Retirement Section News

August 2020

A View From the SOA's Staff Fellow for Retirement

By Mary Stone

In the midst of the groundswell of cries against racism following the death of George Floyd and many others, before and after his death, I would like to take this opportunity to support the calls for equity and justice. Like perhaps many others, I do not think of myself as racist, but I am aware of my privilege and the implicit bias that goes with that. I have used this opportunity to educate myself on the history of slavery in the U.S. and the many long-standing consequences and continuing discrimination. We all benefit when we extend open arms to everyone, not just those who are like us. When we learn more about others with different experiences, we can develop a better understanding and avoid jumping to conclusions or passing judgment without seeing the full picture. The same goes for our work as retirement actuaries.

As the staff fellow for Retirement, I have had the opportunity to meet and work with actuaries in many different retirement specialties. Having spent most of my career at large consulting firms working with private sector single employer plans, I had little understanding of the practices and challenges faced by actuaries in the multiemployer and public sectors. At first, it was easy to approach these unfamiliar practice areas with perspectives developed from my private sector framework and as influenced by news stories or exposure to only one side of a multi-dimensional situation. I have come to better appreciate the challenges actuaries working in each of these sectors face. Here are some things I have learned.

Multiemployer pension plans are impacted by a variety of factors that differ from single employer plans. Funding of multiemployer plans is based on many components, including collective bargaining agreements, funding regulations and the role of the employer. Without a basic understanding of these elements and how deeply each has influenced the multiemployer system over the past several decades, it is difficult to comprehend the current funded status and outlook for some of the multiemployer plans. There are approximately 1,220 multiemployer plans covering 10.8 million participants.[1] Of these, about 120 plans, covering 1.4 million participants, are projected to become "insolvent," or run out of money, within the next 20 years. Plans in industries that have declined in recent decades face greater challenges than those covering industries that are thriving.

Several SOA research reports provide a historical perspective on the multiemployer pension system. One of the key dynamics of multiemployer plans is the relationship of collectively bargained contributions and plan liabilities. Collectively bargained contributions generally reflect the active workforce, while plan liabilities reflect all plan participants. The report "Contribution Analysis for U.S. Multiemployer Pension Plans," compares employer contributions to benchmarks for measuring whether pension plan contributions—absent other influences—reduced unfunded liabilities or met other benchmarks, such as regulatory requirements. An additional report, "PBC and PBCR: Two Stress Metrics for U.S. Multiemployer Pension Plans," presents two metrics to gauge financial stress among multiemployer plans resulting from the combination of unfunded liabilities and declining numbers of active participants.

When we learn more about others with different experiences, we can develop a better understanding and avoid jumping to conclusions or passing judgment without seeing the full picture.

Another factor that influences the funded level of multiemployer plans is the regulatory framework for employer withdrawal from a multiemployer plan.[2] When an employer withdraws from a plan, its participation ceases, meaning it stops making contributions. If the plan is underfunded, the employer is generally assessed withdrawal liability. Because of a variety of statutory and practical limitations, withdrawal liability actually paid may not be sufficient to cover all unfunded liabilities associated with the now-withdrawn employer. The report "Employer Withdrawal Activity Overview: U.S. Multiemployer Pension Plans," provides historical information about the withdrawal frequency, the level of the withdrawal liability as a percentage of the aggregate plan liability, orphaned participants, and how the dependency ratio (inactives to actives) varies for plans that have experienced a withdrawal and those that have not.

Compounding the interaction of the collective bargaining, declining numbers of active participants, withdrawal liability considerations and the impending insolvencies of the critical and declining plans, the multiemployer program of the Pension Benefit Guaranty Corporation (PBGC) is projected to exhaust its reserves in 2025.[3] Premiums to the PBGC multiemployer program are lower than those for the PBGC single employer program. The premium for a multiemployer plan is $30 per participant. The PBGC single employer program has a higher flat rate premium of $83 per participant plus a variable rate premium of 4.5 percent of the unfunded liability, subject to an overall per participant cap of $561. The level of PBGC guaranteed benefits for multiemployer plans is also much lower than those provided by the PBGC single employer program. The maximum annual benefit for a multiemployer participant with 30 years of service is $12,870. The corresponding maximum annual benefit for a single employer plan participant retiring at age 65 is $69,750.

There have been several proposed legislative solutions to the multiemployer funding crisis. The Bipartisan American Miners Act passed the House and Senate and was signed into law on Dec. 20, 2019. This legislation provides some relief to the pension benefits of the United Mine Workers of America. The Rehabilitation for Multiemployer Pensions Act ("Butch Lewis Act") passed the House in July 2019, although no action has been taken in the Senate. In November 2019, Senators Grassley and Alexander released the Multiemployer Pension Recapitalization and Reform Plan, which proposes a very different approach to a solution. Given the significant differences in approach, it is unlikely a resolution between the two will be reached soon.

Public pension plans vary considerably across the country in how well funded they are. Funding public pension plans involves many factors that differ from single or multiemployer plans, including, relatively long budget planning cycles and contribution decisions that may be subject to legislative processes. Further, funding is often not regulated. If funding is regulated, it is regulated at the state level, and the rules vary significantly by state.

With all these variables, it is not surprising that funding results vary by state and local systems. The range of cost methods also generate contributions that differ from some benchmark references commonly applied to single employer plans. In addition, actual contributions to public pension plans may vary from those determined as the result of an actuarial valuation. This can either arise due to the use of fixed-rate contributions (which are typically specified by state or local statutes) or when the agency or state legislature doesn't fund the recommended level. SOA research "U.S. Public Pension Plan Contribution Analysis," provides a historical perspective on funding levels and compares the actual contributions made to actuarially determined contributions, and two measures that assess the degree to which the actual contribution made reduces the unfunded actuarial liability.

The variation in contribution allocation procedures permits flexibility in public pension plan funding that helps address principles of intergenerational equity and cost stability and predictability. The public pension system is subject to heightened transparency and agency risk. Although collectively bargained plans in the private sector, especially those with governance structures that follow a joint union-management framework, can experience the push and pull of the varying interests between members and plan sponsors, public pension plans face additional challenges focused on addressing the interests of current versus future taxpayers. This may create incentives to defer necessary contributions to future periods. Although information on public pension plans may be more visible than for other systems, triggering heightened scrutiny, the information can also be misunderstood.

One aspect of public pension funding that gets a lot of attention is the use of discount rates based on long-term expected return on assets for determining plan contributions. Since the investment of public pension assets typically include some investment in equities or alternative investments, the expected return on assets often exceeds the discount rates required for single employer pension plan funding, which must reflect high quality corporate bond yields.[4] While it is important to examine a public plan's discount rate, it is important to do so within the broader context of public plan realities. There are many differences between single employer and public pension plans that should be considered, and it's important to view the entire picture rather than focusing on a single assumption.

Of course, all plans have been impacted by the COVID-19 pandemic as outlined in "Defined Benefit Plans and COVID-19: Immediate Challenges for Plan Sponsors." The multiemployer and public plan sectors face unique challenges, primarily related to the funding of contributions. The long-term ramifications of the COVID-19 pandemic are hard to predict at this point.

I encourage all retirement actuaries to become better educated on the various sectors of the retirement industry. Take time to meet actuaries from other sectors to learn about their experiences and challenges. We'll all benefit when we have a better understanding of each other and focus on areas of common concern rather than our differences. ■

Mary Stone, FSA, MAAA, EA, FCA, is staff-fellow—Retirement for the Society of Actuaries. She can be reached at *mstone@soa.org*.

ENDNOTES

1 Source: Segal Consulting analysis of Form 5500 data for plan years ending in 2018

2 The Employee Retirement Income Security Act §§4201-4225, as amended, governs withdrawal liabilities.

3 Most recent actuarial report may be found on the PBGC website: *https://www.pbgc.gov/sites/default/files/pbgc-fy-2019-annual-report.pdf*

4 Internal Revenue Code § 430(h).