Milliman analysis shows the aggregate funded percentage for multiemployer plans is at its highest point since 2007

Nina Lantz, FSA, EA, MAAA
Rex Barker, FSA, EA, MAAA
Tim Connor, FSA, EA, MAAA
William Wade, ASA, MAAA

Milliman's June 2021 Multiemployer Pension Funding Study is an interim update to our annual study published in the first quarter of the year. This study updates the estimated funded status of U.S. multiemployer defined benefit plans as of June 30, 2021, showing the change in funding levels from December 31, 2020.

Key findings

- The estimated investment return for our simplified portfolio for the first six months of 2021 was about 6.9%.
- The aggregate funded percentage for multiemployer plans is estimated to be 92% as of June 30, 2021, up from 88% at the end of 2020.
- The market recovery continued into the first half of 2021, resulting in the highest aggregate funded percentage since 2007.
- The financial assistance provided by the American Rescue Plan Act of 2021 will have a significant impact on funded percentages of eligible plans in the coming years.

Current funded percentage

Figure 1 shows that the funding shortfall for all plans dropped by about $31 billion for the six-month period ending June 30, 2021, resulting in an increase in the aggregate funded percentage from 88% to 92%.

FIGURE 1: AGGREGATE FUNDED PERCENTAGE (IN $ BILLIONS)

	12/31/2020	6/30/2021	Change
Accrued benefit liability	$732	$740	$8
Market value of assets	641	680	39
Shortfall	$91	$60	($31)
Funded percentage	88%	92%	4%

Based on plans with complete IRS Form 5500 filings. Includes 1,220 plans as of December 31, 2020, and 1,219 plans as of June 30, 2021.

The amounts in Figure 1 do not reflect the impact of the American Rescue Plan Act of 2021 (ARP), which was signed into law on March 11, 2021. In addition, the study is based primarily on the 2019 Form 5500 filings, therefore the impact of COVID-19 on plan participation and contribution levels is not fully reflected. The impact of ARP and the pandemic on multiemployer plans will emerge in future studies as more information becomes available.

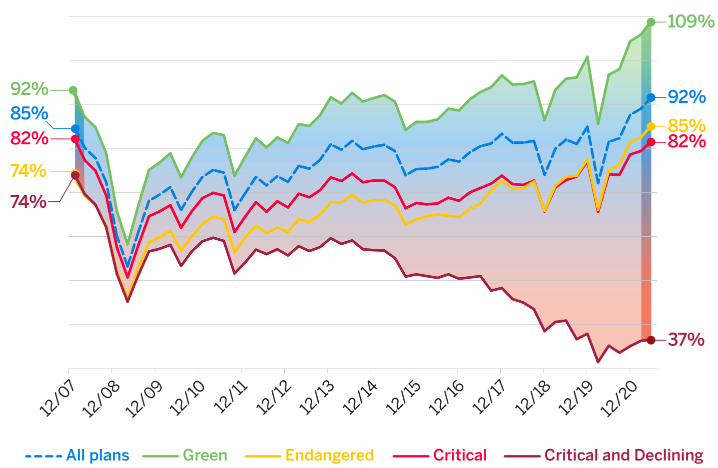
The liabilities in Figure 1 are projected using discount rates equal to each plan's actuarial assumed return on assets. Assumed returns generally fall between 6% and 8%, with a weighted average interest rate assumption for all plans of about 7.0%.

The assets in Figure 1 are based on plans' most recently reported market values of assets, projected forward assuming asset returns observed for a diversified portfolio typical for a U.S. multiemployer pension plan. Our simplified portfolio earned about 6.9% in the first six months of 2021, continuing the upward trend since March 2020, the lowest point in the financial markets since the COVID-19 pandemic began.

Historical funded percentage

Figure 2 shows the aggregate historical funded percentage of all multiemployer plans since the end of 2007 by their current zone status. For example, the green line shows the historical funded percentages of plans currently in the green zone (without regard to their previous zone statuses). The blue dotted line represents all plans combined.

FIGURE 2: AGGREGATE HISTORICAL FUNDED PERCENTAGE, BY CURRENT ZONE STATUS



Plans in critical and declining status have seen their funded status creep downward over time despite the market's overall recovery since the 2008 financial crisis. This is due to their significant negative cash flows (i.e. benefit payments plus expenses exceeding contributions) and because investment returns apply to smaller asset values, which creates smaller investment returns that cannot overcome the large negative cash flows. In addition, some of these plans are earning lower returns due to a shift in policy to invest in safer, lower return investments to preserve capital as long as possible. The funded percentage of non-critical and declining plans continues to be primarily driven by investment performance.

American Rescue Plan Act of 2021

As mentioned above, our figures do not yet reflect the anticipated impact ARP will have on eligible plans. ARP established a special financial assistance (SFA) program administered by the Pension Benefit Guaranty Corporation (PBGC) and funded by transfers from the U.S. Treasury that will provide direct financial assistance to the most financially distressed plans. The SFA amount for an eligible plan is the difference between the present value of projected benefit payments and expenses through 2051 and the plan's current assets plus the present value of future contributions through 2051 utilizing a specified discount rate not higher than about 5.5% currently. The PBGC estimates that about $94 billion in assistance will be paid through 2027 to over 200 plans covering more than 3 million participants.

The $60 billion aggregate shortfall shown in Figure 1 above is based on estimates of the liabilities and assets accrued as of June 30, 2021, using each plan's assumed asset return as the discount rate, currently averaging about 7%. This $60 billion figure does not factor in future benefit accruals, administrative expenses, or additional contribution income through 2051. Nevertheless, we thought it would be interesting to see how the amounts in Figure 1 would change if they were remeasured using discount rates no higher than 5.5%. Doing so, we find that critical and declining plans would be about $80 billion underfunded, while critical plans would be about $50 billion underfunded as of June 30, 2021. While all critical and declining plans are expected to be eligible for SFA, not all critical plans will be.

What lies ahead?

The PBGC and Internal Revenue Service (IRS) recently issued guidance related to the SFA program provided by ARP. Insolvent plans or plans projected to become insolvent before March 11, 2022, may apply now and the first financial assistance payments may be made from the program as early as February 2022. These payments will immediately improve the funded status of eligible plans, but it remains to be seen whether they will be sufficient to sustain these plans in the long term.

Predicting the impact of COVID-19 continues to be a challenge. Future contribution levels for plans will depend on the resiliency of industries to restore and/or maintain work levels under changing conditions caused by the pandemic.

CONTACT

Nina Lantz
nina.lantz@milliman.com

ABOUT THIS STUDY

The results in this study were derived from publicly available Internal Revenue Service (IRS) Form 5500 data as of June 2021 for all multiemployer plans, numbering between 1,200 and 1,300, depending on the measurement date used. Data for a limited number of plans that clearly appeared to be erroneous was modified to ensure the results were reasonable and a sufficiently complete representation of the multiemployer universe.

Liability amounts were based on unit credit accrued liabilities reported on Schedule MB and were adjusted to the relevant measurement dates using standard actuarial approximation techniques. For this purpose, each plan's monthly cash flow, benefit cost, and actuarial assumptions were assumed to be constant throughout the year and in the future. Projections of asset values to the measurement date reflect the use of constant cash flows and monthly index returns for a simplified portfolio composed of 22.8% U.S. stocks, 8.8% international stocks, 9.2% global equity, 31.5% U.S. fixed income, 1.1% global or international fixed income, 1.0% cash, 7.8% private equity, 8.5% real estate equity, and 9.3% alternative investments. This asset portfolio is the average asset mix as of September 30, 2020, for the top 1,000 union defined benefit plans, as reported in the February 8, 2021, issue of Pension & Investments.

Significant changes to the data and assumptions could lead to much different results for individual plans but would likely not have a significant impact on the aggregate results or the conclusions in this study.