

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?

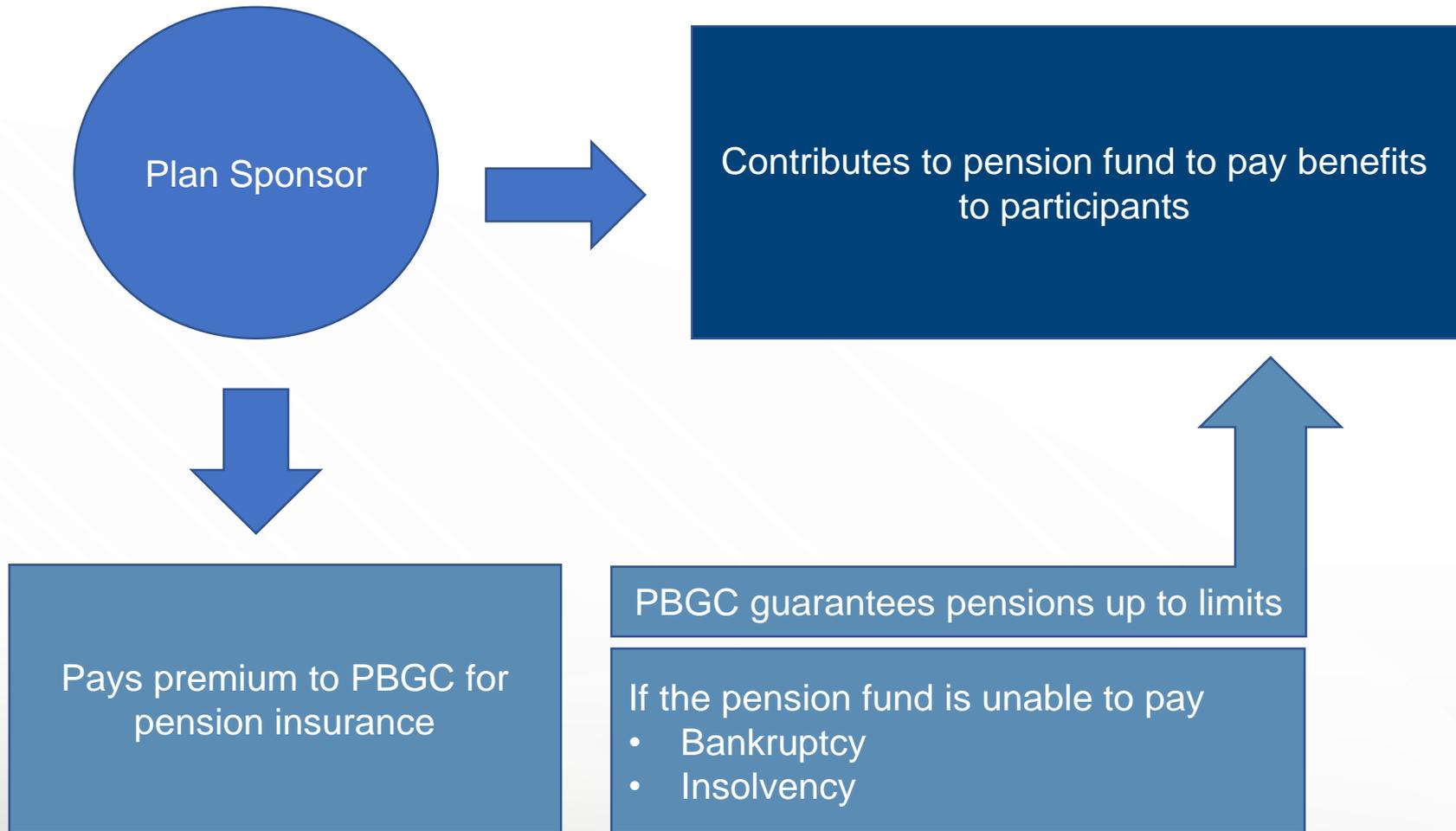


The System is Designed to Succeed

- 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

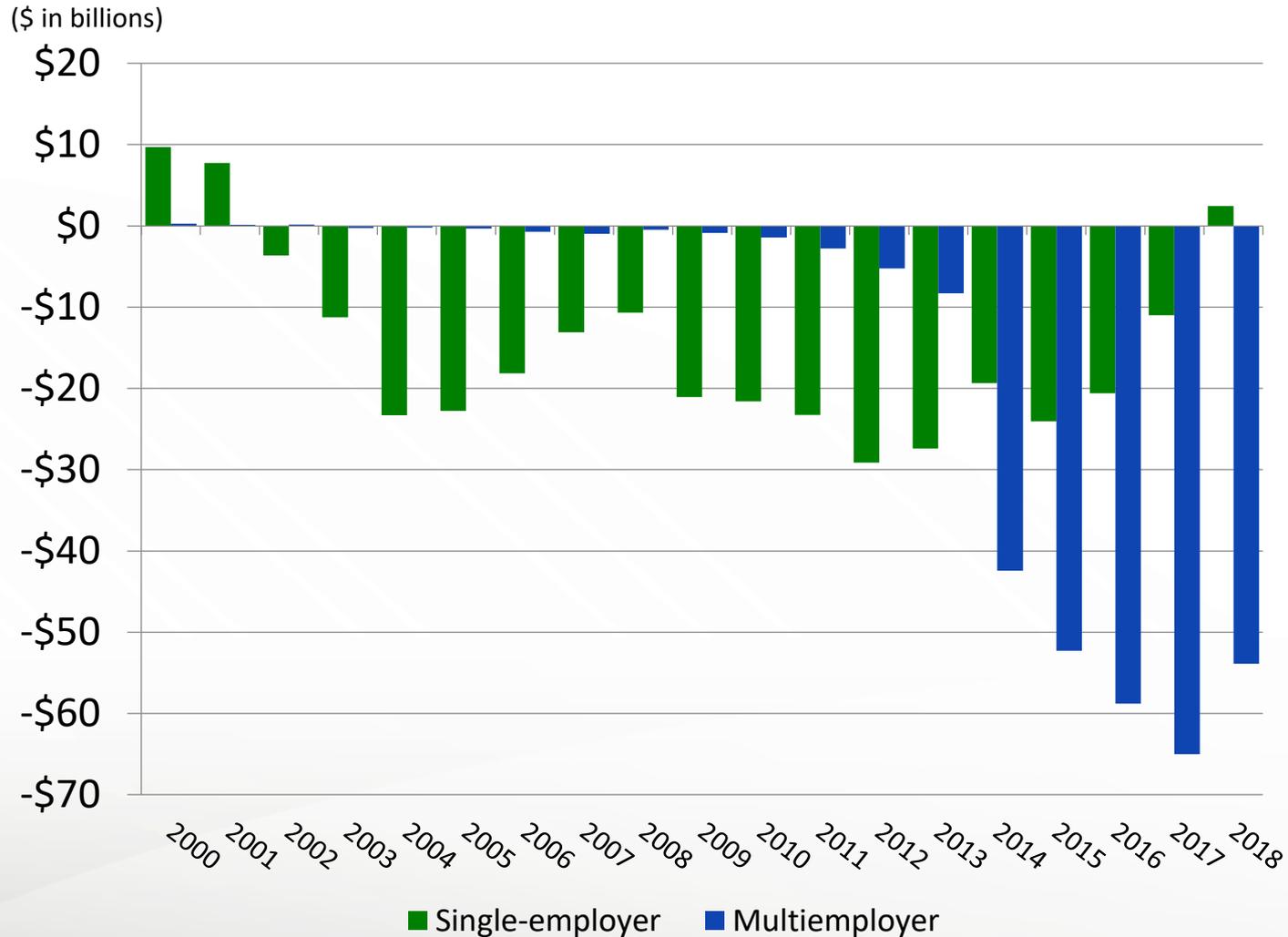
16%

- 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%

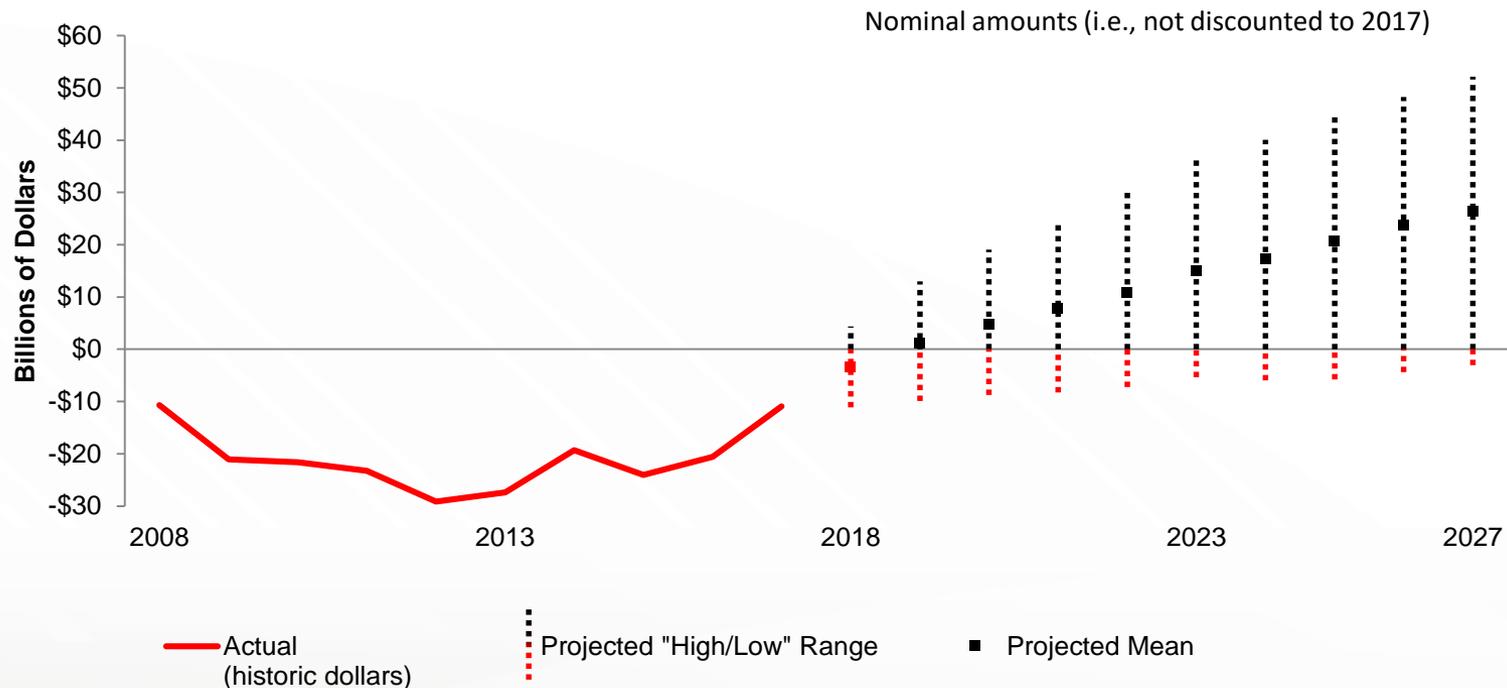
- Plans with at least one participant with a benefit reduction

PBGC Net Financial Position FY 2000-2018



Single-Employer Program Funded Status Historical and Projected

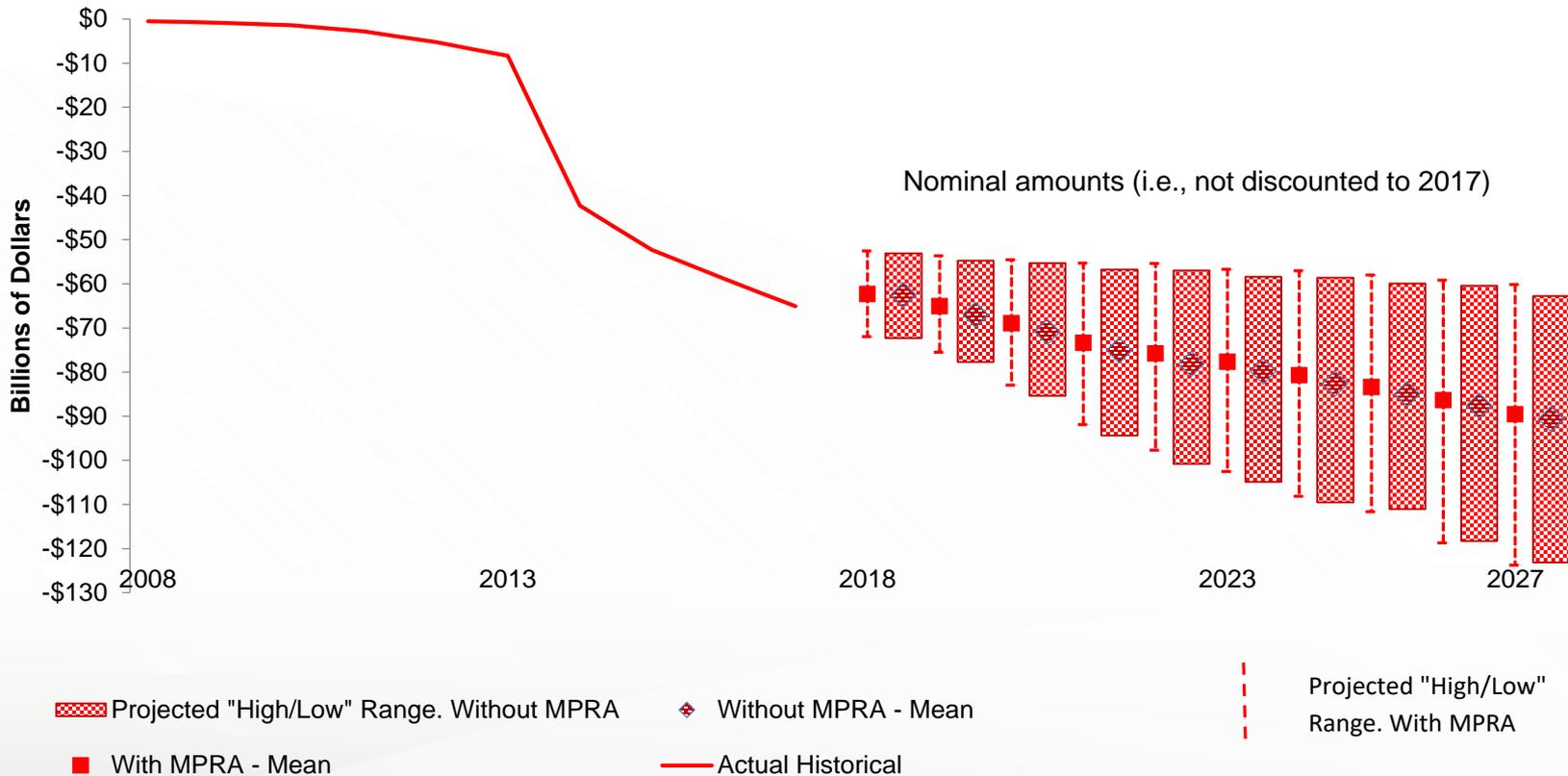
Single-Employer Program net position will likely continue to improve



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



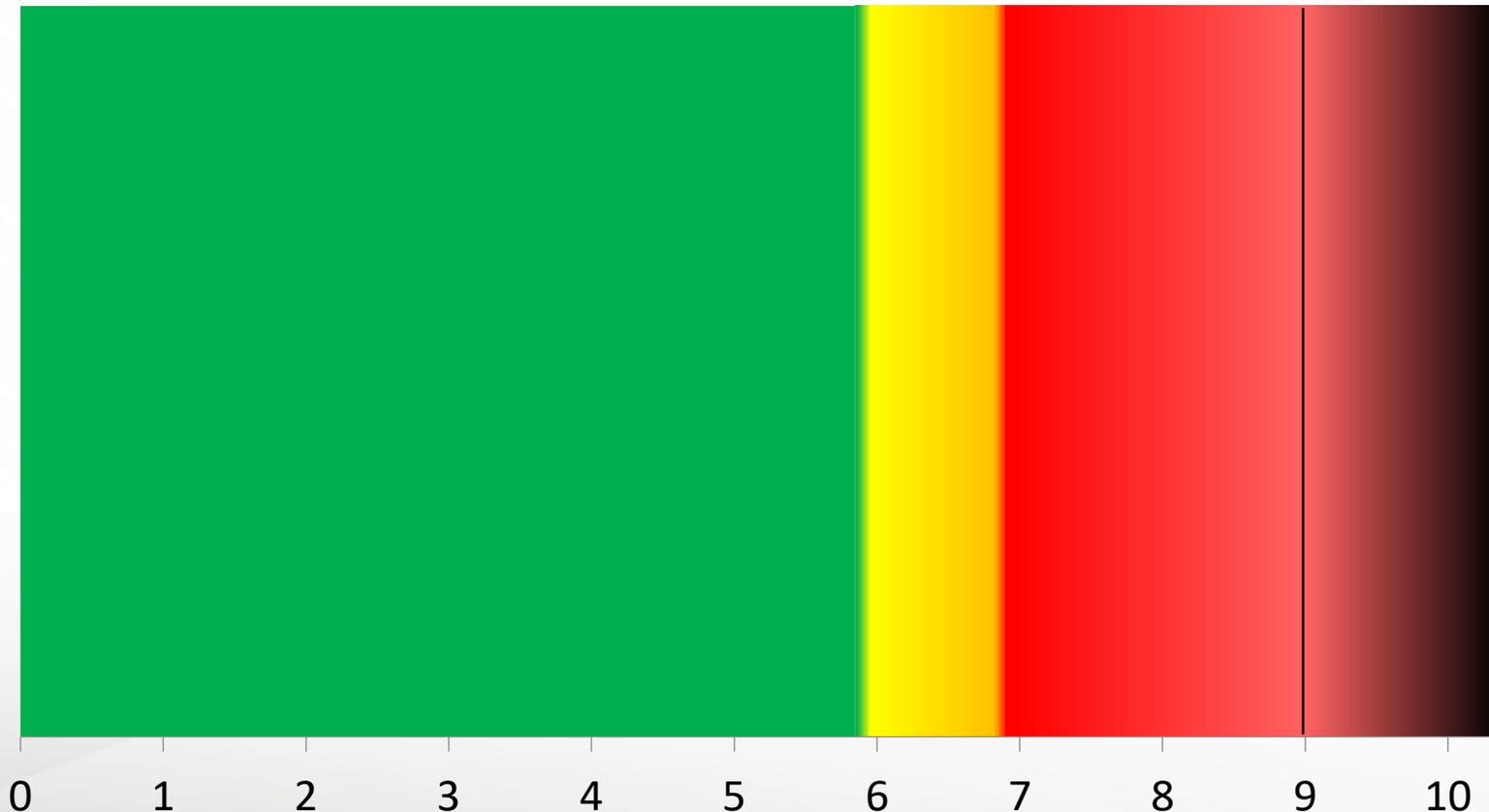
- Multiemployer Pension Reform Act of 2014 (MPRA) provides tools for reducing the chance of plan insolvency
 - Benefit Suspensions (i.e. reduction in benefits)
 - Plan Partitions
 - Facilitated Mergers
- For plans expected to run out of money in **less than 20 years** (or 15 years in certain situations)

Participants in Multiemployer Plans

Breakdown by Zone Status

Number of Participants – in Millions

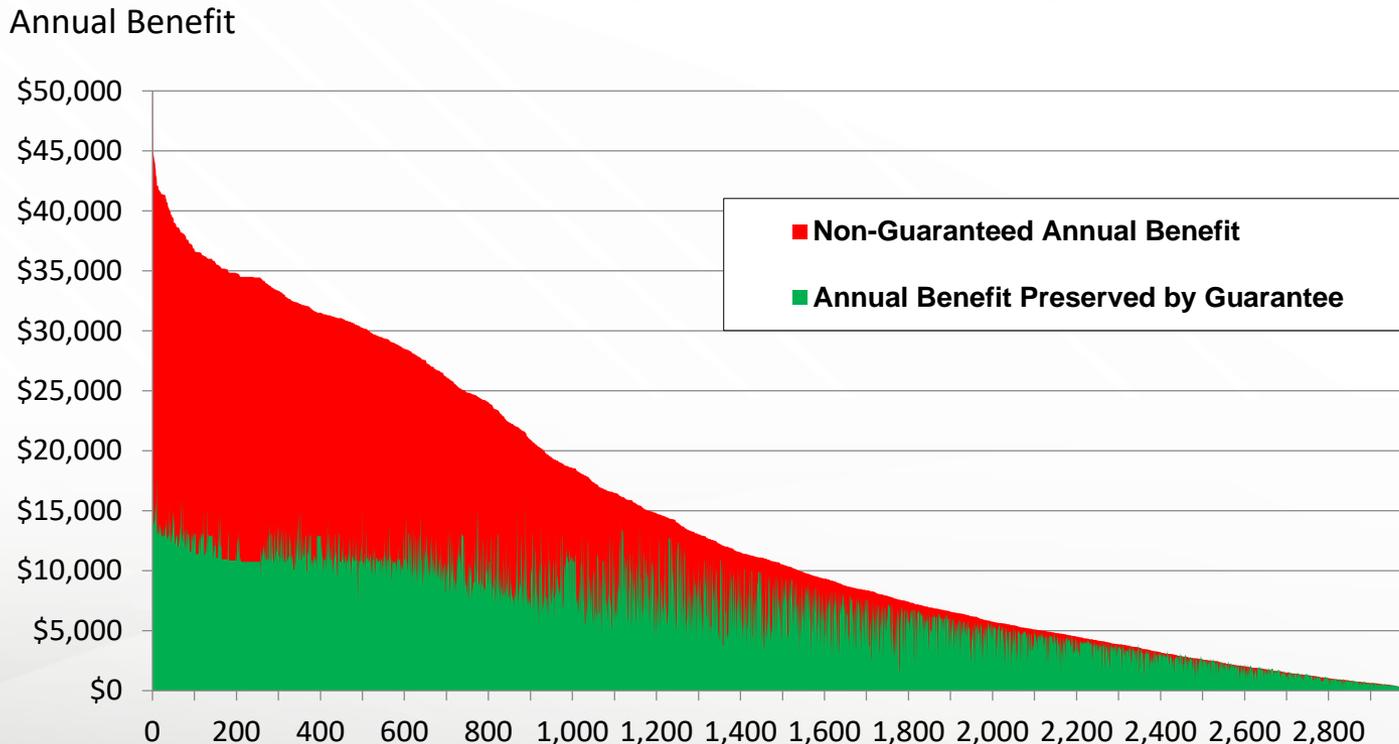
1.3 million people are in plans that are “Critical and Declining”



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.

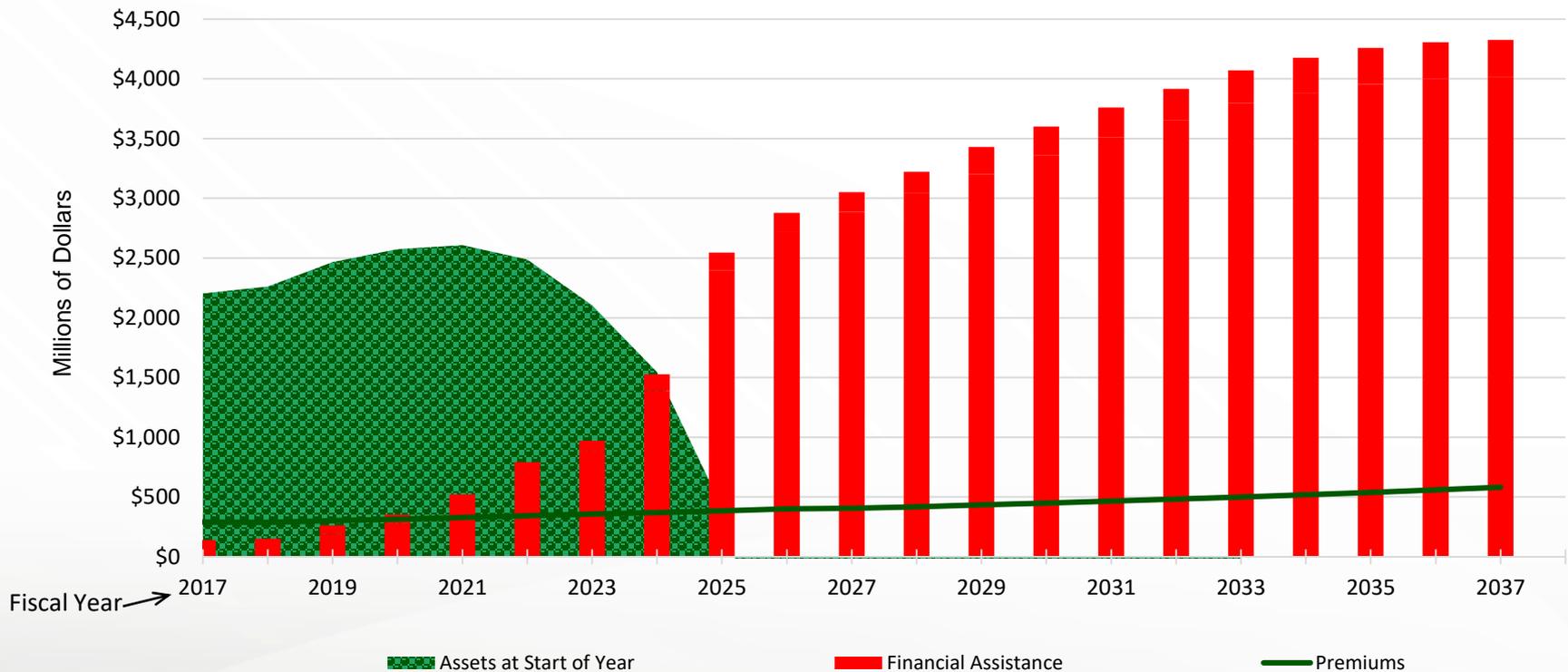
Sample Plan Insolvency



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



Thank You!

