MULTIEMPLOYER PENSION PLANS IN THE GLOBAL FINANCIAL CRISIS

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Agenda

- Multiemployer plans and their funding rules
- A note on methodology
- Funding results for Segal Company universe of multiemployer pension plan clients, 2008 – 2011
- Review of 2010 critical-status plans
- Preliminary conclusions

Multiemployer Plan Basics

- Two or more employers contribute to the same plan
  - Under one or more collective bargaining agreements (CBAs)
- Operated through a trust overseen by joint labor-management Board of Trustees:
  - Taft-Hartley structure
- Employers contribute at fixed rates (e.g., $2/hour), set in CBA
- Trustees set benefit formula (usually)

Multiemployer Plan Basics *continued*

- Implications of collective-bargaining underpinning:
  - In bargaining, pension contributions are explicit trade-off for wages or other benefits
  - Union officers accountable directly to participants for pension outcomes (whether or not they are trustees)
  - Coverage, benefits are broad-based
  - Contribution totals are not readily adjustable

Multiemployer Plan Funding

- Basic ERISA approach remains in place:
  - Focus on funding standard account
  - Plan actuaries set assumptions, plan sponsor chooses funding methods
  - 30-year amortization for most liabilities created before 2008 PY, 15 years for new ones
  - Low PBGC guarantee when plan is insolvent
- PPA’06 innovation: the zone rules
  - Trustees must monitor future trajectory of plan funding
  - New focus on funded level of accrued benefits

Multiemployer Plan Funding: The Zones

- Actuary certifies zone status each Plan Year
- **Critical Status (red zone)**
  - Plan is facing funding deficiency or insolvency within 4 or 5 years
- **Endangered Status (yellow zone)**
  - Plan is less than 80% funded and/or facing funding deficiency in 7 years, but not red
- **No Special Status (green zone)**

Multiemployer Plan Funding: The Zones, continued

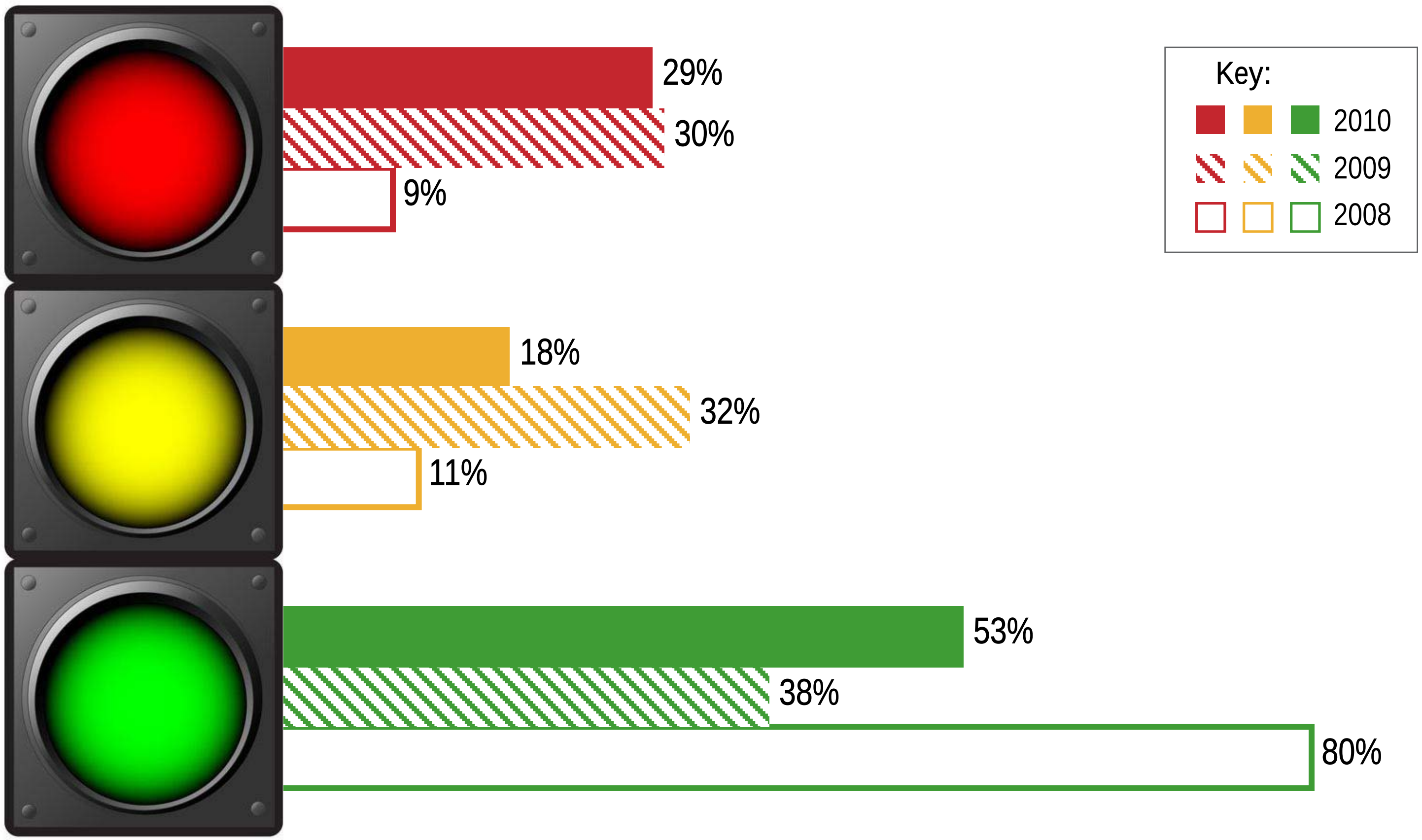
- If red or yellow, must create Funding Improvement or Rehabilitation Plan:
  - Trustees determine contribution increases/benefit cuts (“schedules”) to be ratified by bargaining parties
- In red zone:
  - Can cut “adjustable benefits”—otherwise protected early retirement and other subsidies
  - No funding deficiency excise taxes
  - Initial 5% – 10% contribution surcharges

Our Study

- Segal multiemployer client base—roughly 400-415 plans
- Survey completed by actuaries as byproduct of zone certification process
- Data base is proprietary, but it is theoretically possible to reconstruct from publicly available information
- Sources for behavioral comments and observations are confidential

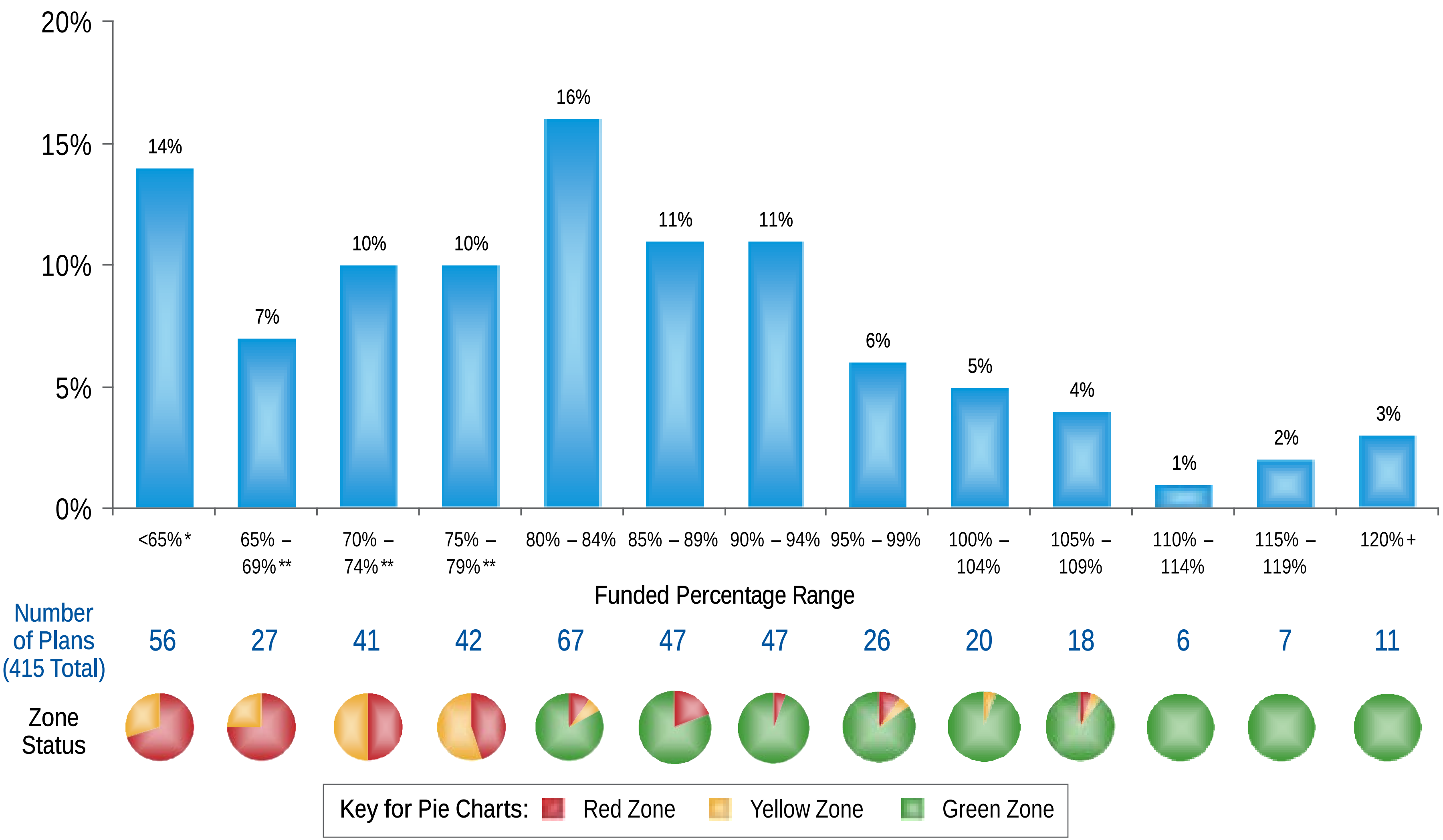
How Multiemployer Plans Fared

All Plans' Certified Zone Status in 2010, 2009 and 2008 by Percentage of Plans in Each Zone



Source: The Segal Company

Percentage, Number, and Certified 2010 Zone Status of Plans by 2010 PPA'06 Funded Percentage



* This funded percentage threshold is important because it is one of the criteria for determining red-zone status.

** A funded percentage less than 80% is one of the criteria for determining yellow-zone status.

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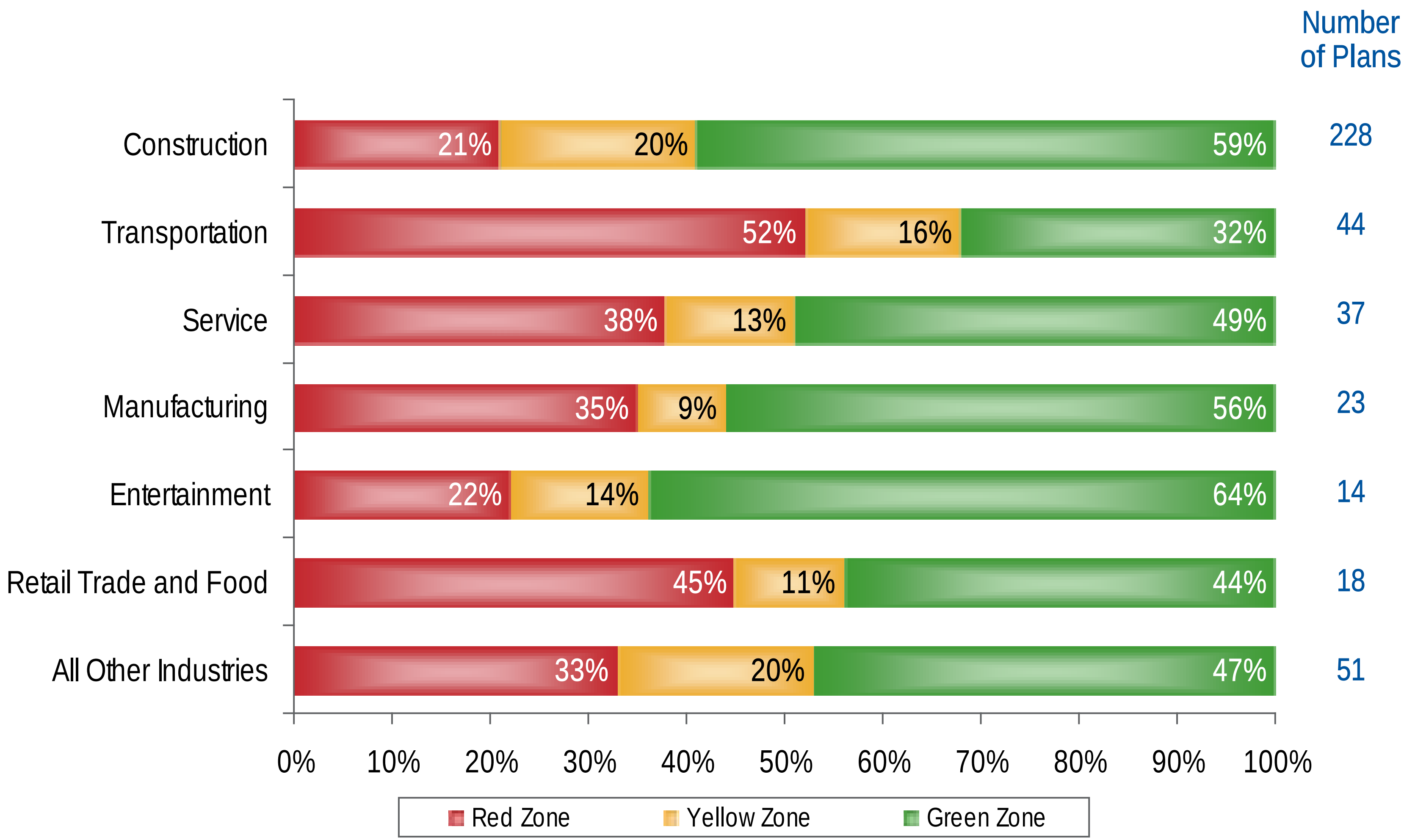
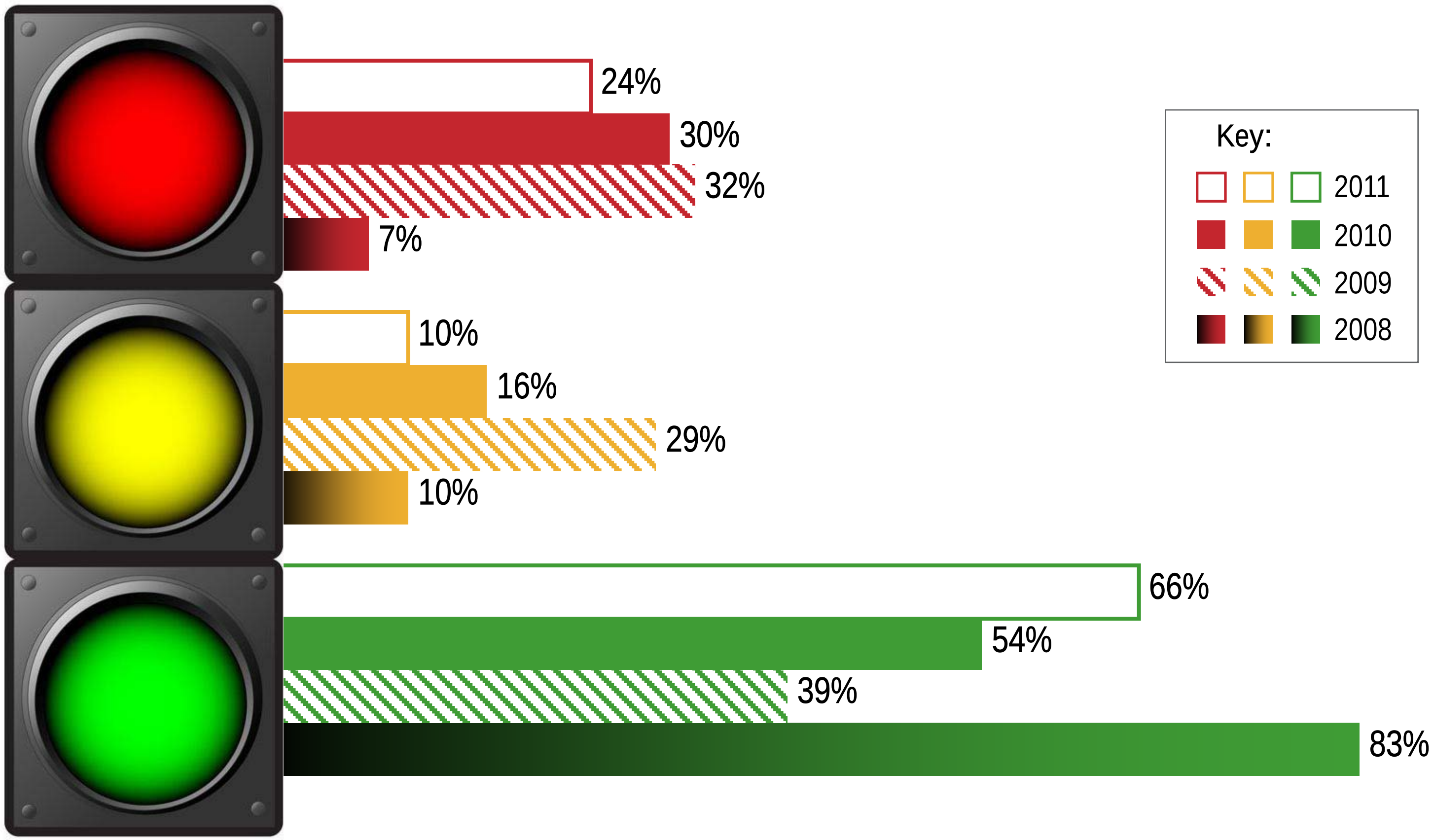
Breakdown of Plans' Certified 2010 Zone Status by Industry*



* The fewer the number of plans in a given industry, the less likely the results are to be indicative of an industry's overall status.

Calendar-Year Plans' 2011, 2010, 2009 and 2008 Zone Status by Percentage of Plans in Each Zone



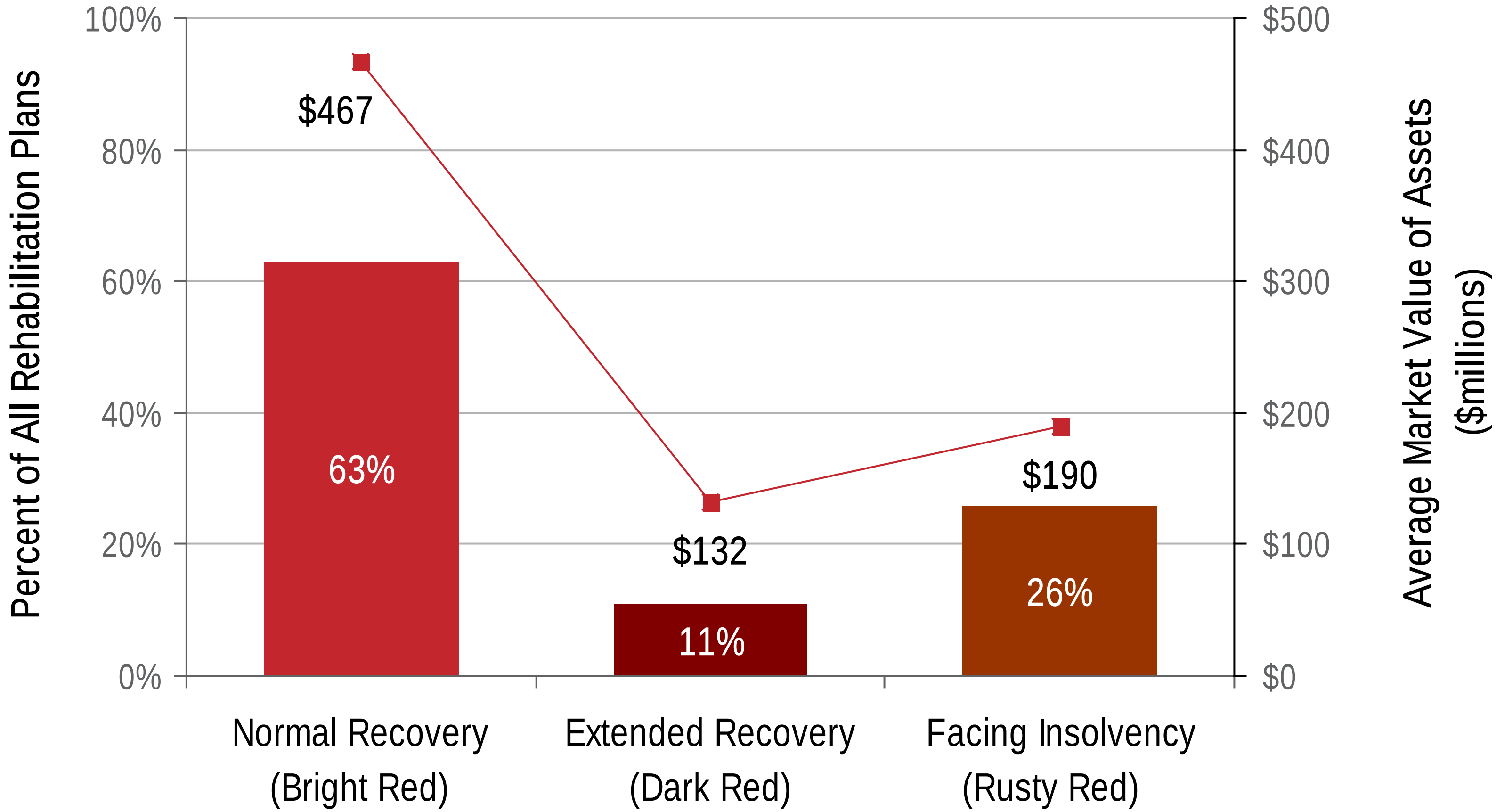
Source: The Segal Company

This data is from the *Survey of Calendar-Year Plans' 2011 Zone Status*.

The 2010 Red-Zone Plans: A Closer Look

- 107 of the plans in the survey were in critical status AND had also adopted rehabilitation plans by early 2011
- 63% were progressing toward recovery in the standard manner, the rest had designed “safety-valve” rehab plans

Summary of Rehabilitation Plans as of January 2011



Observations About These Red-Zone Plans

- Only 21% of them had been critical in 2008, and 63% had been green
- Four have “do-nothing” rehab plans
- All of the preferred schedules call for adjustable benefit cuts
- The “facing-insolvency” plans are generally in dying industries and heavily overloaded with retirees

A Tale of Two Challenged Multiemployer Plans

- Both large national plans, long traditions of very strong funding ratios, well over 100%
- One (“A”) covers highly skilled construction workers, the other (“Z”) covers people in a variety of manufacturing and service jobs:
  - A has three major labor agreements (one dominant)
  - Z has hundreds of agreements, including some with large corporations that sponsor their own qualified plans

A Tale of Two Challenged Multiemployer Plan *continued*

- Given the asset losses of late 2008:
  - Plan A “elected” to go into red in 2009 by recognizing all asset losses immediately, trimmed early retirement subsidies, obtained member approval and had its rehabilitation package implemented within five months
  - Plan B is taking it one year at a time:
    - Froze its status at green for 2009,
    - Adopted substantial reductions to future accrual rates, and elected to extend funding periods—managing to stay green for 2010 and 2011
    - But would have faced likelihood of red zone in 2012 or 2013, in the absence of additional relief

A Tale of Two Challenged Multiemployer Plans *continued*

- Both work with the same Segal Company consultant
- What's the difference?
  - In Plan A, wages were high enough and bargaining was orderly enough to enable parties to shift funds to pensions and trim some benefits, to solve the problem long-term
  - In Plan B, "the members didn't have the money to increase contributions," but took actions outside of rehabilitation - and are thus far spared by fate (Congress and the equity markets)

Preliminary Conclusions

- Most multiemployer DB plans are surviving
  - Participants work in an industry for their entire career, they want their pensions and are willing to pay to keep them
  - Pride and direct accountability to participants spur trustees to buckle down, and collaborate on measures to save their pension plans
  - Solutions are different for different plans; PPA enables each set of plan trustees and bargaining parties to come up with viable answers

Preliminary Conclusions *continued*

- If the industry is dying, the pension plan is highly vulnerable:
  - The red zone can provide a compassionate hospice-like environment for a plan’s demise
  - Diagnosing the plan’s challenges and planning for the long-term will help prepare the participants for savings alternatives
- Controlled pruning of benefits may save some plans, and point the way to sustainable DB approaches for the future