



National Coordinating Committee  
for Multiemployer Plans

# Addressing Pension Fund Solvency

2023 World Pension Alliance and Transatlantic Conference

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# What Does it Mean to be Insolvent?

## Global

Insolvent: plan liabilities are projected to exceed plan assets.

## ERISA

Insolvent: plan assets have been exhausted.

ERISA: Employee Retirement  
Income Security Act of 1974

# U.S. Multiemployer Plans

## Overview

- Over 1,200 plans across the United States
- Covering over 10.7 million workers, retirees, and beneficiaries
- Subject to Employee Retirement Income Security Act (ERISA)
- Contribution rates are negotiated, tied to covered work levels
- Each plan is governed by a joint board of trustees (union and employer)

## Industries

- Construction • Trucking / Transportation • Service / Hospitality
- Retail / Food • Manufacturing • Entertainment

# U.S. Multiemployer Plans: Key Legislation

## ERISA

*Employee Retirement Income Security Act of 1974*

- Effective in 1976
- Minimum funding standards
- Anti-cutback rule

## PPA

*Pension Protection Act of 2006*

- Effective in 2008
- Zone status rules
- New tools for yellow zone and red zone plans

## MPRA

*Multiemployer Pension Reform Act of 2014*

- Effective in 2015
- New “critical and declining” status
- Plans may reduce accrued benefits to avoid insolvency (with government approval)

## ARPA

*American Rescue Plan Act of 2021*

- Effective in 2021
- PBGC pays special financial assistance (SFA) to eligible distressed plans
- SFA eligibility based on status from 2020 to 2022

# U.S. Multiemployer Plans: Zone Statuses

Status	Tests
<b>Green Zone</b>	Neither in endangered status nor in critical status
<b>Endangered</b>	Not in critical status, and: <ul style="list-style-type: none"><li>• Funded percentage is less than 80%; <u>or</u></li><li>• Projected funding deficiency in next 7 plan years</li></ul>
<b>Seriously Endangered</b>	Not in critical status, and: <ul style="list-style-type: none"><li>• Funded percentage is less than 80%; <u>and</u></li><li>• Projected funding deficiency in next 7 plan years</li></ul>
<b>Critical</b>	Projected funding deficiency in next 4 or 5 plan years
<b>Critical and Declining</b>	In critical status, and: <ul style="list-style-type: none"><li>• Projected insolvency in next 15 or 20 plan years</li><li>• In most cases, test is 20 years</li></ul>

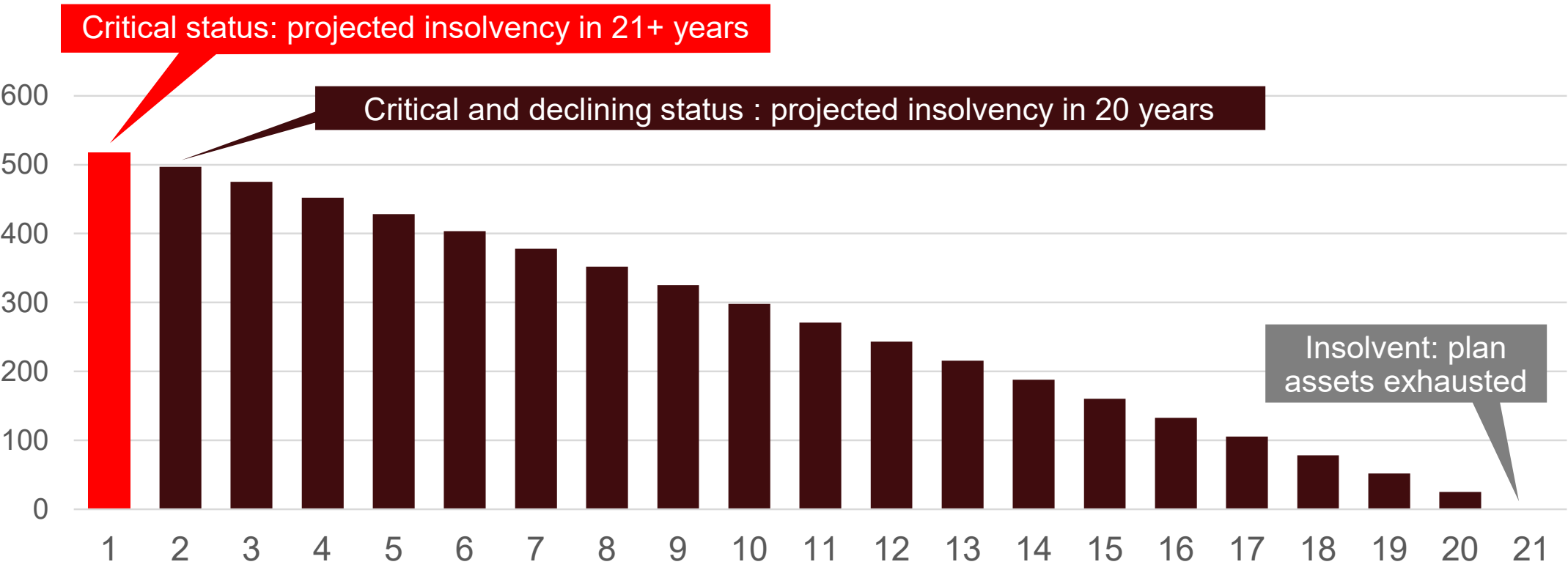
## Corrective action

- Non-green plans must adopt action plan to improve or rehabilitate funding levels
- Critical status plans can modify “adjustable benefits” like early retirement benefits
- Critical and declining plans may reduce accrued benefits to avoid insolvency (with government approval)

# U.S. Multiemployer Insolvency Example

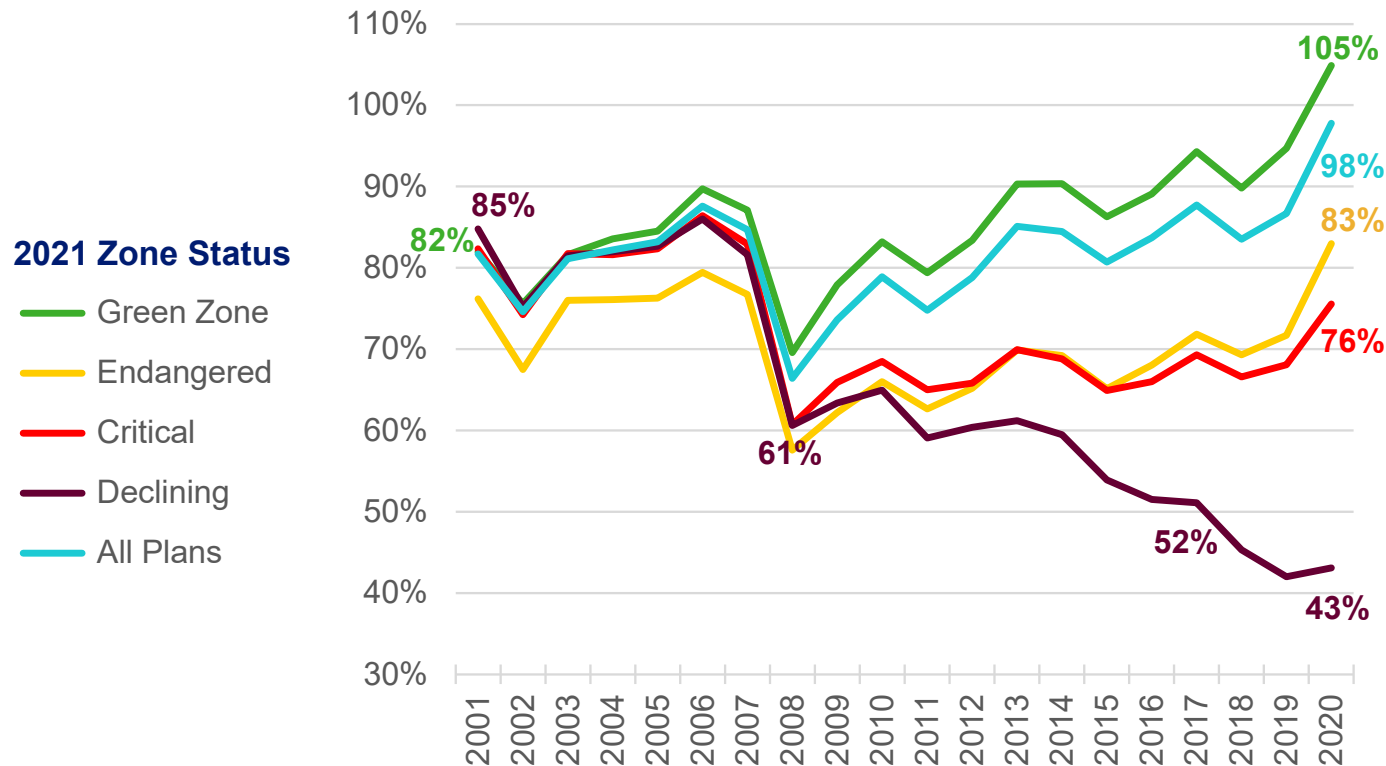
## Solvency Projection

Asset values at end of plan year in \$Millions



# How Did We Get Here?

## Historical Funded Percentages



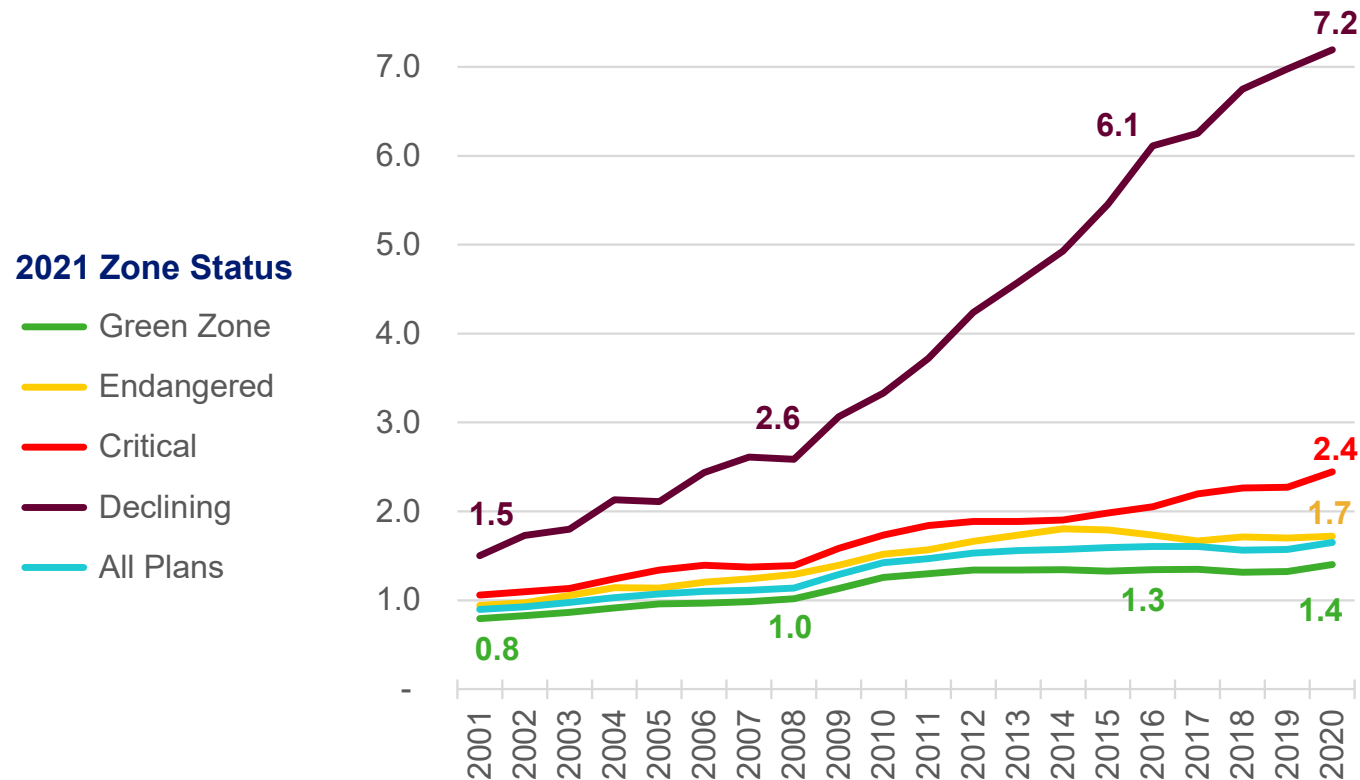
Study of Form 5500 data by Segal. Graph shows median funded percentages based on market value of assets at plan year end. Plans are grouped by 2021 zone status.

## Observations

- In 2001, not much dispersion in median funded percentages
- Over last 20 years, funding for plans in **critical and declining** status deteriorated rapidly
- In 2001, plans currently in **critical and declining** status had a slightly *higher* median funded percentage than plans currently in the **green zone**

# Importance of Plan Maturity

## Historical Demographic Maturity Ratio



Study of Form 5500 data by Segal. Graph shows median ratios of non-active participants to active participants at plan year end. Plans are grouped by 2021 zone status.

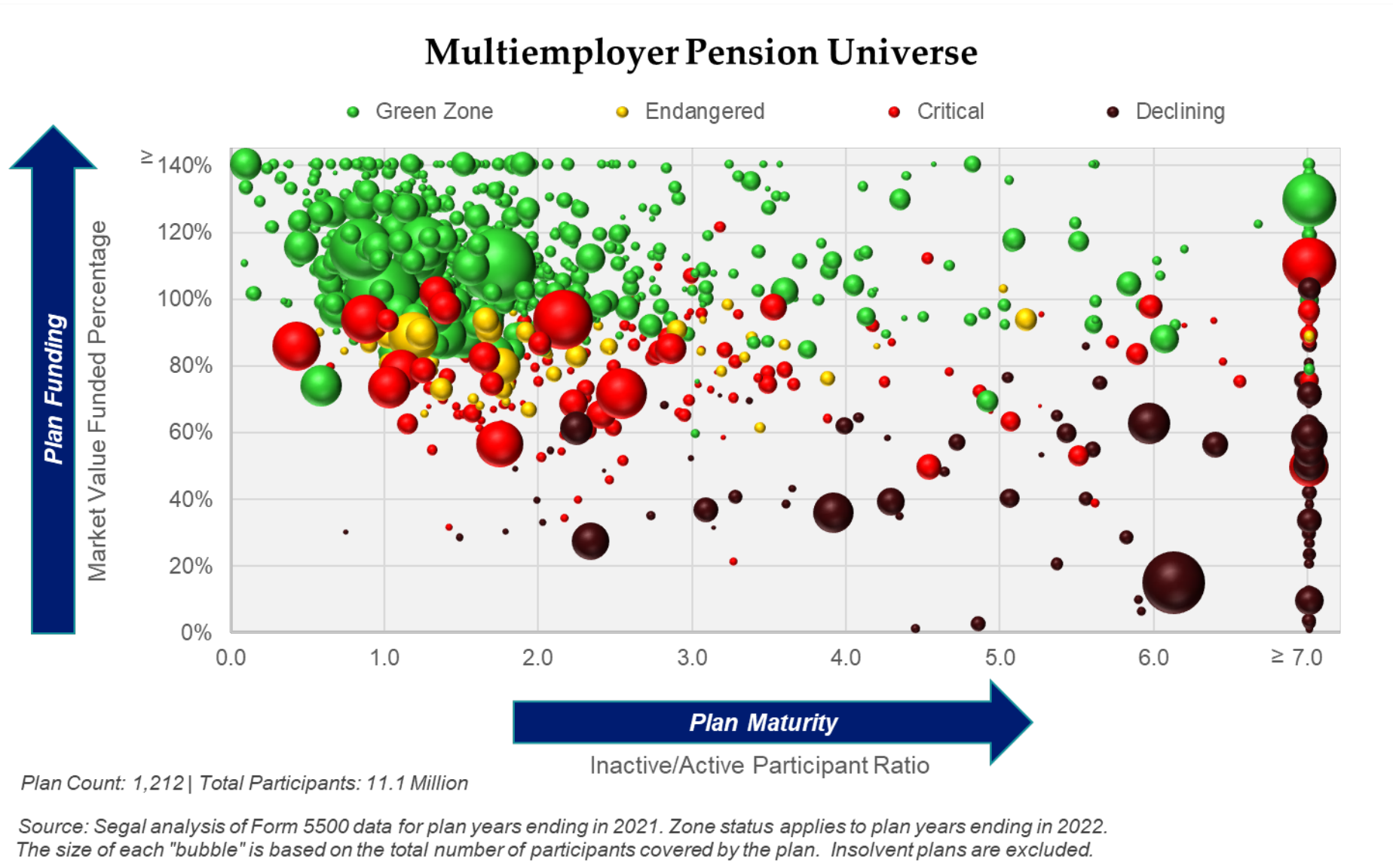
## Observations

- Here, maturity is expressed as ratio of non-active participants to active participants
- Plans currently in **critical and declining status** were more mature than average in 2001 and highly mature now
- Note higher maturity levels in 2020 for non-declining plans, compared with 2001



# U.S. Multiemployer Universe

*Disregarding special financial assistance under the American Rescue Plan Act of 2021*

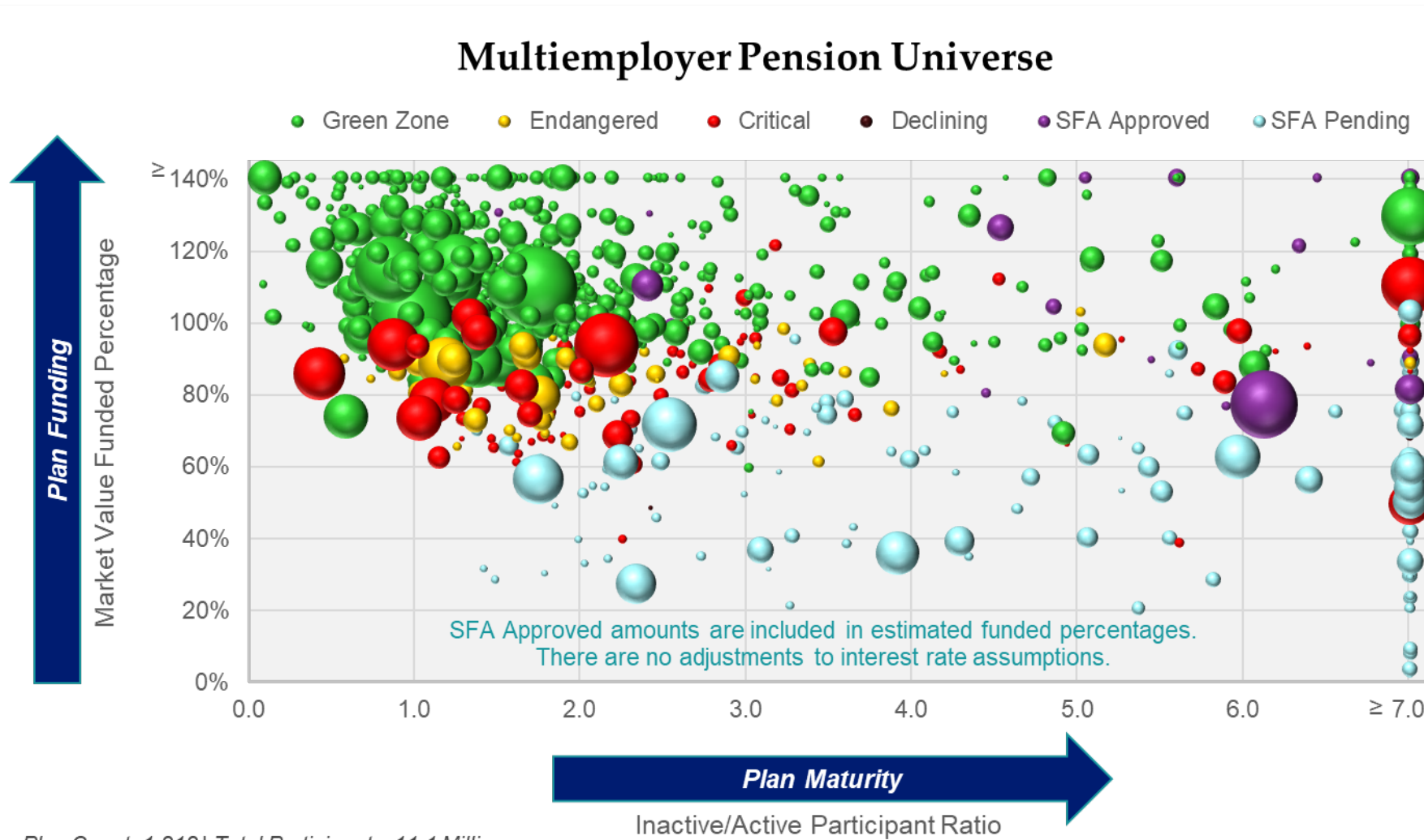


## Notes

- Segal analysis of Form 5500 data for plan years ending in 2021
- Zone status applies to plan years ending in 2022
- Exhibit does not reflect special financial assistance (SFA)

# U.S. Multiemployer Universe

*Reflecting special financial assistance under the American Rescue Plan Act of 2021*



Plan Count: 1,212 | Total Participants: 11.1 Million

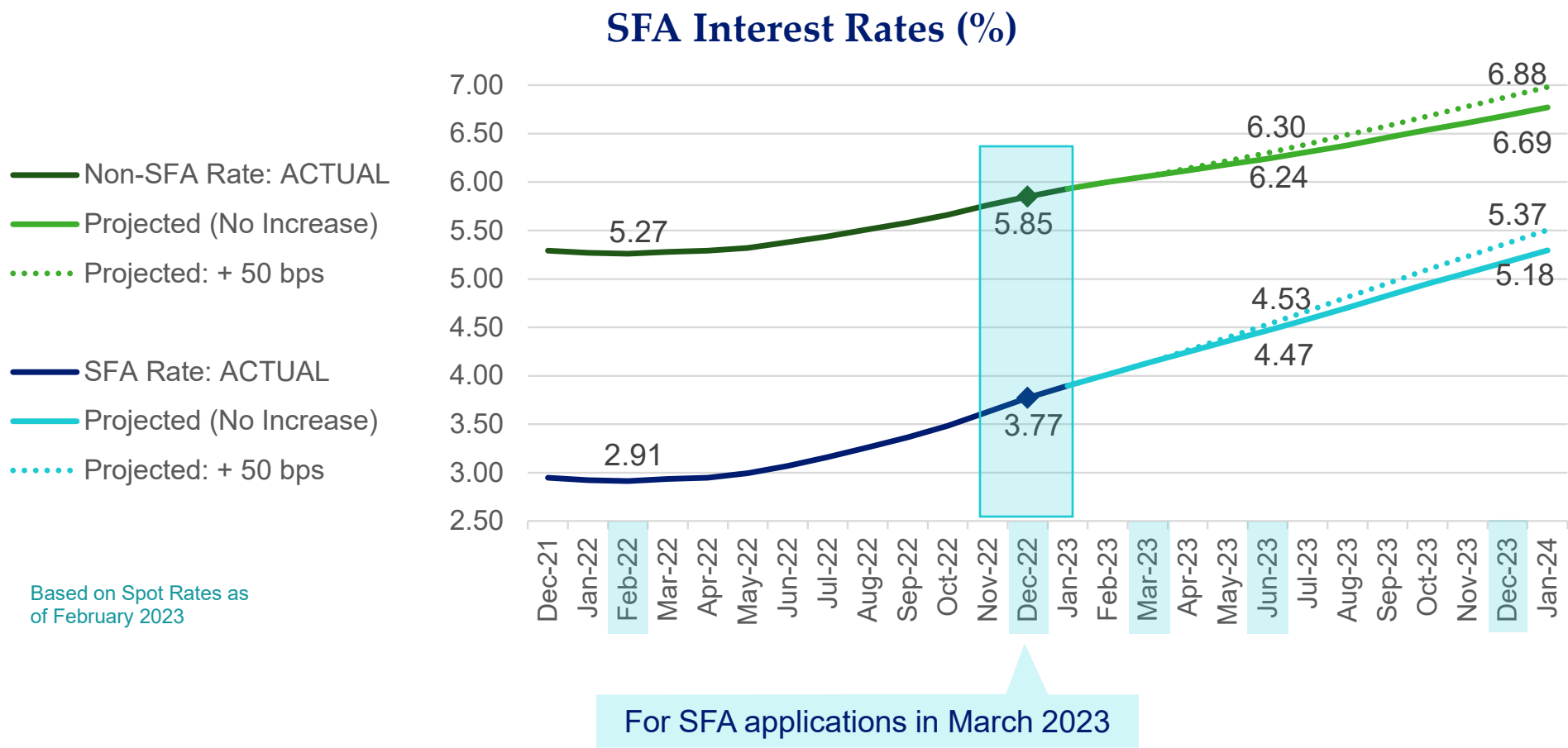
Source: Segal analysis of Form 5500 data for plan years ending in 2021. Zone status applies to plan years ending in 2022. The size of each "bubble" is based on the total number of participants covered by the plan. Insolvent plans are excluded.

## Notes

- Segal analysis of Form 5500 data for plan years ending in 2021
- Zone status applies to plan years ending in 2022
- Zone status colors reflect SFA applications as of May 19, 2023, whether approved (purple) or pending (light blue)

# Projected SFA Interest Rates

*Assuming no increase or 50 basis point increase in spot rates*



Due to 24-month averaging, SFA interest rates will rise in the coming year, even if spot rates stay flat.

# Long-Term Solvency

## SFA amounts

- SFA targets solvency through 2051 only
- Under final rule, SFA amount calculated based on “two interest rate” approach
- With December 31, 2022 measurement date:
  - SFA interest rate = 3.77%
  - Non-SFA interest rate = 5.85%
  - Effective single interest rate = about 5.5%

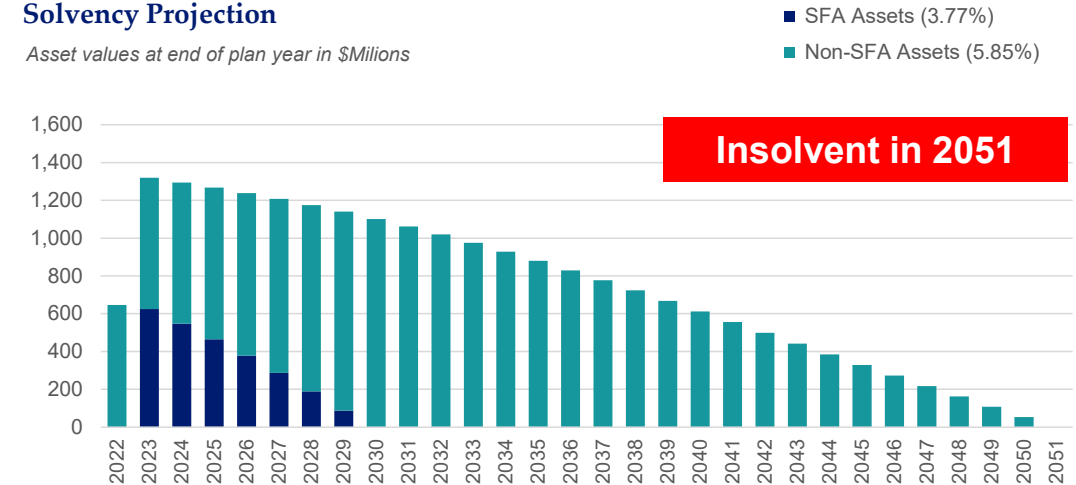
## Illustrative solvency example

- Future returns of 5.5% = projected insolvency in 2051
- Future returns of 6.0% to 6.5% = projected solvency *indefinitely*, funding around 100%

This example is for illustration only.  
Results will vary by plan, perhaps significantly.

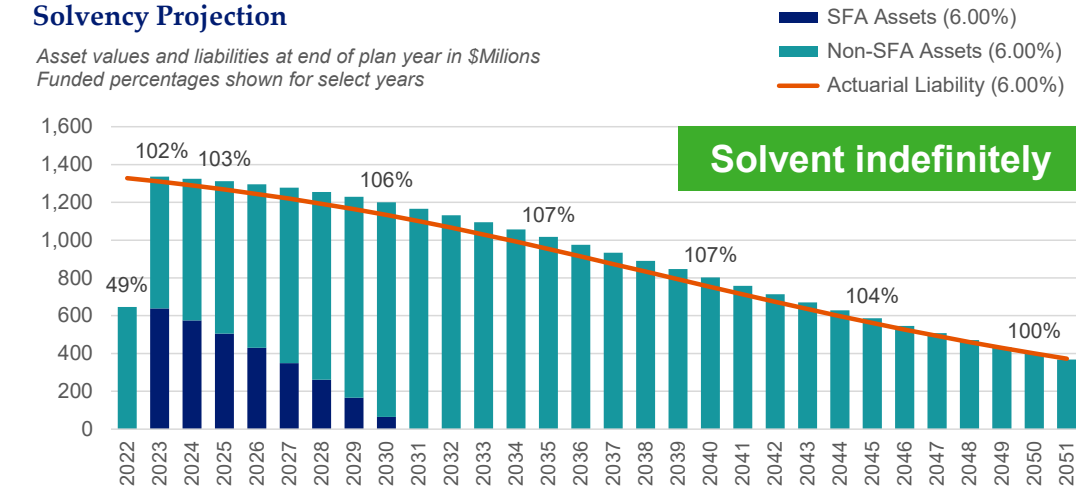
### Solvency Projection

Asset values at end of plan year in \$Millions



### Solvency Projection

Asset values and liabilities at end of plan year in \$Millions  
Funded percentages shown for select years



# Looking Ahead

**Risk reduction**  
Given higher interest rates, explore cashflow matching and immunization strategies.

**Monitor plan maturity**  
Are plan demographics stable, or is maturity increasing?

**Future legislation?**  
Further changes to zone status rules?  
More tools for distressed plans?

