Market & Legal Update

FEBRUARY 2025

USI CONSULTING GROUP

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

MARKET UPDATE | "Eggspensive Prices"

Investors looked past tariff threats, and a disappointing inflation report to push the S&P 500 to a record high 6,144 mid-month, only to give back gains in the final weeks of February for the same reasons. The S&P 500 index was down 1.3% in February, however still positive at 1.4% for the year. The Dow Jones Industrial Average (DJIA) shed 1.4% last month. Year to date, the price-weighted DJIA, which focuses on established blue-chip companies, has exhibited less volatility and outperformed the S&P 500 by 1.9%. The tech-heavy NASDAQ fell 4%. Longer-term bond yields fell after stagnating for the previous two months, with the 10-year treasury declining to 4.24% from 4.58%. The inverse nature of falling rates lead to a 2.2% increase in the Bloomberg U.S. Aggregate Index in February. International stocks which have been trading at historic discounts began to catch up to U.S. markets jumping 7.3% in 2025, with the MSCI EAFE Index gaining an impressive 1.9% in February.

Market Return Indexes	Feb 2025	YTD 2025	2024
Dow Jones Industrial Average	-1.4%	3.3%	16.2%
S&P 500	-1.3%	1.4%	26.3%
NASDAQ (price change)	-4.0%	-2.4%	43.4%
MSCI Eur. Australasia Far East	1.9%	7.3%	18.2%
MSCI Emerging Markets	0.5%	2.3%	9.8%
Bloomberg High Yield	0.7%	2.0%	13.4%
Bloomberg U.S. Aggregate Bond	2.2%	2.7%	5.5%
Yield Data (Month End)	**Feb 2025**	**Jan 2025**	**Dec 2024**
U.S. 10-Year Treasury Yield	4.24%	4.58%	4.58%

On February 1st, President Trump signed executive orders imposing 25% tariffs on Mexico and Canada, and a 10% tariff on China in addition to those carried forward from his first term. He said these tariffs would remain in place until the countries took steps to curb the flow of migrants and drugs into the U.S. This announcement sent markets spiraling as tariffs could increase costs for households as companies pass on increased import taxes to consumers. These tariff threats could be especially important to consumers who are still experiencing residual effects from the spike in prices caused by COVID-related supply chain issues. Within just a few days, President Claudia Sheinbaum of Mexico and Canadian Prime Minister Justin Trudeau had struck last-minute deals, postponing the impending tariffs 30-days. The S&P 500 made up lost ground following these announcements, hitting all-time highs before once again retreating below 6,000 amid a flurry of uncertainty sparked by a disappointing U.S. Composite PMI reading. Markets then looked to price in federal firings, threat of tariffs on imported semiconductors, President Trump doubling down on 25% tariffs on Canada and Mexico, geopolitical rifts with Ukraine, a disappointing sales and profit forecast for the world's largest retailer Walmart, and a January CPI inflation data release.

After a solid December inflation reading, historically cold weather in January brought about a brisk rise in inflation with prices rising 0.5% from December, pushing the 12-month headline CPI reading to 3.0%. This monthly reading was above economists' milder expectations of 0.3% with higher than anticipated increases reflected in prices for used cars and auto insurance. When looking at more volatile indexes, an over 15% increase in egg prices from December accounted for two-thirds of the food at home index. The nationwide egg shortage has seen prices steadily increase since 2022 but has soared this year as the bird flu virus killed off over 300 million chickens in the U.S. thus far. This marks the largest one-month price increase for eggs since June of 2015. Core CPI, which strips out volatile food and energy indexes, rose 0.4% from December marking the largest increase in almost two years. Core inflation came in at 3.3% on an annual basis.

MARKET UPDATE *continued*

At the end of the month, the Fed's preferred measure of inflation, the personal consumption expenditures index (PCE), showed inflation inching closer to the Federal Reserve's 2% annual target. January's PCE rose by 2.5% over the trailing 12 months, down from 2.6% in December. Although gradual, this was a welcomed report amid mounting fear that current administration policies could reignite inflation.

The unemployment rate fell marginally to 4% in January. At the same time, the U.S. Economy added 143,000 jobs to start the year, which was less than the 169,000 forecasted by economists. However, this flatline report was accompanied by amendments to both November and December job market counts, revised upward by a combined 100,000 jobs. In the face of geopolitical uncertainty, rapid policy changes, and market volatility, the U.S. labor market has remained even keel. The details of this job report are unlikely to move the needle on the Feds current wait-and-see mandate for interest rate cuts despite political pressure from the current administration to cut rates sooner. This suggests a comfort in the Fed's ability to be more reactive when it comes to Q1 inflation numbers or any weak economic activity in labor markets. The CME FedWatch Tool projects a 95% likelihood that the Fed will keep rates at the current 4.25%-4.50% target range for their upcoming March meeting.

Core CPI, which strips out volatile food and energy indexes, rose 0.4% from December marking the largest increase in almost two years.

While Wall Street looks to understand the potential impact of policy decisions, none more prevalent than tariffs and their effect on consumer spending and inflation, international equities have seemingly been primed for strong performance. After two consecutive years of over 30% returns from U.S. large cap growth assets, selloffs and volatility to start 2025 were perhaps the perfect catalyst to jump start a recently benign international equity asset class. Despite recent U.S. exceptionalism, history shows equity outperformance compared to other markets worldwide are cyclical, with instances of foreign markets durably outperforming. It is not without its own headwinds as the deeply discount international asset class is facing uncertain trade policy, tighter fiscal policy, and slower than average economic growth. Rising valuations supported by European Central Bank rate cuts could be drivers of growth for international stocks moving forward, but only time will tell if they can clear the upcoming hurdles and keep up their outperformance.

U.S. Department of Labor Adds a New Self-Correction Component for Delinquent Contributions and Loan Repayments

Two years after the proposed regulations were released, the Voluntary Fiduciary Compliance Program ("VFCP") Self-Correction Component ("SCC") is finally here. On January 14, 2025, the U.S. Department of Labor's ("DOL") released the long-awaited final rules regarding changes to the VFCP. The most significant, and the most anticipated, change to the VFCP was the creation of a self-correction feature for retirement plan sponsors to address two of the most common retirement plan operational failures:

1. The delinquent transmittal of participant contributions and loan repayments
2. Eligible inadvertent participant loan failures

The VFCP, which was initially designed to help plans rectify errors and prevent penalties through voluntary correction, has gained widespread attention for its approach to mitigating financial missteps in a cooperative and non-punitive manner. However, as the program has evolved, the need for a more proactive and self-sustaining framework has become increasingly clear. Enter the self-correction component, a new feature designed to make it easier for plans to take corrective actions without waiting for external audits or intervention. So how does this new SCC work?

Delinquent Transmittal of Participant Contributions and Loan Repayments

According to the DOL, late deposits of participant contributions and loan repayments are the most commonly corrected failure under the VFCP. In general, an employer must transmit employee contributions (including loan repayments) to a plan as soon as they can be segregated from the employer's general assets, but in no case later than the fifteenth business day of the month immediately following the month in which the contribution is either withheld or received by the employer. Historically, failing to meet these requirements meant the plan sponsor would need to file a formal VFCP application with the DOL.

Under the new rules, **beginning on March 17, 2025**, plan sponsors can self-correct late deposits of participant contributions and loan repayments without the need to file a formal VFCP application. Regardless of the size of the plan, if lost earnings total $1,000 or less, a plan may be eligible to utilize the SCC assuming neither the plan nor the plan sponsor are "under investigation".

In addition to the $1,000 earning limit mentioned above, the self-correction rules for delinquent transmittals require that:

- Delinquent participant contributions and loan repayments are remitted to the plan within 180 calendar days from the date of withholding the funds from the participants' paychecks or receipt by the employer.
- Under the SCC, the lost earnings are required to be calculated using the DOL's VFCP online calculator with the loss date set as the pay date.
- Any penalties, late fees, or other expenses incurred as a result of the correction must be paid by the employer and not out of plan assets.
- The plans sponsor must complete a "Record Retention Checklist" and execute a penalty of perjury statement attesting to the facts of self-correction. The checklist along with supporting documentation must be retained by the plan administrator. The Record Retention Checklist along with the penalty of perjury statement can be found on the DOL website.
- The plan sponsor must prepare and electronically file a self-correction notice through the DOL's web tool and provide the required information. It is anticipated that this web tool will be available on or after the effective date of the rules (March 17, 2025).

Once the plan sponsor has filed for the self-correction, they will receive an acknowledgement email from the DOL following submission of the self-correction notice. Unlike a formal VFCP submission, plan sponsors will not receive a no-action letter.

A FEW OTHER IMPORTANT NOTES:

- While the DOL has not limited the frequency in which a plan sponsor may use the SCC, they have indicated that they will monitor for frequent use of the SCC.
- The SCC does not relieve plans from reporting delinquent participant contributions on the plan's Form 5500 or Form 5500-SF, as applicable. As such delinquent contributions must be reported regardless of whether the failure is corrected under the SCC or a formal VFCP application.

Eligible Inadvertent Participant Loan Failures

Under the Internal Revenue Service's Employee Plans Compliance Resolution System ("EPCRS"), violations involving Eligible Inadvertent Participant Loan Failures can be self-corrected. If these Eligible Inadvertent Participant Loan Failures are eligible for self-correction under EPCRS, the new SCC allows plan sponsors to also self-correct these violations under the VFCP.

These violations include:

- Non-compliance with plan terms that incorporate requirements of the Internal Revenue Code regarding the amount, duration, or level amortization of the loan;
- Loans that defaulted due to failure to withhold from the participant's wages;
- Failure to obtain spousal consent for a loan; or
- Allowing a loan that exceeds the number of loans permitted under the plan.

Much like the self-correction for delinquent transmittals, the plan sponsor must notify the DOL by submitting a self-correction notice through the DOL's web tool, retain documentation of the correction, and sign a penalty of perjury statement; however, a Record Retention Checklist is not required for this correction. Unlike the self-correction for delinquent transmittals, even if the plan or plan sponsor are under investigation, the SCC may still be used to correct Eligible Inadvertent Participant Loan Failures even if the corrector is under investigation as long as the loan failure is still eligible for self-correction under EPCRS.

Additional Changes in the 2025 VFCP Update

While the addition of the SCC to the VFCP is the most significant change, there were additional changes made to the program and related provisions. Most notably, the DOL has expanded the Prohibited Transaction Exemption ("PTE") for certain excise tax provisions of the Internal Revenue Code provided that the requirements of the VFCP and exemptions are met. This expansion includes corrections that are made through the SCC if the amount of the excise tax that was otherwise owed is paid into the plan. The DOL has also amended the PTE to eliminate the three-year limitation. This means that plan sponsors would be eligible to use the PTE more than once every three years. Applicants relying on the class exemption must meet all VFCP requirements and receive either a "no action" letter or SCC email acknowledgment from the DOL.

They must also comply with any transaction-specific conditions of the class exemptions, including any required notifications and documentation.

While we will not explore them in detail here, other additional changes were made to the VFCP for the following categories:

- Additional correction options for prohibited loan transactions and prohibited purchase and sale transactions involving plans;
- Expansion of the relief for prohibited sale and leaseback of real property;
- The ability to correct delinquent participant contributions and loan repayments despite the application containing evidence of a criminal violation assuming certain requirements are met; and
- The ability of service providers to submit a "bulk" application to address violations involving multiple plans.

Summary

The new SCC of the VFCP marks an important milestone in the evolution of compliance programs. The new rules complement the recent expansion of EPCRS under SECURE 2.0 and underscore a new approach by the IRS and DOL to streamline their remedial programs, which encourages more self-correction of plan errors. Overall, this is a welcomed addition for plan sponsors.

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.

Find the address and telephone number of your local USI Consulting Group office here.

Follow USICG on LinkedIn to stay up to date with retirement news!

For previous market and legal commentaries please click here.

This communication is published for general informational purposes and is not intended as advice or a recommendation specific to your plan. Neither USI nor its affiliates and/or employees/agents offer legal or tax advice.

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.

Market Update is a monthly publication circulated by USI Advisors, Inc. and is designed to highlight various market and economic information. It is not intended to interpret laws or regulations.

This report has been prepared solely for informational purposes, based upon information generally available to the public from sources believed to be reliable, but no representation or warranty is given with respect to its completeness. This report is not designed to be a comprehensive analysis of any topic discussed herein, and should not be relied upon as the only source of information. Additionally, this report is not intended to represent advice or a recommendation of any kind, as it does not consider the specific investment objectives, financial situation and/or particular needs of any individual client.

Investment Advice provided by USI Advisors, Inc. Under certain arrangements, securities offered to the Plan through USI Securities, Inc. Member FINRA/SIPC. 95 Glastonbury Blvd., Suite 102, Glastonbury, CT 06033. USI Consulting Group is an affiliate of both USI Advisors, Inc. and USI Securities, Inc.

Connect with us today | information@usicg.com | 860.633.5283 | usicg.com |