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Survey

Benefits, Compensation and HR Consulting WINTER 2009

Multiemployer Pension Plans' Pre-Recession Withdrawal Liability Stable

> "The average withdrawal liability funded ratio of multiemployer pension plans was unchanged from the prior year's survey. This finding is not surprising given that the 2008 survey is based on data from before the economic downturn."

The Segal Company's 2008 *Survey of Withdrawal Liability Funded Ratios* found that the average withdrawal liability funded ratio of multiemployer pension plans[1] was unchanged from the prior year's survey. This finding is not surprising given that the 2008 survey is based on data from before the economic downturn. The survey also revealed that a similar number of plans in the 2008 and 2007 surveys were 100 percent funded for their vested benefits.

Each survey year is generally based on data used for completed actuarial valuations for plan years beginning the previous year through the first few months of the survey year. The 2008 survey used data from completed actuarial valuations for plan years beginning in 2007 through early 2008. Consequently, the results do not reflect the entire year's experience, including the dramatic investment losses that began after the middle of 2008 and worsened through the rest of the year.

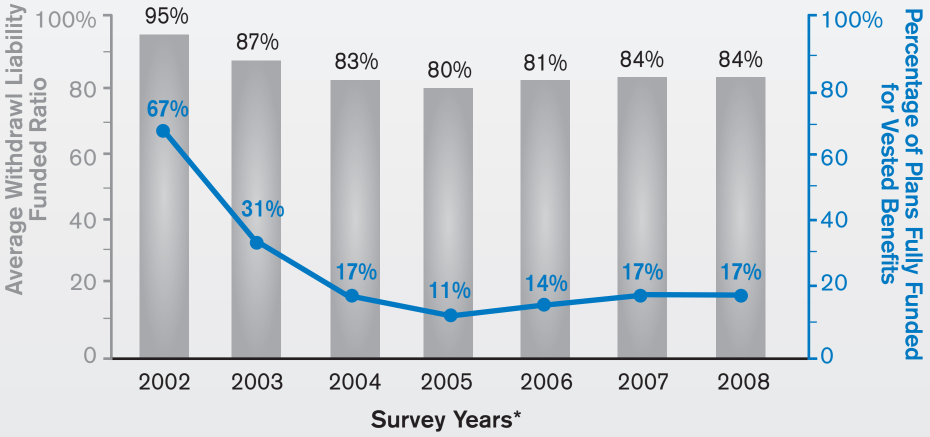
The Segal Company, consultants and enrolled actuaries for all of the plans in the survey,[2] compiled the data by examining each plan's actuarial present value of vested benefits as calculated for withdrawal liability purposes under the Multiemployer Pension Plan Amendments Act of 1980 (MPPAA).[3] Under MPPAA, employers withdrawing from plans whose assets fall below the actuarial present value of their vested benefits may incur withdrawal liability. The amount of an employer's withdrawal liability is based, generally, on its *pro rata* share of the plan's unfunded vested benefits as of the end of the plan year preceding the withdrawal.

Survey Highlights

Survey highlights follow:

- ***The average withdrawal liability funded ratio is 84 percent, unchanged from the previous survey.***[4] See the bars in Graph 1. In order to ensure that the overall survey statistics are

Graph 1: Average Withdrawal Liability Funded Ratio (Bars) and Percentage of Plans Fully Funded for Vested Benefits (Line): 2002-2008 Surveys



* The 2002-2006 surveys had the following name: *Survey of the Funded Position of Multiemployer Plans*. The survey name has now been revised to avoid confusion with new funding measurements. Each survey year is generally based on data used for completed actuarial valuations for plan years beginning the previous year through the first few months of the survey year (*i.e.*, for the 2008 survey, plan years beginning in 2007 through early 2008).

[1] The withdrawal liability funded ratio of multiemployer plans is one indication of these plans' financial stability. A pension plan's liabilities are measured in an annual actuarial valuation in many ways. For more information about these measurements, see Segal's February 2006 *NewsLetter*, "The 'Funded Status' of a Multiemployer Pension Plan: What Are the Measures and How Are They Used?": http://www.segalco.com/publications/newsletters/feb2006.pdf It is also worth noting that funding percentages for corporate plans are calculated differently (*e.g.*, to comply with accounting requirements or to comply with different provisions of the law) from the average withdrawal liability funded ratio for multiemployer plans, making comparisons misleading.

[2] Information about the survey sample appears on the last page of this report.

[3] Segal's November 2002 *In Depth* presents an overview of MPPAA's withdrawal liability provisions: http://www.segalco.com/publications/indepths/nov02withdrawalliability.pdf

[4] Although the 2007 and 2008 survey samples were not identical, a comparison of the two years' results is valid because most of the funds in the 2007 survey were also in the 2008 survey. There are fewer funds in the 2008 survey, a reflection of mergers and terminations, among other things.

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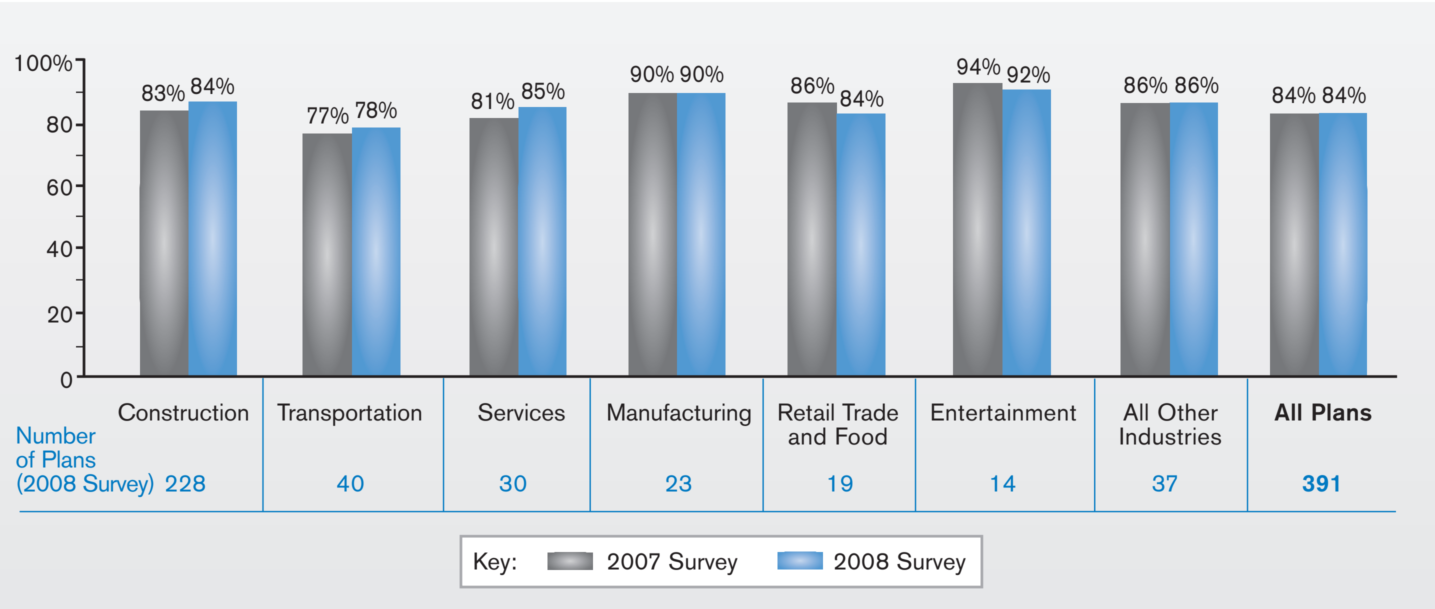
Graph 2: Average Withdrawal Liability Funded Ratios by Industry Group, 2007 and 2008 Surveys



not distorted by overfunded plans, *Segal excludes assets in excess of 100 percent of vested benefits from the calculation of these average withdrawal liability funded ratios.* (If assets in excess of 100 percent of vested benefits were included in the calculation, the average withdrawal liability funded ratio would grow from 84 percent to 87 percent.)

- ***The percentage of surveyed plans that were fully** (i.e., **100 percent**) **funded for their vested benefits is also unchanged since the previous survey: 17 percent.*** This percentage has been relatively consistent since the 2004 survey, as shown by the line in Graph 1 on page 1.

- ***The average withdrawal liability funded ratios increased for plans in three industries: construction, transportation and services.*** The average withdrawal liability funded ratios for other industry groups either declined or remained the same, as shown in Graph 2 above. On average, plans in the entertainment and manufacturing industries still had funded ratios that were equal to or exceeded 90 percent (92 percent and 90 percent, respectively).

- ***Consistent with the previous four surveys, the 2008 survey found that the average withdrawal liability funded ratios were similar for plans of all sizes as measured by the number of participants.*** Only five percentage points separate the groups with the highest and lowest average withdrawal liability funded ratio. See Graph 3 on page 3.

- ***Although the average withdrawal liability funded ratio remained constant for all plans, the percentage of plans that assessed withdrawal liability decreased by three percentage points between the 2007 and 2008 surveys, from 46 percent to 43 percent.*** Withdrawal liability payments received by a plan may result in improved funded ratios, as intended by MPPAA.

- ***Compared to plans in the 2007 survey, a larger percentage of plans in the 2008 survey made benefit improvements and a smaller percentage of plans reduced benefit accruals.*** In the 2008 survey, 27 percent of plans made benefit improvements, up from 23 percent in the 2007 survey. The percentage of plans that made benefit reductions decreased from 10 percent in the 2007 survey to 9 percent in the 2008 survey.

Outlook

The 2008 *Survey of Withdrawal Liability Funded Ratios* shows stability in the average withdrawal liability funded ratio. However, it is anticipated that once the poor market performance of 2008 is reflected in next year's survey, the average withdrawal liability funded ratio will decline. The extent to which it will decline is dependent not only upon

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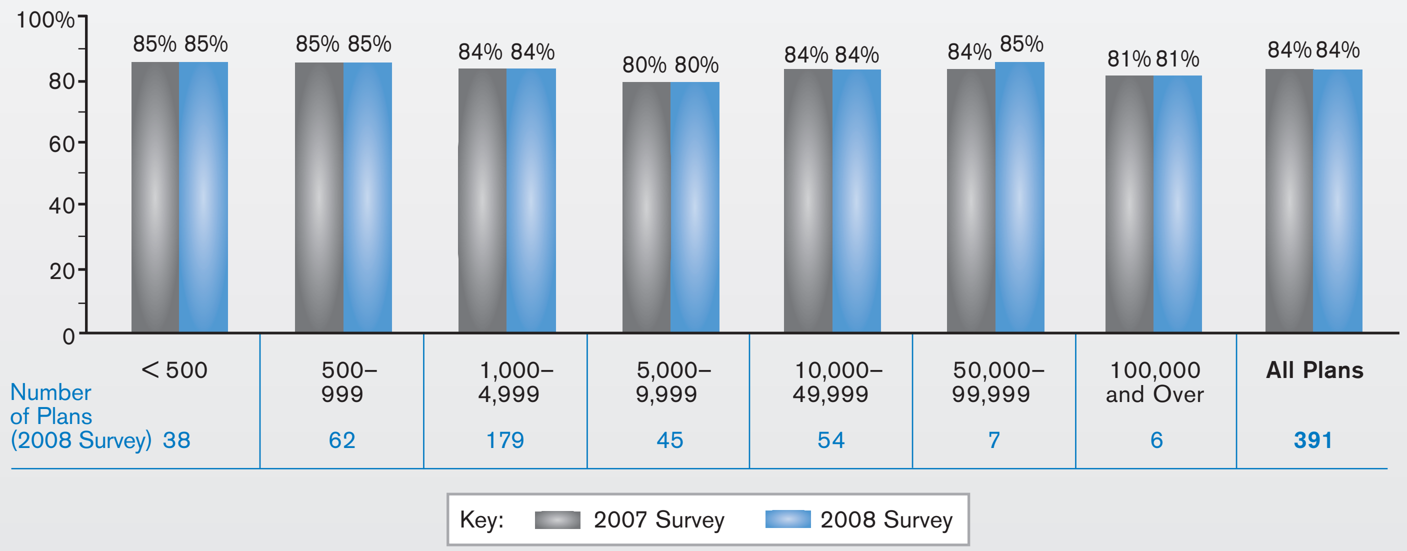
Graph 3: Average Withdrawal Liability Funded Ratios by Number of Participants, 2007 and 2008 Surveys



asset losses. Other variables that affect the withdrawal liability funded ratio include changes in interest rates and when plan years end.

The fact that a larger percentage of plans in the 2008 survey made benefit improvements and a smaller percentage reduced benefit accruals compared to the 2007 survey suggests that trustees may have based those actions on four years of overall improvement or stability in their plans' funding status. Improvement or stability in a plan's average withdrawal liability funded ratio would have been only one of the measurements taken into account in this decision-making. Another consideration might have been a projected margin in Scheduled Cost.[5]

Following the poor investment results of 2008, many boards of multiemployer plans are now in the process of making decisions to improve their plans' funding position, taking into consideration the requirements of the Pension Protection Act of 2006 (PPA'06)[6] and the trustees' longer term funding policy. Although the funded percentage required under PPA'06 differs from the withdrawal liability funded ratios reported in this survey, actions taken to improve the PPA'06 funded percentage can be expected to have a positive effect on the withdrawal liability funded ratio, as well. It is important to note that continued volatility of the equity markets is likely to prevent significant improvement in the withdrawal liability funded ratio for 2009.

Segal Company consultants and actuaries, together with investment consultants from Segal Advisors, our investment consulting affiliate, can be of assistance in developing the appropriate strategies for maintaining and enhancing benefit security.

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Houston	713.664.4654
Los Angeles	310.231.1700
Minneapolis	952.857.2480
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[5] Scheduled Cost is Segal's mechanism of evaluating the long-term sufficiency of a plan's contribution levels to support the plan of benefits into the future. A margin is the percentage of contributions in excess of Scheduled Cost.

[6] For information about PPA'06, see Segal's August 2006 *Bulletin*, "Pension Protection Act of 2006's Key Multiemployer Plan Provisions": http://www.segalco.com/publications/bulletins/aug06PPAmulti.pdf Segal's latest report of results from a separate survey of the same multiemployer pension plans, *Updated Survey of Plans' Actual Zone Status*, is available on the following Web page: http://www.segalco.com/publications/surveysandstudies/fall08zones.pdf For information about steps trustees are taking now, see Segal's February 2009 *NewsLetter*, "Multiemployer Defined Benefit Plans in a Time of Crisis: Keeping a Long-Term Perspective": http://www.segalco.com/publications/newsletters/feb2009.pdf

The Survey Sample

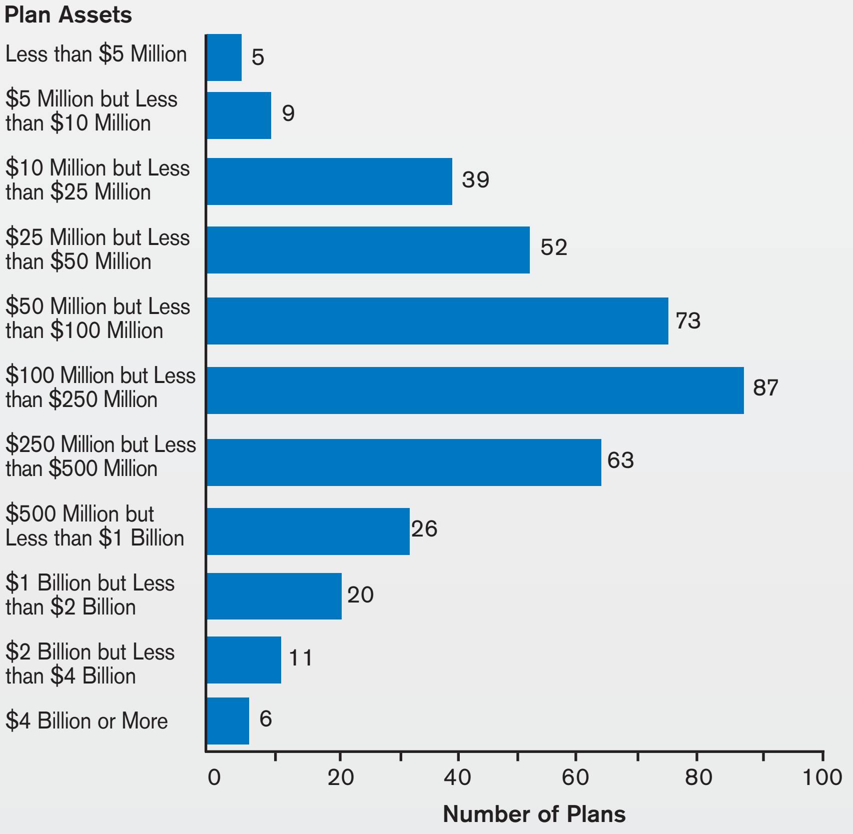
For the 2008 survey, Segal examined 391 plans. Those plans' combined assets totaled almost $158 billion, an increase from $152 billion in the 2007 survey. The surveyed plans covered almost 3.5 million participants, which represents about 35 percent of all multiemployer plan participants.*

The surveyed plans, which represented a wide range of industries from across the country, varied greatly in size, ranging from those with less than $5 million in assets covering fewer than 500 participants to plans with more than $4 billion in assets covering more than 100,000 participants.

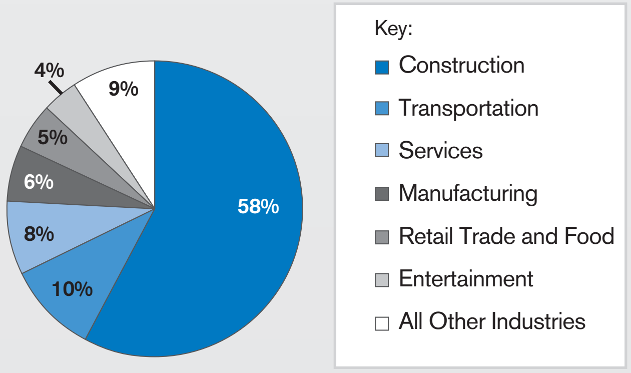
The adjacent graph breaks down the number of surveyed plans by plan assets and the pie charts below show the percentage breakdown by industry group and participant size.

* This percentage was calculated using data from the PBGC's Pension Insurance Data Book 2007, the most recent edition available, which was published in December 2008: http://www.pbgc.gov/docs/2007databook.pdf

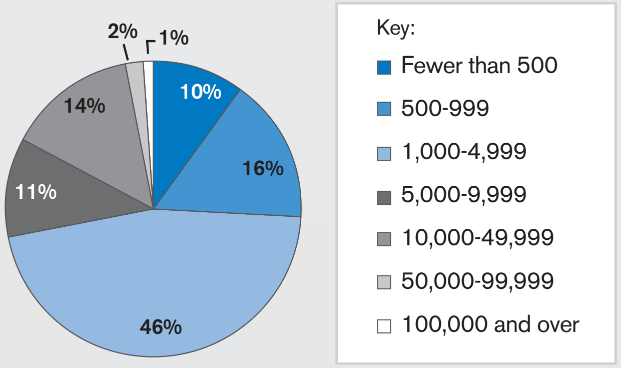
Number of Surveyed Plans by Plan Assets



Percentage of Surveyed Plans by Industry Group



Percentage of Surveyed Plans by Number of Participants



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