Currents

Quarterly Recap for Multiemployer Retirement Plan Sponsors

Second Quarter 2021

Key statistics

Ten-year employment projections show the long-term impact of COVID-19 varies widely by sector

A Bureau of Labor Statistics (BLS) article examined the potential long-term structural impact of the COVID-19 pandemic on U.S. employment through projections based on two scenarios: a moderate impact and a strong impact. The objective was to identify industries and occupations that have more uncertain employment trajectories in light of the pandemic's impact on public health and social behavior.

The multiemployer pension space is diverse, with plans encompassing many hard-hit industries, including manufacturing, retail, transportation and entertainment. The BLS projections show that many of those sectors could continue to experience increased uncertainty and potentially higher unemployment in the coming decade. Plan sponsors and their advisers should work together to monitor these factors so they can maintain a prudent, long-term vision for their plan's funding.

For more details on these projections, read the BLS article, "Employment projections in a pandemic environment."

Pandemic's impact on multiemployer pension plans

A survey of Segal's calendar-year plan clients showed that despite a volatile 2020 and future economic uncertainty, most pension plans saw little change in their funding levels from January 1, 2020 to January 1, 2021. The average funded percentage (for nearly 200 plans surveyed) increased to 89 percent in 2021, up from 87 percent in 2020. The percentage of calendar-year plans in the green zone increased to 72 percent, up from 70 percent. For critical and declining plans, the average funded percentage dropped to 31 percent, from 35 percent.

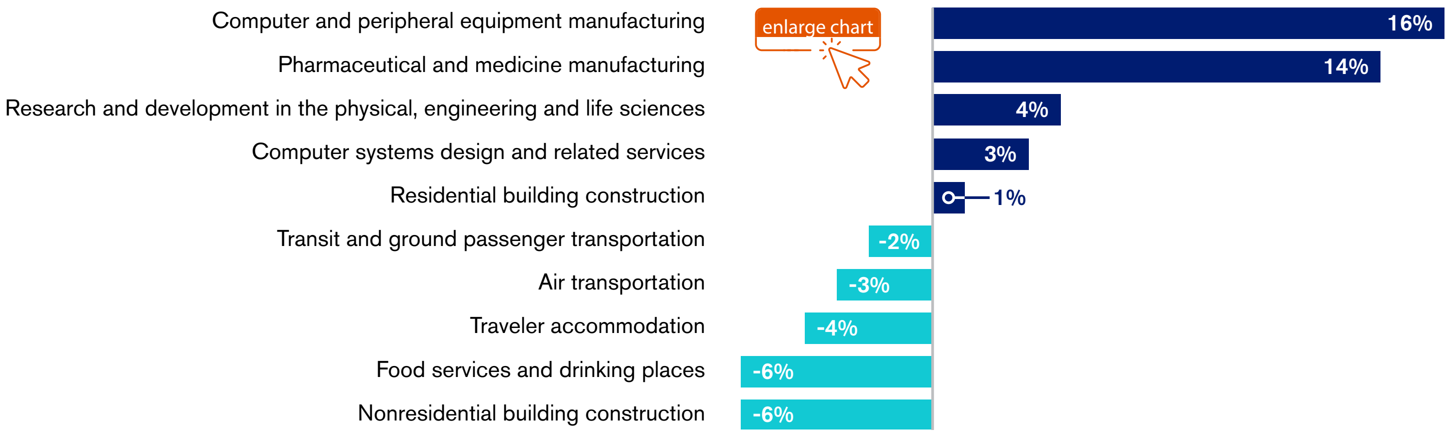
To learn more, read the Spring 2021 *Survey of Plans' Zone Status*.

Investment trends

The U.S. debt burden: What's different now?

The U.S. continues to add to its mountain of debt, with the pandemic stimulus piling on even more of late. The amount of U.S. government debt in relation to the size of the economy has skyrocketed since the Great Financial Crisis.

Difference Between Baseline and Moderate Impact Percent Changes in Employment, Projected 2019–29



Source: Bureau of Labor Statistics

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High levels of debt may lead to a variety of negative economic effects, like crowding out private investment, rising interest rates and a weaker dollar. However, Modern Monetary Theory (MMT) states that high amounts of debt are not as harmful to an economy as traditionally thought, and that expanding the deficit is the right way to respond to recessions and to the economic consequences of the pandemic. We emphasize the “T” in MMT remains only a theory.

For details, see Segal Marco Advisors’ March 3 article.

What a steeper yield curve could mean

Longer-term Treasury rates rose significantly in March 2021, while shorter-term rates remained quite low. This means that the yield curve is now steeper than it was at the beginning of 2021. There are several possible reasons for this: fiscal stimulus, COVID-19 vaccine optimism, commitment from the Federal Reserve to keep short-term rates low in the near future and an economy that could be improving after being hit hard by the pandemic. No one can say where yields will go from here. Rates may continue to rise, but if inflation picks up amid massive fiscal and monetary stimulus and the dollar weakens, the curve could begin to flatten.

Read more in Segal Marco Advisors’ March 5 article.

Selected strategies for managing multiemployer retirement plans

The American Rescue Plan Act and multiemployer pension relief

With the American Rescue Plan Act of 2021 (the Rescue Plan) signed into law on March 11, help is on the way for many multiemployer DB pension plans in varying degrees of financial trouble. While many provisions of the Rescue Plan will be clarified by regulatory guidance that’s not anticipated until July, it’s clear the law:

- Allows plans to elect to use their prior zone status
- Provides for an extension of plans’ funding improvement or rehabilitation period
- Allows plans to make adjustments to their funding standard account to smooth investment losses over 10 years and to amortize experience losses, including investment and other COVID-19-related losses, generally over 30 years

The Congressional Budget Office estimates that 185 multiemployer pension plans will be eligible for special financial assistance in the form of grants totaling $86 billion. The PBGC is required to issue guidance on the special financial assistance, including how to apply.

The law also has implications for plans that are not financially troubled. For example, the flat-rate PBGC premium, paid on a per-participant basis, is set to increase from $31 (indexed) to $52 (indexed) for plan years beginning in 2031.

Multiemployer plan trustees should carefully review the law to determine whether their plans are eligible for the special financial assistance relief provided under the Rescue Plan and whether such assistance and various other forms of relief provided are appropriate for their plans. They should discuss the implications of the Rescue Plan with their Segal consultant and other professional advisers.

To learn more about the Rescue Plan, see our March 11 article.

Compliance reminders

DOL guidance on cybersecurity

The DOL has issued three pieces of non-regulatory guidance on reducing cybersecurity risks in ERISA retirement plans. These items are the first official guidance from the DOL on this increasingly critical issue. The three pieces of guidance include:

- Cybersecurity program best practices
- Tips for hiring a service provider with strong cybersecurity practices
- Online security tips

To learn more about this guidance, see our April 21 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 June 2021. To see previous issues or other Segal publications, visit the insights page of our website, segalco.com.

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