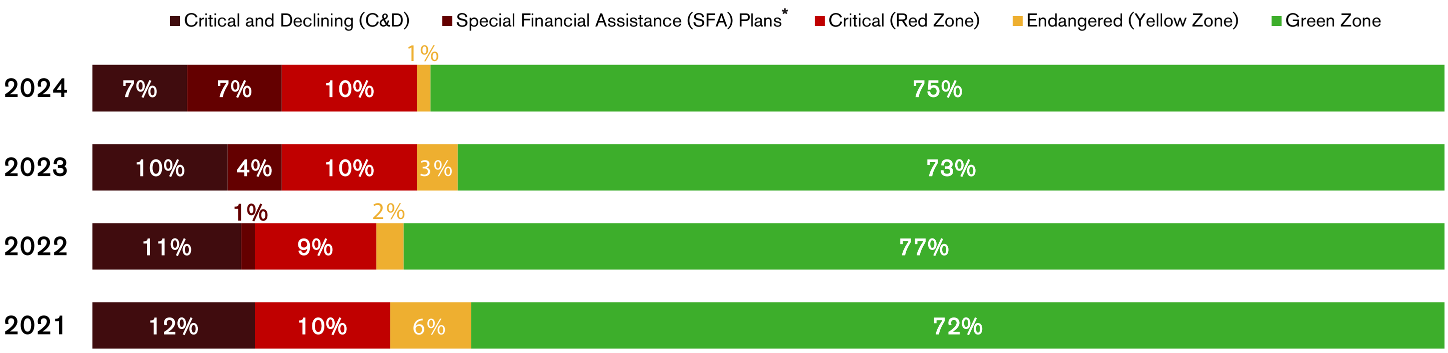
Currents

Quarterly Recap for Multiemployer Retirement Plan Sponsors

Third Quarter 2024

Key statistics

Zone-Status Breakdown by Year, 2021–2024



* Upon receipt of SFA, plans are deemed to be in critical status until 2051.

Source: Segal's 2024 *Survey of Plans' Zone Status*

Selected strategies for managing multiemployer retirement plans

PBGC death audits of plans that received SFA

Some members of the U.S. House of Representatives have railed against the PBGC for paying too much in SFA money because plans were not aware that participants had died due to inadequate access to this important data. Meanwhile the PBGC has access to the Social Security Administration Full Death Master File, while plans have not had access to this data file since 2011. This is the root cause of the discrepancy and why the PBGC was able to find more deaths than administrators.

Because of the scrutiny, the PBGC has modified its initial procedures and is in the process of auditing all plans that have received SFA. It has committed to facilitating the return of inadvertent overpayments. In addition, for plans yet to file an SFA application, the PBGC will prescreen the participant data. You can expect this topic to remain in the news.

The revival of defined benefit (DB) plans

Retirement plans' objective is to provide meaningful retirement income as part of a lifetime of financial security. There has been an uptick in key stakeholders reevaluating the importance of DB retirement plans, which can be attributed to four main factors — talent, risk management, timing and experience — coming together to assure guaranteed secure retirement income.

Recruitment, retention and managing expected retirements within the labor force are all important considerations. Risk mitigation is designing a DB plan and investment policies that allow plan sponsors to be intentional about which risks are borne by the plan or spread across participants, and how to manage those risks. Plan sponsors and key stakeholders have begun to reevaluate the importance of their prior experience in defined benefit plans and are taking concrete steps to return to defined benefit plan designs.

Learn more about this strategy in our February 28 article "A Return to Retirement Income Plans?"

Compliance news: lawsuit on actuarial equivalence

There have been over 30 class action lawsuits filed against large single-employer retirement plans, challenging their definition of actuarially equivalent benefits. The chief allegation is that the assumptions are outdated and the calculated benefit to participants is understated if an individual retired early or with a reduced optional form of payment.

A lawsuit was filed against a multiemployer plan for the first time on June 19, 2023. The plaintiff in this case makes similar allegations and arguments as those against single-employer plans.

Segal will continue to monitor the developments in these cases and in this area of litigation and it is prudent to review the factors and risks to your plans.

Investment trends

De-risking and potential impact of prior elections

Since late 2022, interest rates have risen to levels not seen in more than 15 years. Over that period, most pension plans have become more demographically mature, which makes them more vulnerable to risk factors, such as investment return volatility and changing interest rates.

The current interest rate environment provides opportunities to reduce pension plan risk that may have been unattainable when interest rates were lower. Pension plan sponsors may wish to analyze and consider de-risking strategies that could make participant benefits more secure and future costs more predictable.

For a more detailed discussion, see Segal Marco Advisors' March 12 article.

Elevated valuations and earnings growth

Price/earnings ratios remain well above the historic median so far in 2024, despite April's market downturn. Earnings growth continues to be positive. For Q1 2024, the S&P 500® year-over-year (YOY) earnings growth rate was 0.9 percent, which was the third consecutive quarter of positive YOY earnings growth. However, much of the index's earnings growth comes from the so-called "Magnificent Seven" stocks (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA and Tesla), which had YOY earnings of 32.5 percent in Q1 2024. Without those seven stocks, the index had earnings growth of -4.2 percent YOY for the first quarter. It is worth keeping in mind how much of the index's overall earnings growth has been driven by those few stocks, especially with overall valuations still hovering above historical norms.

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

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