

# Addressing Pension Fund Solvency

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# Today's Discussion

- Pension fund solvency has become a topic of interest in the U.S.
- Overview of the U.S. pension insurance programs
- Key factors contributing to the current U.S. multiemployer plan challenges
- Considerations for the future

# Pensions' Changing Landscape

## Remember that lifetime income you thought you had for retirement?

- A plan is solvent when it has enough assets and income to pay benefits as they become due.
- There are no “do-overs” when it comes to retirement.
- Possible issue with how defined benefit (DB) plans have been communicated to participants in the U.S.
- Pension fund solvency is a real concern for too many people.
- What happens if the last line of defense, the pension insurance program, is in peril?

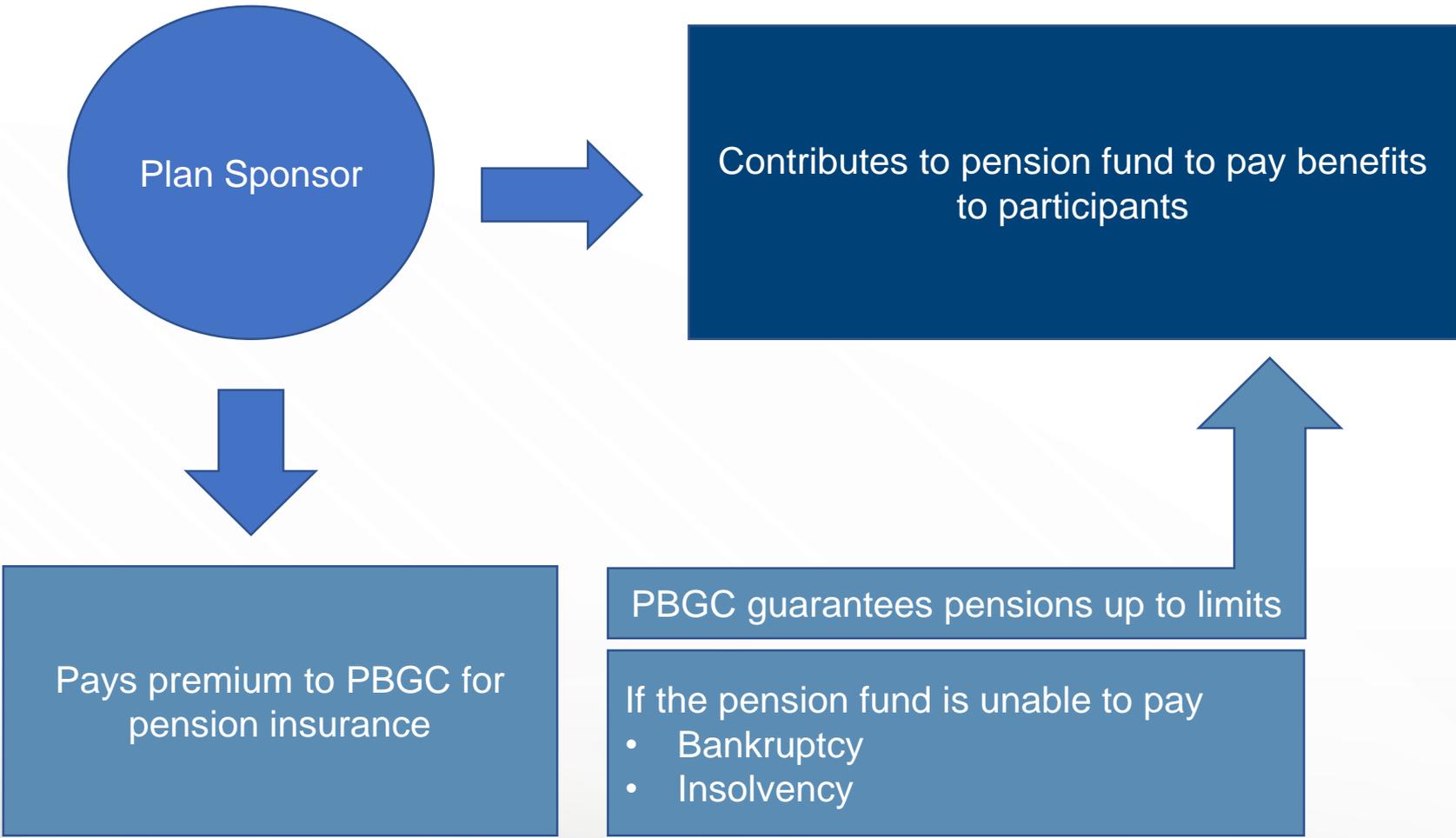


# The System is Designed to Succeed

- If an employer chooses to offer a pension plan, there are “belts and suspenders” in place to help assure plans are able to deliver on commitments
  - Minimum funding requirements
  - Professional actuarial standards for assumption setting
  - Restrictions and calls to action upon signs of financial challenges
  - Mandatory pension insurance program



# Pension Insurance in the U.S.



## **Mission:**

- Encourage the continuation and maintenance of voluntary private-sector defined benefit pension plans
- Provide timely and uninterrupted payment of pension benefits to participants and beneficiaries
- Maintain premiums at the lowest level necessary to meet PBGC's obligations

## **Self-financed:**

- Receives no taxpayer dollars
- Financed by insurance premiums, investment income, and assets and recoveries from failed single-employer plans

## **Two insurance programs; operationally and financially separate by law:**

- Single-Employer Program
- Multiemployer Program

## Pension Insurance Programs

- Level of benefits guaranteed
- Insurable event
- Premium structure and rates
- Mechanisms for delivering guaranteed benefits
- PBGC's authorities and roles with respect to ongoing and terminated plans

# Premium Rates

Plan years beginning in	Multiemployer Plans	Single-Employer Plans		
	Flat-Rate Premium	Flat-Rate Premium	Variable-Rate Premium	
	Rate per Participant	Rate per Participant	Rate per \$1,000 UVBs	Per Participant Cap
2006	\$8	\$30	\$9	NA
2012	\$9	\$35	\$9	\$400
2013	\$12	\$42	\$9	\$400
2014	\$12	\$49	\$14	\$412
2015	\$26	\$57	\$24	\$418
2016	\$27	\$64	\$30	\$500
2017	\$28	\$69	\$34	\$517
2018	\$28	\$74	\$38	\$523
2019	\$29	\$80	\$43	\$541

Note: All rates and caps subject to indexing after 2019

## Differences

### Single-Employer

- Varies based on age and form of payment
- \$67,295 for age 65 retiree, regardless of service
- Periodic indexing

### Multiemployer

- Varies based on years of service and level of benefits
- \$12,870 for retiree with 30 years of service, regardless of age
- Two-tiered guarantee:
  - 100% of the first \$11 of the monthly benefit rate, plus 75% of the next \$33; times years of service
- Not indexed

# Program Comparison as of 9/30/2018

	Single-Employer	Multiemployer
FY 2018 PBGC financial position		
• Liabilities (includes “probable” losses)	\$108 billion	\$56 billion*
• Assets	\$110 billion	\$2 billion
• Net position	\$2 billion	(\$54 billion)
Insurable event	Plan Termination	Plan Insolvency
FY 2018 premium income	\$5.5 billion	\$292 million
FY 2018 payouts to/for retirees	\$5.8 billion	\$153 million
Number of covered plans	23,400	1,400
Ratio of inactive to active participants**	17:9	7:4
Number of participants in plans	26.2 million	10.6 million
People in trustee/insolvent plans	1,393,000	90,100

\* All but \$2B is for “probable” insolvent plans

\*\* Ratios in 1980 were 6:21 for single-employer and 2:6 for multiemployer plans

# Results of Recent Study of Single-Employer Guarantee Outcomes

84%

- Vested participants who received **all** earned benefits

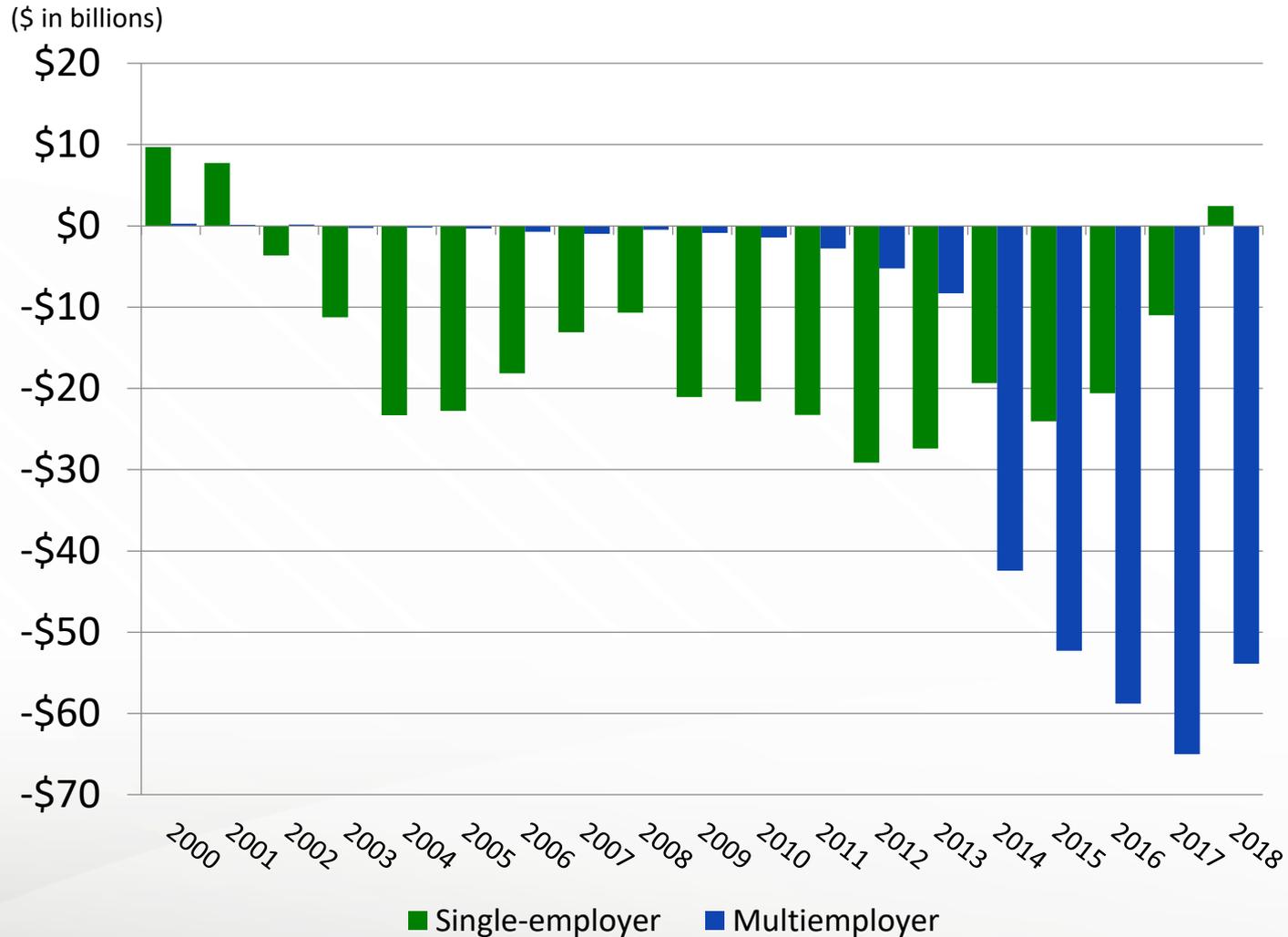
16%

- Vested participants with a benefit reduction
  - Average reduction in benefit value:
    - 24% - All Participants
    - 19% - Retired Participants
  - 89% of benefit reductions were in just 10 plans

59%

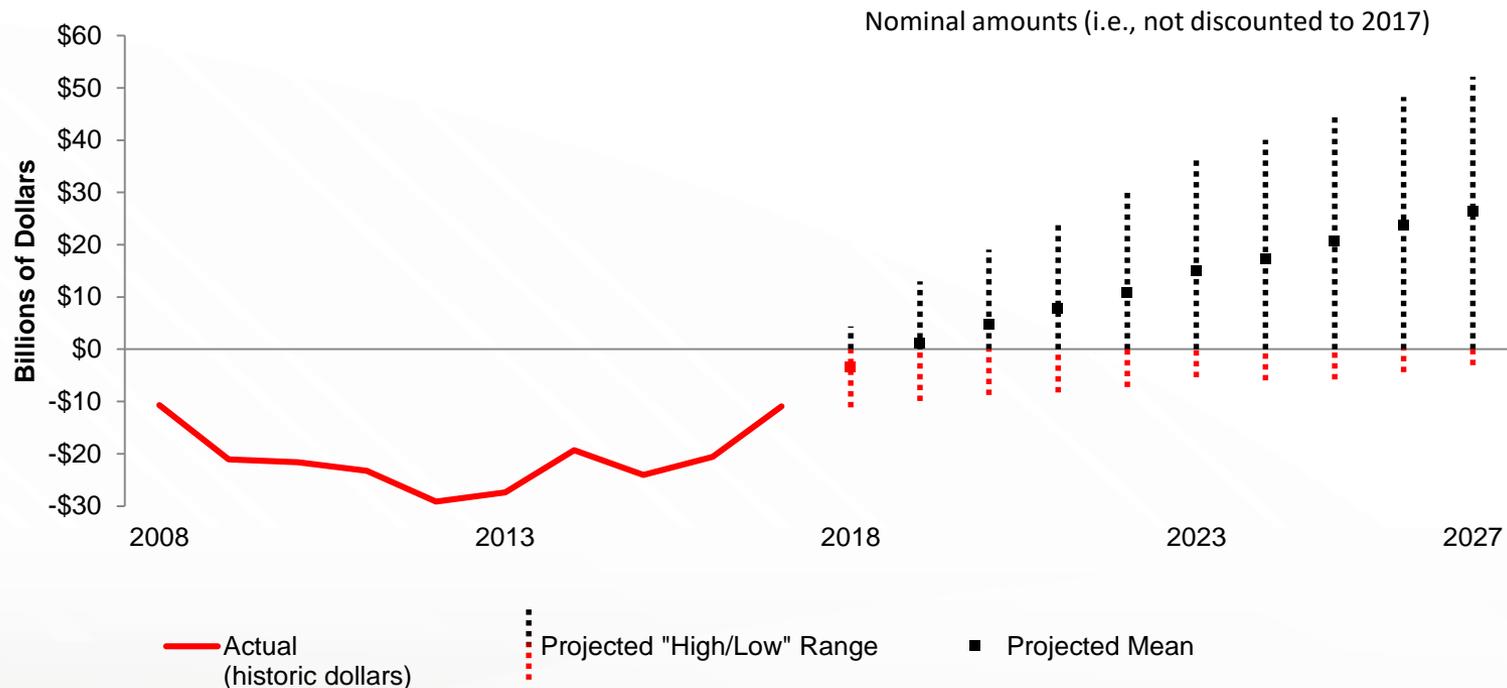
- Plans with at least one participant with a benefit reduction

# PBGC Net Financial Position FY 2000-2018



# Single-Employer Program Funded Status Historical and Projected

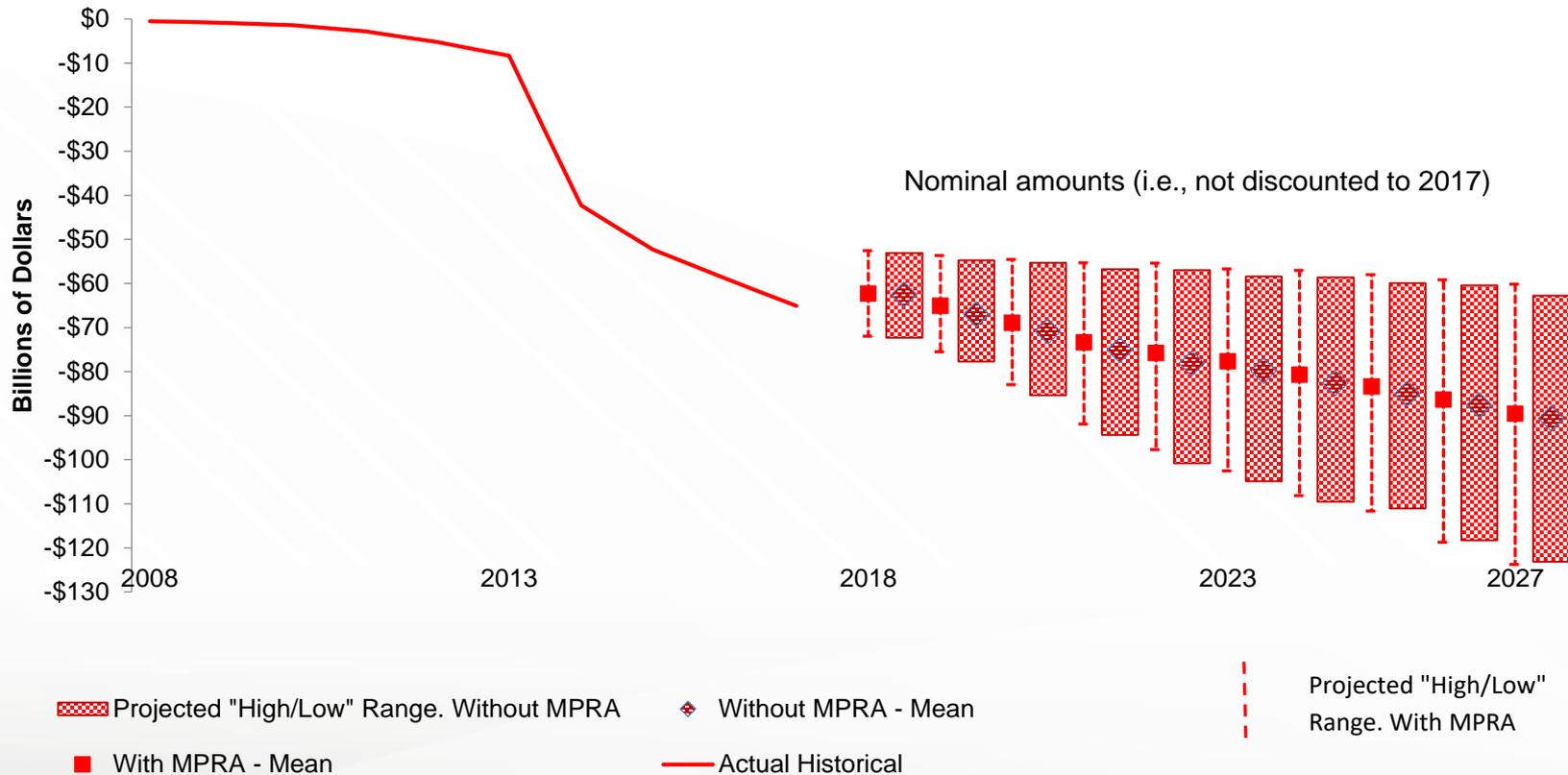
Single-Employer Program net position will likely continue to improve



Source: PBGC FY 2017 Projections Report; FY 2018 Projections Report will be available soon

# Multiemployer Program Funded Status Historical and Projected

## Multiemployer Program deficit projected to grow



Source: PBGC FY 2017 Projections Report; FY 2018 Projections Report will be available soon

# Multiemployer Program Insolvency Risks

## A Closer Look...

- About 10 percent of 1,400 plans are at risk of insolvency within the next 20 years, potentially impacting about 1.3 million participants
- Key contributors
  - Volatile investment performance
  - Fewer actives supporting a larger inactive base
  - Changing business environment
    - Deregulation
    - Automation
    - Globalization/competition
    - Declining union participation
  - Less stringent funding rules



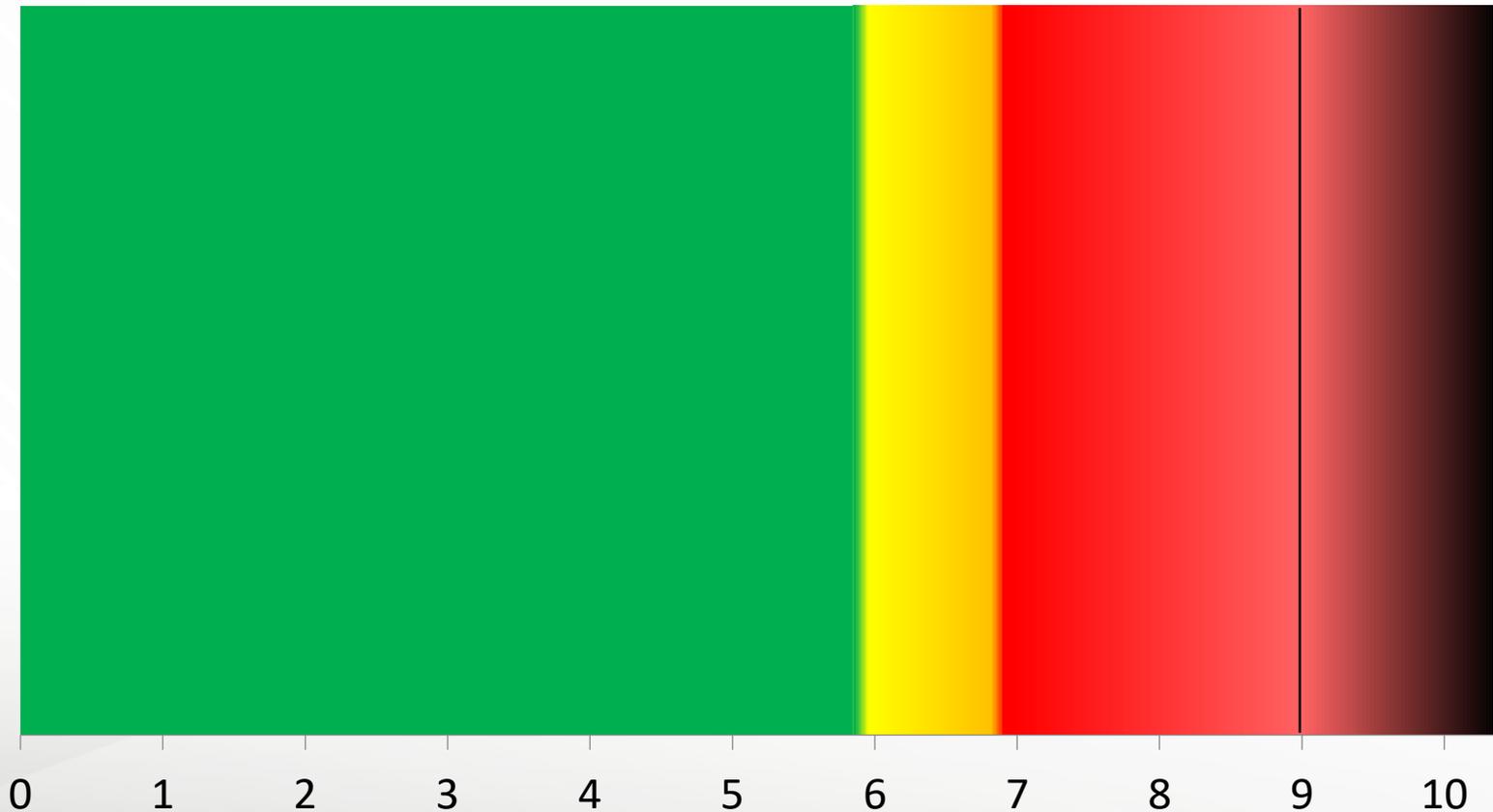
- Multiemployer Pension Reform Act of 2014 (MPRA) provides tools for reducing the chance of plan insolvency
  - Benefit Suspensions (i.e. reduction in benefits)
  - Plan Partitions
  - Facilitated Mergers
- For plans expected to run out of money in **less than 20 years** (or 15 years in certain situations)

# Participants in Multiemployer Plans

## Breakdown by Zone Status

Number of Participants – in Millions

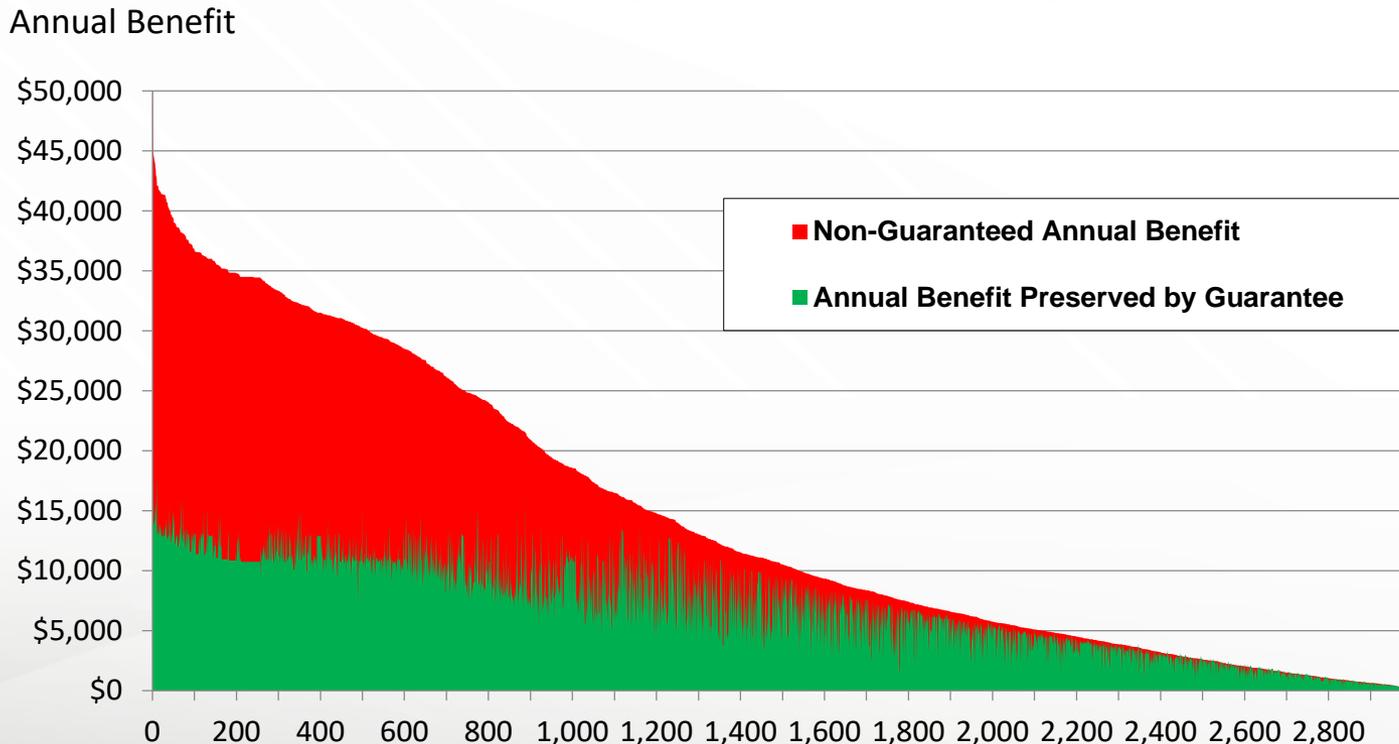
1.3 million people are in plans that are “Critical and Declining”



# Sample Plan Insolvency

- About 1/3 of retirees experienced benefit cuts of over 50 percent in a recent example of a multiemployer plan insolvency.
- Approximately 3,000 retirees were receiving benefits when the plan ran out of money.

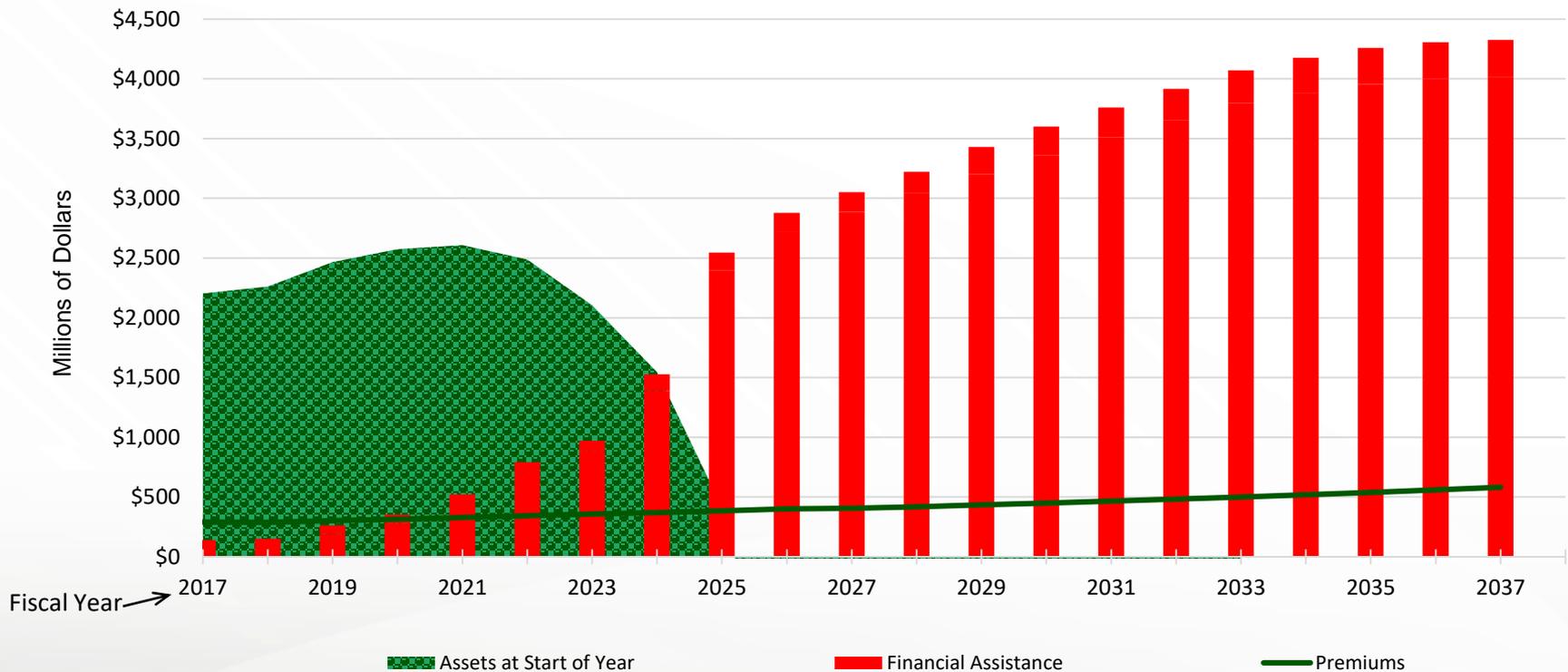
## Sample Plan Insolvency



# Projecting Claims at Average Levels

## PBGC Multiemployer Fund is Depleted in 2025

Projected amounts are in nominal dollars  
(i.e., not discounted to 2017)



Source: PBGC FY 2017 Projections Report; FY 2018 Projections Report will be available soon

- Joint Select Committee on Solvency of Multiemployer Pension Plans helped educate lawmakers but fell short of a solution
- Solution requires more money or lower benefits – or some combination
- Difficult choices
  - Plans/participants
  - PBGC
  - Prevent from happening again
- Diverse perspectives among stakeholders
  - Lawmakers
  - Employers
  - Unions
  - Participants
  - Practitioners



## Solution Components that have been Raised

- Liability transfer
- Loans and financial assistance
- Other sources of funding
- Premium level, structure, and sources
- Regulatory oversight
- Stronger funding requirements
- The level of PBGC guarantees

**Thank You!**

