



The Association for Union Constructors

# Retirement Plan Issues in a COVID-19 World

**Sal DiFonzo, CCP, CBP, CSCP**, Vice President

**David Brenner**, Senior Vice President

**Seth Almaliyah, CFA**, Senior Vice President

**Richard Reed, CEBS, AIF**, Vice President

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# | Agenda

**Construction Industry Snapshot: COVID-19 Era** Sal DiFonzo

**Status of Construction Industry  
Multiemployer Plans** David Brenner

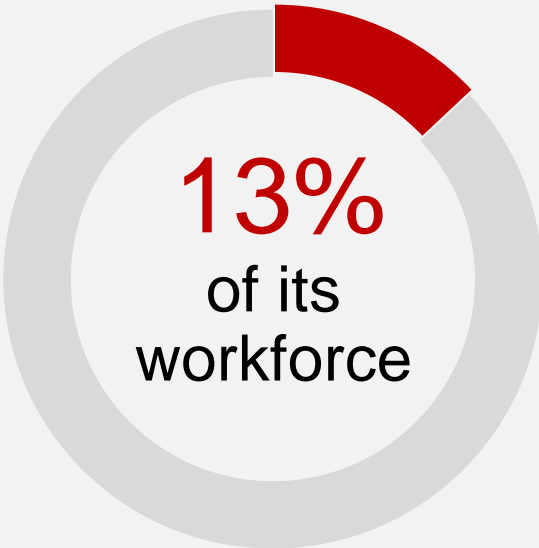
**Impact of COVID-19  
on Financial Markets** Seth Almaliah

**Defined Contribution/401(k) Marketplace  
and COVID-19** Rick Reed

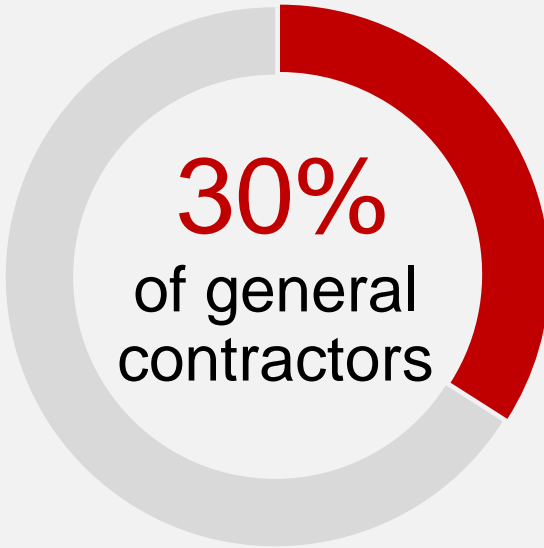
# Construction Industry Snapshot: COVID-19 Era

Sal DiFonzo

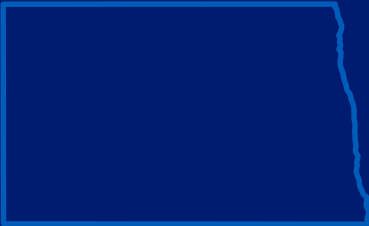
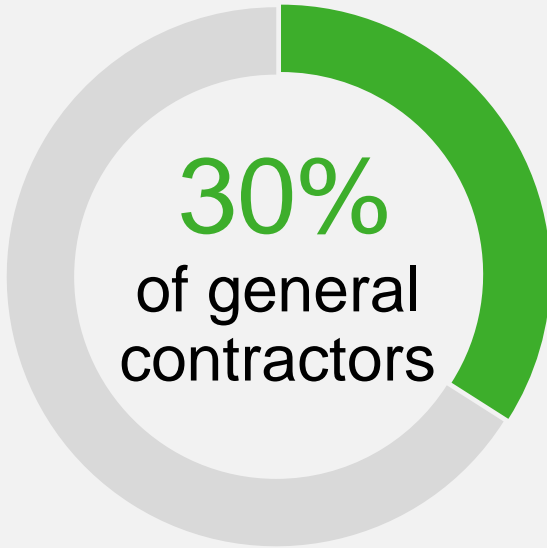
The construction industry  
**lost 975,000 jobs** in April



**Terminated or  
furloughed** employees



**Added new employees**  
in March and April



49 of 50 states reported decreases in construction  
employment, **except for North Dakota**

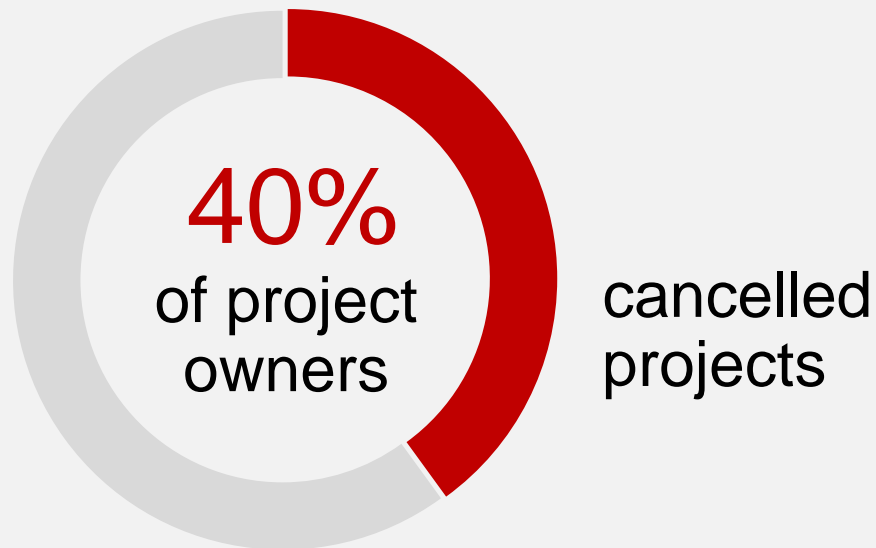
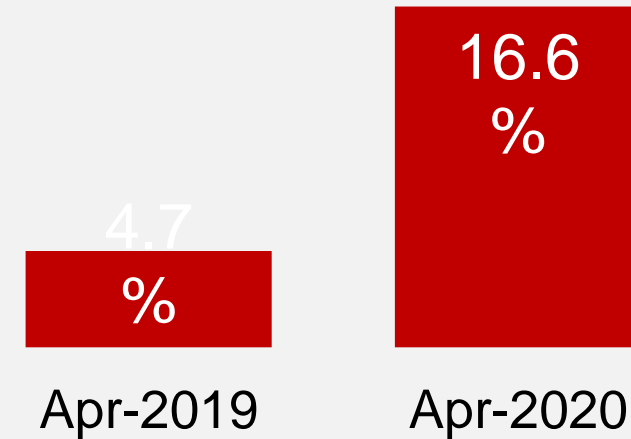
Unemployment among workers  
with recent construction experience

**soared by 1.1M**

from a year earlier, to

**1,531,000**

Unemployment rate in  
construction jumped



Project fallout  
amounted to  
**\$280 billion**  
in April



The Architectural Billings Index score declined from 33.3 in March to 29.5, **an new all-time low** for the index

(A score below 50 [on a 0–100 scale] indicates decreasing billings), with more than half of responding firms reporting a further decline in their firm billings from March to April



report having a project canceled or delayed

### Current anticipated top-performing segments forecast in 2020 include:

Public safety	+6%
Transportation	+4%
Water supply	+4%
Conservation and Development	+4%

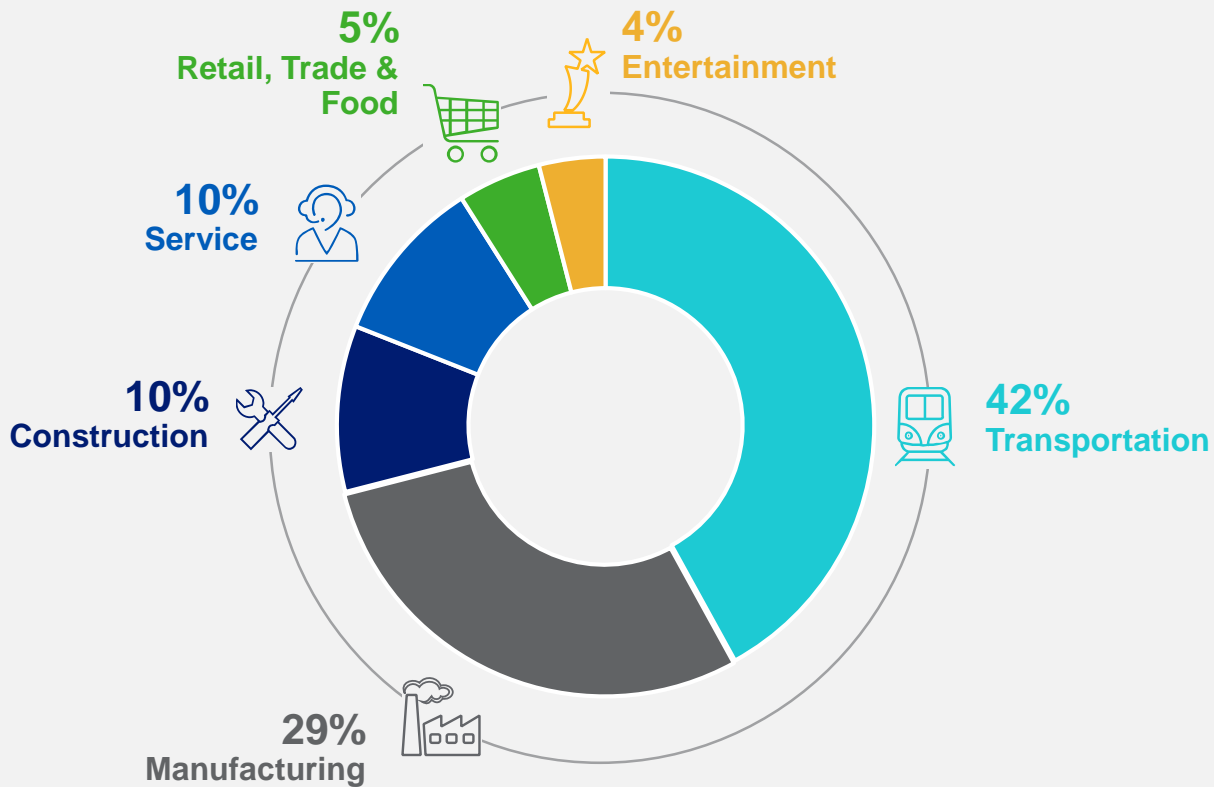
### Forecast bottom-performing segments in 2020 include:

Religious	-8%
Commercial	-7%
Amusement and Recreation	-7%
Lodging	-3%

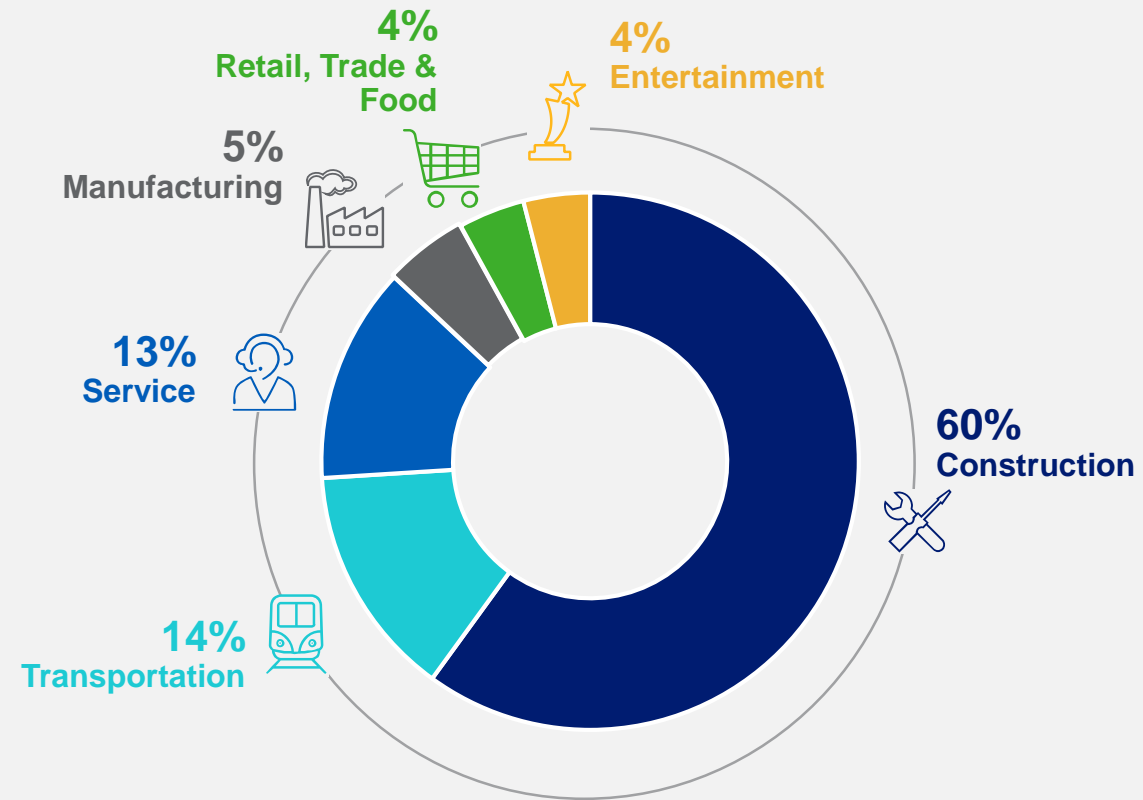
# Status of Construction Industry Multiemployer Plans

David Brenner

# Most of the C&D Plans are in the Transportation and Manufacturing Industries

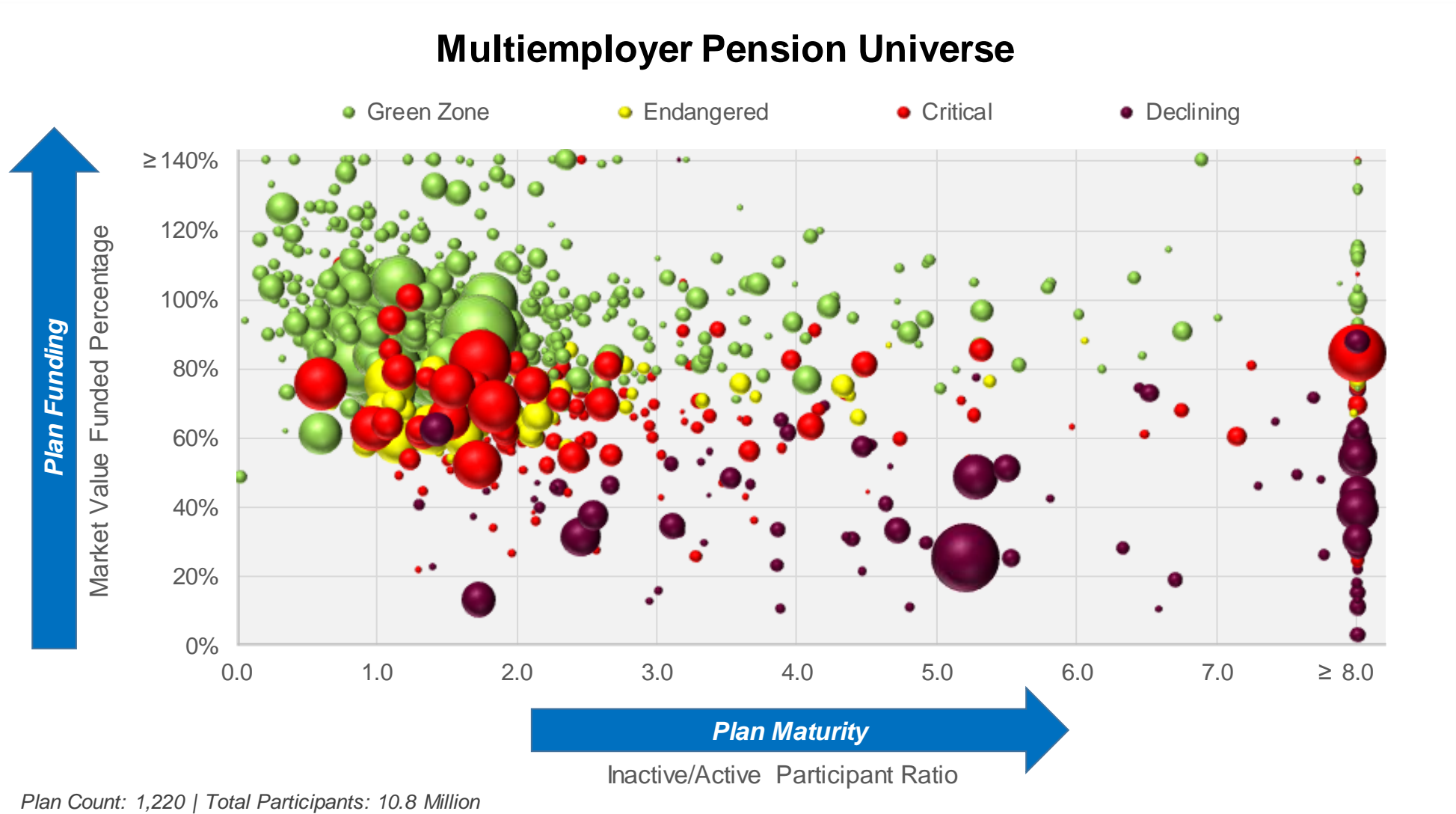


# The Majority of Green-Zone Plans are in the Construction Industry





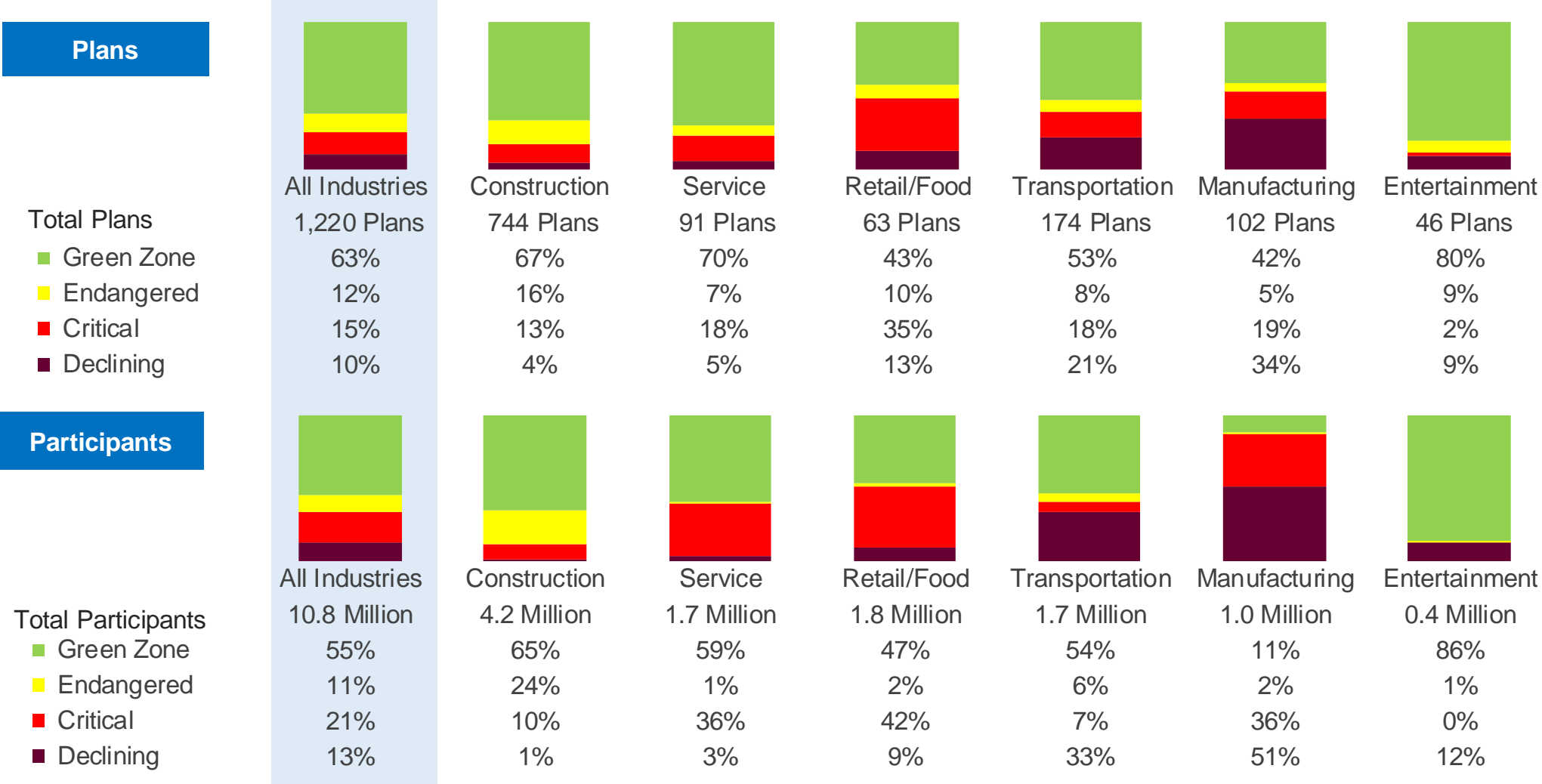
# Current State: Distribution of Plans



Plan Count: 1,220 | Total Participants: 10.8 Million

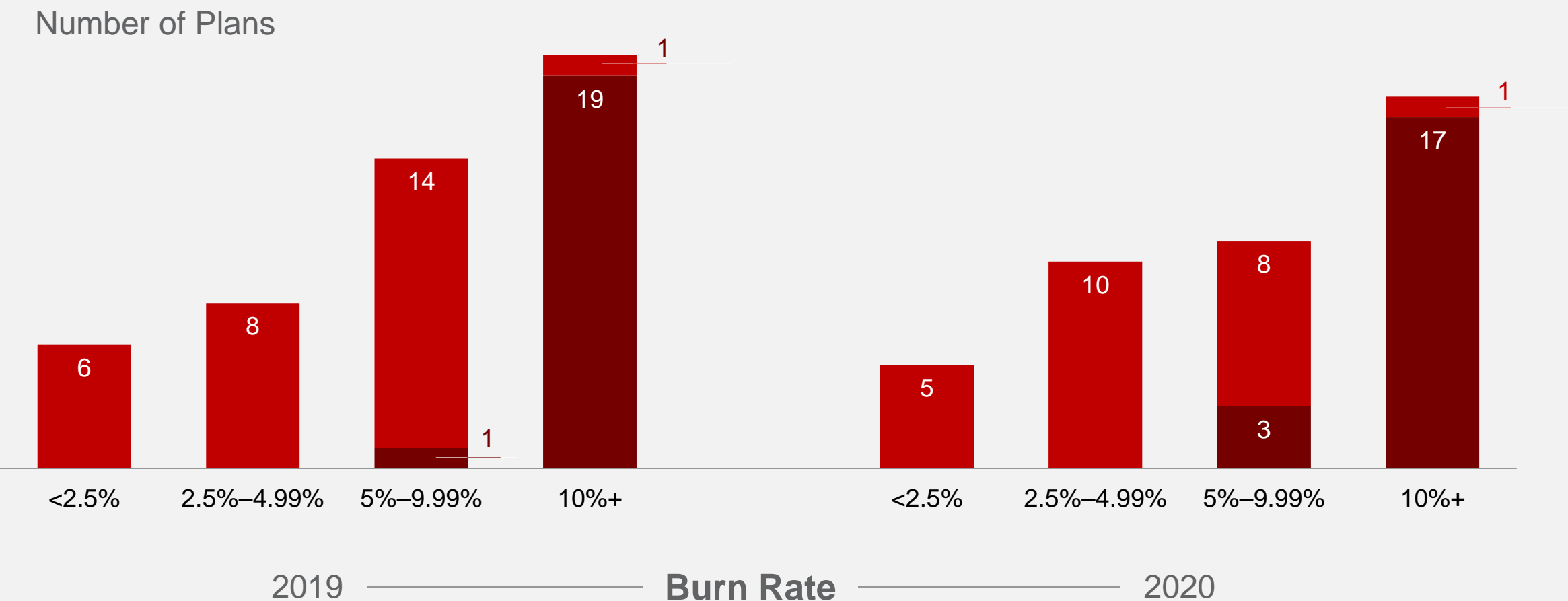
Source: Segal Consulting analysis of Form 5500 data for plan years ending in 2018. Zone status applies to plan years ending in 2019. The size of each "bubble" is based on the total number of participants covered by the plan.

# Not All Industries Have Fared Equally



Source: Segal Consulting analysis of Form 5500 data for plan years ending in 2018. Zone status applies to plan years ending in 2019. Some industries are grouped. Percentages may not add, due to rounding.

# The Burn Rate for C&D Plans is Much Higher Than for Non-C&D Red-Zone Plans



# Multiemployer Pension Provisions in the HEROES Act

- Special partition program for distressed plans
- MPRA benefit suspensions repealed
- Funding relief related to the COVID-pandemic
- Increase in PBGC guarantee
- Composite plan design available
- Provisions not included in the HEROES Act

# Impact of COVID-19 on Financial Markets

Seth Almaliah

# Unique Picture of a Market Downturn

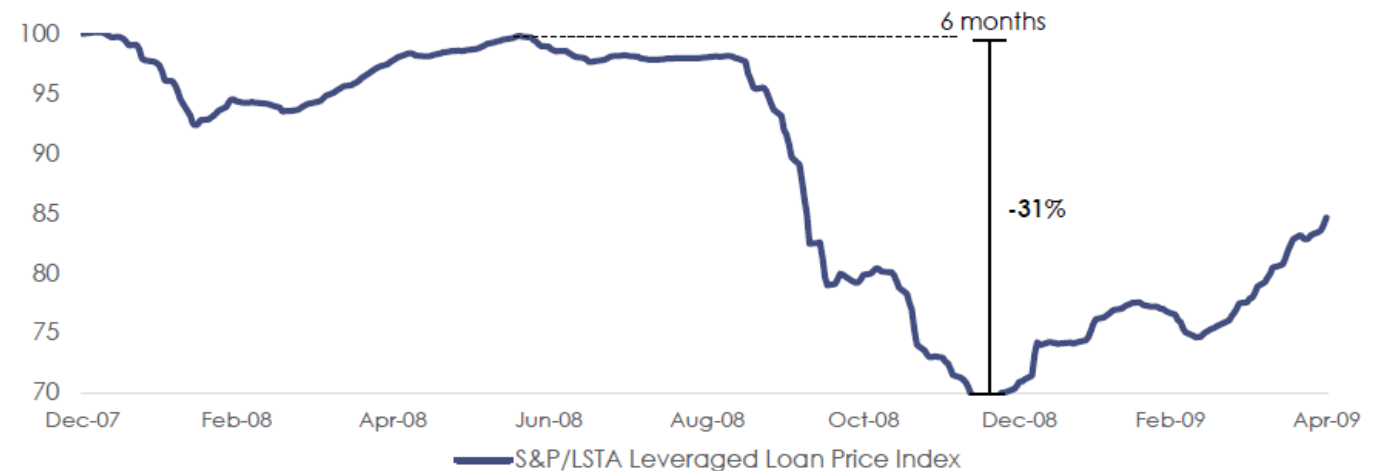
Market sell-off in March was unprecedented in terms of magnitude and speed

Price declines unfolded over days versus months during the Global Financial Crisis

COVID-19



Global Financial Crisis



# S&P 500 Index: Historical Drawdowns

Drawdown %	Days to Recover	Start Date	End Date	Description
-86.2%	6248	09/16/1929	09/21/1954	The Wall Street Crash – oversupply and overproduction in markets, beginning of the Great Depression
-56.8%	1375	10/10/2007	3/27/2013	Great Financial Crisis
-49.1%	1802	3/27/2000	5/29/2007	Dot-Com bubble and 9/11
<b>-33.9%</b>		<b>2/20/2020</b>		<b>COVID-19</b>
-33.5%	484	08/25/1987	07/25/1989	Heightened hostilities in the Persian Gulf, fear of higher interest rates, introduction of computerized trading

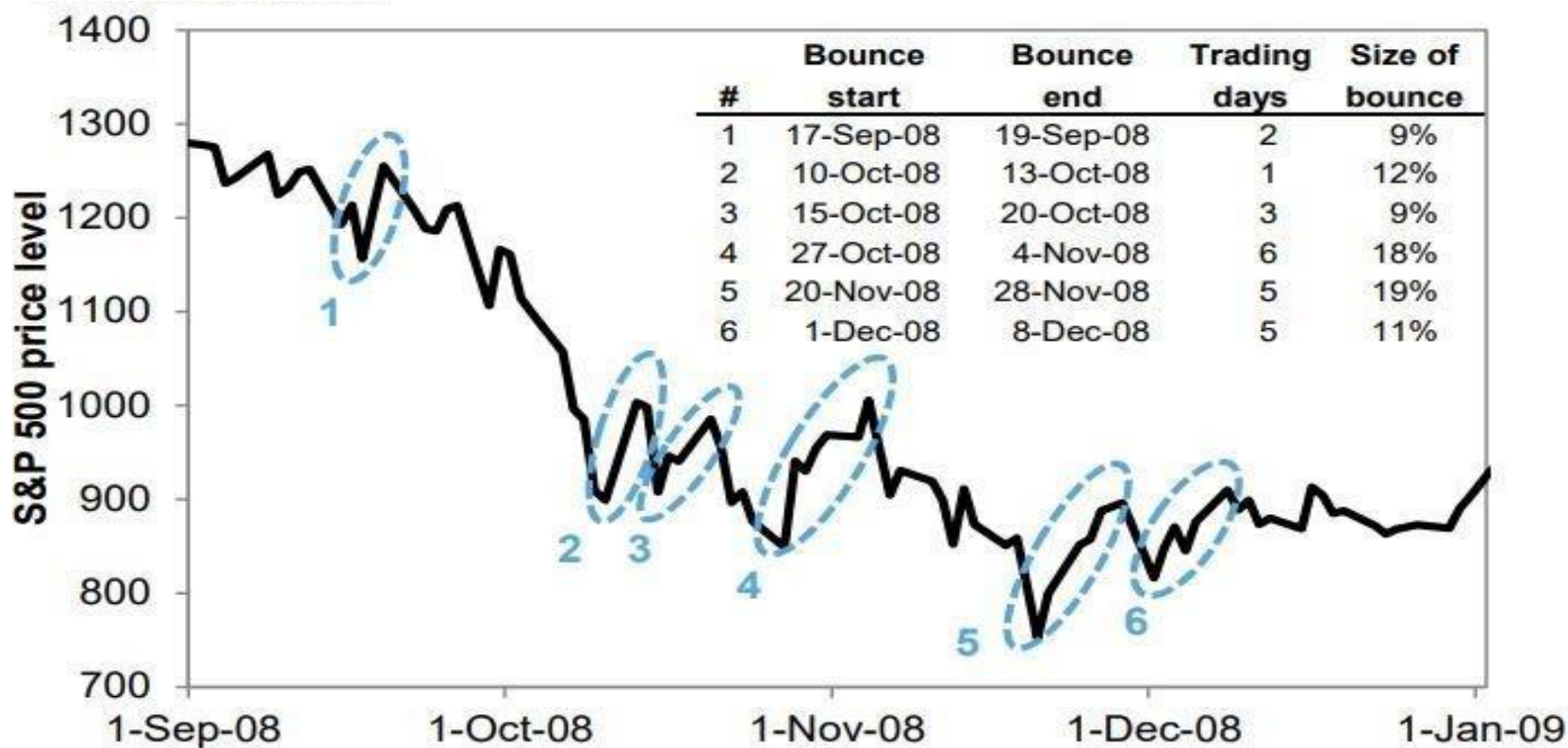
## Other Recent Large Drawdowns

-19.8%	145	9/21/2018	4/22/2019	Trade concerns and oil price drops
-14.2%	285	5/22/2015	7/8/2016	Chinese GDP/Global GDP slowing, market turbulence, Greek debt default
-10.2%	145	1/29/2018	8/23/2018	Global growth slowing
-9.4%	54	7/20/2007	10/4/2007	Prelude to the Great Financial Crisis
-7.4%	30	9/19/2014	10/30/2014	Global economic slowdown, Middle East tensions, Ebola
-6.8%	35	5/1/2019	6/19/2019	Tariffs on Mexican imports, trade wars
-6.1%	64	7/29/2019	10/25/2019	U.S./China trade wars, China devalues Yuan
-5.8%	28	1/16/2014	2/26/2014	Emerging market worries, weak earnings
-5.8%	34	5/22/2013	7/10/2013	Taper tantrum; Bernanke talks reducing monetary expansion

# The Markets May Bounce:

## A View into the Last Crisis

S&P 500 “Bounced” by 9%–19% Six Times Between September and December 2008  
*as of March 26, 2020*





# U.S. Economic Forecasts (as of April 9, 2020)

## Real GDP (Annualized Growth Rate)

Forecast	Q2 2020	Q3 2020	Q4 2020	2020	2021
Conference Board (4/9)	-33.3%	0.1%	27.4%	-6.5%	NA
Goldman Sachs (3/31)	-34.0%	19.0%	NA	-6.2%	5.5%
WSJ Survey (4/3 – 4/7)	-25.0%	6.2%	6.0%	-4.9%	5.1%

- Due to the volatility of the coronavirus pandemic, economic forecasters including the Conference Board are utilizing scenario-based models and updating projections regularly.
- Most forecasts project a sharp fall in economic activity in the second quarter, followed by a gradual increase in economic during the last half of 2020
- Risks to the more optimistic forecasts include the potential that containment and suppression measures will be required for longer and/or a potential freeze in the credit (lending) markets.

“Over the last few weeks forecasters have been operating in a fog. Economic models that have been trained on post-war data face obvious limitations.”

—JP Morgan Chase  
April 8, 2020

# U.S. Federal Reserve Bank Stimulus Actions (3/3 – 4/10/2020)

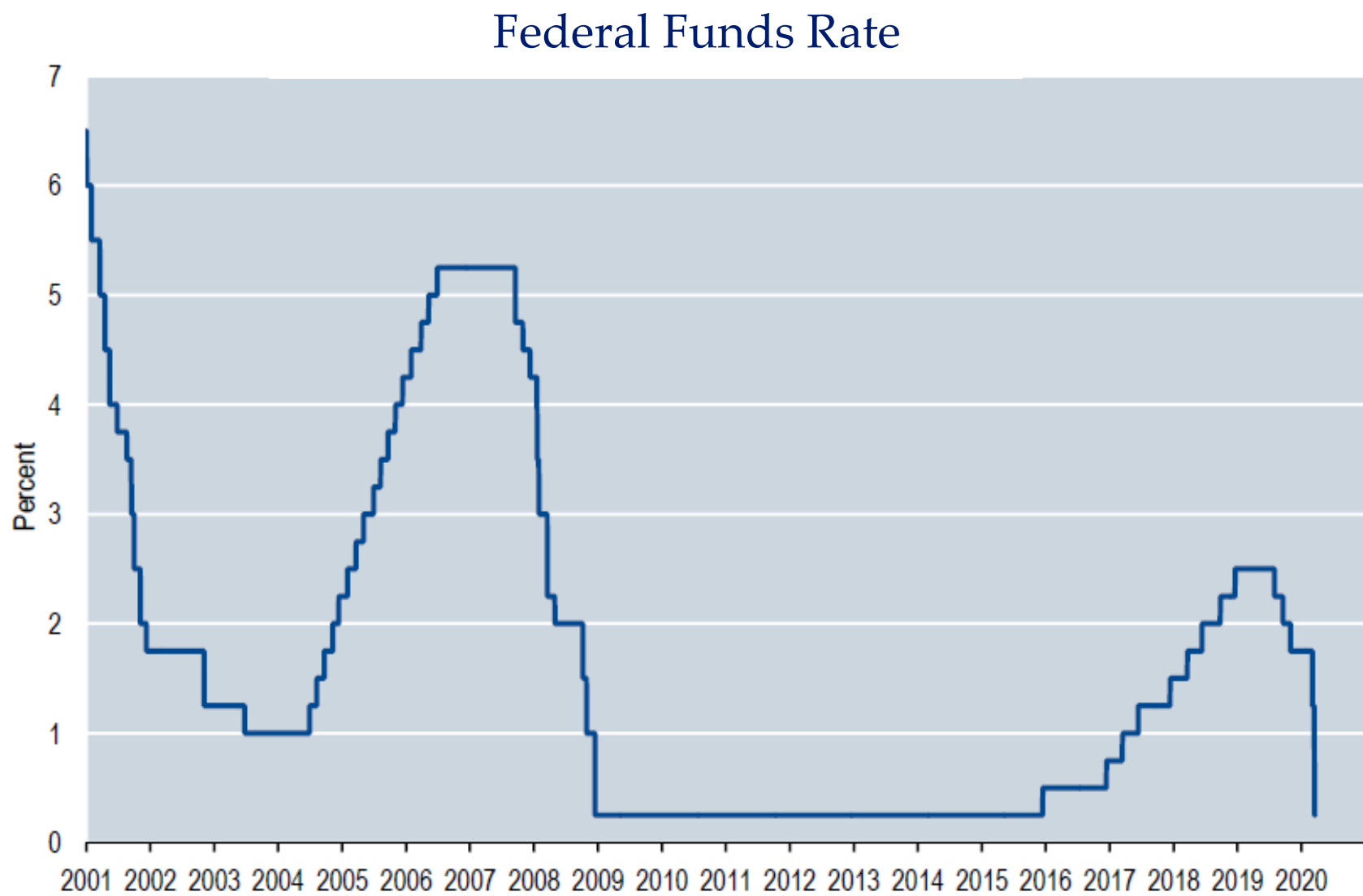
Action*	Goal
Reduced Fed Funds by 1.50% with successive cuts on 3/3 and 3/15 to 0% – 0.25%	Stimulate economy
Announced to make unlimited purchases of Treasury and mortgage backed securities (QE)	Provide liquidity
Cut discount rate to .25% and allow banks to borrow for up to 90 days	Encourage bank lending
\$2.3 trillion program to purchase municipal and expand purchases of corporate debt	Ease access to credit
Establish commercial paper funding facility (CPFF) for taxable and tax-exempt issuers	Ease access to credit
Provide money market liquidity facility (MMLF) through loans and asset purchases	Provide Liquidity
Expanded asset-backed loan facility (TALF) enabling issuance of asset backed securities	Ease access to credit
Established MSBLP (Main Street Lending Program); Repurchase operations (TOMO)	Ease access to credit
Establish Primary (PMCCF) and Secondary Corporate Credit Facilities (SMCCF)	Ease access to credit
Expanded global central bank liquidity swap lines	Provide liquidity

“The Fed’s efforts have been so aggressive and sweeping that some have worried that it is breaking investors’ to determine true value and to price securities accordingly.”

— The Wall Street Journal  
April 10, 2020

\* Note: Fed actions and goals are not all inclusive. Sources: Natixis; Baird Advisors; Various..

# Rates Dropped Helping to Keep Flow of Credit Open



Source: Federal Reserve, WAMCO as of 3/31/2020

# Defined Contribution/401(k) Marketplace and COVID-19

Rick Reed

# Coronavirus Aid, Relief, and Economic Security: CARES Act

- Contains special rules that affect qualified retirement plans including 401(k) and other defined contribution plans
- Provisions allow certain individuals to:
  - Take new type of “coronavirus-related distribution (CRD) up to \$100,000
  - Increases the limitation for plan loans up to \$100,000
  - Waives 10% early distribution penalty
  - Allows loan repayments to be delayed (interest still accrues)
  - Waives the 2020 Required Minimum Distributions

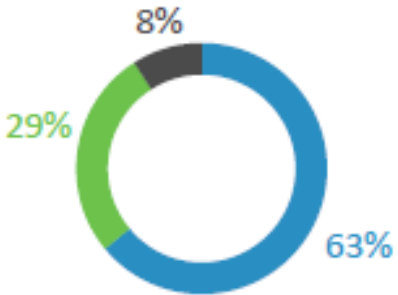
# CARES Act: Distributions

- Up to \$100,000 per year (made between January 1, 2020–December 31, 2020)
- Waives 10% early distribution penalty
- Income tax due can be spread over three years, repayment permitted within three years as an eligible rollover, and no 20% withholding

Plans can, but are not required to, offer coronavirus-related distributions.

# CARES Act

Most plan sponsors are not considering a reduction or suspension of their company match<sup>1</sup>



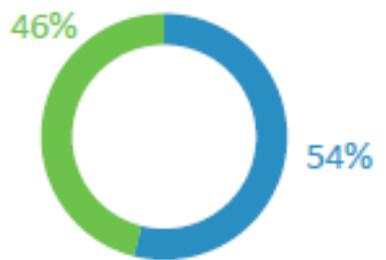
- Maintaining current match program
- Considering a match suspension/reduction
- Have already suspended/reduced match

Nearly all plan sponsors have adopted the CARES Act distribution provisions<sup>2</sup>



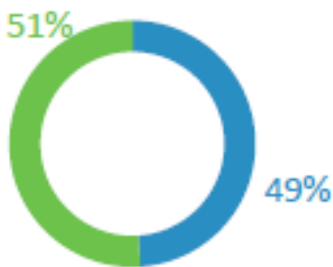
- Adopted CARES Act distributions for at least one plan
- Opted out of CARES Act distributions

Just over half of plan sponsors have enabled loan deferments under the CARES Act<sup>3</sup>



- Enabled loan deferments under the CARES Act
- Opted out of CARES Act loan deferments

About half of plans able to offer new loans under the CARES Act have enabled the provision<sup>4</sup>



- Adopted new loans under the CARES Act
- Opted out of CARES Act loans

Plan sponsors continue to focus on plan design and the implementation of new provisions related to the CARES Act.

Source: Fidelity; Leading through uncertain times, Volume 3, May 2020. Data as of May 8, 2020

# CARES Act Distributions

	% of Total CARES Act Distribution	Average Distribution Amount	Median Distribution Amount
<b>Construction</b>	<b>2.02%</b>	<b>\$11,900</b>	<b>\$5,300</b>
Energy	3.67%	\$20,700	\$10,000
Finance and Insurance	4.15%	\$10,900	\$4,300
<b>Health Care</b>	<b>16.61%</b>	<b>\$10,700</b>	<b>\$4,600</b>
Higher Education	0.75%	\$17,100	\$7,800
Information Technology	6.43%	\$10,700	\$4,100
Legal/Professional Services	4.45%	\$12,300	\$3,900
<b>Manufacturing</b>	<b>27.12%</b>	<b>\$14,200</b>	<b>\$6,300</b>
Public Sector	0.25%	\$22,500	\$11,900
Real Estate	2.16%	\$11,100	\$4,500
Retail Trade	6.24%	\$9,100	\$3,500
Transportation	8.33%	\$18,300	\$8,500
Wholesale Trade	6.55%	\$12,100	\$5,200
Other	11.27%	\$11,800	\$5,000

The manufacturing and health care industries currently represent the highest utilization of CARES Act distributions.



# Post-Coronavirus Retirement Plan Trends

## Delayed Retirements

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Market decline

Pay cuts

Layoffs; Furloughs

Lower savings rates

Lower employer contributions

More conservative investing

COVID-19 related distributions and loans

## Plan Changes

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Increased plan leakage, distributions and loans

Operational changes (e.g., remote working for sponsors and record-keepers)

Potential nondiscrimination testing issues

Possible partial plan terminations resulting in immediate vesting

Lower employer contributions

## Increased Lawsuits

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Cyber security

Market losses

Employer stock drop

# COVID-19 Considerations for Retirement Plan Sponsors and Committees

- Provide oversight of retirement plans, in reaction to recent legislation and market volatility due to COVID-19
- Call ad hoc meeting to review effects of pandemic on retirement plan
- Meet with investment consultant and ERISA counsel to review legislation, CARES Act and ongoing market volatility
- Review plan investments — capital preservation options, fund performance, Investment Policy Statement
- Consider plan's liquidity to meet retiree needs

# COVID-19 Considerations for Retirement Plan Sponsors and Committees

- Verify service provider's and investment managers' ability to handle and adjust to current disruptions (e.g., business continuity plans)
- Evaluate plan's fraud protection mechanisms
- Increase participant education
- Monitor participant actions
- Review and adjust committee process

Document! Document! Document!

# Thank You!

**Sal DiFonzo**

sdifonzo@segalco.com / 602-381-4074

**David Brenner**

dbrenner@segalco.com / 617-424-7330

**Seth Almaliah**

salmaliah@segalmarco.com / 212-251-5074

**Richard Reed**

rreed@segalco.com / 617-424-7361

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