14th Annual Retirement Policy Conference

Progress Amid Turbulence:
Building Towards a Secure Retirement

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Keynote
The Role of Plan Demographics in the American Rescue Plan Act

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The Role of Plan Demographics in the American Rescue Plan Act

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Segal

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

Multiemployer Zone Statuses

Status	Tests
Green Zone	Neither in endangered status nor in critical status
Endangered	Not in critical status, and: • Funded percentage is less than 80%; <u>or</u> • Projected funding deficiency in next 7 plan years
Seriously Endangered	Not in critical status, and: • Funded percentage is less than 80%; <u>and</u> • Projected funding deficiency in next 7 plan years
Critical	Projected funding deficiency in next 4 or 5 plan years
Critical and Declining	In critical status, and: • Projected insolvency in next 15 or 20 plan years • In most cases, test is 20 years

Special Rules

Effective in 2015 and later

- Creation of critical and declining status, with new tools to avoid insolvency
- Plan remains in green zone if endangered and no action required to return to green zone
- Trustees may elect to enter red zone early if projected to be in red zone in next 5 years

Multiemployer Solvency Crisis

Many plans headed toward insolvency

- Over 100 plans facing insolvency, covering 1.3 million participants
- Plans in **critical and declining** status if projected insolvency in 20 years
- For many plans, insolvency projected much sooner than that

Pension Benefit Guaranty Corporation (PBGC)

- Federal agency, guarantees benefits for insolvent ERISA plans
- Max. multiemployer guarantee only about $1,100 for 30 years of service
- PBGC multiemployer program projected to be **insolvent in 2026**

American Rescue Plan

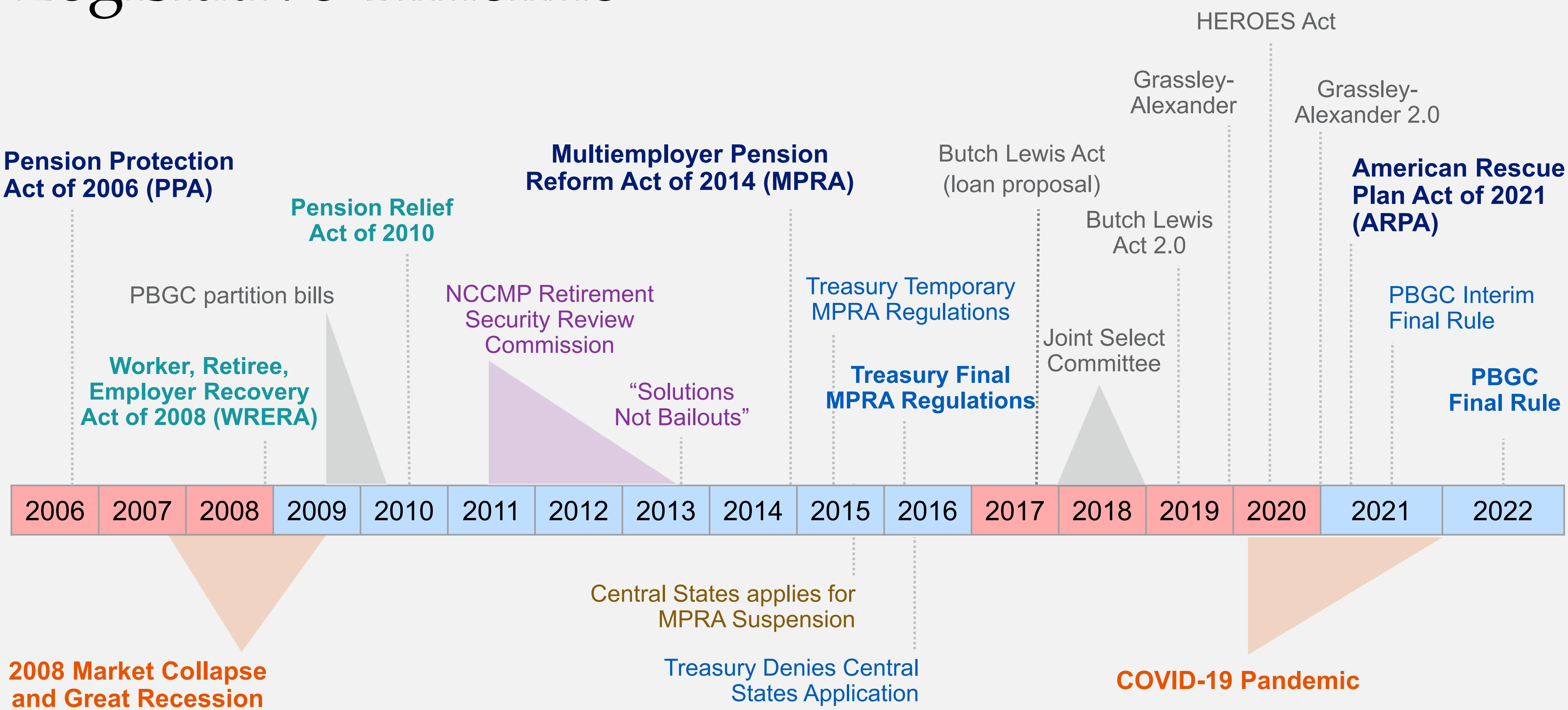
American Rescue Plan Act of 2021 (ARPA)

- Signed into law on March 11, 2021
- Passed through budget reconciliation
- Various stimulus measures related to COVID-19 pandemic

Special financial assistance (SFA)

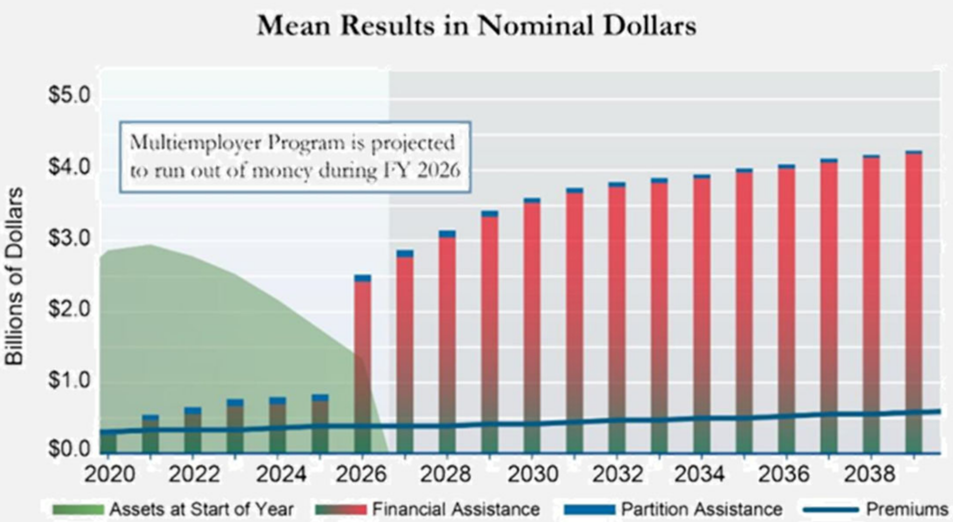
- Program under ARPA to address multiemployer solvency crisis
- PBGC pays SFA as a grant to eligible multiemployer plans
- SFA targets providing solvency through 2051

Legislative Timeline

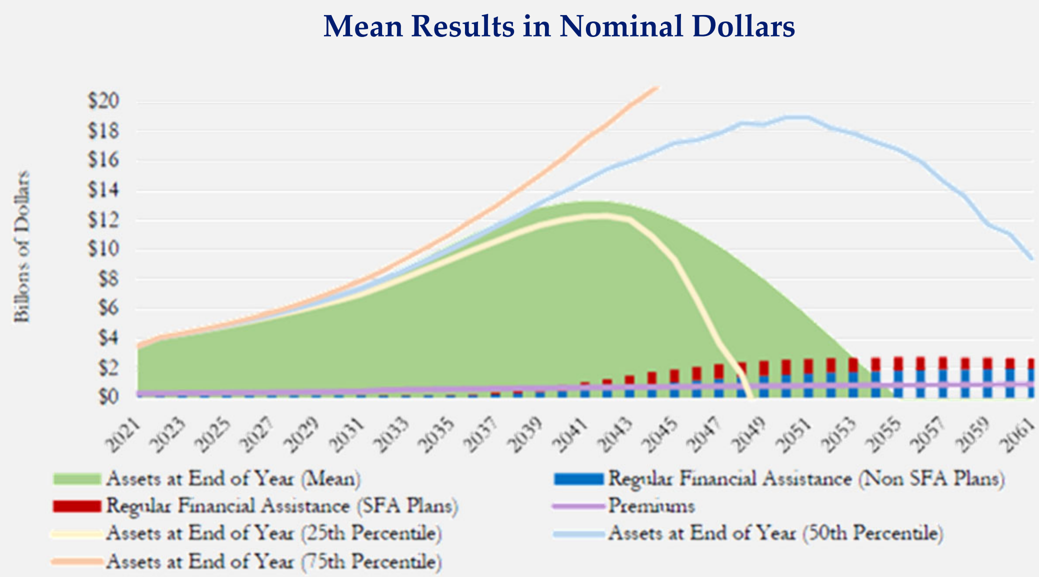


PBGC Multiemployer Program

Before Passage of ARPA	After Passage of ARPA



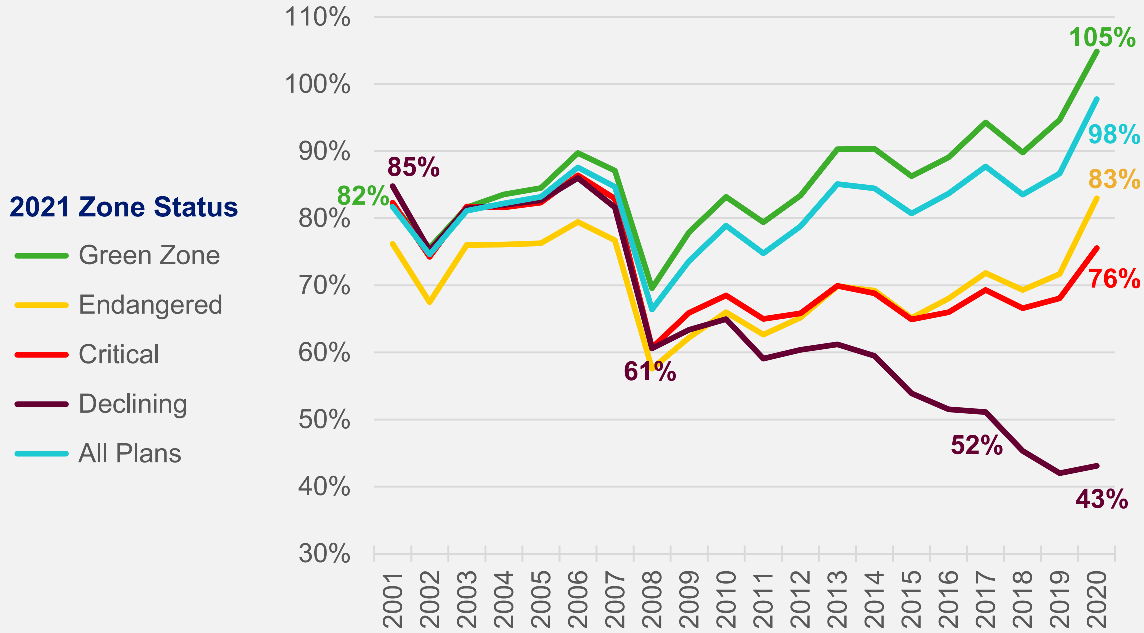
Source: PBGC FY 2019 Projections Report



Source: PBGC FY 2021 Projections Report

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**

Investment Returns

Observations

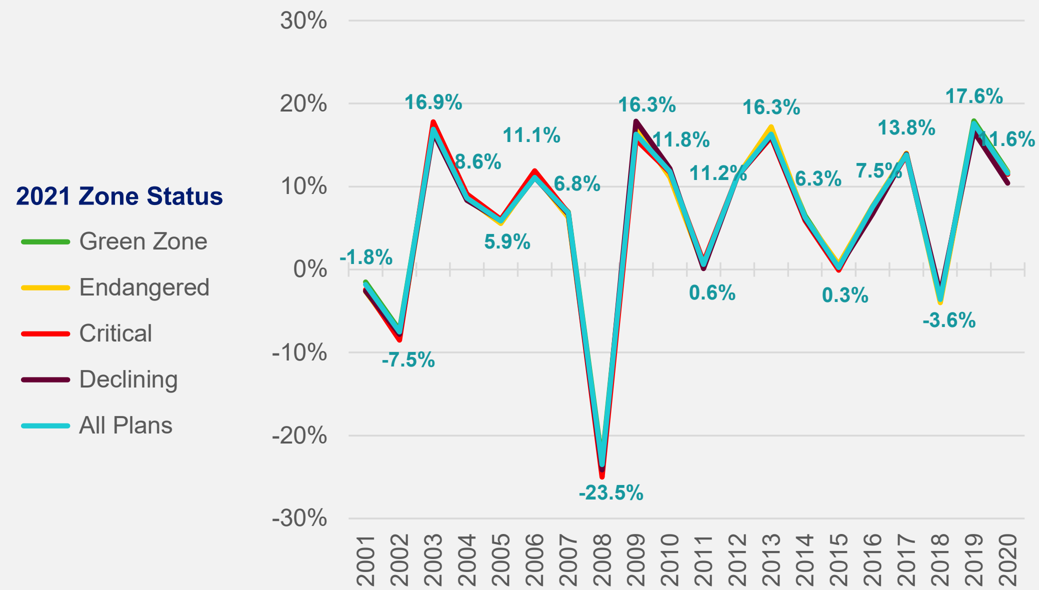
- Very little difference in historical investment returns by zone status

Annualized Investment Returns

2021 Zone Status	2001-2015	2001-2020
Green Zone	4.8%	5.9%
Endangered	4.6%	5.7%
Critical	5.5%	5.6%
Declining	4.6%	5.6%
All Plans	4.7%	5.8%

Study of Form 5500 data by Segal. Exhibit shows cumulative net investment returns for calendar year plans. Plans are grouped by 2021 zone status.

Historical Investment Returns



Study of Form 5500 data by Segal. Graph shows calendar year net investment returns. Plans are grouped by 2021 zone status.

Contribution Rate Increases

Observations

- Most multiemployer plans significantly increased contribution rates in years following 2001
- Over the last 20 years, plans in **critical and declining** status increased their contribution rates by **over 300%** on average
- Most plans also reduced benefit levels (harder to measure impact with publicly available data)

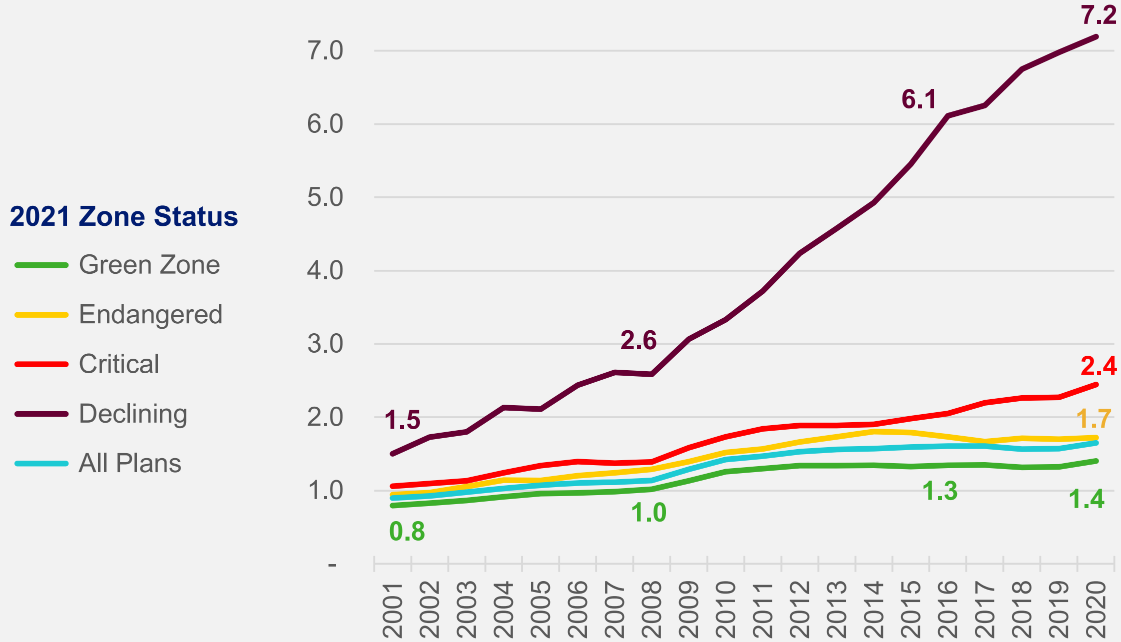
Cumulative Increase in Contribution Rates

2021 Zone Status	2001-2009	2009-2020	2001-2020
Green Zone	+63%	+68%	+175%
Endangered	+73%	+77%	+207%
Critical	+67%	+117%	+261%
Declining	+78%	+126%	+302%
All Plans	+64%	+80%	+196%

Study of Form 5500 data by Segal. Exhibit shows cumulative increases in average contribution rates for active participants. Plans are grouped by 2021 zone status.

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

Why Does Maturity Matter?

With increasing maturity…

- Fewer active participants to support non-active participants
- Changes in accrual rates and contribution rates have less impact
- Benefit payments grow, contribution income shrinks
- Annual cash flows become increasingly negative

With negative cash flows…

- Plan must liquidate assets to pay benefits
- Greater risk of investment volatility

Simple Case Study

A tale of two plans

- Both are currently 100% funded
- Plan A is not demographically mature, net cash flows
- Plan B is demographically mature, net cash flows are significantly negative
- How will investment volatility affect these two plans?
- For illustration, model investment returns from **2008-2013**

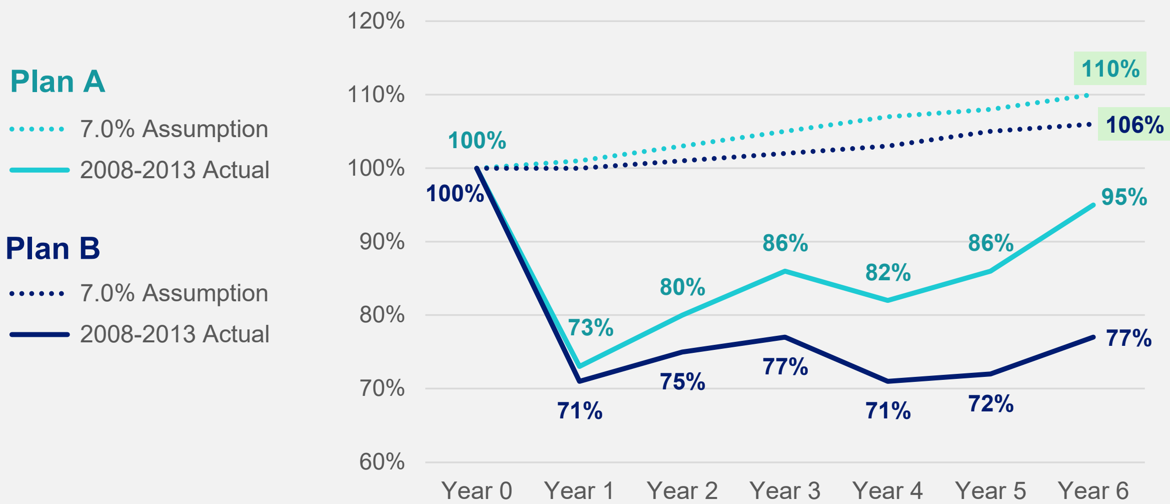
Two Hypothetical Multiemployer Plans

	Plan A	Plan B
Actuarial Interest Rate	7.0%	7.0%
Beginning Assets	$1,000	$1,000
Beginning Liabilities	$1,000	$1,000
Funded Percentage	100%	100%
Annual Contributions	$50	$20
Annual Disbursements	(50)	(100)
Annual Net Cash Flow	0	(80)

For simplicity, the following example assumes cash flows will remain constant for next five years, and normal costs are equal to 60% of annual contributions.

Simple Case Study *Continued*

Projected Funded Percentages



	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Reference Year	2008	2009	2010	2011	2012	2013
Net Return	-23%	16%	12%	1%	11%	16%

The volatile scenario follows typical multiemployer returns for 2008-2013.

Observations

- If annual returns equal the 7.0% assumption, funding for both plans is projected to improve over time
- With investment volatility, funding for **Plan A** bounces back, while funding for **Plan B** struggles to recover
- Projections assume no changes to benefits or contribution rates

Looking Ahead

Important to monitor plan maturity.
Are plan demographics stable, or is maturity projected to increase in the future?

What corrective actions could still be taken?
If there is a continued downturn, is there room for further adjustments to benefits or increases to contribution rates?

Take advantage of higher interest rates.
Explore opportunities to reduce investment volatility, including cash matching strategies. Coordinate actuary and investment advisor.