The Appropriateness of Long-Term Discount Rates

How It Works

Actuarial discount rates are not set by plan trustees or subject to collective bargaining. Each plan's actuary sets this asumption for an ongoing, healthy plan based on the forward looking expected return on plan assets over the lifetime of the plan, taking into account the timing of when benefits are expected to be paid.

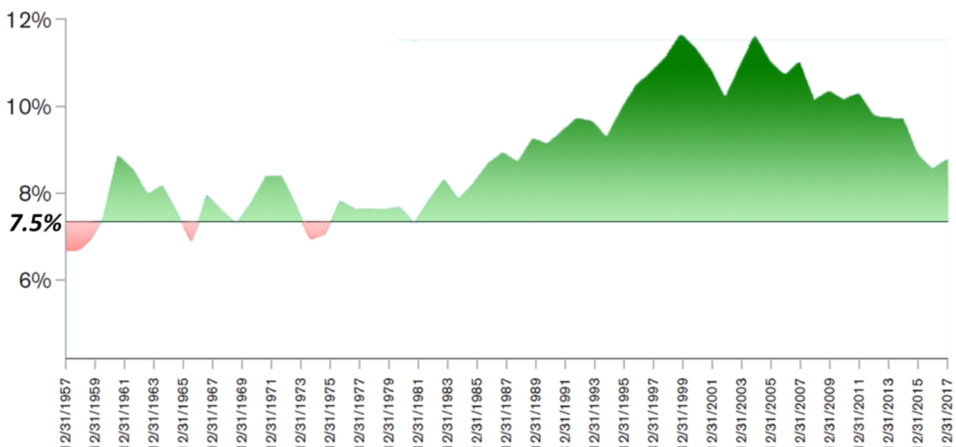
- In general, actuaries consider expected rates of return over 20-30 years, as investment professionals are unable to supply capital market expectations over longer timeframes.
- Based on Form 5500 data, for around 75% of multiemployer plans, the actuary currently uses a discount rate between 7.0 percent and 7.5 percent.
- Actuaries are trained professionals and are subject to Actuarial Standards of Practice that apply to all aspects of an actuary's practice, including the setting of appropriate actuarial assumptions.

Rationale

Healthy multiemployer pension plans make investments for the long-term, and they can and should view their long-term investment return assumptions in such light. In contrast to single employer plans, most multiemployer plans are not dependent on the health of a single employer, therefore the use of a long-term approach in valuing plan liabilities is appropriate.

Investment Lookback

Historic Performance for Portfolio with a 50% S&P 500®/50% Bond Index Asset Allocation (Annualized 30-Year Returns)



Pension investing is longterm. Rolling 30-year returns of a 50% S&P 500 / 50% bond index portfolio demonstrate that a typical multiemployer pension asset allocation has consistently outperformed the long-term assumed rate of return over a pension fund's investment horizon.

- The *lowest* return for a 30-year period was 6.66 percent for the 30 years ending December 31, 1958.
- The *highest* return for a 30-year period was 11.65 percent for the 30 years ending December 31, 1999.
- The return for the 30 years ending December 31, 2017 was 8.78 percent, including both the Dot-Com Bust in 2000-2002 and the Global Financial Crisis of 2009-2009.

Of the 62 periods in the study, the average 30-year return met or exceeded a typical 7.5 percent long-term assumed rate of return 52 times.

- Actual 30-year returns have exceeded 10.5 percent 10 times.
- Actual 30-year returns have only fallen short of 7.5 percent 10 times.

Based on Segal report "The Appropriateness of the Current Assumptions Used for Funding Multiemployer Pension Plans," dated July 2018.
Full report available: www.nccmp.org
www.segalco.com

Range of Historic Performance for Portfolio with a 50% S&P 500®/50% Bond Index Asset Allocation (Annualized 30-Year Returns)