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## Honorable Mention

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By Editorial Staff      Thu, Nov 12, 2020

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*Vermont grocers start a closed MEP 401(k); Lincoln will recordkeep; Forethought annuities now on SIMON platform; Surge in borrowing by life/annuity insurers: AM Best; Investing after the 2020 election: BlackRock Investment Institute.*

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### **Vermont grocers start a closed MEP 401(k); Lincoln will recordkeep**

In an effort to assist Vermont small business owners and their employees with access to a robust and cost-effective retirement savings vehicle, Vermont Retail & Grocers Association (VRGA) and affiliated entities, are rolling out of a Multiple Employer 401k Retirement Plan (MEP) for its members.

VRGA has partnered with the Alliance of State Retail Associations (ASRA) to offer their multi-state MEP 401k. ASRA is a non-profit advocacy group which administers the MEP for many state retail associations. Currently, ASRA affiliate states include ME, NH, MA, CT, PA, MD, IN, IL, CO, and now VT.

The recordkeeper for the MEP 401k is Lincoln Financial Group, a fortune 200 company and one of the largest retirement plan providers in the nation. The distribution of this solution is open to financial advisers who are properly licensed in the state of Vermont.

“Retail in Vermont represents over 95,000 employees across the state and unfortunately, many employees of these small businesses do not have a retirement savings,” said VRGA President Erin Sigrist, in a release. “This new plan provides any retailer the opportunity to begin offering this valuable benefit with reduced costs and liability. Many time employers do not offer 401k programs due to the complexities of setting up a plan, burdensome regulations, liability of non-compliance, as well as costs associated. VRGA believes by leveraging the power of a MEP, Vermont employers and employees will be able to access these tremendous benefits in their quest for a comfortable retirement.”

The passage of the SECURE ACT has paved the way for the expansion of Multiple Employer Plans due to the ability to leverage economies of scale. By banding together many small to mid-sized businesses this structure can lower aggregate costs across the entire group. Additionally, a MEP structure provides centralized governance, administration, and regulatory oversight so these entities can focus on what’s most important, their business.

The structure of the VRGA MEP 401k offering is of a “Closed MEP” which is only available

to retail-oriented businesses. This homogeneous composition affords the plan single-plan status in the eyes of the IRS and DOL and is a tremendous advantage as we can decrease the duplication of efforts and requirements of an open MEP structure or an individual plan, while retaining all the plan design flexibility for each participating employer.

Administratively the MEP files a single IRS Form 5500, single ERISA Audit, single ERISA Bond, Fiduciary Liability Policy, single recordkeeper, third party administrator, and all the administration and regulatory oversight is handled by the designated fiduciaries of the plan. This allows an employer to gain all the benefits of offering a retirement plan without the complexities and liability that often accompany such a benefit.

### **Forethought annuities now on SIMON platform**

Fixed and fixed indexed annuities issued by Forethought Life, a subsidiary of Global Atlantic (a KKR company) will be available on the annuity marketplace maintained by SIMON Annuities and Insurance Services LLC, SIMON announced this week.

Using SIMON's platform offers pre- and post-sale analytics, financial professionals can seamlessly find and explore annuity products and features, run powerful allocation and income analyses, and access product-specific marketing literature—all from directly within SIMON's interactive platform.

"Annuities are increasingly gaining traction within well-diversified portfolios because they offer clients a balance of the protection they need with the growth potential they want," said Jason Broder, CEO of SIMON, in the release.

### **Surge in borrowing by life/annuity insurers: AM Best**

Borrowing by AM Best-rated insurers increased 31% to \$56.0 billion during the 12-months ending Sept. 30, 2020, according to a new AM Best special report. Insurers were reacting to the potential negative impacts of the COVID-19 pandemic.

In the report, "AM Best-Rated Debt Issuance Surges Over 30% from 2019 Amid Pandemic," the rating agency noted that debt issuance among this group in the first half 2020 vastly outpaced that same prior-year period, with the most activity between March and May. Debt issuance among life/annuity (L/A) companies jumped by more than two-thirds, with many citing the need to bolster liquidity.

Total debt issuance by L/A insurers increased nearly 65% year-over-year through September

2020. The interest coverage ratio for AM Best-rated L/A companies has dipped from its peak in 2019. Lower sales in the COVID-19 environment, lower earnings, and low interest rates are likely to keep it where it is.

“Interest coverage ratio” is earnings before interest and taxes (EBIT) divided by interest expense. It’s a measure of how well a company can pay its outstanding debts.

The health segment also reported a \$3 billion uptick compared with 2019, with UnitedHealth Group, Cigna Corp., and Anthem, Inc. all among the 10 largest issuers so far this year.

“Issuances from health insurers have been for general corporate purposes, as well as to redeem or tender higher-coupon issued debt coming due over the next few years,” said Jason Hopper, associate director, industry research and analytics.

Despite the increased debt load for the health segment, its interest coverage ratio improved on strong operating results in 2019 and so far through first-half 2020, driven by the significant decline in member utilization resulting from the COVID-19 shutdowns and the deferral of routine care and elective procedures. Health care utilization reverted back to near normal levels in the third quarter, but may decline again as many states are now seeing hospital capacity weaken as a new wave has led to an influx of COVID-19 patients.

The analysis for the special report did not include those issuances unrated by AM Best, such as Wilton Re’s \$400 million issuance of privately placed preferred stock, and converted foreign-denominated issuance to USD. The report also notes an uptick among just about all types of issuance, including preferred stock, as well as surplus notes from non-publicly traded companies that cannot access the public debt market.

#### **Investing after the 2020 election: BlackRock Investment Institute**

*Jean Boivin, PhD, managing director and head of the BlackRock Investment Institute, and Mike Pyle, CFA, managing director and Global Chief Investment Strategist for BlackRock, commented recently:*

Joe Biden’s victory in the presidential race likely ushers in a near-term market environment dominated by low rates, a hunt for yield and growth stocks.

A Democratic takeover of the Senate looks unlikely, which would constrain the Biden administration’s ability to implement large-scale fiscal stimulus and public investment, tax,

healthcare and climate related legislation.

President-elect Biden flipped the key states of Michigan, Wisconsin and Pennsylvania, giving him more than the needed 270 electoral votes to win the White House. See the chart below. We see the likelihood that recounts and legal challenges could overturn this outcome as remote and favor looking through any resulting market volatility.

Democrats' effort to take control of the Senate has met roadblocks. Two Senate seats in Georgia are headed for a January runoff election, giving Democrats a narrow path to winning both and yielding a 50-50 Senate, with the vice president as the tie breaker.

A divided government—with Republicans retaining their control of the Senate—could see greater regulation for many sectors, but big-ticket legislative actions including large-scale fiscal stimulus and public investment, tax, healthcare and climate related legislation would likely face insurmountable hurdles.

Fiscal policy is critical for preventing permanent economic damage from the virus shock. Some fiscal relief looks possible in the near term during the lame-duck session of Congress, but we see the scope and size of fiscal stimulus and public investment as much more modest than what a united Democratic government might deliver.

We're monitoring the fiscal response closely, as a premature retrenchment could set back an economic restart that has so far surprised to the upside. Taxation policies would likely stay steady under a Republican Senate. Long-term US Treasury yields had run up ahead of Election Day in anticipation of a Democratic sweep, bringing forward a rise in yields we expect to see in a higher inflation regime in the medium term.

The prospect of a divided government removed the accelerant and brought yields down for now. Yet we still expect yields to slowly move up over the next few years, boding well for risk assets, especially for credit and growth companies that have dominated markets for much of the post-crisis period.

A Biden win likely signifies a return to more predictable trade and foreign policy. We believe emerging market (EM) assets should perform on improved trade sentiment, especially in Asia ex-Japan. In addition, many Asian countries have managed to contain the virus and are ahead in the economic restart. Yet we see U.S.-China rivalry staying structurally elevated across technology, trade and investment, due to bipartisan support for a more competitive stance on China.

We also see an increased focus on sustainability under a divided government through regulatory actions, rather than via tax policy or spending on green infrastructure, and a rejoining of the Paris Agreement to combat climate change.

The bottom line:

A Biden divided government would bring significant changes in foreign policy and regulation—both in substance and tone. Yet the legislative agenda would be constrained, taking off the table the more transformative scenarios being contemplated ahead of the election.

The likely implication: Continuity in the market environment. We expect the quality style factor and large-cap equities to perform strongly—as they have often done in the past. Large-cap tech stocks have led the post-election rally, yet we note they would face regulatory pressure even under a divided government.

We are reviewing our tactical asset views in light of the election result. Other key inputs include the evolution of the virus shock and the timeline for a vaccine—and their potential to bring forward market expectations of inflation and change equity market leadership to cyclicals.

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