookings Institution, J.P. Morgan Asset Management.
Estimates for regional contribution are from Kharas, Homi. *The Unprecedented Expansion of the Global Middle Class, An Update*. Brookings Institution, 2017. Middle class is defined as households with per capita incomes between $11 and $110 per person per day in 2011 PPP terms.
Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. This slide comes from our Guide to China.
Guide to the Markets – U.S. Data are as of September 30, 2021.

J.P.Morgan Asset Management

Asset class returns

																2006 - 2020	
2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	Ann.	Vol.
REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	Comdty. 29.1%	Large Cap 9.9%	EM Equity 23.3%
EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	REITs 21.6%	Small Cap 8.9%	REITs 23.1%
DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Large Cap 15.9%	High Yield 7.5%	Small Cap 22.6%
Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 12.4%	REITs 7.1%	DM Equity 19.1%
Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	DM Equity 8.8%	EM Equity 6.9%	Comdty. 18.8%
Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	Asset Alloc. 8.7%	Asset Alloc. 6.7%	Large Cap 16.7%
High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.7%	DM Equity 5.0%	High Yield 12.2%
Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	Fixed Income 4.5%	Asset Alloc. 11.8%
Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	EM Equity -1.0%	Cash 1.2%	Fixed Income 3.2%
Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	Fixed Income -1.6%	Comdty. -4.0%	Cash 0.8%

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Barclays Global HY Index, Fixed Income: Bloomberg Barclays US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg Barclays 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg Barclays US Aggregate, 5% in the Bloomberg Barclays 1-3m Treasury, 5% in the Bloomberg Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2005 to 12/31/2020. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of September 30, 2021.

J.P.Morgan Asset Management

What's Next?

- Tax increases
  - Corporate
  - Individual
  - Capital Gains
- Inflation
- Interest rates
- Domestic vs. International
- Automated-trading programs
- The Bernanke put on steroids

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2021 Employee Benefit Plan Virtual Conference

NOVEMBER 10, 2021

Audit & Accounting Updates

JACKIE M. DUNN, CPA | PARTNER
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Audit and Accounting Update

- Accounting Standards Update
- Auditing Standards Update

Accounting Standards Updates

ASU 2016-02

- Leases (Topic 842)

ASU 2018-14

- Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans

ASU 2018-15

- Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract

ASU 2021-05

- Lessors – Certain Leases with Variable Lease Payments

Accounting Standards Update

ASU 2016-02

- Leases (Topic 842)

ASU 2016-02 (Issued February 2016)

Effective

- On July 17, 2019, the Financial Accounting Standards Board (FASB) unanimously approved to propose delaying the effective date for private companies and nonprofit organizations.
- Effective for private companies for annual reporting periods beginning after December 15, 2020 (2021 calendar year). One-year deferral of the previous effective date.

General Overview

- Targets to improve financial reporting regarding leasing transactions and will affect entities that lease assets (property and equipment)
- Require lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by those leases.

ASU 2016-02 More Specifics

Prior to ASU 2016-02 (Current GAAP)

- Recognition, measurement and presentation of lease expenses and cash flows depended on whether it was a capital or operating lease
- Only capital leases were required to be recognized on the balance sheet

After ASU 2016-02 (Balance Sheet)

- Recognize right-of-use asset and a lease liability for virtually all leases over 12 months in term
- Liability equal to the present value of lease payments
- Asset will be based on the liability, subject to adjustment for initial direct costs.

ASU 2016-02 More Specifics

For Lessees

After ASU 2016-02 (Income Statement)

- Leases will be required to be classified as either operating or finance
- Operating Leases - result in straight-line expense (similar to current operating leases)
- **Finance** Leases - result in a front-loaded expense pattern (similar to current capital leases).

New Disclosure Requirements

Disclosure Requirements

Information about the nature of leases (and subleases)

- General description of leases
- Basis, and terms and conditions, on which variable lease payments are determined
- Existence, terms and conditions of options to extend or terminate the lease
- Existence, terms and conditions of lessee residual value guarantees
- Restrictions or covenants imposed by leases

Disclosure Requirements

Information about leases that haven’t yet begun, but that create significant rights and obligations for lessees

Information about significant judgements and assumptions made in accounting for leases

- Determination of whether a contract contains a lease
- Allocation of the consideration in a contract between lease and non-lease components
- Determination of the discount rate

Disclosure Requirements

Main terms and conditions of any sale-leaseback transactions (Finance Leases)

Whether an accounting policy election was made for the short-term lease exemption. If so, lessees should disclose if the short-term lease expense doesn’t reflect amounts attributable to the lessee’s short-term lease commitments and the amount of its short-term lease commitments

Key Questions to Ask – WHY ASK?

Do I have a lease?	If not within the scope of lease standard, must look to different ASC.
What is the term?	Required for initial accounting.
What is the discount rate?	Required for subsequent accounting.
Any non-lease components?	Accounts for non-lease components differently.

Key Questions to Ask – Guidance

Do I have a lease?

GUIDANCE:

Lease defined as *"the right to control the use of an identified asset for a period of time in exchange for consideration."*

- CONTROL:
  - Right to economic benefits
  - Right to direct use of asset
- Determining "right to direct use" may require judgement
- If supplier has substantive substitution rights, customer does not have control; therefore no lease.

Key Questions to Ask – Guidance

What is the term?

GUIDANCE:

- Term is Noncancelable period for which lessee has right to use asset plus periods covered by:
  - Option to extend if lessee is *reasonably certain* to exercise the option
  - *Option to terminate if lessee is* reasonably *certain* not to exercise option
  - Renewals or extensions of lease at option of lessor
- Exception to the general rule to recognize all leases on the balance sheet for leases with terms of 12 months or less

Key Questions to Ask – Guidance

What is the discount rate?

GUIDANCE:

- Rate implicit in the lease is rate that causes the PV of the new investment in the lease to equal sum of:
  - Fair value of asset minus related investment tax credit
  - Capitalized initial direct costs incurred by lessor
- If rate can not be determined, use incremental borrowing rate
- **Private companies may elect a policy for all leases to use risk-free discount rate**

Key Questions to Ask – Guidance

Any non-lease components?

GUIDANCE:

- Non-lease components accounted for separately
- Example: equipment lease contract also includes maintenance services
- Allocate contract consideration and initial direct costs to components based on relative standalone price of separate components.

Audit and Accounting Update

- Lease Liability (PV of payments)
- \+ Unamortized direct costs
- \+ Prepaid lease payments
- \- Accrued lease payments
- \- Remaining balance of lease incentives received
- = Right of Use Asset

Lease ASU Transition: Practical Expedients

You may be able to elect “practical expedients” to ease the burden of adoption

You do not need to:

- Reassess whether expired or existing contracts are or contain leases
- Reassess lease classification for any expired or existing leases
- Reassess initial direct costs for existing leases

You may

- Use hindsight in determining lease term

ASU 2021-05 (Issued July 2021)

Effective

- Effective when ASU 2016-04 implemented or for private companies for annual reporting periods beginning after December 15, 2020 (2021 calendar year).

General Overview

- Clarifies treatment of variable lease payments that do not depend on a reference index or rate

ASU 2021-05

Lessors should classify and account for a lease with variable lease payment that do not depend on a reference index or rate as an operating lease if BOTH of the following criteria are met:

- The lease would have been classified as a sales-type lease or a direct financing lease.
- The lessor would have recognized a day-one loss.

ASU 2018-14 (Issued August 2018)

Effective

- Calendar year ending after 12/15/21 for all non-public entities

Application

- Early adoption is permitted.

General Overview

- Applies to all employers that sponsor defined benefit pension or other postretirement plans.

Removed Disclosure Requirements

- The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year.
- The amount and timing of plan assets expected to be returned to the employer.
- Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan.
- For nonpublic entities, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. However, nonpublic entities will be required to disclose separately the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan assets.

Added Disclosure Requirements

- The weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates.
- An explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period.

ASU 2018-15 (Issued August 2018)

Effective

- Calendar year beginning after 12/15/21 (for nonpublic entities)

Application

- Early adoption is permitted.

General Overview

- Diversity in practice, issued to help entities evaluate the accounting for fees paid in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license.

ASU 2018-15

- License to internal-use software
  - Accounted for in accordance with Subtopic 350-40
  - Intangible asset is recognized for the software license.
  - If payments are made over time, a liability is also recognized
- No license to internal-use software
  - Accounted for as a service contract
  - Generally, fees associated with the hosting element (service) of the arrangement are expensed as incurred.
- Update focuses on accounting for implementation, setup and other upfront costs

Auditing Standards Update

Auditing Standards Updates

SAS 134-140

- Auditor Reporting Standards

SAS 141

- Delay in effective date of Auditor Reporting Standards

SAS 141 (Issued May 2020)

Effective

- Effective date moved from December 15, 2020, to December 15, 2021, with early implementation permitted.

General Overview

- Delayed the effective date of the Auditor Reporting Standards SAS Nos. 134-140

SAS 134-140

- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements, as amended*
- SAS No. 135, *Omnibus Statement on Auditing Standards — 2019*
- **SAS No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as amended***
- SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*
- **SAS No. 138, *Amendments to the Description of the Concept of Materiality***
- SAS No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*
- SAS No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*

SAS 136

- Engagement Acceptance
- Procedures for an ERISA Section 103(a)(3)(C) Audit
- Relevant Plan Provisions
- Reportable Findings
- Form 5500
- Written Representations
- Auditor’s Report

Engagement Acceptance

Management or Those Charged with Governance

- Maintaining a **current plan instrument**, including all plan amendments.
- Administering the plan and determining that the **plan's transactions** that are presented and disclosed in the ERISA plan financial statements **are in conformity with the plan's provisions**, including **maintaining sufficient records** with respect to each of the participants to determine the benefits due or that may become due to such participants.
- Obtain the agreement that a **substantially completed** Form 5500 will be provided **prior to dating the auditor's report.**

Engagement Acceptance – ERISA Section 103(a)(3)(C)

Management or Those Charged with Governance Acknowledges and Understands

- An ERISA Section 103(a)(3)(C) audit is permissible;
- the investment information is prepared and certified by a qualified institution under 29 CFR 2520.103-8;
- the certification meets the requirements of CFR 2520-103-5; and
- The certified investment information is appropriately measured, presented, and disclosed in accordance with the applicable financial reporting framework.

ERISA Section 103(a)(3)(C)

Audit Procedures

- Evaluate management's assessment of whether the entity issuing the certification is a qualified institution under DOL.
- Identify which investment information is certified.
- If the certified information in the FS and related disclosures is incomplete, inaccurate or otherwise not sufficient, discuss with management and perform additional procedures.

Relevant Plan Provisions

Audit Procedures

- Consider relevant plan provisions that affect risk of material misstatement for classes of transactions, account balances and disclosures.
- Many FS amounts are determined based on plan provisions.
- It would be rare for the auditor to not test any relevant plan provisions.

Relevant Plan Provisions

Risk Factors

- Quantitative and Qualitative.
- Concerns of those charged with governance.
- Significant risk of fraud or error.
- Pervasive or applies to most participants.
- Complex.
- Significant estimate.
- Operational errors.
- Amendments or law changes.
- Financial or going concern issues.
- Lack of timely reconciliation of key accounts.
- Changes to control environment.

Reportable Findings – Communication with Those Charged with Governance (TCWG)

AU-C 250

- Instances of noncompliance with laws and regulations (other than when matters are clearly inconsequential).

AU-C 260

- Significant findings or issues that are relevant to those charged with TCWG regarding their responsibility to oversee the financial reporting process.

AU-C 265

- Significant control deficiencies and material weaknesses identified during the audit.

Written Representations

All ERISA Plan Audits

- Management has provided the most current plan instrument, **including all plan amendments**.
- Acknowledging its responsibility for **administering the plan** and determining that the **plan's transactions** that are presented and disclosed are in conformity with the plan's provisions, including maintaining **sufficient participant records.**

ERISA Section 103(a)(3)(C) Plan Audits

- It is permissible;
- the investment information is prepared and certified by a qualified institution under 29 CFR 2520.103-8;
- the certification meets the requirements of CFR 2520.103-5; and
- The certified investment information is appropriately measured, presented and disclosed.

Auditor’s Report

- Opinion (required to be placed first)
- Basis for Opinion
- Going Concern (if applicable)
- Key Audit Matters (if applicable)
- Responsibilities of Management for the FS
- Auditor’s Responsibilities for the Audit of the FS
- Supplemental Schedules (including required ERISA schedules)

Auditor’s Report – ERISA Section 103(a)(3)(C)

Scope and Nature of the ERISA Section 103(a)(3)(C) Audit

- Opinion (required to be placed first)
- Basis for Opinion
- Going Concern (if applicable)
- Key Audit Matters (if applicable)
- Responsibilities of Management for the FS
- Auditor’s Responsibilities for the Audit of the FS
- Supplemental Schedules (including required ERISA schedules)

Key Audit Matters

Definition – Key Audit Matter

- Those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period.
- Selected from matters that are communicated to TCWG

Determining Key Audit Matters

- Areas of higher assessed risk of material misstatement or significant risks
- Significant management judgements
- Effect on the audit of significant events or transactions that occurred during the period

Key Audit Matters

Does not Substitute for...

- Disclosures in the financial statements
- Expressing a modified opinion
- Reporting on an entity's ability to continue as a going concern
- Separate opinion on individual matters

Auditor's Reports

Opinion

We have audited the financial statements of the Employee Benefit Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), which comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the net assets available for benefits of the Employee Benefit Plan as of December 31, 20X2 and 20X1, and the changes in its net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

Auditor’s Reports

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Employee Benefit Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor’s Reports

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company Employee Benefit Plan’s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Management is also responsible for maintaining a current plan instrument, including all plan amendments, administering the plan, and determining that the plan’s transactions that are presented and disclosed in the financial statements are in conformity with the plan’s provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

Auditor’s Reports

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor’s Reports

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company Employee Benefit Plan’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company Employee Benefit Plan’s ability to continue as a going concern for a reasonable period of time.

Auditor’s Reports

Other Matter—Supplemental Schedules Required by ERISA

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of [Identify included schedules and periods covered.] are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS.

In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, including their form and content, are presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA.

In our opinion, the information in the accompanying schedules is fairly stated, in all material respects, in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA.

Auditor’s Reports

Other Matter—Supplemental Schedules Required by ERISA

Exercise professional judgment and maintain professional skepticism throughout the audit.

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company Employee Benefit Plan’s internal control. Accordingly, no such opinion is expressed.

Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company Employee Benefit Plan’s ability to continue as a going concern for a reasonable period of time.

Auditor’s Reports

Other Matter—Supplemental Schedules Required by ERISA

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

SAS 138 (Issued May 2020)

Effective

- Effective date moved from December 15, 2020, to December 15, 2021, with early implementation permitted.

General Overview

- Amends the description of materiality.

SAS 138

Prior definition

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could ***reasonably be expected*** to influence the ***economic decisions*** of users made on the basis of the financial statements.

New definition

- Misstatements, including omissions, are considered to be material if there is a ***substantial likelihood*** that, individually or in the aggregate, they would influence the **judgment** made by a reasonable user based on the financial statements.

On the Horizon

- Quality Management Proposed Standards
- ME Chapter in 2021 EBP Audit Guide
- Continued convergence with International Standards (where possible)

Major Topics in ME Chapter (and Appendices)

- Administration and Operation of a ME Plan
- Cash balances
- Presentation of investments
- Contributions and contributions receivable
- Payroll compliance audits
- Withdrawal liability receivable
- Operating assets
- Capital and operating leases
- Debt obligations
- Plan expenses
- Participation in ME Plans
- Financial statement disclosures

Break

2021 Employee Benefit Plan Virtual Conference

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NOVEMBER 10, 2021

2021 Employee Benefit Plan Virtual Conference

NOVEMBER 10, 2021

Payroll Audits

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About Our Payroll Auditors

- We have been conducting payroll audits for clients since the late 1970's (after adoption of ERISA in 1974)
- Offices located in Washington DC, Chicago, New York, and Los Angeles
- Calibre CPA Group has a separate staff of professionals in each of our offices solely dedicated to conducting payroll audits with over 80 years experience
- We've provided payroll audit services to several clients for over 25 years
- We conduct over 2,500 payroll audits per year in almost every state of the nation

Payroll Audits

- Multiemployer plans
  - Employee Retirement Income Security Act of 1974 (ERISA) defines the term multiemployer plan as a collectively bargained plan maintained by more than one employer, usually within the same or related industries, and a labor union
  - Established pursuant to a Collective Bargaining Agreement (CBA)
  - Governed by a joint board of trustees with equal representation from labor (employees) and management (employers)

Payroll Audits

- Why are payroll audits important?
  - Payroll audits help fulfill the fiduciary responsibility of the Plan Trustees to collect contributions
  - Completeness and accuracy assertions for the financial statement audit over contributions
  - Protects the plan and the participant and keeps employers honest

CBA

- Covered Employees
- Covered Work
  - Not just job titles, but actual type of work
- Jurisdiction
  - Building
  - Geographic Area
  - Specific type of Job site
  - All covered work
- Contribution basis
  - Contributions based on hours or wages
  - Hours worked or paid
  - Probation or minimum working requirements
- Effective Dates
  - New employer or renewal
  - Evergreen
  - Job specific

Steps of Payroll Auditing

- Complete records
  - Source documents
  - Reconcile payroll
- Routine or target
  - Known issues
  - Sampling or 100% testing
- Employee ID testing
  - Complete roster
  - Shop or non-descript titles
- Payroll Testing
  - Covered hours
  - Caps
  - Cut off issues
- Hire and termination testing
- Cash Disbursement and 1099 testing
  - Non-Union subcontractors
  - Under the table cash payments
- Owners

Payroll Audit Challenges

- Jurisdiction
  - It’s the work that’s covered
  - Employees from outside the geographic area may work under reciprocity agreements
  - Right to work states
- Cash disbursement/Sub violations
  - Alter egos
  - Non-Union Subcontractors
- Issues with send records and when going on-site
  - Need Fund involvement ASAP on-site audits
  - Need Fund help to get records timely when employers are sending records

Payroll Audit Challenges

- 401k issues
  - Not reporting on time
  - Employer contributions separated in a timely manner
  - Administrators not keeping good track of elections
  - Communication between Funds, Employers, and outside Administrators
  - Time allowed for employers to make changes for new elections or change in elections
  - Auto-enrollment

Compliance Auditing vs. Payroll Auditing

- Payroll audit implies the audit will be restricted to payroll records.
- Compliance audit suggests adherence to the rules of the plan.
- Review of cash disbursement records, general ledgers and, in some cases, financial statements and income tax returns is needed.

Compliance Auditing vs. Payroll Auditing

- Types of non-payroll deficiencies
  - Disguising hours paid as expenses
    - Supplies or materials
    - Entertainment
    - Equipment repair or rental
    - Reimbursements

Role of the Fund Administrator

- Send a letter to the employer notifying that it has been selected for a payroll audit
- Provide auditor with CBAs, MOAs, Participation Agreements
- Provide auditor with participation history report (contribution/remittance reports)
- Support the auditor with difficult employers
- Send the audit results letter
- Collections

Role of the Payroll Auditor

- Ensure that the employer is given advance notification of all needed records.
- Understand the CBAs, MOAs and Participation Agreements.
- Understand the employer's payroll system and contribution reporting process.
- Identify covered and noncovered employees

Role of the Payroll Auditor

- Look for deficiencies and determine whether clerical or systemic.
- Know when to expand the audit testing.
- Communicate the audit findings to the employer.
- Prepare the audit report in a timely manner.

Reporting to the Board

- Provide status report for each meeting
  - Employers audited
  - Date of audit
  - Date completed
  - Period audited
  - Results
  - Reasons for exceptions
- Review the meeting agenda and be prepared to discuss any employer on the agenda.

Reporting to the Board

- Inform the Board of employers refusing or delaying the audit
- Review attorney's report
  - Be prepared to discuss any employer on the list
  - Are the issues the result of a payroll audit
- Keep your ears open for discussions of employers not on the agenda.

Role of the Trustees

- Collect all contributions due to the plan
- Allow no employer a competitive advantage
- Have an appeal process for collections of employer contributions.
- CBA Interpretation

When to Audit

- What is the right cycle for payroll auditing?
  - Recommended 3-year cycle of all contributing employers.
  - Audit an equal amount of small, medium, and large employers.
  - Audit large employers first to review most of the participants then add medium and small employers.
  - Get Employer Trustees to volunteer to be audited first.

When to Audit

- Random Audits
  - Part of the regular 3-year cycle
  - Frequency of subsequent audits depends on deficiencies identified
  - If no deficiencies with two or more consecutive audits, then move to 5-year cycle

When to Audit

- Target Audits
  - Delinquent employers
  - Complaints by plan participants
  - Suspected alter ego or use of nonunion subcontractors
  - Suspected cash payments to plan participants
  - Audit new employers withing the first 6-9 months
  - Audit employers going out of business or leaving the plan.

When to Audit

- Problem Employers
  - Move to 1 or 2-year cycle
- Consider the location of the contributing employers.
  - If the plan covers a large geographical area, then travel costs must be considered.
  - Employers in proximity to one another should be audited at the same time.

2021 Employee Benefit Plan Virtual Conference

NOVEMBER 10, 2021

DOL Regulations – Cybersecurity Best Practices

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Cybersecurity Best Practices

- Cyber crimes continue to increase
- Phishing and Ransomware lead the pack
- Human element involved in vast majority
- Bad guys casting wide nets
  - Use data from prior breaches to target

Cybersecurity Best Practices

- 1,767 publicly disclosed breaches reported thru Q2 2021 [1]
  - Represents 18.8B records
- $180 / record cost for PII [2]
  - Cost up 10% in last year
- $4.2m avg cost for data breach

1. 2021 Mid Year Data Breach QuickView Report
2. IBM Security – Cost of a Data Breach Report 2021

Attack Vectors

- Social Engineering – tricking you into performing an action thru social interaction
  - Clicking on links
  - Entering credentials
  - Opening a file or launching an application
  - Providing information over the phone

Attack Vectors

- Ransomware – cyber extortion
  - Encrypt data
  - Threaten to expose the data
  - Denial of service attacks
- Often demands payment via cryptocurrency

Cybersecurity Best Practices

- U.S. Department of Labor Guidance
  - On April 14, 2021, the Employee Benefits Security Administration (EBSA) for the first time issued cyber security guidance.
  - Guidance directed at plan sponsors, plan fiduciaries, record keepers and plan participants.

Poll Question 8

- Question: Does your organization have a formal, documented, cybersecurity program?

Cybersecurity Best Practices

- Immediate Steps!

1. Assign information security roles within the organization
2. Increase cybersecurity awareness
3. Strengthen access control
4. Implement technical controls
5. Ensure data is encrypted both while stored and in transit

Cybersecurity Best Practices

- Immediate Steps!

  1. Assign responsibility
     - To be effective, a cybersecurity program must be managed by someone of sufficient experience, knowledge and authority.

Cybersecurity Best Practices

- Immediate Steps!

  2. Raise cybersecurity awareness
     - Ensure all users or users are familiar with the cybersecurity policies of the organization
     - Ensure all users are familiar with the security tools available in the organization
     - Train users to be aware of security risks

Cybersecurity Best Practices

- Immediate Steps!

3. Strengthen access control
    - Access is comprised of two components
        - Authorization
            - Access is limited to appropriate users
            - Access privileges are regularly reviewed
        - Authentication
            - Strong passwords
            - Multi-factor authentication

Cybersecurity Best Practices

- Immediate Steps!

4. Strengthen technical controls
    - Is everything up to date?
        - Ensure all updates are up to date
        - Segregate your network
        - Ensure data is regularly backed up

Poll Question 9

- How do you manage your own passwords?

Cybersecurity Best Practices

- Immediate Steps!

5. Is data encrypted?
   - Data should be encrypted in all phases whether it is in storage or in transit to a vendor or other user.

Cybersecurity Best Practices

- Next Steps
  - 6. Conduct an internal risk assessment
  - 7. Assess the security of your third-party vendors
  - 8. Have a third party audit your security controls
  - 9. Ensure you have an effective business resiliency program

Cybersecurity Best Practices

- Next Steps

6. Conduct an internal risk assessment
    - Identify and assess cybersecurity risks
        - What has changed since your last risk assessment?
    - Identify controls and processes in place to address these risks
    - Identify revisions to controls and new processes to mitigate existing and newly identified risks

Cybersecurity Best Practices

- Next Steps

7. Assess 3rd party security
    - Identify which 3rd parties have access or are responsible for data
    - Determine what level of cybersecurity the provider needs to ensure your data is secure

Cybersecurity Best Practices

- Next Steps

  8. Third party audit of your security controls
     - A strong third-party audit will
       - Point out areas of risk you may not have identified
       - Bring industry expertise and experience and introduce new technologies

Cybersecurity Best Practices

- Next Steps

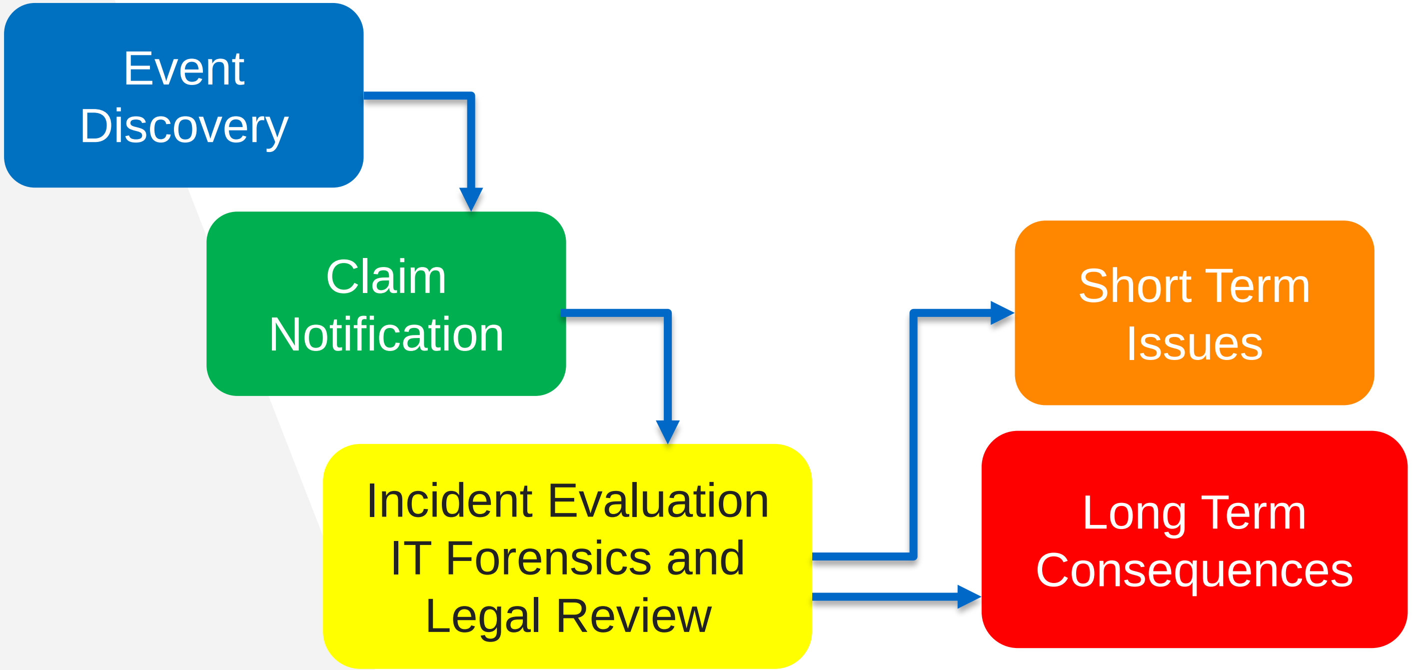
9. Business resiliency plan
   - This plan should allow for an organization to quickly adapt to disruptions while maintaining continuous operations and safeguarding assets and data. There are three components to this plan:
     - Business continuity
     - Disaster recovery
     - Incident response

Poll Question 10

- Has your organization done a third-party security audit?

Cybersecurity Best Practices

- Cyber Insurance
  - Make sure your coverage matches your risk
  - Look at the insurer's incident response plan



Cybersecurity Best Practices

- Department of Labor websites:
  - Cybersecurity Program Best Practices
  - Online Security Tips
  - Tips for Hiring a Service Provider

Questions

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