

*Fast Facts*

U.S. Multiemployer Pension Plan Pending Insolvencies

SUMMARY

What is the likely impact of pending insolvency among U.S. multiemployer pension plans, participants and contributing employers? The authors studied 115 plans that are likely to become insolvent and project that 107 of them will run out of assets by 2038, affecting over 11,000 contributing employers and roughly 875,000 participants (both working and retired). Further, the estimated 2018 unfunded liability for the 115 plans, measured at a weighted average discount rate of 6.76%, is \$57 billion—and \$108 billion when measured at 2.90%.

The authors recognize that solvency timing can be sensitive to investment returns. But even with very optimistic investment returns of 10% a year for 20 years, the projections show that 68 of the 115 plans would still become insolvent within 20 years. Furthermore, the authors caution that even a fairly limited loss on plan assets can hasten insolvency.

HIGHLIGHTS

- While most of the 1200+ ongoing multiemployer plans in the United States are financially stable, some are likely to run out of assets within 20 years.
- In addition to the plans that have already become insolvent, the authors' projections show that the number of insolvent plans is expected to increase steadily to another 50 by 2028, 91 by 2033 and 107 by 2038.
- In 2018, 81 of the 115 plans studied had annual negative net cash flow that was 10% or more of their assets.
- By 2038, the 107 plans projected to be insolvent are expected to cover about 875,000 participants, of whom approximately 530,000 (roughly 60%) will be retirees receiving pension benefits.
- Retirees tend to experience the impact of insolvency more directly and more quickly than other participants because, to the extent that their pension benefits exceed the amount guaranteed by the Pension Benefit Guaranty Corporation, their benefits are reduced immediately.
- The techniques and assumptions used in the study were developed for the 115 multiemployer plans as a whole and may not be appropriate for any given plan or smaller set of plans.

LINK TO FULL REPORT

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<https://www.soa.org/Files/resources/research-report/2018/us-multiemployer-pension-plan.pdf>

METHODOLOGY

- Time frame: Most recent year of complete reporting is for plan years beginning in 2015. In addition, data reflect 2016 reporting for nearly two-thirds of the 115 plans studied.
- Computation: Authors' calculations use the most recent publicly available actual solvency projection data from 2015 or 2016 for only 25 of the 115 plans. All other plan modeling uses stylized, projected cash flows in publicly available data for 2015 or 2016 (detail provided).
- Asset returns: The authors assume plan assets are allocated to 60% equities and 40% fixed income. This mix is generally representative of multiemployer plans as a whole, but individual plan asset allocations may vary. Appendix 1 shows other assumptions.

REPORT SPECS

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- Research Sponsor: The Society of Actuaries (SOA)
- Authors: Lisa Schilling, FSA, EA, FCA, MAAA, and Patrick Wiese, ASA
- Contents: Introduction and executive summary, funded status and liabilities, projected insolvencies, impact on retirees, sensitivity to investment returns, negative cash flow and burn rate, data and methods, acknowledgements, 2 appendices, 12 figures, and 1 table.
- Data sources:
 - Department of Labor database of Form 5500 "Annual Return/Report of Employee Benefit Plan" filings as of February 8, 2018
 - Information gathered from attachments to selected plans' Forms 5500
 - Applications for benefit suspension posted on the Department of Treasury website
 - Zone status notices posted on the Department of Labor website.



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