

Currents

Quarterly Recap for Multiemployer Retirement Plan Sponsors

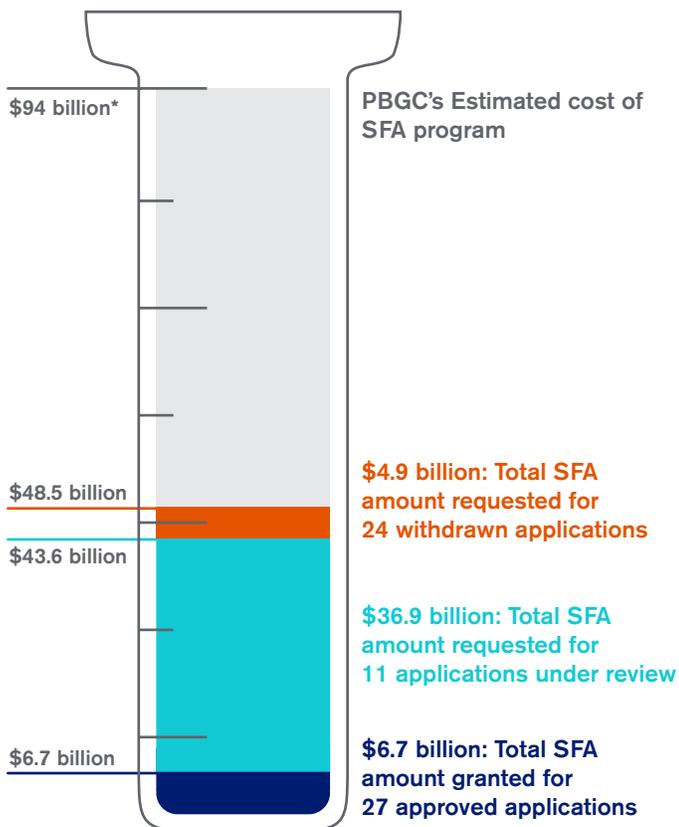
Third Quarter 2022

Key statistics

Status of application approvals for special financial assistance

Applications for special financial assistance (SFA) account for just over half of the PBGC's estimated cost of the SFA program. The graphic below shows the breakdown by applications that are under review, withdrawn and approved.

How Does the Amount of SFA Compare to the Cost Estimate for the Program?



As of June 24, 2022

* \$94B is based on the mean estimate in the PBGC's interim final rule.

For the latest information on SFA, see our July 7, 2022 article, "[PBGC Final Rule on Multiemployer SFA: Solvency Through 2051.](#)"

Investment trends

Infrastructure and net zero

Countries, companies and organizations around the world are pledging to reach net-zero carbon emissions by 2050. This push for decarbonization will create investment opportunities in infrastructure. Increased focus by governments is fueling rapid investment in green energy and energy transition. It will require significant capital investment both in existing infrastructure as well as in development of new plants and technologies.

The move towards net-zero carbon emissions has also broadened the opportunity set for infrastructure investors. Key areas of opportunity include the production of different forms of renewable and low-carbon energy as well as the infrastructure and technologies required to support their penetration, adoption and efficiency. While estimates vary, the global investment required to reach net-zero CO2 emissions by 2050 ranges between \$4.5 trillion and \$5.8 trillion annually. For a more detailed discussion of infrastructure and net zero, see Segal Marco Advisors' [December 2021 article](#).

Tyranny of behaviorism

Tyranny is defined as "an act or pattern of harsh, cruel and unfair control over other people." At times, the investment industry may take advantage of investor behaviors to almost tyrannically influence investors into decisions not in their best interest.

Such behaviors include "anchoring," where an exposure to an initial number influences judgment. An investor may be "anchored" to feel like oil prices are through the roof. However, the incredible volatility (including downward swings) of oil prices over time tells a far different story.

Another example is herding bias, which is the tendency to follow the crowd without sufficient rationale. During short-term market swings, herding bias leads investors to sell to avoid disaster or to buy to find the “next big thing,” even though a long-term outlook and diversified portfolio are almost always better options.

To fight the tyranny of behaviorism, investors can be aware of these biases, do independent homework to gain a deeper understanding of markets, think about why certain information may be inaccurate, and consider what period was used to display data. Read more about behaviorism in Segal Marco Advisors’ [January 2022 article](#).

Selected strategies for managing multiemployer retirement plans

Analysis finds that DB pension plans offer substantial cost advantages over DC accounts

A recent study from the National Institute on Retirement Security (NIRS) compares a typical large public sector DB plan to a DC plan with industry average fees and expected investment returns based on typical individual investor behavior. Although this study is based on a public sector plan, the findings are of interest to multiemployer plans. It shows that the DB pension plan provides a given level of retirement benefit at about half the cost of a DC plan, because of three factors:

- Longevity risk pooling, which enables DB plans to fund benefits based on average life expectancy and to pay monthly benefits no matter how long participants live, whereas DC plans require each worker to self-insure against the possibility of living longer than average
- Higher investment returns due to professional management and lower fees from economies of scale
- Optimally balanced investment portfolios in DB pensions earn higher returns than DC accounts with a typical individual strategy of down-shifting over time to a lower risk/return asset allocation

A shift from a DB pension plan to a DC plan offers a way to transfer investment risk borne by employers to participants, but this comes with either increased benefit costs or significant retirement benefit cuts that are larger than the savings realized by the employer. Hybrid retirement plans that combine some of the features of DB and DC plans remain more cost effective to the extent that hybrid benefits emphasize DB-like characteristics. For more details on this study, read the NIRS report, [“A Better Bang for the Buck 3.0.”](#)

Compliance reminders

DC plans cannot include non-prudent investment options

For over a decade, participants of DC plans that are given investment choices have legally challenged those investment options and/or fees. These lawsuits have been extremely costly to 403(b) plans. On January 24, 2022, the Supreme Court ruled that DC plans cannot include non-prudent investments, making it a fiduciary’s duty to monitor all investment options. This prudence standard applies to both 403(b) and 401(k) plans. Because this decision has implications for similar current lawsuits and potential future cases brought by participants in a DC plan with investment options, it is recommended that sponsors of 403(b) and 401(k) plans consult with their attorneys on how best to address their current investment options. The Supreme Court’s decision in *Hughes v. Northwestern* reasoned that plan fiduciaries are required to conduct their own evaluation to determine which investment options can prudently be included in a plan’s menu of options. Failing to remove a non-prudent investment option from a DC plan is a breach of fiduciary duty.

Learn more about this U.S. Supreme Court decision in our [January 2022 insight](#).

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 July 2022. To see previous issues or other Segal publications, [visit the insights page of our website, segalco.com](#).

The “Investment Trends” section of *Currents* was prepared using investment information from public and private sources that Segal Marco Advisors believes to be reliable. No representation or warranty stated or implied is given as to the accuracy of the information contained herein. The publication is distributed for general informational and educational purposes only and is not intended to constitute legal, tax, accounting or investment advice. Any ideas or strategies discussed herein should not be undertaken by any individual without prior consultation with your own financial, legal or other advisor for the purpose of assessing whether the ideas or strategies are suitable to you. The information contained herein, is not and shall not constitute an offer to sell, a solicitation of an offer to buy or an offer to purchase any securities, nor should it be deemed to be an offer, or a solicitation of an offer, to purchase or sell any investment product or service. Segal and Segal Marco Advisors expressly disclaim any liability or loss incurred by any person who acts on the information, ideas or strategies discussed herein.

Contact [Segal Marco Advisors](#) for advice regarding the evaluation of any “Investment Trends” content. Segal Marco Advisors posts new content regularly to <https://www.segalmarco.com/investment-insights>.