MULTIEMPLOYER PENSION PLANS IN THE GLOBAL FINANCIAL CRISIS

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Judith Mazo, Esq.
Eli Greenblum, FSA, MAAA, EA
The Segal Company
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)
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

Key:
- Red: 2010
- Yellow: 2009
- Green: 2008

- 2010: 29% 30%
  - 2009: 9% 18%
  - 2008: 11% 32%
### Percentage, Number, and Certified 2010 Zone Status of Plans by 2010 PPA’06 Funded Percentage

<table>
<thead>
<tr>
<th>Funded Percentage Range</th>
<th>Number of Plans (415 Total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;65%*</td>
<td>56</td>
</tr>
<tr>
<td>65%–69%**</td>
<td>27</td>
</tr>
<tr>
<td>70%–74%**</td>
<td>41</td>
</tr>
<tr>
<td>75%–79%**</td>
<td>42</td>
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<tr>
<td>80%–84%</td>
<td>67</td>
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<tr>
<td>85%–89%</td>
<td>47</td>
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<tr>
<td>90%–94%</td>
<td>47</td>
</tr>
<tr>
<td>95%–99%</td>
<td>26</td>
</tr>
<tr>
<td>100%–104%</td>
<td>20</td>
</tr>
<tr>
<td>105%–109%</td>
<td>18</td>
</tr>
<tr>
<td>110%–114%</td>
<td>6</td>
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<tr>
<td>115%–119%</td>
<td>7</td>
</tr>
<tr>
<td>120%+</td>
<td>11</td>
</tr>
</tbody>
</table>

* 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.
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.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of Plans</th>
<th>Red Zone</th>
<th>Yellow Zone</th>
<th>Green Zone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>228</td>
<td>21%</td>
<td>20%</td>
<td>59%</td>
</tr>
<tr>
<td>Transportation</td>
<td>44</td>
<td>52%</td>
<td>16%</td>
<td>32%</td>
</tr>
<tr>
<td>Service</td>
<td>37</td>
<td>38%</td>
<td>13%</td>
<td>49%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>23</td>
<td>35%</td>
<td>9%</td>
<td>56%</td>
</tr>
<tr>
<td>Entertainment</td>
<td>14</td>
<td>22%</td>
<td>14%</td>
<td>64%</td>
</tr>
<tr>
<td>Retail Trade and Food</td>
<td>18</td>
<td>45%</td>
<td>11%</td>
<td>44%</td>
</tr>
<tr>
<td>All Other Industries</td>
<td>51</td>
<td>33%</td>
<td>20%</td>
<td>47%</td>
</tr>
</tbody>
</table>
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.
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

- **Normal Recovery (Bright Red):** 63% of plans, $467 million average market value of assets.
- **Extended Recovery (Dark Red):** 11% of plans, $132 million average market value of assets.
- **Facing Insolvency (Rusty Red):** 26% of plans, $190 million average market value of assets.
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
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
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.
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).
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