USI CONSULTING GROUP

Market & Legal Update

AUGUST 2022 REVIEW

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

MARKET UPDATE

The Fed Pumps The Brakes on The Market Rebound

Inflation, and more importantly the Federal Reserve's response to inflation, has almost single-handedly moved markets up and down in the month of August. Stock and bond markets alike have closely watched key inflation indicators and have hung on to every word uttered by Federal Reserve Chairman Jerome Powell, looking for any hints as to the direction the Fed plans to take going forward. Following a surprisingly strong July, which clocked in as only the second positive month of 2022, August took investors on a wild, tumultuous roller coaster ride. Both the Dow Jones Industrial Average (DJIA) and the S&P 500 dropped over 4% for the month while the tech-intensive NASDAQ fell 4.6%. On the international front, the MSCI EAFE Index didn't fare much better, down 4.7%.

Market Return Indexes	August 2022	YTD 2022
Dow Jones Industrial Average	-4.1%	-13.3%
S&P 500	-4.1%	-16.1%
NASDAQ (price change)	-4.6%	-24.5%
MSCI Eur. Australasia Far East (EAFE)	-4.7%	-19.2%
MSCI Emerging Markets	0.5%	-17.2%
Bloomberg High Yield	-2.3%	-11.2%
Bloomberg U.S. Aggregate Bond	-2.8%	-10.8%
Yield Data	**August 2022**	**July 2022**
U.S. 10-Year Treasury Yield	3.15%	2.67%

On August 10th, the July Consumer Price Index (CPI) was released and showed inflation had cooled even more than expected. The headline CPI was expected to come in at an 8.7% increase from a year earlier but clocked in at 8.5%. Moreover, this was well below the 9.1% June advance that was the largest in four decades. As such, investors took this as a sign that the Federal Reserve might take their foot off the gas regarding their aggressive rate hike schedule, sending markets higher for 5 straight trading days.

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Following the 5-day surge, the elation subsided as whispers emerged that the Fed would maintain a hawkish policy stance on inflation and markets became more volatile while awaiting Jerome Powell's official announcement on August 26th. That morning, much to the chagrin of investors, Powell reiterated that inflation remains too high which requires the central bank to continue to raise rates in order to restore price stability, even if the US economy is weakened as a result. Powell specifically noted that "reducing inflation will require a sustained period of below trend growth." Not surprisingly, markets plummeted, with the DJIA falling over 1000 points that day and fell every trading day through the end of the month.

In addition to inflation concerns, the debate raged on as to whether we had entered a recession following two straight quarters of negative GDP growth. In an effort to quell those concerns, Richmond Fed President Tom Barkin stated on August 30th that "recent data is "consistent" with an economy that is not in a recession", pointing to a job market that is still moving in the right direction. With the unemployment rate at 3.5%, job creation on the upswing, and initial claims for unemployment still relatively low, the job market data shows that a recession is not really in the cards at this point. After a solid July and relatively good news on the inflation front, investors seemed optimistic about the second half of the year, thinking "maybe inflation had peaked?" or "maybe the Fed would reconsider their aggressive rate hike stance?" But as Jerome Powell indicated, "We will keep at it until we are confident the job is done,". While this was not the tone that the market wanted to hear, it is somewhat reassuring that the Fed is not overreacting to one relatively positive data point. If inflation continues to decline the Fed may reassess. But for now, it's full steam ahead.

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Questions

If you have any questions regarding the latest market developments, please contact your USI Consulting Group representative.

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LEGAL UPDATE

IRS Extends Plan Amendment Deadlines

On August 3, 2022, the Internal Revenue Service (IRS) issued IRS Notice 2022-33 announcing a 3-year deadline extension for amending retirement plans for the Setting Every Community Up for Retirement Enhancement (SECURE) Act, the Bipartisan American Miners (Miners) Act and certain provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. In general, Notice 2022-33 extends the deadline for amending qualified defined benefit, defined contribution, and non-governmental 403(b) plans to December 31, 2025. Before the extension, plan amendments would have been due on or before December 31, 2022. However, special extension deadline rules apply to governmental retirement plans, as explained below.

For governmental retirement plans, including governmental 457(b) plans and 403(b) plans maintained by public schools, the deadline is now 90 days following the close of the third regular legislative session beginning after December 31, 2023 for the legislative body with authority to amend the plan. The original deadline would have been the last day of the first plan year beginning on or after January 1, 2024.

It is important to note that Notice 2022-33 does not extend the deadline for operational compliance with any of the required changes, or optional changes that your plan adopted, with respect to the SECURE Act, the Miners Act and the CARES Act. Plans must continue to be administered in good faith compliance with these provisions and related guidance during the period prior to the formal adoption of the plan amendments. The amendments will apply retroactively to the effective date of the applicable required changes and retroactively to the date of your plan's implementation of any optional changes.

The extended deadline for plans to amend for certain required and optional changes under the SECURE Act, Miners Act and CARES Act include the following provisions:

SECURE Act

- **Required Minimum Distributions (RMDs):** The SECURE Act mandates an increase in the age from 70-1/2 to 72 for when participants must commence required minimum distributions. This provision affects both defined benefit pension and defined contribution plans.
- **Beneficiaries for RMD Purposes:** The SECURE Act modifies the rules regarding designated beneficiaries and the maximum period for paying out benefits from defined contribution plans.
- **Qualified Birth or Adoption Distributions (QBAD):** The SECURE Act permits participants in defined contribution plans to request withdrawals of up to $5,000 per parent, within 12 months of a qualified birth or adoption. QBADs are includable in gross income, but not subject to excise tax on early distributions.
- **Inclusion of Long-Term Part-Time (LTPT) Workers:** The SECURE Act requires 401(k) plans (non-collectively bargained) to permit part-time employees who are at least age 21 and who complete at least 500 hours of service in each of three consecutive 12-month periods, beginning with the 2021 plan year, to make elective deferrals to the plan. Eligibility for Employer contributions are optional and not required and LTPT employees are generally excluded from IRS non-discrimination testing requirements.
- **Automatic Enrollment Safe Harbor Contribution:** The SECURE Act increased the maximum automatic enrollment safe harbor contribution from 10% to 15% of eligible pay.

CARES Act

- **2020 Waiver of RMDs:** The CARES Act permitted defined contribution plans to allow participants to waive the 2020 RMD.

Please note that Notice 2022-33 did not extend the deadline under the CARES Act for adopting plan amendments regarding COVID-related distributions and loans.

Miners Act Provision

- **Reduction of Minimum Age for In-Service Distributions:** The Miners Act permits defined benefit plans, money purchase pension plans and governmental 457(b) plans to allow in-service distribution of benefits at age 59-1/2 rather than at the previous lowest permitted age of 62.

Many commentators suggest that this 3-year delay in the deadlines for amending plans for the required and optional provisions of the SECURE, Miners and CARES Acts means there is some possibility that the IRS will provide additional guidance on certain provisions (e.g., the inclusion of long-term part-time employees in 401(k) plans) and issue sample plan amendment language prior to the new deadlines.

How USICG Can Assist

Your USICG Consultant can help you with any questions you may have regarding the SECURE, Miners and CARES Acts and the extended amendment deadline under Notice 2022-33, as well as with any other discretionary or required changes to your plan.

While the deadline extension provides some welcome relief, you should work with your USICG consultant to assess your plan's amendment status and the appropriate deadlines that apply to your plan. Many defined contribution plans that utilize an IRS pre-approved document have recently received and adopted interim amendments, prior to the announcement of the deadline extension, for all or some of the SECURE, Miners and CARES Acts provisions. Most other plans have yet to be amended for these interim amendments and can take advantage of deadline relief. However, plans that adopted the COVID-related distributions and loans will still have to adopt a CARES Act amendment by the end of 2022.

Given that the IRS may provide additional guidance and sample plan language, more comprehensive amendments may be issued prior to the extended deadline under Notice 2022-33 to reflect the IRS' new guidance.

The USICG team is always available to help plan sponsors with document, compliance and other matters, including those discussed here. Please contact your local USICG representative, email **information@usicg.com** or visit **usicg.com**.

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.

QUESTIONS?

Contact your USICG representative, visit our Contact Us page or reach out to us directly 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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