

# The Road to Recovery: The 2010 Update to the NCCMP Survey of the Funded Status of Multiemployer Defined Benefit Plans



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## Overview

**W**e are pleased to present the 2010 update to our historic *2009 Survey of the Funded Status of Multiemployer Defined Benefit Plans*. The 2009 survey was the most comprehensive survey of the financial condition of multiemployer pension plans ever undertaken. As detailed in the NCCMP's report *Multiemployer Pension Plans: Main Streets Invisible Victims of the Great Recession of 2008*, this survey revealed the devastating impact that the 2008 financial crisis had on these plans.

Under the criteria established by the Pension Protection Act of 2006 (PPA), at the beginning of their 2008 plan years, over 75% of plans were in the 'green zone', indicating a strong financial position. Merely one year later, this number declined to only 20%, with 42% of plans in the survey identifying themselves as critical status 'red zone' plans. The cause of this shift can be traced to the investment results, where the median 2008 asset return was -22.1%. This negative return lowered the average reported funded percentage under PPA from 90% at the beginning of 2008 to 77% after the market crash. Since the PPA funded percentage measure relies on the actuarial value of pension plan assets, which typically recognizes investment gains and losses gradually over time, the true impact of the crisis was even more dramatic than these figures indicate. On a market value of assets basis, the average funded percentage declined from 89% to 65%.

The 2010 survey update demonstrates the exceptional resiliency of these plans. The plans included in the survey reported a median 2009 asset return figure of 16.6%. Taking into account the fact that these plans budget an average of 7.5% asset returns annually, this figure was not nearly enough to fully offset the devastating returns of the prior year. However, it provided an important first step to recovery. Just as importantly, the participants and sponsors of multiemployer plans have responded by allocating additional contributions to the pension plans and reducing the benefit accrual levels. Over 80% of plans reported adopting measures designed to improve their funding position, and over 40% reported both increasing contributions and lowering benefits.

The positive investment results and actions of the plan participants and sponsors, combined with a pension funding relief bill enacted in 2010, have had an immediate effect on the condition of multiemployer plans. The 2010 survey update shows that nearly 50% of responding plans are now in the PPA "green zone", and there has been a 20% reduction in the proportion of "red zone" plans. On the PPA reporting basis, the average funded percentage has increased from 77% to 82%, while the market value of assets funded percentage increased from 65% to 72%.



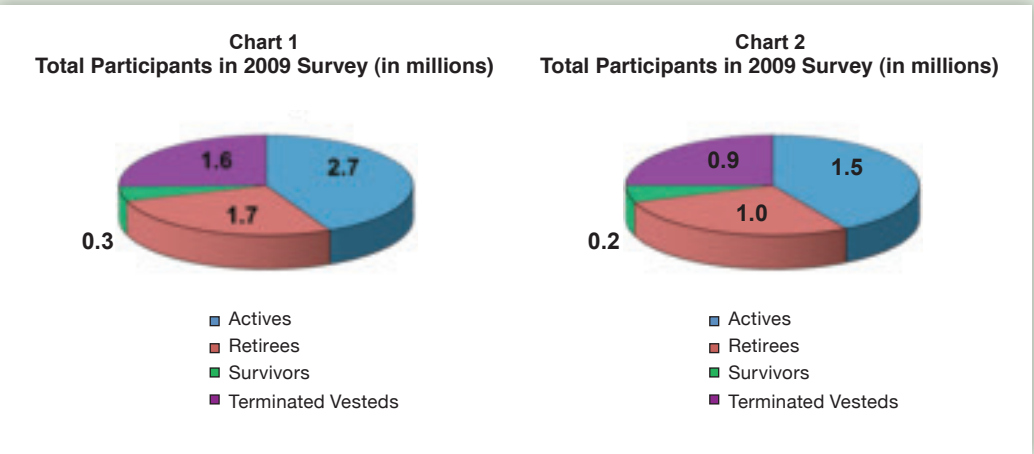


Despite these positive signs, many challenges remain for these plans. While the 16.6% average return in 2009 was not extraordinary by historical standards, it is unlikely that the financial markets will be able to sustain this level of returns for very long. Additionally, as time goes on, it will become increasingly difficult for the sponsors of multiemployer plans to allocate additional contributions to the plans while remaining competitive. Compounding these difficulties is the fact that between 2009 and 2010, the average plan included in the survey has experienced an employment level decline of over 10%. Since multiemployer plans generate contributions only through the employment of active workers, this decline has reduced the ability of plans to improve their condition through future contributions.

In total, the 2010 survey update shows that multiemployer defined benefit plans are making strides towards recovery, but also highlights that there is still a long way to go and the remaining challenges to this recovery are substantial.

## Scope

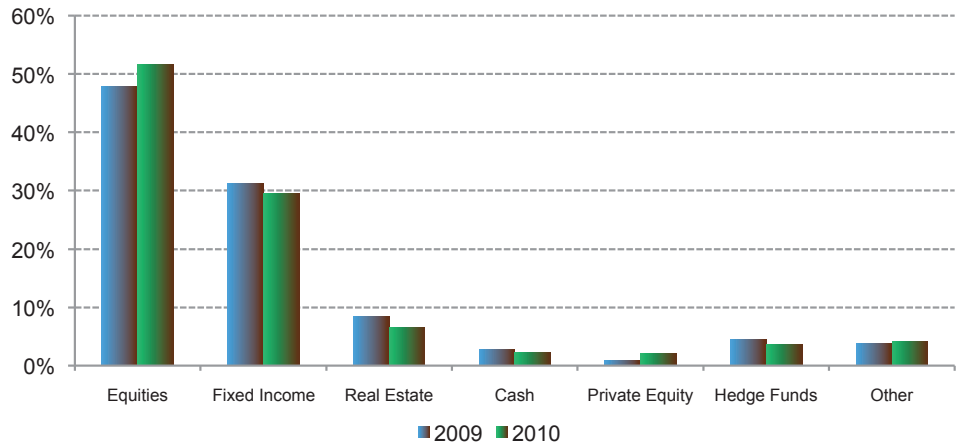
The 2010 survey update was smaller in scope than the 2009 survey. In addition to requesting that plans provide a narrower range of financial information, the 2010 survey population included fewer plans than the 2009 population. As shown in Charts 1 and 2, the total number of participants in the 2010 survey was 3.6 million, versus 6.3 million in the prior year. These figures represent approximately 60% and 35% of the total multiemployer plan population respectively. Despite the lower rate of response, the responses are still above what may have been expected for a voluntary survey of this nature, and the results are representative of the multiemployer plan universe and statistically valid.



## Assets

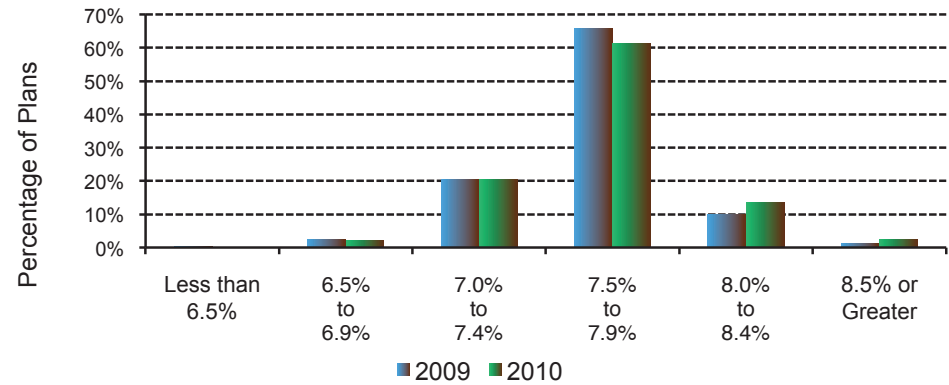
Pension plans typically invest in balanced portfolios that primarily include equity and fixed income securities, with smaller amounts of real estate, cash, private equity, hedge funds, and other holdings. Chart 3 shows that between 2009 and 2010 there were relatively minor changes in the average portfolio holdings of multiemployer plans, with approximately 50% of the assets held in equity securities, 30% in fixed income securities, and the remaining 20% distributed among the other asset classes. This distribution is consistent with established retirement planning principles, and represents a conservative and responsible approach to funding long-term retirement benefits.

**Chart 3**  
**Comparison of Average Asset Allocation Between 2009 and 2010**

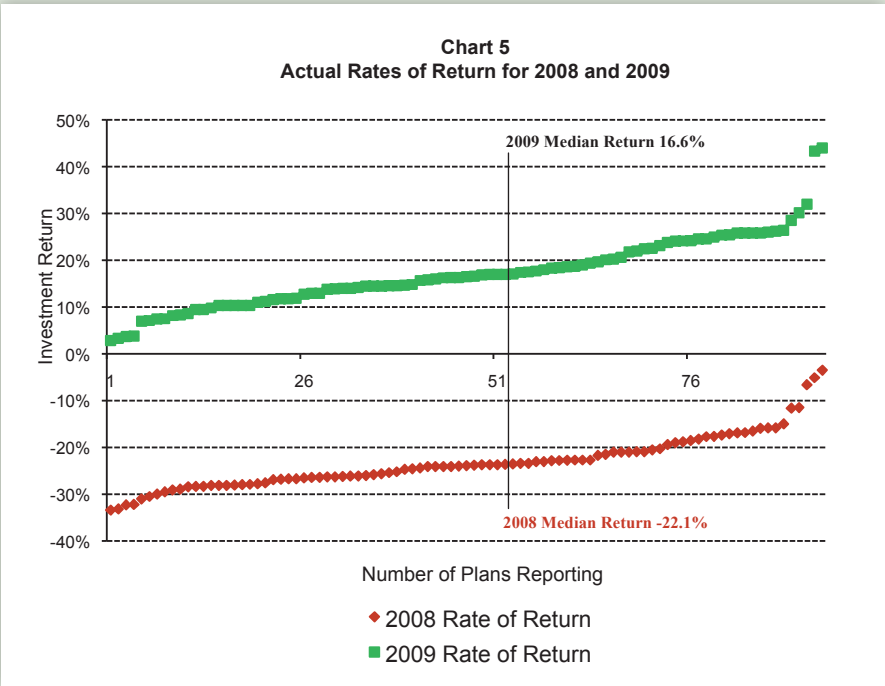


A key consideration in funding a retirement plan is the expected rate of investment return. Under federal pension funding law, the rate must represent the actuary’s best estimate of anticipated future experience. As Chart 4 shows, the majority of multiemployer pension plans use a return expectation of 7.5%. This assumption is lower than is commonly used in single-employer and public sector pension plans, and is an example of the conservative approach that the sponsors of multiemployer pans have traditionally employed. While Chart 4 shows a small increase in the median assumed rate of return from 2009 to 2010, this change is due to the change in survey population from the prior year rather than plans raising their assumptions.

**Chart 4**  
**Assumed Rates of Return**



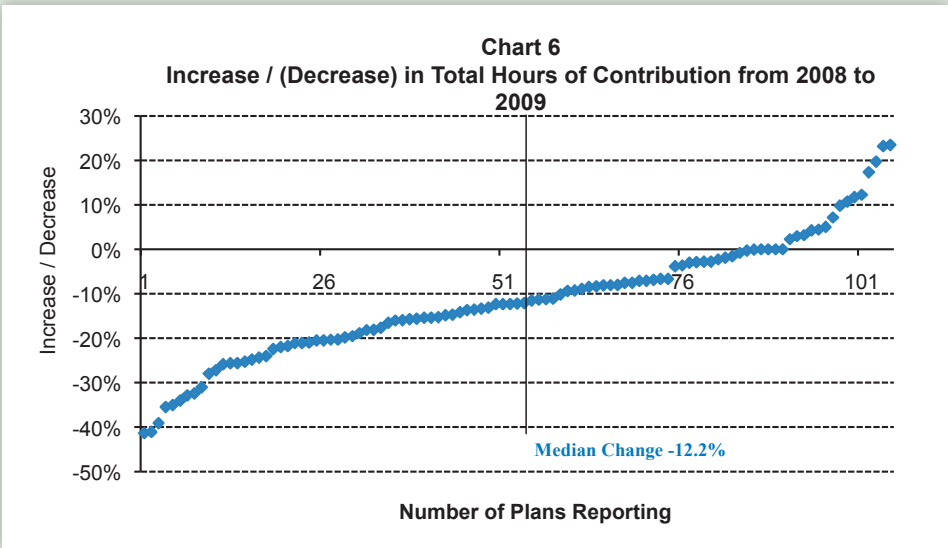
While the assumed rate of investment return has a significant impact on plans’ funded percentage calculations and required contribution expectations, the true cost of a plan is a function of the returns the plan actually earns, not what the plan expects to earn. Chart 5 shows how in 2008 the median return was -22.1%, which when combined with an average assumed rate of return of 7.5%, resulted in a shortfall of nearly 30%. In 2009 the median return was 16.6%, which represents roughly 9% excess over the average expectation of 7.5%.



## Employment Levels

While it is clear that the funding challenges that multiemployer plans face are a direct result of the performance of their assets, this is only part of the story. When a plan becomes underfunded, it is important for there to be a large population of active members with strong employment levels in order to create a contribution base that is capable of offsetting the shortfall. Unfortunately, the historic market collapse of 2008 was followed by equally historic levels of unemployment, which has severely limited the ability of many plans to recover.

Chart 6 shows that from 2008 to 2009, the median employment level reduction for plans in the survey was 12.2%. Thus, immediately following the time period when the plans experienced asset losses exceeding 20%, there was a sudden and steep decline in their employment levels, which has greatly impaired their ability to offset the asset losses with additional contribution income.

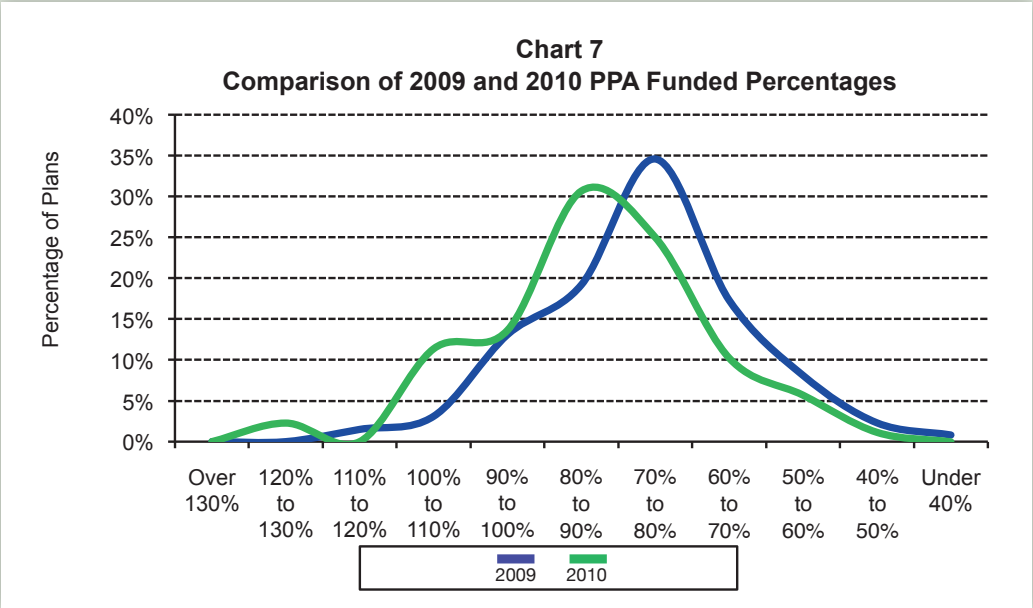




# Funded Ratios

The most fundamental measure of the health of a pension plan is the funded ratio. In short, this figure represents the portion of the liabilities of the plan that are covered by the assets of the plan.

Chart 7 compares the distribution of funded ratio results for 2009 and 2010 under the framework established by PPA. The 2010 figures are generally to the left of the 2009 figures in the graph, indicating improvement in the funded ratios. The average funded ratio for 2009 was 77%, which improved to 82% in 2010.



The PPA regulations specify that the asset figure in the calculation of the funded ratio is the actuarial value of assets, rather than the current market value of the assets. The actuarial asset value takes into account gains and losses gradually over time, while the market value of assets takes into account investment gains and losses immediately. Chart 8 shows the improvement in the funded percentages between 2009 and 2010 using the market value of assets. On this basis, the average funded percentage increased from 65% in 2009 to 72% in 2010.

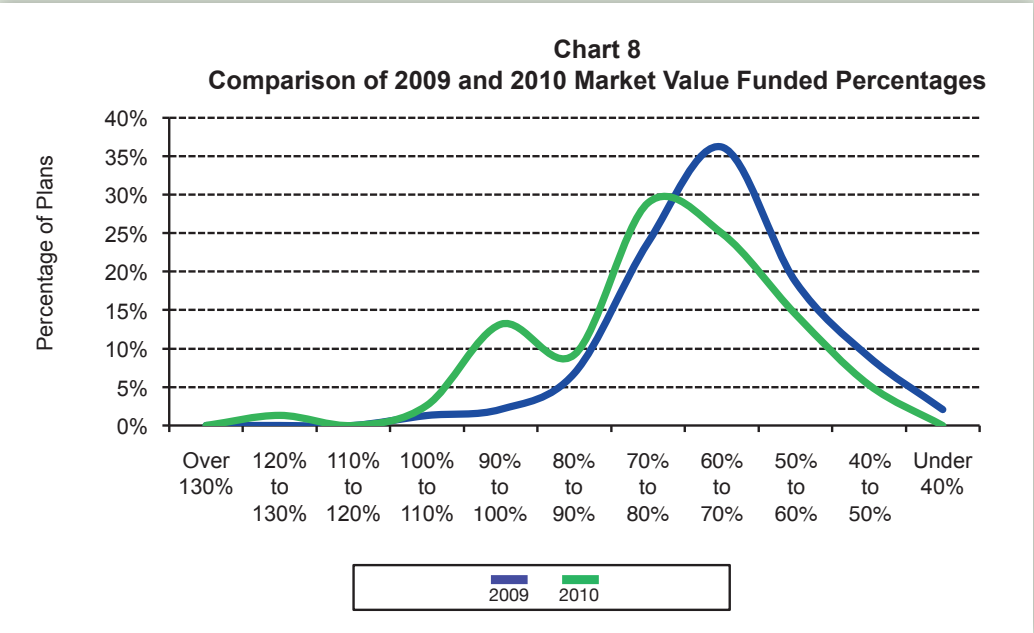
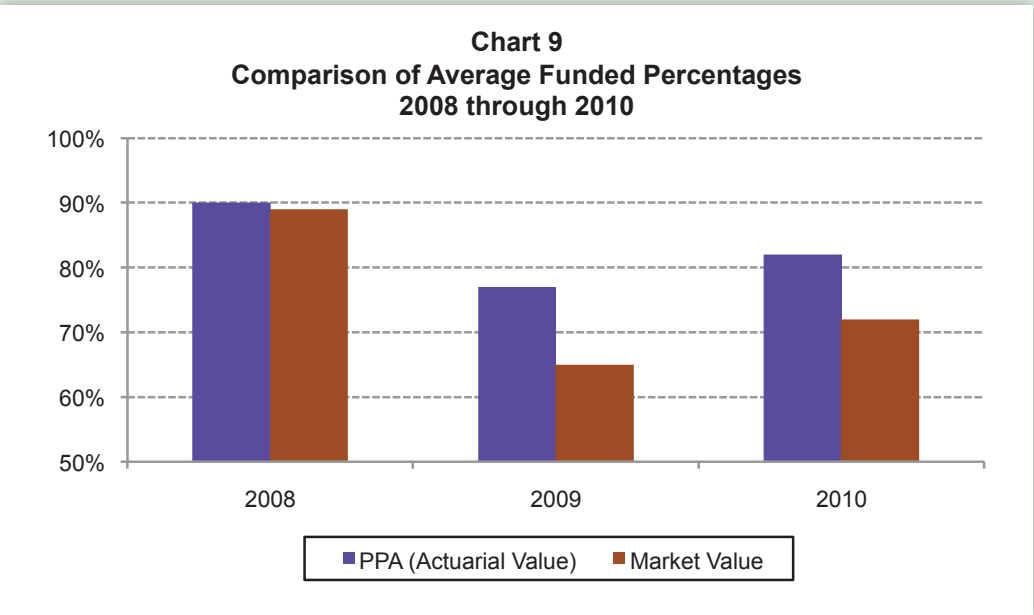


Chart 9 shows the average funded ratio result, using both the PPA and market value approaches, for 2008, 2009, and 2010.





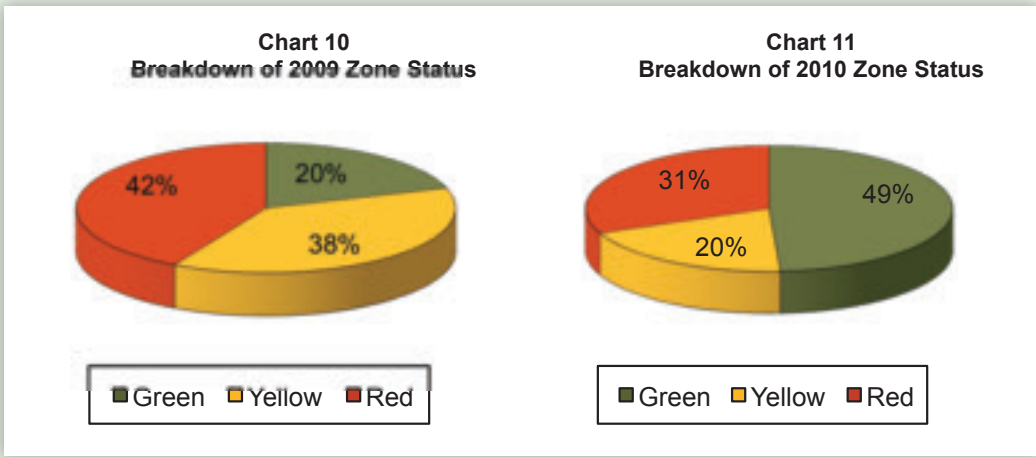
# Zone Status

PPA established the notion of ‘Zone Statuses’ for multiemployer pension plans. Specifically, each year a plan falls into one of these zones:

- Green Zone—Plans that are considered healthy
- Yellow Zone—Plans that are considered endangered
- Red Zone—Plans that are considered critical

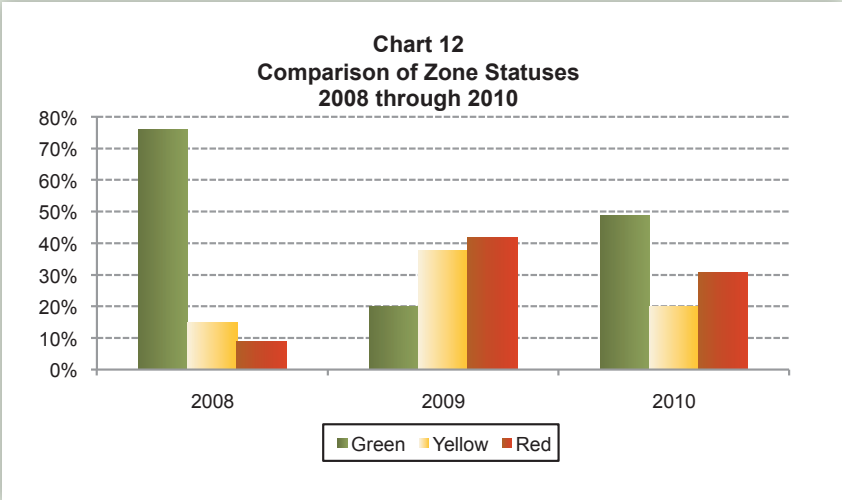
The primary driver of a plan’s zone status is the PPA funded percentage. A funded ratio of 80% or higher is healthy, a ratio between 65% and 80% is endangered, and a ratio below 65% is critical. Additionally, plans may be classified as endangered or critical if a projection of the assets and liabilities shows that the plan is likely to experience an ERISA funding deficiency or insolvency in the near term.

- Charts 10 and 11 below show the improvement in plans’ zones statuses that took place between 2009 and 2010. Specifically, the proportion of plans in the Green Zone more than doubled from 20% to 48%, while the proportion of Red Zone plans declined from 42% to 32%. This improvement was due to several factors:



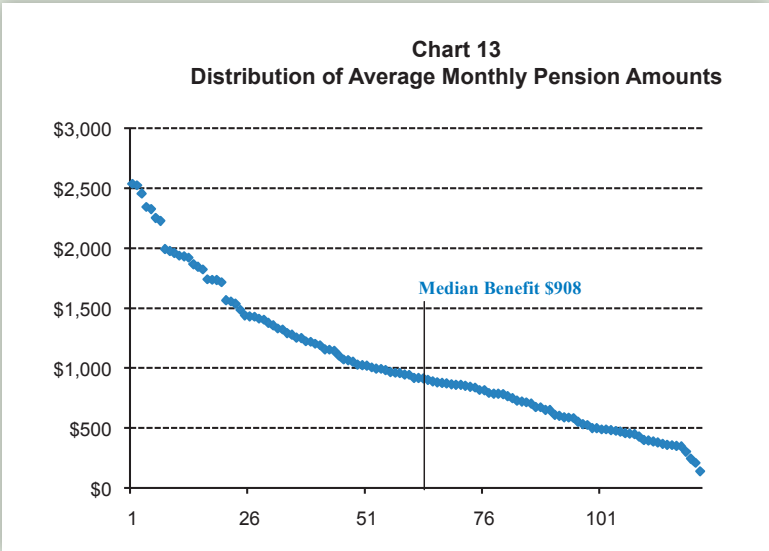
- Strong 2009 investment returns
- Benefit cuts and contribution increases adopted by the plans and the sponsoring employers
- The multiemployer funding relief provisions of the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010

Chart 12 shows how the distribution of zone statuses has changed from 2008 to 2010. The overall health of multiemployer pension plans prior to the 2008 market crash is apparent in the overwhelming majority of plans that were in the Green Zone at the start of that year. By 2010, plans had made significant strides toward returning to those earlier levels.



## Pension Benefit Amounts

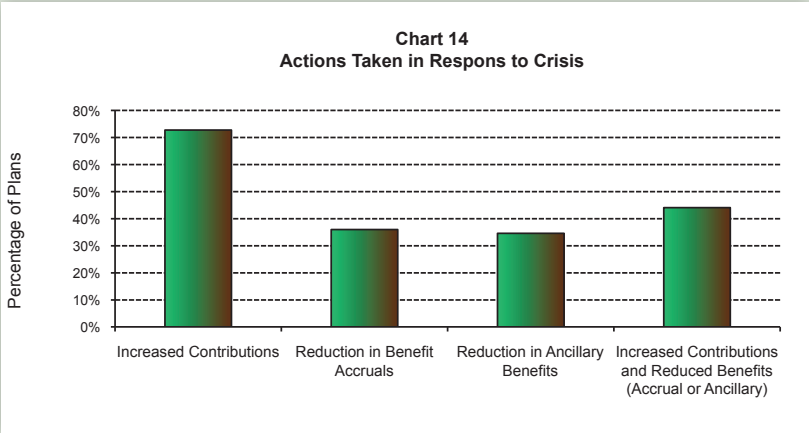
With the 2008 financial crisis resulting in many multiemployer plans entering critical status as defined by PPA, there has been increasing public scrutiny of these plans. At times, this scrutiny has included the claim that these plans are in trouble because they pay exorbitant benefits to their members. Chart 13 shows the distribution of average benefit payments among the plans responding to the survey. The median payment amount is \$908 per month, which is an extremely modest benefit level under any standard.



# Responses to Financial Crisis

As our 2009 survey report discussed in great detail, the 2008 stock market crash had a profound impact on multiemployer pension plans. Plans that had maintained funded ratios over 90% for over a decade suddenly found themselves in critical status. The sponsoring employers and the employee representatives jointly manage these plans, and in this spirit of collaboration the response to the finance crisis has included both benefit reductions and contribution increases.

Chart 14 shows that over 70% of responding plans increased their contribution rate in response to the financial crisis. At the same time, roughly one-third of plans have reduced their rate of benefit accrual, with one-third also reporting that they have either reduced or eliminated ancillary benefits such as early retirement subsidies, disability benefits, and social security supplements.



In the last year alone, the plans that responded to our survey increased their contribution rates by an average of 9%. This comes at a time when our economy faces historic challenges and thousands of companies are struggling to survive, particularly the small businesses that comprise more than 90% of multiemployer plan sponsors. In many cases the contribution increases necessary to support the pension plans were absorbed partially or completely by plan participants through reductions in their take-home pay. As numerous members of the media have falsely accused the multiemployer plans of seeking a government bailout, these figures tell the true story of how the employees and the sponsoring employers are working together to rebuild their benefit plans that were devastated by a crisis brought on by wall street greed.







# Conclusion

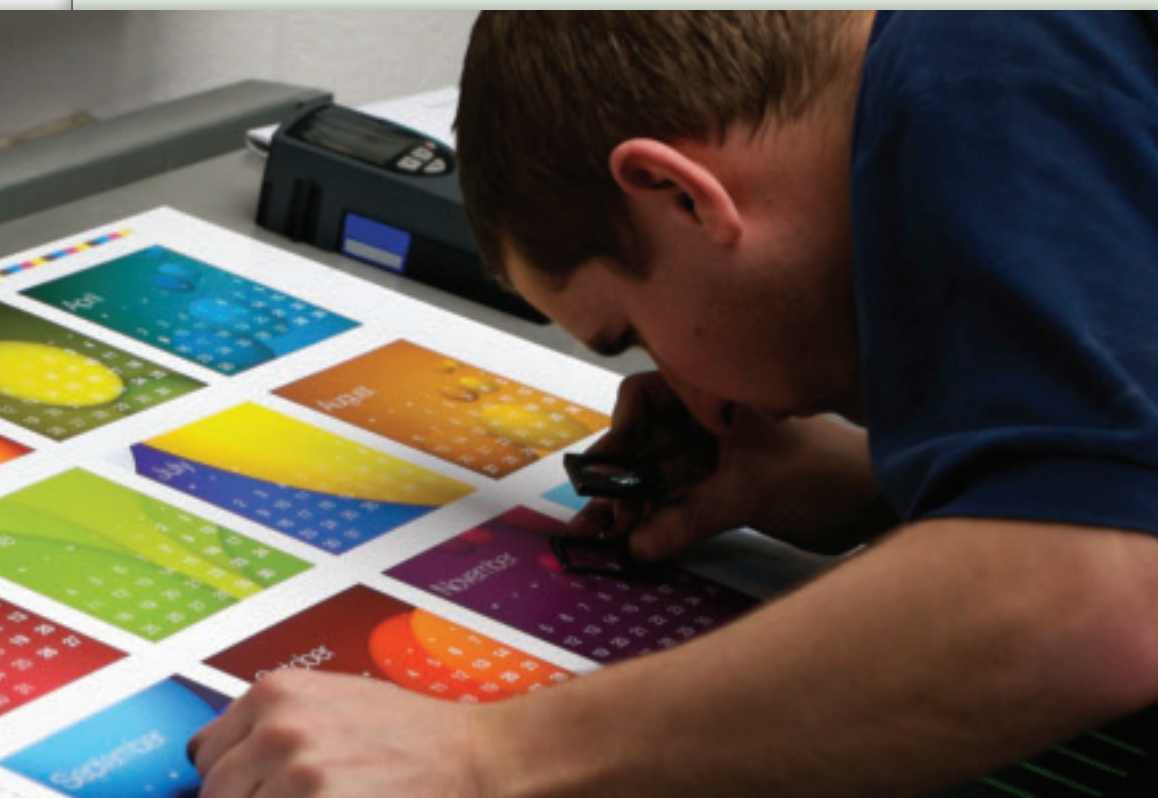
The 2009 NCCMP Survey of the Funded Status of Multiemployer Defined Benefit Plans documented the enormous impact that the 2008 financial crisis had on multiemployer pension plans. Asset losses exceeded 20% and funded ratios plummeted from the 80% to 90% range into the 60% to 70% range. The 2010 Survey Update is a testament to the stability and resiliency of these plans. Rather than making dramatic asset portfolio changes following the stock market crash, plans maintained their long-term investment focus and were rewarded with above average investment returns in 2009. At the same time, the majority of plans and their sponsors have undertaken difficult measures such as reducing benefit accruals and increasing contribution rates in order to offset the catastrophic experience of 2008. These factors contributed to a significant increase in the funded ratios from 2009 to 2010, and more than doubled the percentage of plans falling into the PPA 'green zone'.

Despite the improvements that occurred in 2009, there is still a long way to go before plans will fully recover from the 2008 losses. The investment gains that occurred in 2009 only replaced approximately one-third of the money that plans lost in 2008. Further complicating the recovery is the fact that majority of plans have experienced sharp declines in their employment levels following the 2008 crisis, which has served to offset much of the positive asset growth from the investment markets. Additionally, while plans have taken aggressive action such as requiring increased contributions and reducing benefit levels, these actions generally only apply to future contributions and benefit accruals, which means it takes many years for them to generate the additional funding necessary to replace the investment losses.

The 2010 Survey Update clearly shows that multiemployer pension plans are taking the steps necessary to return to financial health, and that only one year after the market crash, the beginnings of this recovery are evident. However, while the recovery is far from complete, with the ongoing support of all of the stakeholders, multiemployer plans will continue their vital role in providing financial security to millions of Americans.







## Acknowledgements

The NCCMP wishes to thank the many people who made this survey possible. We would especially like to recognize the trustees of the various plans who generously agreed to share detailed information from their plans with us so that the community could benefit from the findings of this survey. In addition, this survey would not have been possible without the diligent efforts of both the administrative staff and outside professionals of the participating plans. These individuals performed the difficult task of gathering data from a wide variety of sources, and worked with the NCCMP staff to ensure the accuracy of the information provided.

The statistics presented in this report are also available by specific industries and professional trades. Please contact the NCCMP if you would like to receive a supplemental report containing more detailed industry or trade information.







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