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MARKET UPDATE | Higher for Longer?

As was the case in August, the Fed's interest rate path essentially paved the path for equity markets in September, sending stocks lower. At its September FOMC meeting, the Fed voted to keep rates unchanged at their highest level in 22 years but advised that more hikes could be on the horizon and that rates may remain higher for longer than previously expected. Moreover, the Fed's dot plot, a chart that indicates where each FOMC member thinks interest rates will be by the end of the current year and looking forward, predicted that there could be at least one more hike this year and that cuts in rates wouldn't begin until June of 2024, later than previously signaled.

Not surprisingly, the markets reacted negatively to the news and equities struggled. The Dow Jones Industrial Average, S&P 500 and NASDAQ all fell in September leading to negative returns for the 3rd quarter for each as well. The tech-heavy NASDAQ dropped 5.1% for the month and lost over 3% for the quarter while the S&P 500 Index tumbled 4.8% for the month and is down 3.3% for the third quarter. Finally, the Dow Jones Industrial Average posted a 3.4% loss for the month and a 2.1% loss for the quarter. On the fixed income side, as rates jumped across the board, bond prices fell. The Bloomberg U.S. Aggregate Index lost 2.5% for the month and is down 3.2% for the third quarter.

| Market Return Indexes | Sept 2023 | 3rd Quarter | YTD 2023 |
|---------------------------------------|-----------|-------------|-----------|
| Dow Jones Industrial Average | -3.4% | -2.1% | 2.7% |
| S&P 500 | -4.8% | -3.3% | 13.1% |
| NASDAQ (price change) | -5.1% | -3.1% | 34.5% |
| MSCI Eur. Australasia Far East (EAFE) | -3.4% | -4.1% | 7.6% |
| MSCI Emerging Markets | -2.6% | -2.8% | 2.2% |
| Bloomberg High Yield | -1.2% | 0.5% | 5.9% |
| Bloomberg U.S. Aggregate Bond | -2.5% | -3.2% | -1.2% |
| Yield Data | Sept 2023 | Aug 2023 | July 2023 |
| U.S. 10-Year Treasury Yield | 4.59% | 4.09% | 3.96% |

Regarding inflation, the Bureau of Labor Statistics reported that headline CPI increased 3.7% in August from year-ago levels, an increase from July's 3.2% rate, although core CPI, which excludes the volatile food and energy components, fell to 4.3% in August after rising 4.7% in July. Both readings were higher on a month over month basis, with headline CPI rising 0.6% in August from month-ago levels after rising 0.2% in July, and core CPI increasing 0.3% after rising 0.2% in July. With inflation seemingly stickier than expected it's no surprise that the Fed is taking a more cautious approach to their interest rate decisions.

One of the more volatile components of inflation, energy prices rose 5.6% in August and continue to rise, up over 35% since the end of June. Moreover, oil prices hit 2023 highs at the end of September after inventories at the largest storage hub in the US fell toward levels nearing operational minimums. Moreover, production cuts from Saudi Arabia and fuel export bans from Russia have created supply squeeze concerns. As energy is certainly a big component of inflation, this poses an additional challenge to the Fed's efforts to cool inflation — and in turn reduces the likelihood of a rate cut, for which markets are clamoring.

As the Fed continues to combat inflation, the consumer has certainly not helped the cause. In the good news is bad news camp, consumer spending has been quite resilient. While this certainly sounds like a positive economic data release, the fact that the consumer has continued to spend directly challenges the Fed's goal of bringing down inflation. Why would prices of goods and services come down when the consumer's appetite for those very goods and services remains elevated? Fortunately, in the bad news is good news camp, this past Friday's August GDP release showed that consumer spending was revised lower, to a 0.8% annualized rate, down from the 1.7% rate reflected in the previous estimate. Moreover, what this showed was that spending in the second quarter grew at its weakest pace since the first quarter of 2022, when it was flat. This is surely a step in the right direction when it comes to the Fed's target of 2% inflation. However, the Fed needs to take care in combating inflation to ensure that consumer spending doesn't drop too much and sends the economy into a recession. This "soft landing", where the Fed reduces inflation and staves off a recession is within sight, but the Fed needs to remain cautious and diligent.

To make matters a bit more complicated, the Conference Board's consumer confidence index, which measures both consumers' assessment of current economic conditions and their outlook for the next six months, slid to 103 in September from 108.7 in August. More concerning was the decline in the index measuring future expectations, which dropped to 73.7 in September from 83.3 in August. Readings below 80 for future expectations historically signal a recession within a year.

The Fed's job became a bit more difficult and their forecast on rates became somewhat cloudier, as inflation has been a bit more stubborn than the Fed had hoped and energy prices continue to surge. Add in the fact that the consumer has begun to lose confidence and the Fed's goal of a soft landing has become a more complex challenge. While markets may not like the Fed's assertion that rates may stay higher for longer and that rates may not be cut as soon as markets had hoped, the Fed's priority is to get inflation under control and that's what they are rightly focusing on.

MARCH 31, 2025 Deadline to Restate Pre-Approved Defined Benefit Plan Documents

Sponsors of defined benefit plans who use (or intend to use) an IRS pre-approved plan document to administer their plans must restate their plan documents using the newly approved IRS document no later than March 31, 2025. Benefits consultants who provide services to plan sponsors will be contacting their clients shortly to begin the complex process of restating their respective plans.

Plan Document Requirement

Federal tax law imposes numerous qualification requirements on employer-sponsored retirement plans, such as traditional pension plans, profit-sharing plans, 401(k) plans, variable annuity plans, cash balance plans, employee stock ownership plans, etc. In exchange for complying with these rules, plan sponsors and plan participants are entitled to certain favorable tax advantages, including the following:

- Plan sponsors subject to federal income tax immediately can deduct contributions made into their qualified plans;
- Plan participants generally can defer paying income taxes on benefits they accrue under such plans until such benefits are received;
- Taxation of investment gains on plan assets are also not taxable to plan sponsors and tax deferred to plan participants until receipt; and
- Plan participants and beneficiaries may be able to defer the taxation of plan benefits through the rollover of distributions to individual retirement accounts or to a qualified plan maintained by another employer.

In addition to operating qualified retirement plans in accordance with applicable law, to qualify for favorable tax treatment, federal tax law requires that employers maintain their retirement plans under a written plan document. ERISA similarly requires that employers establish and maintain benefit plans according to a written instrument, and plan sponsors and fiduciaries have the duty to follow plan provisions to the extent that they are consistent with ERISA.

Plan sponsors have faced numerous statutory and regulatory changes over time that their respective plan documents must reflect. With the enactment of EGTRRA and the PPA, Congress made significant changes to the plan qualification rules that were generally effective in 2002 and 2007. The IRS also issued major regulations regarding required minimum distributions, contribution and benefit limits, and 401(k) plan requirements. After a period of relative stability, Congress has more recently enacted major legislation in 2018, 2019, 2020, and 2022, under the Bipartisan Budget Act, SECURE Act, CARES Act, and SECURE 2.0 Act, respectively.

After the enactment of major retirement plan legislation, it often takes the Internal Revenue Service and Department of Labor time to develop regulations and guidance implementing such legislation, along with model language to assist practitioners who maintain retirement plan documents. The statutes themselves often give plan sponsors significant time to update their plan documents to conform with new requirements and/or to adopt newly available design features. In some cases, a gap exists between when a qualified plan must be operated in accordance with a change in the law

and when such changes must be reflected in the plan's governing plan document.

Plan Document Format

Plan sponsors can maintain their qualified retirement plans using one of two plan document formats:

- **Individually Designed Plans.** A plan document customized to meet the specific needs of a single employer or group of employers that has not been pre-approved by the IRS; or
- **IRS Pre-Approved Plans.** A plan document format maintained by a document provider (e.g., benefits practitioner or financial institution) for which the provider has received an IRS opinion letter approving the form of the plan and the provisions contained therein.

With respect to individually designed plans, a plan sponsor may submit a new or terminated plan to the IRS for an individual determination letter confirming that the plan contains all IRS required provisions. In the alternative, since sponsors of individually designed plans generally cannot otherwise submit their plans for updated determination letters, some plan sponsors choose to adopt and modify an IRS pre-approved plan in order to obtain an updated IRS determination letter.

Pre-Approved Plan Amendment Cycle

Plan sponsors who maintain their qualified plans using an IRS pre-approved plan document format generally must restate their plan documents every six years according to cycles established by the IRS. This practice ensures that plan sponsors update retirement plans periodically to reflect recent changes in plan qualification requirements, at least through a prior compliance date set by the IRS.

Last year was the IRS restatement deadline for sponsors of defined contribution plans (e.g., profit-sharing, 401(k), and money purchase pension plans) that are being maintained using an IRS pre-approved format (or that had certified intent to adopt such a format). Sponsors of such plans had until July 31, 2022, to adopt updated IRS pre-approved plan documents.

Similarly, the IRS has issued opinion letters regarding the most recent cycle of IRS pre-approved defined benefit plan document formats. In Announcement 2023-6, the IRS announced that defined benefit plans maintained using an IRS pre-approved format have until March 31, 2025 to adopt a newly approved plan document reflecting changes in plan qualification requirements through those listed on the IRS's 2020 Cumulative List of Changes. In addition, the IRS requires that defined benefit plan sponsors adopt certain good-faith amendments for subsequent law changes no later than December 31, 2025.

USI Consulting Group can help Sponsors of Defined Benefit Plans


Restating a defined benefit plan is a complex, time sensitive process, even with respect to “frozen” plans, under which no additional benefits are being accrued. Plan sponsors should be mindful of this and not wait until 2025 to commence the restatement process. USICG continuously monitors statutory and regulatory developments affecting retirement plans and will provide further updates as necessary. Should you have any questions regarding this or any other retirement plan related issue, please contact your USICG actuary or consultant.

Retirement Resources for You

The USICG team 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.

Find the address and telephone number of your local USI Consulting Group office [here](#).

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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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