Currents

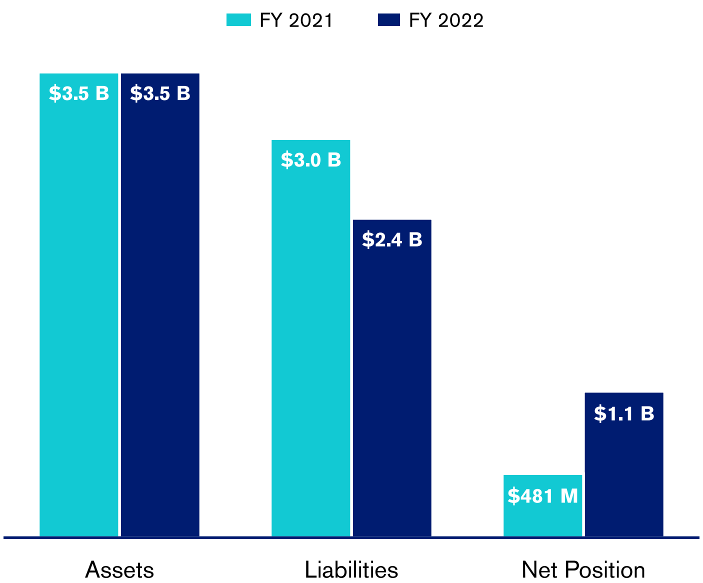
Quarterly Recap for Multiemployer Retirement Plan Sponsors

Fourth Quarter 2022

Key statistics

PBGC Multiemployer Program's finances are better

Between fiscal year (FY) 2021 and FY 2022, the financial position of the PBGC's Multiemployer Program improved by $577 million.



Source: PBGC Annual Performance & Financial Report 2022

Managing financially troubled multiemployer pension plans in light of the PBGC's final rule on SFA

The PBGC's final rule on the multiemployer Special Financial Assistance (SFA) program makes significant changes to key provisions in the interim final rule (IFR) to enable eligible plans to pay all benefits and expenses due through 2051.

Key changes include:

- **Two-interest-rate approach** — Cash-flow projections are made using two interest rates: one for non-SFA assets and one for SFA assets to account for the restrictions on investment options for SFA assets. Under the final rule, almost all eligible plans will receive a greater amount of SFA than under the IFR.
- **Broadened SFA investment options** — Plans may invest up to 33 percent of SFA assets in certain "return-seeking investments" (i.e., publicly traded equities, equity funds and bonds). The remaining SFA assets must still be invested in investment-grade fixed income.
- **MPRA plans** — To avoid the dilemma of electing SFA relief which forces a reinstatement of suspended benefits and under the IFR results in an insolvency by 2051 or sooner, the final rule provides a methodology to calculate the amount of SFA to be sufficient for the MPRA plan's projected funded status at the end of 2051 to be unharmed.
- **Withdrawal liability** — Mass withdrawal liability interest rates are used until the later of 10 years or the projected life of the SFA assets. Plans are also required to phase in recognition of SFA assets for determining unfunded vested benefits. The PBGC may revise these rules based on comments it receives.
- **SFA measurement date** —The final rule revised the definition to be the last day of the third calendar month immediately preceding the plan's initial application date.
- **Lock-in applications** — Plans are allowed to file a "lock-in application" even if the PBGC temporarily closes its filing portal. This establishes the plan's ability to file using a fixed measurement date.
- **Supplemental filings** — Plans that have already been approved for SFA can submit a supplemental filing to the PBGC under the updated provisions in the final rule for any increased SFA amounts, immediately enabling access to the final rule's provisions on SFA investments and withdrawal liability.

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For more details on the PBGC final rule. read our July 7, 2022 article, "PBGC Final Rule on Multiemployer SFA: Solvency Through 2051."

Investment trends

Fixed income

The first half of 2022 was the worst on record for the Bloomberg U.S. Aggregate Bond Index. Interest rates worldwide have shifted significantly higher as central banks globally work to combat rising and persistent inflation. In addition, the Federal Reserve has begun to embark on quantitative tightening to wind down the huge balance sheet of Treasuries and mortgage-backed securities it had amassed since 2008. While all these factors have worked against core bond prices so far this year, yields on core bonds are now considerably higher. A healthier yield offers a reliable total return enhancement. Thus, core bonds, in spite of all their price weakness this year, actually are a good option for bond investors now. Read more about fixed income investing in Segal Marco Advisors' July 2022 article.

Growth investing

A number of factors, including inflation, supply shocks, interest rate hikes and uncertainty surrounding the Russia/Ukraine conflict, have led growth stocks sharply lower in 2022. However, not all growth-style products perform in a similar way during various market downturns. Growth at a reasonable price and quality growth managers outperformed high growth/momentum during the fourth quarter of 2018. However, the first quarter of 2020 saw investors moving into companies more integral to work-from-home and digital transition themes, which buoyed returns within the high growth/momentum peer group. Macro factors have also had an outsized impact on market returns, and inflation and rising rates may have a direct impact on company profitability and valuations. As market conditions change and evolve, it is important for investors to understand the implications of the growth style they are allocated to, as well as the performance dynamics that style typically exhibits. For more information, see Segal Marco Advisors' August 2022 publication.

Compliance reminder

IRS pilots new audit program for retirement plans

In an effort to reduce the taxpayer burden and time spent on audit examinations, the IRS recently introduced a new pre-audit program for retirement plans. The IRS has begun providing plans that have been selected for an examination with a 90-day notice to self-review. This allows plans to address any required corrections in the plan's documentation and operations. During this period, the Employee Plan Compliance Resolution System corrections program will be accessible to address identified errors in operation. If a plan that receives a pre-audit letter fails to respond in 90 days, or if the IRS does not agree that appropriate corrections have been made, the IRS will audit the plan. Learn more about this new IRS program in our June 8, 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 December 2022. To see previous issues or other Segal publications, visit the insights page of our website, segalco.com.

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