Currents

News at a Glance for Multiemployer Retirement Plan Sponsors

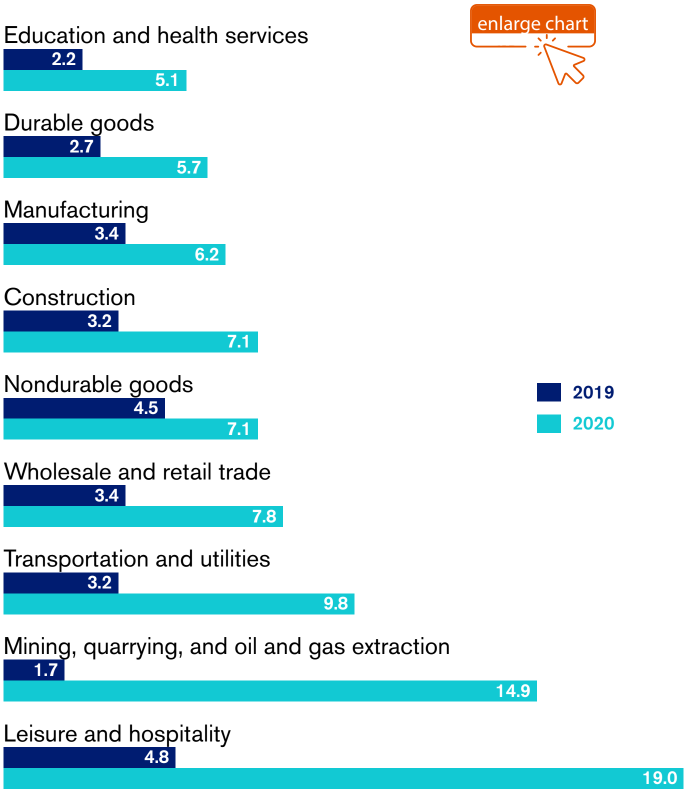
Fourth Quarter 2020

Key statistics

Unemployment

Unemployment levels in all industry sectors reported by the Bureau of Labor Statistics have risen year over year from September 2019 to September 2020. To point out three industries of interest to many sponsors of multiemployer plans, Construction increased from 3.2 percent to 7.1 percent; Transportation and Utilities increased from 3.2 percent to 9.8 percent; and Leisure and Hospitality increased from 4.8 percent to 19.0 percent.

Unemployment Rate in Selected Industries, September 2019 Compared to September 2020



Source: Bureau of Labor Statistics, Table A-14. Unemployed persons by industry and class of worker, not seasonally adjusted.

Investment trends

S&P 500® gains credited to six stocks

2020 brought turbulence to the U.S. equity markets. The pandemic's impact of dramatic market declines early in the year was followed by substantial recovery as investors began to look past the near-term economic damage. In fact, the S&P 500® had risen nearly 8.4 percent for the YTD through September 3.

However, much of those gains came from only six mega-cap stocks: Facebook, Apple, Amazon, Netflix, Google and Microsoft (known as FAANGM). Without the returns of those stocks, which make up about 20 percent of the index's total market cap, the S&P 500® would have lost -0.65 percent YTD through September 3. It is encouraging that these strong American companies have generated such solid returns so far this year; however, it speaks to the continuing narrowness of stock gains. If sentiment turns sour on these firms, the market could be at risk for a reversal.

For a more detailed discussion, see Segal Marco Advisors' July 21, 2020 blog post.

Inflation considerations

Inflation has stayed quite low in recent years, but there are some signs that this could be about to change. That large infusion of cash into the financial system from massive monetary stimulus may push prices up. While the Consumer Price Index (CPI) has remained below 2 percent in recent years, pandemic-related spending on food and consumer discretionary items could push it higher. Meanwhile, prices for gold and silver, both inflation hedges, have risen sharply lately.

Despite all this, it is possible that inflation will remain low in the near term. Unemployment still sits above 7.9 percent (September 2020), and the Federal Reserve has said that more deflationary forces than inflationary ones exist in the economy. The situation bears watching.

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Compliance news

Amortization extension fee increase

Beginning January 4, 2021, the fee for multiemployer plans requesting a five-year automatic extension of an amortization charge will increase more than 500 percent, from $1,000 to $6,500.

Learn more about this change along with increases in other IRS user fees in Segal's August 21 insight.

SECURE Act "to-do" list for DC plans

The SECURE Act requires sponsors of DB and/or DC plans to take certain action. This includes:

- Moving the required beginning date for mandatory distributions from age 70.5 to age 72 (amendment needed by 2022, both DB and DC)
- Limiting the death benefit distribution period for beneficiaries to 10 years after the death of a participant (DC only)
- Distributing lifetime income disclosures (DC only)
- Allowing certain long-term, part-time employees to make elective deferrals (DC only)
- Immediately suspending the ability to make loans through credit cards (both DB and DC)

For more details and other considerations, see What Plan Sponsors May Need to Change for SECURE Act.

Selected strategies for managing multiemployer retirement plans

Big data

To provide additional value to clients, Segal has partnered with Club Vita, an organization specializing in big data analytics using information about participants. This partnership enables Segal to use models that are more predictive, more personalized and more efficient. Better models lead to more secure pension promises.

Club Vita uses information on geographical location and socioeconomic groups to improve understanding of human longevity. By comparing overall projected longevity of a plan to others and to sub-populations within it, Segal can more precisely tailor actuarial assumptions to each client to better predict outcomes for the participants.

To learn more, we encourage you to view a replay of a Segal/Club Vita webinar.

Recent Segal Blend court ruling

In July 2020, *Interboro Fuel Corp v. Local 553 Pension Fund*, a court upheld use of the Segal Blend, stating:

> Just because in one isolated case, which was either wrongly decided, as [the Fund] urges, or was fact-specific to the parties, that is, the *New York Times* case, does not mean every withdrawing employer may cite that case as a basis to overturn the Segal methodology ... All agree that there is no holding that renders [the Segal Blend] invalid or patently unreasonable. Even the *New York Times* case declared that to be so.

The Segal Blend is a principles-based approach to blending the liabilities calculated at two interest rate assumptions. The portion of this blending is not discretionary, but based on the fund's current asset level. Additionally, there is nothing proprietary about the Segal Blend; other actuaries and firms can and do use this methodology. To learn more about the Segal Blend, please read our article.

To discuss the implications for your plan of anything covered here, contact your Segal consultant or get in touch via our website, segalco.com.

This *Currents* was published in October 2020. To see previous issues or other Segal publications, visit the insights page of our website, segalco.com.

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