THE MULTIEMPLOYER PENSION CRISIS

Possible Approaches for Addressing Failing Plans

July 22, 2019 | G11 Dirksen Senate Office Building
About the Academy

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Today’s Presenters

- Linda K. Stone, MAAA, FSA (moderator)
  Senior Pension Fellow

- Mariah Becker, MAAA, ACA, EA
  Member, Multiemployer Pension Plans Committee

- Christian Benjaminson, MAAA, FCA, FSA, EA
  Vice Chairperson, Multiemployer Pension Plans Committee

- Josh Shapiro, MAAA, FCA, FSA, EA
  Vice President, Pension
A Three-Part Series

- **Session 1: Background and Current State**
  Monday, July 15, 2019 | Noon to 1 p.m.
  2261 Rayburn House Office Building

- **Session 2: Possible Approaches for Addressing Failing Plans**
  Monday, July 22, 2019 | Noon to 1 p.m.
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- **Session 3: Strengthening the System for the Future**
  Friday, August 2, 2019 | Noon to 1 p.m.
  485 Russell Senate Office Building
Topics for Discussion

- Background
- Loan Proposals
- Financial Assistance
- Early PBGC Intervention
- Sources of Funding
- Benefit Reductions
Background

- Basic Characteristics of Plans
- Causes of Crisis
- Overview of System
  - Green zone plans
  - Endangered / critical plans
  - Critical and declining plans
- Pension Benefit Guaranty Corporation (PBGC) Solvency
How The Current Situation Developed

Median Results for Multiemployer Pension Plans: 2002 to 2016

<table>
<thead>
<tr>
<th>Median Results Based on Form 5500 Data</th>
<th>Funded Percentages</th>
<th>Annualized Returns</th>
<th>Average Contrib. Rate</th>
<th>Demographic Maturity Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 Zone Status Critical &amp; Declining</td>
<td>75%</td>
<td>83%</td>
<td>5.3% x 2.6</td>
<td>1.0</td>
</tr>
<tr>
<td>2016 Zone Status Critical</td>
<td>76%</td>
<td>52%</td>
<td>5.3% x 2.9</td>
<td>1.7</td>
</tr>
<tr>
<td>2016 Zone Status Endangered</td>
<td>73%</td>
<td>66%</td>
<td>5.2% x 2.9</td>
<td>1.0</td>
</tr>
<tr>
<td>2016 Zone Status Green Zone</td>
<td>68%</td>
<td>71%</td>
<td>5.1% x 2.7</td>
<td>1.0</td>
</tr>
<tr>
<td>2016 Zone Status Green Zone</td>
<td>77%</td>
<td>90%</td>
<td>5.4% x 2.4</td>
<td>0.8</td>
</tr>
</tbody>
</table>

- Source: Horizon Actuarial study of Form 5500 data. See following exhibits for more detail.
Zone Status by Industry

Number of Participants in Each Zone Status by Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total Participants</th>
<th>Critical &amp; Declining</th>
<th>Critical</th>
<th>Endangered</th>
<th>Green Zone</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Industries</td>
<td>10.6 million</td>
<td>11%</td>
<td>21%</td>
<td>11%</td>
<td>57%</td>
</tr>
<tr>
<td>Construction</td>
<td>4.2 million</td>
<td>1%</td>
<td>13%</td>
<td>23%</td>
<td>63%</td>
</tr>
<tr>
<td>Service</td>
<td>1.7 million</td>
<td>1%</td>
<td>40%</td>
<td>1%</td>
<td>58%</td>
</tr>
<tr>
<td>Retail/Wholesale</td>
<td>1.7 million</td>
<td>9%</td>
<td>39%</td>
<td>4%</td>
<td>49%</td>
</tr>
<tr>
<td>Transportation</td>
<td>1.5 million</td>
<td>31%</td>
<td>8%</td>
<td>5%</td>
<td>55%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.9 million</td>
<td>45%</td>
<td>12%</td>
<td>1%</td>
<td>42%</td>
</tr>
<tr>
<td>Entertainment</td>
<td>0.4 million</td>
<td>0%</td>
<td>13%</td>
<td>5%</td>
<td>81%</td>
</tr>
</tbody>
</table>

Source: Horizon Actuarial study of 2016 Form 5500 data

- Percentages may not sum to 100% due to rounding
- Approximately 0.2 million participants are covered in industries other than those shown in the chart above
PBGC Multiemployer Fund Projection

Source: PBGC 2017 Fiscal Year Projections Report
Loan Proposals

- Program Components
- How Loans Could Help Plans
- Existing Proposals
- Considerations
  - Sources of cost
  - Likelihood of repayment
  - Implementation
  - Budget scoring
Financial Assistance

- Approaches
  - Cash infusion into plans
  - Removal of liabilities from plans

- Issues
  - Eligibility criteria
  - Amount of assistance
  - Role of orphans
  - Duration of program
  - Automatic versus discretionary

- Perspectives
Early PBGC Intervention

- Current Law
  - PBGC action primarily occurs when plan assets exhausted
  - Low guarantee level
  - Other tools limited

- Potential Changes
  - PBGC intervention prior to insolvency
  - Higher guarantee level
  - Ability to fully take over plans
  - Expanded proactive tools (facilitated mergers, partition, etc.)

- Role of PBGC Discretion
Sources of Funding

- General Treasury Revenues
- Increased PBGC Premiums
  - Fixed dollar premium
  - Variable rate premium
- Deductions From System-Wide Benefits
- Taxes on Stakeholders
  - Employers
  - Active participants
  - Unions
Benefit Reductions

- Possible Framework
  - Automatic cuts for declining plans
  - Tied to other relief measures (loans, liability removal, etc.)
  - Trustee discretion
  - Component of early PBGC intervention

- Approaches
  - Flat reduction
  - Varies by participant characteristics
  - Impact of past benefit provisions

- Perspectives
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Questions?

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