Currents
Quarterly Recap for Multiemployer Retirement Plan Sponsors
Fourth Quarter 2023

Key statistics

Revised Actuarial Standards: ASOP 4

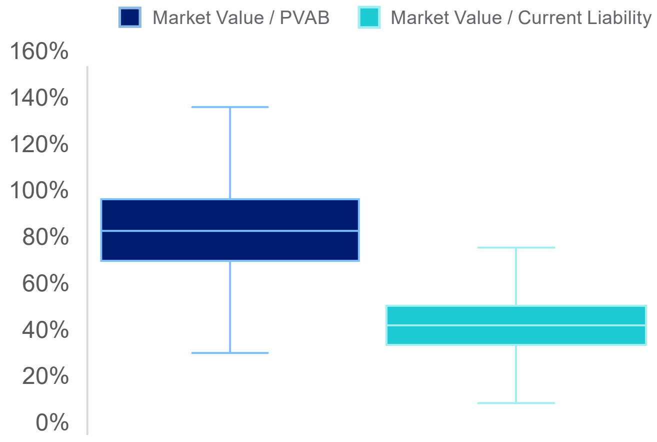
New disclosure requirements for *Measuring Pension Obligations and Determining Plan Costs or Contributions*, known as Actuarial Standards of Practice (ASOP) 4, are in effect for all actuarial valuations with measurement dates on or after February 15, 2023. One requirement is to determine and disclose a reasonable actuarially determined contribution. The Scheduled Cost, an integral part of Segal's valuation report, satisfies this disclosure requirement.

Another new requirement is to calculate and disclose a "Low-Default-Risk Obligation Measure" (LDROM). The LDROM represents the plan's actuarial accrued liability (AAL) measured using discount rates associated with investment-grade fixed income securities expected to provide cash flows with roughly the same timing and magnitude as the plan's expected payments. The LDROM can be approximated using the current liability interest rates.

In most cases, the LDROM will be significantly higher than the Funding AAL, because most plans are invested in assets with higher expected returns than a bonds-only portfolio.

As illustrated below, the average funded percentage using funding rates (usually in the range of 6 to 7.5 percent) and the market value of assets is a little more than 89 percent, while it is 49 percent using the current liability rates (currently around 2 to 3 percent).

Ranges of Market Value of Present Value of Accumulated Benefits and Current Liability



Source: Segal's book of business

While investing in a portfolio with low-default-risk securities may reduce investment volatility, it also may result in the need for higher contributions or lower benefits. For more information, please contact your Segal consultant.

Investment trends

Why stable value funds are a unique asset class

The goal of stable value funds, primarily used by qualified defined contribution (DC) plans, is to provide principal preservation, liquidity and less volatile returns. Money market funds, which are the primary alternative to stable value funds in DC plans, typically hold securities with a weighted average maturity of 60 days or less, whereas the average maturity of securities within stable value funds is around three years.

Longer-dated securities tend to be higher-yielding, which can make stable value funds an attractive option for participants seeking to preserve principal and the ability to take advantage of additional capital accumulation.

The unique characteristics of stable value funds means they can have a role in helping to fulfill the needs of investors. It is one of many options, including other diversified fixed income funds, that provide solid income and can be appealing in this environment. For a more detailed discussion, see Segal Marco Advisors' August 2023 article.

Chat GPT: How will it be useful for equity fund managers?

While it is still too early to determine the areas where ChatGPT will add value for investment managers, we have found that it can provide summarized news flow, sentiment analysis and general content creation. Some developers and quantitative analysts also see value in its ability to improve code and provide algorithmic frameworks.

Investment managers are always looking for the best way to make informed decisions. ChatGPT and other natural language processing models may very well open the door to new and improved ways to take in and assess constant streams of information. It remains to be seen if this can be implemented at scale. We currently believe that, while it is making strides as a companion tool, ChatGPT will require human supervision and collaboration however it is implemented. Read more in Segal Marco Advisors' June 2023 article.

Selected strategies for managing multiemployer retirement plans

Maintaining strong cybersecurity defenses

There are five key challenges:

1. Staying on top of sophisticated cybersecurity threats
2. Knowing what improvements are critically important to your specific organization
3. Addressing emerging threats
4. Performing required and recommended governance, risk and compliance activities
5. Creating a predictable cybersecurity plan and budget

Some examples of ways to address these challenges include training staff, establishing best practices as published by the DOL and performing annual risk assessments. Addressing these challenges are critical. Cybersecurity is an ever-growing concern and bad actors continue to develop ways to break through defenses. To learn more, listen to the recording of our October 2023 webinar.

Importance of student accident insurance

Training programs are a great way for students to learn a trade through hands-on experience. Unfortunately, this valuable hands-on experience can come with the risk of not only accident or injury on the job but also the associated financial impact, for student workers, such as apprentices, journeypersons and other trainees who are not full-fledged union workers. Accidental death and dismemberment (AD&D) benefits provide protection to workers, but those in training programs are often ineligible.

Protecting student workers means protecting the future of the skilled workforce. Accident Insurance Plans specifically for Joint Apprentice Training Committees (JATCs) provide coverage for workers in training programs. For information on JATC Accident Insurance Plans offered through Segal's Insurance Brokerage Practice, please contact your Segal consultant.

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 November 2023. To see previous issues or other Segal publications, visit the insights page of our website, segalco.com.

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