Currents

Quarterly Recap for Multiemployer Retirement Plan Sponsors

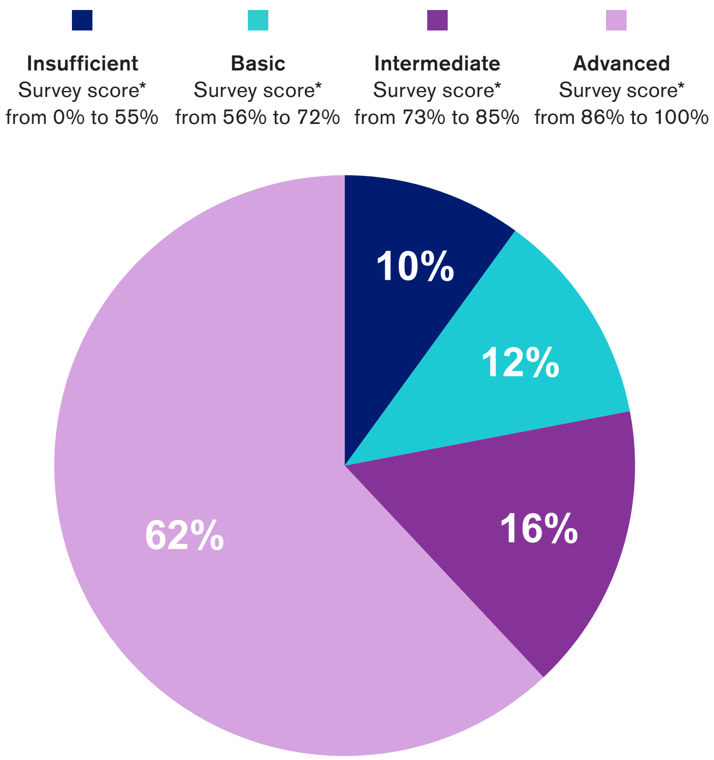
Second Quarter 2023

Key statistics

Most vendors' cybersecurity practices are sufficient or better

Segal's Administrative and Technology Consulting Practice is surveying more than 1,200 vendors about their cybersecurity practices. The following graph presents key findings for the 500 survey responses received as of early February 2023.

Very Few Vendors' Practices Are Insufficient



* Survey scores are based on Segal's proprietary scoring rubric

For more information about cybersecurity best practices, see our April 21, 2021 article, "[DOL Guidance on Cybersecurity Covers Best Practices and Tips.](DOL Guidance on Cybersecurity Covers Best Practices and Tips)"

Implications of 2022 returns for multiemployer retirement plans

2022 made for a unique situation in which both stock and bond markets faced negative returns, reflecting a "nowhere-to-hide" environment. A plan's zone status is primarily determined by its funded percentage and its projected funding standard account. The 2022 market losses may have a significant effect on these metrics.

On the other hand, many plans achieved very strong returns in the years leading up to 2022. The returns a plan gets in any given year are often recognized over four or five years, and this "smoothing" may mean that a plan will not be negatively impacted by a single year's loss.

Regardless, many plans could see a shift in zone status for 2023. In this environment, it's important for trustees to understand how their plan might react to adverse conditions, such as continued low returns or changes in employment levels, and be prepared to act. A detailed risk assessment may consist of scenario testing, sensitivity testing, stress testing and/or stochastic modeling.

Trustees may wish to consider these questions:

- Does the plan have any unrealized gains or losses?
- What actions are required if a green-zone plan enters endangered or critical status in 2023?
- If the plan has a Funding Improvement Plan or Rehabilitation Plan, does it need to be updated to avoid potential penalties associated with not meeting certain standards over a three-year period?
- Is now the right time to remove some risk from the plan by satisfying some obligations through offers of lump sums?

To discuss the implications of 2022 returns for your plan, please contact your Segal consultant.

Investment trends

Stagflation

Stagflation is a period of stagnation (low economic growth) combined with high inflation. The most recent period of stagflation in the United States occurred in the 1970s and early 1980s. At that time, the Federal Reserve (the Fed) raised the federal funds rate to 20 percent to reduce inflation. This led to considerable economic pain.

The U.S. is again facing circumstances that could lead to stagflation. However, there are reasons for optimism. The Fed's early action to increase interest rates may help keep inflation in check and low unemployment and continued growth from consumer resilience are positive economic signs.

For more information on stagflation, see Segal Marco Advisors' December 5, 2022 article.

U.S. dollar strength

As the world's unofficial reserve currency, the dollar often appreciates in difficult times, as it did in 2022.

A strong dollar reduces the cost of U.S. imports and traveling abroad. However, it also negatively affects earnings and returns on large U.S. multinational companies and other international investments.

Investment managers recognize currency risk as part of their review of company fundamentals. The high cost for hedging currency can preclude emerging market investments from portfolios.

To read more on dollar strength, see Segal Marco Advisors' September 2022 article.

SECURE 2.0 retirement reform becomes law

The SECURE 2.0 Act of 2022 was signed into law December 29, 2022. A few of its roughly 90 independent provisions are noted below:

- The required beginning date age for required minimum distributions (RMDs), which apply to all retirement plans, was increased to 73 beginning in 2023 and 75 starting in 2033.
- The penalty tax for an RMD failure was reduced from 50 to 25 percent.
- Plan fiduciaries do not have to seek recovery of mistaken overpayments. Limitations on recoveries were also added.
- All plans' self-correction ability is expanded.
- New 401(k) and 403(b) plans are required to have automatic enrollment starting in 2025.
- For defined benefit plans, the annual funding notice will have additional information beginning in 2024.

Learn more about SECURE 2.0 in our January 4, 2023 insight and the recording of our March 21, 2023 webinar.

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

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