Market & Legal Update

MARCH 2024 REVIEW

Stay on top of the latest market developments and legal and regulatory updates that may affect your business.

MARKET UPDATE | The Path Forward is Uncertain

U.S. stocks continued a 5-month winning streak in March despite elevated interest rates and inflation. The Fed held rates steady once again in their March meeting, as February's inflation data as measured by the Consumer Price Index (CPI) came in higher than expected. Despite some headwinds, markets continued to climb for the month, with the Dow Jones Industrial Average gaining 2.2%, the S&P 500 rising 3.2%, and the tech-heavy NASDAQ returning 1.8% in March. Foreign stocks also rose during the month as the MSCI EAFE Index gained 3.3% and the MSCI Emerging Market Index returned 2.5%. Bond yields fell slightly during the month, and as result the Bloomberg U.S. Aggregate gained 0.9% for the month, but is still negative year-to-date at -0.8%.

Market Return Indexes	March 2024	YTD 2024	2023
Dow Jones Industrial Average	2.2%	6.1%	16.2%
S&P 500	3.2%	10.6%	26.3%
NASDAQ (price change)	1.8%	9.1%	43.4%
MSCI Eur. Australasia Far East *(EAFE)*	3.3%	5.8%	18.2%
MSCI Emerging Markets	2.5%	2.4%	9.8%
Bloomberg High Yield	1.2%	1.5%	13.4%
Bloomberg U.S. Aggregate Bond	0.9%	-0.8%	5.5%
Yield Data	**March 2024**	**Feb 2024**	**Jan 2024**
U.S. 10-Year Treasury Yield	4.20%	4.25%	3.99%

The CPI was released during the first half of March and February's results came in slightly higher than expected. The CPI for all items rose 0.4% during the month of February, slightly more than the 0.3% in January. The monthly reading was heavily impacted by elevated shelter and gasoline indexes, which contributed to over sixty percent of the monthly increase. On an annual basis, CPI for all items rose 3.2%, also higher than the 3.1% in January. While the monthly CPI reading was mostly in line with expectations, the annual rate was slightly elevated. Removing the volatile food and energy components, Core CPI rose 0.4% in February, unchanged from the January reading. On an annual basis, Core CPI rose 3.8%, which was a slight relief from 3.9% in the previous month. Shelter continues to be one of the largest components of core inflation and accounted for roughly two thirds of the total 12-month increase. Both core inflation readings came in slightly higher than consensus expectations. The Fed's preferred measure of inflation, the Personal Consumption Expenditures (PCE) price index, was released at the end of the month, with Headline PCE for February rising 2.5% on an annual basis compared to 2.4% in January, and Core PCE (excluding food and energy) rising 2.8% compared to 2.9% in January. Both annual PCE readings fell relatively in line with expectations.

On March 20th, the Fed announced that they would hold the federal funds rate steady at the 5.25%-5.50% range for the fifth consecutive FOMC meeting. Although the March meeting had been the initial target of some of last year's predictions for the first rate cut of this cycle, the hold in interest rates by the Fed had become abundantly clear due to the elevated CPI readings and overall strength in the job market. It is worth noting that FOMC participants maintained their projections of three rate cuts in 2024 from their initial release in December of last year, giving markets hope that we will still experience interest rate relief at some point during this year. As always, in his public remarks Fed Chair Powell reiterated that the committee is taking a "meeting by meeting" approach to the incoming economic data and will not speculate about any future decisions or policy for the next meetings. While Powell noted that the "path forward is uncertain", he mentioned that the Fed is prepared to maintain the policy rate at current elevated levels for longer if necessary. Continued economic growth seen in the first quarter of 2024 has helped the Fed avoid having to rush to cut rates too soon, as GDP growth remains positive, and the labor market continues to be a bright spot within the economy.

The U.S. labor market added 275,000 jobs in February, exceeding consensus expectations of 200,000 and higher than January's revised number of 229,000. Despite the labor market's impressive resilience to the current economic environment, there are signs of weakness developing. Job gains for December and January saw significant downward revisions, while the unemployment rate increased from 3.7% in January to 3.9% in February, its highest level since January 2022. February's wage growth also came in lower than expected, with average hourly earnings increasing by 0.1% month-over-month, and 4.3% on an annual basis. The softening within the labor market is a welcomed consequence by the Fed, as Powell noted that FOMC participants expect the rebalancing in the labor markets to continue, which will help ease upward pressure on inflation.

While the U.S. economy's resilience to the aggressive rate hiking cycle has allowed the Fed to slowly assess incoming data and avoid prematurely cutting rates, it is also contributing upward pressure to the persistent inflation. While the Fed awaits further softening of economic conditions and inflation readings, markets anxiously await the first rate cut of this monetary policy cycle. Next month will bring a new inflation reading as well as the next FOMC meeting, where we hope to hear more clarity surrounding the Fed's plan for 2024 and beyond.

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Paying death benefits to the correct recipient(s) commonly arises as an issue for employer-sponsored retirement plans, which can raise significant risk management issues for the employer and individual plan fiduciaries. Understanding your retirement plan's, beneficiary designation provisions, the applicable law and implementing best practices and procedures can help your company avoid getting ensnared in messy litigation over death benefits.

Determining Whether the Plan Offers Death Benefits

An administrator first should determine whether a retirement plan even offers benefits or further benefits in the event of the death of the plan participant. In the case of defined contribution plans (*e.g.*, profit-sharing plans, 401(k) plans, most 403(b) plans, or ESOPs), in which the trustee holds an individual account balance on behalf of the participant, the account balance itself will remain available as a death benefit payable to the appropriate beneficiary.

Most defined benefit plans (*e.g.*, pension plans, variable annuity plans or cash balance plans) only pay a qualified pre-retirement survivor annuity to a surviving spouse of a married participant (*i.e.*, at least 50% annuity for the life of the surviving spouse) as the exclusive form of death benefit. Not all defined benefit plans pay a death benefit when a non-married participant dies prior to the participant's annuity starting date.

In all cases, it is critical for plan fiduciaries and administrators to accurately communicate plan death benefit information and the procedures for properly making beneficiary designations to plan participants.

Plan Beneficiary Provisions

We recommend that an administrator review the retirement plan's provisions governing beneficiary designations. Most plans contain provisions describing the procedures participants must follow to designate primary and contingent beneficiaries (including spousal-consent requirements applicable when a married participant intends to designate a non-spouse beneficiary as a primary beneficiary).

Most plans also provide for default beneficiaries in the event that a participant has failed to designate a beneficiary or the designation has become invalid or obsolete (e.g., all named beneficiaries pre-deceased the participant). Default beneficiaries typically include the participant's spouse, children, parents, and then estate. Some document providers recommend always having the participant's estate as the plan-named default beneficiary – to avoid a situation where death benefits are paid but the participant had more heirs than were known to the plan sponsor. Always requiring beneficiaries to establish a formal estate, however, may create administrative headaches of its own, especially for smaller benefits.

Beneficiary Designation Forms

We also recommend that administrators review a company's retirement plan designation forms (as well as sample benefit election forms) to ensure that these forms align with the plan's death benefit provisions and applicable law. Plan administrators should have procedures in place to retain plan beneficiary designations. Administrators also should review participant beneficiary designations upon receipt to determine whether the participant has obtained proper consents where applicable, whether problems exist (prior to the participant's death, when such problems may be more difficult to address) or whether the designation involves any special beneficiaries. Also, administrators should design beneficiary designation forms to obtain all information (name, beneficiary age, address, phone number, and tax identification number) to facilitate communication regarding and the payment and reporting of death benefits.

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Special Beneficiaries

Some participants work with estate planning professionals and have special plans involving the disposition of retirement plan assets. These estate plans often involve having trusts designated as primary or contingent beneficiaries of retirement plan assets. Administrators should flag such beneficiary designations and ensure that information necessary to pay death benefits is maintained (trust name and trustee name, address and other contact information). For required minimum distribution purposes, the administrator should obtain a copy of the trust instrument or at least a list of the trust's beneficiaries. To qualify for an extended minimum distribution period for trust beneficiaries, the trust (even if testamentary) must be irrevocable at least at the participant's death, be valid under state law and have identifiable beneficiaries (which have been disclosed and certified to the administrator).

Administrators also should consider noting any minor (child) beneficiaries, especially any minor primary beneficiaries. Minor beneficiaries can give rise to payment issues, and the administrator might take an opportunity to raise these issues with the participant prior to the participant's death.

Divorce

Administrators should make participants aware that divorce does not automatically revoke a formal beneficiary designation in favor of the former spouse. While some plan documents provide that a divorce automatically voids a beneficiary designation in favor of the former spouse (and provide only that a former spouse receive benefits assigned under a qualified domestic relations order), not all documents contain these provisions.

New Platform Provider

Some recordkeepers and platform providers offer to maintain beneficiary designations on behalf of employers. One question that can arise is whether a beneficiary designation filed with one recordkeeper remains valid if the administrator moves the plan to a different recordkeeper. Whatever the new recordkeeper may require, it is important that the employer and service providers operate the plan in accordance with its written terms concerning beneficiary designations. If switching providers may result in the invalidation of prior beneficiary designations, then having the right plan provisions and the right participant communication strategy is critical – along with robust human resources support.

Open Enrollment

Many employers have an annual open enrollment when employees may elect benefits for the following year. Open enrollment is an excellent opportunity to give participants an opportunity to update their beneficiary designations. One best practice is to furnish participants with a copy of their currently effective designations along with the blank designation form.

Retirement Resources for You

USI Consulting Group's team of experts is happy to assist employers with all retirement plan compliance matters and changes in the market, including those discussed here, to help you mitigate risk and financial impact to your organization.

To learn more, please contact your local USICG representative, visit our Contact Us page or reach out to us at information@usicg.com.

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An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The 10 Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this time-frame, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment.

The higher the yield, the better the economic outlook.

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