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
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.

Plan Sponsor

Contributes to pension fund to pay benefits to participants

Pays premium to PBGC for pension insurance

PBGC guarantees pensions up to limits

If the pension fund is unable to pay
  • Bankruptcy
  • Insolvency
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

<table>
<thead>
<tr>
<th>Plan years beginning in</th>
<th>Multiemployer Plans</th>
<th>Single-Employer Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Flat-Rate Premium</td>
<td>Flat-Rate Premium</td>
</tr>
<tr>
<td></td>
<td>Rate per Participant</td>
<td>Rate per Participant</td>
</tr>
<tr>
<td>2006</td>
<td>$8</td>
<td>$30</td>
</tr>
<tr>
<td>2012</td>
<td>$9</td>
<td>$35</td>
</tr>
<tr>
<td>2013</td>
<td>$12</td>
<td>$42</td>
</tr>
<tr>
<td>2014</td>
<td>$12</td>
<td>$49</td>
</tr>
<tr>
<td>2015</td>
<td>$26</td>
<td>$57</td>
</tr>
<tr>
<td>2016</td>
<td>$27</td>
<td>$64</td>
</tr>
<tr>
<td>2017</td>
<td>$28</td>
<td>$69</td>
</tr>
<tr>
<td>2018</td>
<td>$28</td>
<td>$74</td>
</tr>
<tr>
<td>2019</td>
<td>$29</td>
<td>$80</td>
</tr>
</tbody>
</table>

Note: All rates and caps subject to indexing after 2019
### Differences

<table>
<thead>
<tr>
<th>Single-Employer</th>
<th>Multiemployer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Varies based on age and form of payment</td>
<td>Varies based on years of service and level of benefits</td>
</tr>
<tr>
<td>$67,295 for age 65 retiree, regardless of service</td>
<td>$12,870 for retiree with 30 years of service, regardless of age</td>
</tr>
<tr>
<td>Periodic indexing</td>
<td>Two-tiered guarantee:</td>
</tr>
<tr>
<td></td>
<td>100% of the first $11 of the monthly benefit rate, plus 75% of the next $33; times years of service</td>
</tr>
<tr>
<td></td>
<td>Not indexed</td>
</tr>
</tbody>
</table>
## Program Comparison as of 9/30/2018

<table>
<thead>
<tr>
<th>FY 2018 PBGC financial position</th>
<th>Single-Employer</th>
<th>Multiemployer</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Liabilities (includes “probable” losses)</td>
<td>$108 billion</td>
<td>$56 billion*</td>
</tr>
<tr>
<td>• Assets</td>
<td>$110 billion</td>
<td>$2 billion</td>
</tr>
<tr>
<td>• Net position</td>
<td>$2 billion</td>
<td>($54 billion)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Insurable event</th>
<th>Plan Termination</th>
<th>Plan Insolvency</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2018 premium income</td>
<td>$5.5 billion</td>
<td>$292 million</td>
</tr>
<tr>
<td>FY 2018 payouts to/for retirees</td>
<td>$5.8 billion</td>
<td>$153 million</td>
</tr>
<tr>
<td>Number of covered plans</td>
<td>23,400</td>
<td>1,400</td>
</tr>
<tr>
<td>Ratio of inactive to active participants**</td>
<td>17:9</td>
<td>7:4</td>
</tr>
<tr>
<td>Number of participants in plans</td>
<td>26.2 million</td>
<td>10.6 million</td>
</tr>
<tr>
<td>People in trusteeed/insolvent plans</td>
<td>1,393,000</td>
<td>90,100</td>
</tr>
</tbody>
</table>

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

** Ratios in 1980 were 6:21 for single-employer and 2:6 for multiemployer plans
<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>84%</td>
<td>Vested participants who received all earned benefits</td>
</tr>
<tr>
<td>16%</td>
<td>Vested participants with a benefit reduction</td>
</tr>
<tr>
<td>24%</td>
<td>Average reduction in benefit value: All Participants</td>
</tr>
<tr>
<td>19%</td>
<td>Average reduction in benefit value: Retired Participants</td>
</tr>
<tr>
<td>59%</td>
<td>Plans with at least one participant with a benefit reduction</td>
</tr>
<tr>
<td></td>
<td>89% of benefit reductions were in just 10 plans</td>
</tr>
</tbody>
</table>
Single-Employer Program net position will likely continue to improve

Nominal amounts (i.e., not discounted to 2017)

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

Nominal amounts (i.e., not discounted to 2017)

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

Source: 2016 Form 5500 and zone status certifications
• 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.
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
What’s Next?

• 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!