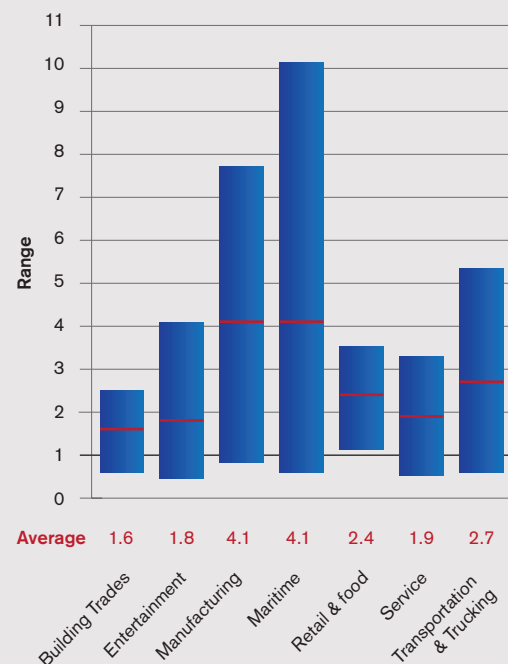


RATIO OF BENEFIT PAYMENTS TO CONTRIBUTIONS

One measure of a plan's financial condition is its ratio of benefit payments to contributions. A ratio of 1 or less indicates contributions alone are sufficient to cover benefit payments. A ratio above 1 means the plan must rely on investment returns and principal to meet benefit payment obligations. The graph below shows, for each industry listed, the average ratio* of all plans and the range of ratios for the middle 80 percent** of plans.



* Averages shown are the sum of the individual plans' ratios divided by the number of plans. Calculations do not account for plans' administrative expenses.

** This 10th-to-90th-percentile range was used to omit outliers and give a realistic view of the ratios of most plans within an industry.

Source: Segal's Multiemployer Database, based on data for the prior plan year from the latest actuarial valuation completed since the start of 2014 for each plan in the above industry groupings.

INVESTMENT TRENDS

Brazil, Russia, India and China (the "BRICs") are four of the largest emerging economies. **Many investors expect the BRICs to join the ranks of the developed markets, but lately, three of them have stumbled on that path:**

- Brazil is mired in high unemployment and inflation, with austerity measures installed by an increasingly unpopular administration.
- Russia's economy has plummeted due to economic sanctions and major declines in oil prices, which have devalued the ruble and the Russian stock market.
- China's market volatility and slowing growth persist, and a real estate bubble and environmental issues are also of concern.

With these three countries housing almost 25 percent of the world's population, their economies significantly influence the rest of the world, and they are expected to continue exhibiting large swings in economic and stock-market performance.

Real assets, which include real estate, infrastructure, natural resources and energy, have become increasingly important alternative investments in well-diversified portfolios because of their ability to generate strong returns and their potential to provide income and some inflation protection. Each of these assets has its own risk, return and inflation-hedging characteristics. The optimal mix of real assets is determined using forward-looking assumptions in tandem with the plan's specific liquidity needs, return preferences, risk tolerances and income requirements.

KEY DEVELOPMENTS AND STATISTICS

According to Segal Select Insurance Service's database of 1,200 multiemployer plans, the average premium rate per million dollars of fiduciary liability insurance purchased has fallen in eight of the past 13 years.¹ The database also reveals that, over that period:

- The last major annual increase in the average premium rate (16 percent in 2004) was followed by seven consecutive years of declines ranging from 1.8 percent to 13.8 percent.
- The average premium rate ticked up just 0.2 percent in 2014.

This overall downward trend in cost comes even as coverage terms have improved and claims activity has increased.

¹ These results provide a macro-level view. Segal Select uses peer-group analysis to project specific account outcomes.

COMPLIANCE NEWS

Citing limited resources, the Internal Revenue Service (IRS) is **ending its cycle-based determination letter program** for individually-designed plans. The details of what will replace the cycle-based program have yet to be decided, and questions such as when multiemployer plans will be permitted to apply for new determination letters will likely be answered in future guidance. In the meantime, there have been no changes to the IRS and Department of Labor audit programs, so trustees should continue to operate their plans in accordance with the plan's terms and timely amend their plans for changes in design or the law.

SELECTED STRATEGIES FOR MANAGING MULTIEMPLOYER RETIREMENT PLANS

In today's environment, **investment return has become an increasingly important aspect of plan funding**. Stricter minimum funding standards and reporting rules have made it more important than ever for trustees, particularly of troubled plans, to consider how short-term asset volatility can affect metrics such as:

- Funded ratio,
- Withdrawal liability, and
- Pension Protection Act of 2006 (PPA'06) zone status.

When reviewing the findings and projections of both plan actuaries and investment consultants, trustees may want to give greater consideration to the sensitivity of the plan's funding assumptions to its asset allocation and risk profile.

Trustees of a **money-purchase plan may want to give more thought to the pros and cons of converting to a profit-sharing plan** to help participants save more for retirement. The potential advantages of such a conversion can include being able to:

- Provide a 401(k) option that can help participants save more on a pre-tax basis, or,
- Offer a Roth option that can facilitate participant savings on an after-tax basis.

Trustees should remember, however, that when a money-purchase plan is converted to a profit-sharing plan, the money-purchase rules must be preserved for existing account balances and participants must be given a **204(h) notice** describing the change in plan type (even if there will be no change to contribution amounts).

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