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Multiemployer Plans – Funding


Louisa A. Soulard, Attorney

The opinions expressed by Ms. Soulard do not necessarily represent the views of the Pension Benefit Guaranty Corporation.


Presentation Overview

- Section I: Multiemployer Plan Funding
- Section II: PBGC's Multiemployer Program
- Section III: Where to Find Plan Information
- Section IV: Multiemployer Pension Reform Act of 2014

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Section I Multiemployer Plan Funding



Pension Protection Act of 2006 (PPA)

New PPA Funded Status "Zone" Classifications

Multiemployer plans must certify each year whether in —

Critical status ("Red zone" plans)

- Funded percentage < 65%
- Plans with immediate liquidity or minimum funding problems
- Proactive measures: Adopt Rehabilitation Plan
- Increase employer contributions
- Reduce future accruals
- Reduce/eliminate adjustable benefits (e.g., early retirement benefits)
- No lump sums


Seriously Endangered status ("Orange zone" plans)

- Meets both Endangered status tests

Endangered status ("Yellow zone" plans)

- Funded percentage < 80% or
- Plans with projected minimum funding problems
- Proactive measures: Adopt Funding Improvement Plan
- Increase employer contributions


Neither Critical nor Endangered status ("Green zone" plans)



Historical Plan Status

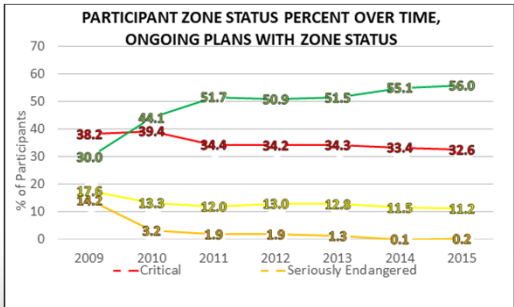
Funding Status	2008		2009		2010		2011	
	Number	%	Number	%	Number	%	Number	%
Critical	139	10%	472	35%	386	29%	319	24%
Seriously Endangered	28	2%	125	9%	44	3%	17	1%
Other Endangered	155	11%	337	25%	229	17%	196	15%
Neither Critical Nor Endangered	1,047	77%	435	32%	682	51%	780	60%
Total	1,369	100%	1,369	100%	1,341	100%	1,312	100%

Source: Multiemployer Pension Plans - PPA Report to Congress, page 40




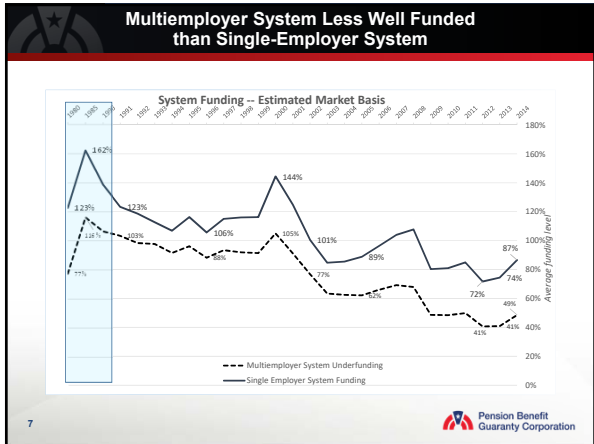
Historical Participant Status

PARTICIPANT ZONE STATUS PERCENT OVER TIME, ONGOING PLANS WITH ZONE STATUS



Year	Critical (%)	Seriously Endangered (%)	Other Endangered (%)
2009	38.2	17.5	14.2
2010	39.4	13.3	3.2
2011	34.4	1.9	12.0
2012	34.2	1.9	13.0
2013	34.3	1.3	12.8
2014	33.4	0.1	11.5
2015	32.6	0.2	11.2





Multiemployer Plan Underfunding (Market or Current Liability Basis)

Multiemployer system as a whole 49% Funded (versus 87% SEP)

- Critical status plans: 39% funded
- More than one-half of all participants in plans < 50% funded
- Well-funded during 1990s, funded levels declined steadily thereafter

Extent of Underfunding

- System as a whole: > \$500B unfunded liabilities / Critical plans: \$180B

Sources of Underfunding

- Declining ratio of active to inactive participants (currently 36% active in aggregate)
- Statutory funding and benefit increase rules
- Many employer withdrawals over time: deregulation, non-union competition, global competition, industry decline, automation, and limited recovery of withdrawal liability
- Remaining employers are left with "orphan liabilities" and additional risks
- Market investments and economic downturns

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Multiemployer Pension Reform Act of 2014 (MPRA)

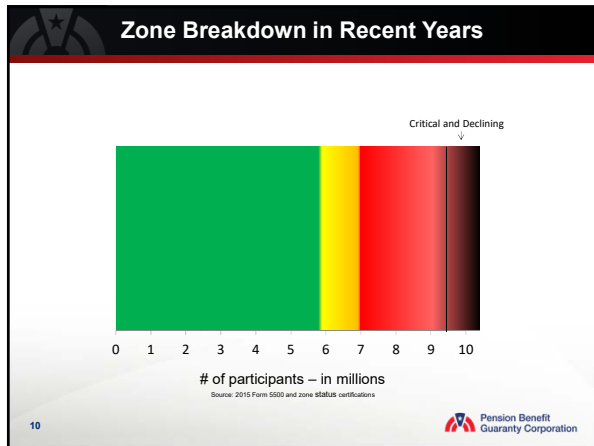
MPRA created a new funded status: Critical and Declining

- Plan actuary projects plan will run out of assets within 15-20 years
- Very low ratios of active to inactive participants
- Severely negative cash flows and funded ratios
- Exhausted all "reasonable measures" – merely forestalling insolvency

New options to help critical and declining status plans avoid insolvency and reduce PBGC's expected loss

- Benefit Suspensions (Treasury)
- New Partition provisions (PBGC)
- New Facilitated Merger provisions (PBGC)
- Increased PBGC premium (\$12 to \$26/participant; indexed)

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Plans in Critical and Declining Status

1+ million Participants in Plans Facing Insolvency

- 120+ plans, small & large, expected to exhaust assets in 10-20 years
- All industries – transportation, mining, construction, retail (grocery)
- When these plans run out, will turn to PBGC for financial assistance

Effect on participants will be dramatic

- PBGC guarantee is low and insurance program is projecting insolvency

Road Carriers Local 707 – Insolvent in 3/2017

- 5,000-participant trucking plan NYC area – Suffered large benefit cuts
- Av. plan benefit = \$15,750/yr. | Av. PBGC-guaranteed benefit = \$6,840/yr.
- PBGC pays plan financial assistance of \$20.4M/year

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Section II PBGC's Multiemployer Program

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Program Comparison as of 9/30/2017

	Single-Employer	Multiemployer
FY 2017 PBGC financial position		
• Liabilities (includes "probable" losses)	\$117 billion	\$67 billion*
• Assets	\$106 billion	\$2 billion
• Net position	(\$11 billion)	(\$65 billion)
Insurable event	Plan Termination	Plan Insolvency
FY 2017 premium income	\$6.7 billion	\$291 million
2018 guaranteed annual benefit	\$65,045 for age 65 retiree, regardless of service	\$12,870** for retiree with 30 years of service, regardless of age
Number of plans	22,500	1,400
Number of participants in plans	27.5 million	10.6 million

* All but \$28 is for "probable" insolvent plans.
** Two-tier guarantee: 100% of the first \$3,960, 75% of the next \$11,880. Not indexed.

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Multiemployer Insurance Program Cash Flow and Insolvency Projections

PBGC Assets, Average Assistance Payments and Premiums by Fiscal Year
Reflecting Assumed MPRA Suspensions / Partitions
(Projected in Nominal \$ Amounts)

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Multiemployer Plan Guarantee

Guarantee - Participant's service multiplied by

- 100% of the first \$11 of the monthly benefit rate, plus
- 75% of the next \$33 of the monthly benefit rate

Example

- Benefit formula - \$50 per month per year of service
- Joe retires with 20 years of service
- Joe's accrued benefit is \$1,000 per month (\$50 x 20), or \$12,000 per year

PBGC guarantee

	Monthly Benefit	Annual Benefit
100% of 1 st \$11	\$11 x 20 = \$220	\$2,640
75% of next \$33	(.75 x \$33) x 20 = \$495	\$5,940
0% of the remaining \$6	\$0	\$0
Total guarantee		\$8,580

Guarantee covers 72% of Joe's benefit

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Multiemployer Guarantee Levels Vary Based on Service and Benefit Generosity

Participant Years of Credited Service	Plan Benefit Monthly Accrual Rate				
	\$10	\$30	\$50	\$70	\$90
10	\$1,200	\$3,030	\$4,290	\$4,290	\$4,290
	(100%)	(84%)	(72%)	(51%)	(40%)
20	\$2,400	\$6,060	\$8,580	\$8,580	\$8,580
	(100%)	(84%)	(72%)	(51%)	(40%)
30	\$3,600	\$9,090	\$12,870	\$12,870	\$12,870
	(100%)	(84%)	(72%)	(51%)	(40%)
40	\$4,800	\$12,120	\$17,160	\$17,160	\$17,160
	(100%)	(84%)	(72%)	(51%)	(40%)

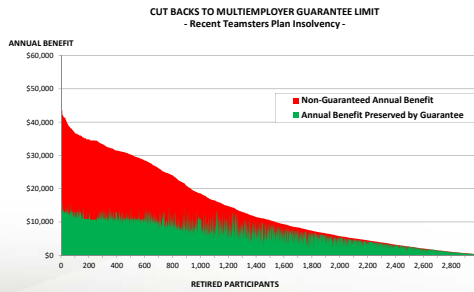
Guarantee varies based on each participant's years of service and the plan's monthly benefit accrual rate. The amounts shown above assume that plan benefits are determined by multiplying a plan-specified benefit accrual rate by years of service (as is the case for many multiemployer plans). For each row based on years of credited service, the top figure shows the annual pension guarantee, the bottom figure shows the percentage of the plan level benefit amount that is provided by the guarantee.

This table applies only to plans that became insolvent on or after December 31, 2000.

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Multiemployer Guarantees for a Recent Insolvency



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Joint Select Committee on Solvency of Multiemployer Pension Plans

Improve the solvency of multiemployer pension plans and PBGC's Multiemployer Pension Program

- Bipartisan Budget Act of 2018 – Congress created the Joint Select Committee on Solvency of Multiemployer Pension Plans
- Membership: 16 House and Senate
- At least 5 public meetings (hearings)
- Report recommendations and legislative language by the end of November 2018


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Section III

Where to Find Plan Information




Where to Find Plan Information

Annual Funding Notice (ERISA section 101(f))

- Funded Percentage, Asset & Liabilities
- Assumed Annual Rate of Investment Return
- Endangered, Critical, or Critical and Declining Status
- Participant Information
- Investment Policy
- Events Having a Material Effect on Assets or Liabilities
- Right to Request a Copy of the Annual Report (Form 5500)
- Summary of Rules Governing Insolvent Plans
- Benefit Payments Guaranteed by PBGC

Endangered & Critical Notices (ERISA section 305(b))

- <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/public-disclosure/critical-status-notices>
- Date of Projected Insolvency
- Reduction or Elimination of Adjustable Benefits
- Benefit Suspension and Partition

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Where to Find Plan Information

Form 5500

- <https://www.efast.dol.gov>
- Ratio of Actives to Inactives – Form 5500 line 6
- Assets and Liabilities – Schedule MB
- Total Contributions – Schedule MB
- Expected Disbursements – Schedule MB
- Total Employers – Form 5500 line 7
- Employer Withdrawals – Schedule R

Plan information under ERISA §101(k)

- Rehabilitation and Funding Improvement Plans
- Actuarial Reports
- Financial Statements

Plan Websites

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Where to Find Other Information


PBGC.gov

- <https://www.pbgc.gov/prac/multiemployer>
- Multiemployer Plan Insolvency and Benefit Payments
- Multiemployer Benefit Guarantees
- Overview of Law Governing Multiemployer Plans
- Reports on Multiemployer Plans and PBGC
- Additional questions can be directed to multiemployerprogram@pbgc.gov

Joint Select Committee

- <https://www.pensions.senate.gov>
- Hearings
- Documents

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Section IV
Multiemployer Pension Reform Act of 2014 (MPRA)

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Other Changes to PPA by MPRA

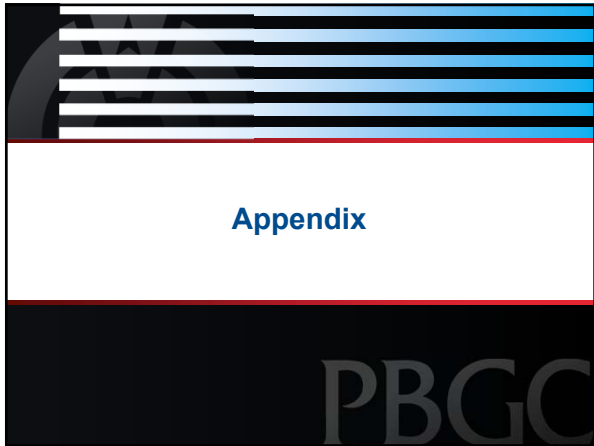
Benefit Suspension (MPRA sec. 201; ERISA sec. 305(e))

- Plan must be in critical and declining status
- Suspensions must enable plan to avoid insolvency (30 years)
- Benefits may not be reduced below 110% of PBGC guaranteed benefit
- No benefit suspensions for participants over 80 years old or disabled
- Limited suspensions for participants between 75 and 80 years old

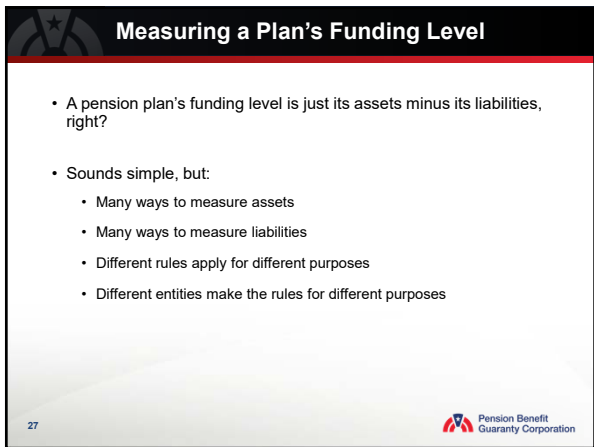
Election to be in Critical Status (MPRA sec.102; ERISA sec. 305(b))

- Plan must be projected to in critical status in any of next five years

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Different Measures for Different Purposes

A pension plan's funding level is measured differently for each of several different purposes:

- Funding (Statute)
 - Required contributions
 - Tax deductions
 - Benefit restrictions
 - Annual notice to participants
- PBGC premiums (Statute)
- Termination (PBGC)
- Accounting (FASB)
 - Pension expense (reported on income statement)
 - Balance sheet

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Key Assumptions for Liability Measurements

This chart shows all of the different assumptions used to calculate liability.

Measure	Discount rate	Retirement age	Mortality table
Accounting (FASB)	Employer's choice - Usually around Aa corporate bond spot rate	Actuary's best estimate	Actuary's best estimate
PPA Funding (Statute)	Yield curve based on top three corporate bond quality levels (yields smoothed over two-year period) ¹	Actuary's best estimate	Specified table with projections of future mortality improvements ²
Premiums (Statute)	Yield curve based on top three corporate bond quality levels no smoothing. Option to use funding discount rate	Actuary's best estimate	Same as funding
Termination (PBGC)	Specified "factor" tied to group annuity prices	"XRA" - mandated by PBGC	Specified table with projections of future mortality improvements

¹ Constrained by corridor around 25-year average (MAP-21 stabilization rule).
² Option to use plan-specific table requires Treasury consent.

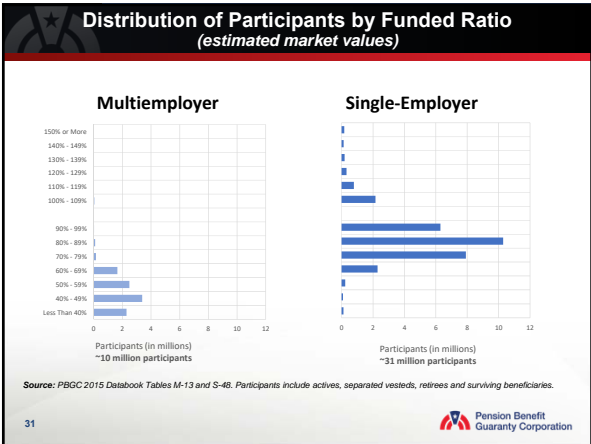
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Pension Asset Measurements

This chart shows all of the different assumptions used to calculate assets.

Measure	Market Value	Smoothed Value	Treatment of receivables
Accounting (FASB)	Used for balance sheet reporting	Used for determining pension expense (for income statement), 5-year maximum smoothing period.	Do not count
PPA Funding (Statute)	Not used unless employer chooses not to smooth	24-month smoothing permitted (subject to 10% corridor around market value)	Count
Premiums (Statute)	Used to determine variable-rate premium	N/A	Count
Termination (PBGC)	Used to determine sufficiency and/or claim amount	N/A	Do not count

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Annual Funding Notices

- Employers are required to send an Annual Funding Notice each year to everyone covered by their pension plan.
- The notice provides participants with information about:
 - How well the pension plan is funded
 - The value of the pension plan's assets and liabilities (*using the assumptions tied to that valuation*)
 - How the pension plan's assets are invested
 - The legal limits on how much PBGC can pay if the pension plan ends

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Annual Funding Notices

AFNs can be alarming, but they're good to get!

If a participant receives an AFN, that signals:

- their plan administrator has a correct address for them.
- their pension plan remains under the sponsorship of the employer.

If a worker or beneficiary knows they're vested in a DB plan, and they're "not" receiving AFNs, they need to take the initiative to find the sponsor and correct their contact information.

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Sources of Security for a Pension Promise

Pension Plan Funded Status:

- The funded level of the pension plan provided in the annual funding notice (AFN)

Financial Strength of Plan Sponsor:

- Financial information is more available for companies with publicly traded securities than for privately held and non-profit plan sponsors
- Corporate annual reports, SEC filings, credit ratings


PBGC insurance

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Single-Employer Plan Guarantee

- Amount varies based on:
 - Participant's age when benefit payments begin
 - Year plan terminates (annual indexing)
 - Form of payment
- Sample annual limit* for 2018 terminations
 - Age 55: \$29,270
 - Age 60: \$42,279
 - Age 65: \$65,045
 - Age 70: \$107,975
- In some cases, PBGC pays more than the guarantee to participants in terminated single-employer plans.

* Payable as a single life annuity

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Misconceptions About Underfunded Plans

A low funded percentage means my plan will fail.


- False! The health of your plan's sponsor and any companies in its control group is more important than plan funding.

If PBGC takes over my plan, the most I'll receive is \$65K a year.

- False! PBGC often pays more than the maximum guarantee. (See example on slide X.)

When PBGC's multiemployer program becomes insolvent in a few years, they'll drain the single-employer program to pay the benefits.

- False! By law, the Single-Employer Program and the Multiemployer Insurance Program are separate. Assets from one program cannot be used to pay liabilities for another.

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PBGC.gov

Content for the practitioner community
 Expanded Missing Participants Program
<https://www.pbgc.gov/prac/missing-participants-program>

PBGC Insurance Coverage
<https://www.pbgc.gov/prac/other-guidance/insurance-coverage>

Content for the participant community
 Newsletters & Publications
<https://www.pbgc.gov/wr/newsletters>

Benefits & Payments
<https://www.pbgc.gov/wr/benefits>

Annual Funding Notices
<https://www.pbgc.gov/afn>

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