Currents

Quarterly Recap for Multiemployer Retirement Plan Sponsors

First Quarter 2024

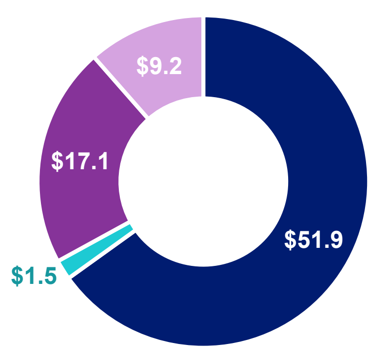
Key statistics

Status of application approvals for Special Financial Assistance

The PBGC estimates that over $75 billion will be paid out in Special Financial Assistance (SFA) under the American Rescue Plan Act. As of the end of January, around 70 percent of that total has been paid. Another 23 percent has been initially reviewed for payment by the PBGC. Other plans that have applied for SFA are awaiting their turn.

The graph shows the breakdown by applications that are under review, withdrawn and approved.

Total SFA Amounts ($Billions)
as of February 16, 2024



Number of Applications by Status

Approved	70
Under Review	10
Withdrawn or Denied	28
Future Applications	94

Source: Segal analysis of PBGC SFA application data

All plans must file their applications by the end of 2025. As Congress has scrutinized PBGC's administration of the SFA resulting in procedural changes, Segal continues to monitor and work with its clients to ensure positive results in this shifting environment.

Selected strategy for managing multiemployer retirement plans

Post-SFA mergers

Mergers have often been a strong option for pension plans, particularly those with overlapping governance. In addition to dictated reasons, there may be financial advantages to mergers, such as economies of scale, expense savings, removal of risk and mutual alignment of the strengths and weaknesses of the plans involved.

Recently, the financial status of many plans was a considerable hindrance to mergers. However, SFA payments to troubled plans have created options trustees may wish to explore. It is important to note that PBGC approval is required for any merger involving a SFA plan.

Plan sponsors should consider the following:

- The plan receiving SFA (SFA plan) may have a higher funded percentage but a weaker contribution base.
- The SFA plan would be deemed to be in critical status through 2051. A merger affects the timing and recognition for funding purposes of SFA assets and therefore a plan's status.
- Benefit improvements are more likely allowable and affordable after a merger.

Your Segal consultant is in the best position to assist in that process as well as parse all the important considerations associated with mergers with or into an SFA or non-SFA plan.

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Investment trends

Liability hedging

Now is a good time for sponsors of pension plans to consider higher levels of liability hedging. There are several reasons for this:

- Many pension plans have reduced accruals over the past decade.
- Funded status has been improving due to the measures taken.
- Interest rates are currently at levels that seem closer to "normal" by historical standards.

This means both of the following are true: liability-hedging investments are cheaper than they have been in years, and static absolute-return goals can be achieved with higher allocations to fixed income.

Pension plans that embrace higher allocations to long-duration fixed income can dramatically reduce the volatility of their funded status position.

For a more detailed discussion, see Segal Marco Advisors' November 2023 article.

Narrow stock market

The S&P 500® index posted a 26.3 percent return in 2023. Most of that robust gain for the year came from the performance of seven companies: Alphabet (previously known as Google), Apple, Amazon, Meta (previously known as Facebook), Microsoft, NVIDIA and Tesla. These seven stocks, now commonly referred to as the "Magnificent Seven," posted a return of 75 percent in 2023 v. a 13 percent return for the remaining 493 stocks in the index.

What drove the performance of those seven stocks? Interest in artificial intelligence (AI), especially generative AI, is a major factor.

These companies are major technological innovators across several industries, including telecom, internet software and semiconductors. They generate large amounts of cash flow and accumulate large cash reserves, which provide comfort to investors.

Like any stocks, however, the Magnificent Seven face several risks. They include regulatory risk for their products and services and cybersecurity threats, as well as any significant weakening of the global economy. Thus, while these seven firms were magnificent in 2023, they may face challenges in the future.

Read more in Segal Marco Advisors' February 2024 article.

Compliance reminders

PBGC premium rates

Effective January 1, 2024, the per participant rate for flat-rate premium is increasing from $35 to $37. The PBGC premium rate will increase to $52 by 2031 and will be indexed thereafter.

Learn more about 2024 numbers retirement plan sponsors need to know in our November 2023 insight.

2024 reporting and disclosure

As sponsors of plans subject to ERISA, trustees and administrators of multiemployer plans should refer to Segal's *2024 Reporting and Disclosure Guide for Benefit Plans*.

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 February 2024. To see previous issues or other Segal publications, visit the insights page of our website, segalco.com.

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