

Survey of Calendar-Year Plans' 2010 Zone Status

There has been a significant increase in the number of green-zone multiemployer pension plans, according to The Segal Company's *Survey of Calendar-Year Plans' 2010 Zone Status*. More than half of calendar-year plans were in the green zone as of January 1, 2010, up from 39 percent one year earlier. In addition, the survey found that the average Pension Protection Act of 2006 (PPA'06) funded percentage for calendar-year plans increased slightly to 86 percent as of January 1, 2010, compared to 85 percent as of January 1, 2009.¹

"More than half of calendar-year plans were in the green zone as of January 1, 2010."

The survey is based on actual certifications for about 230 calendar-year multiemployer plans, all of which are Segal clients. The certifications took into account any changes in plan design, employment outlook, negotiated contribution rates and investment performance through the end of 2009. The plans in the survey represent a wide range of industries from across the country with combined assets of more than \$74 billion.

¹ This slight increase is based on a smoothed actuarial value of assets and, as such, reflects only a portion of the decline in asset values in calendar year 2008 and a portion of the increase in asset values during calendar year 2009.

ZONE STATUS

Details about the dramatic change in calendar-year plans' zone status follow:

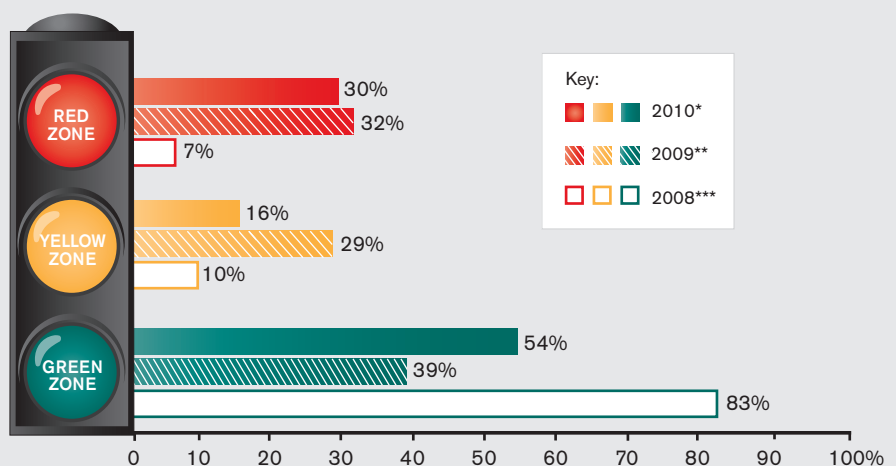
- **For 2010, 54 percent of calendar-year plans are in the green zone.** This represents a significant improvement of 15 percentage points from 2009, when only 39 percent of calendar-year plans were in the green zone. However, it is still well below the level of green-zone incidence at January 1, 2008 when those plans represented an overwhelming majority (83 percent).
- **The percentage of calendar-year plans in the yellow zone fell by 13 percentage points between 2009 and 2010.** Only 16 percent

of calendar-year plans are in the yellow zone for 2010, down from 29 percent for 2009. In the 2008 survey, 10 percent were in the yellow zone.

- **There was little change in the percentage of red-zone plans, which is now much higher than the percentage of yellow-zone plans.** For 2010, 30 percent of calendar-year plans are in the red zone, down two percentage points from 2009: 32 percent. By contrast, only 7 percent of these plans were in the red zone for 2008.

Graph 1 illustrates the breakdown of calendar-year plans' zone status for 2010, 2009 and 2008.

Graph 1: Breakdown of Calendar-Year Plans' 2010, 2009 and 2008 Zone Status by Percentage of Plans in Each Zone



* These plans' certifications, which were due by the end of March 2010, reflected investment performance as of December 31, 2009.

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*** These plans' certifications, which were due by the end of March 2008, reflected investment performance as of December 31, 2007. The report of these survey results is available on the following page of Segal's Web site: <http://www.segalco.com/publications/surveysandstudies/spring08zones.pdf>

The Zones

Under the funding provisions of PPA'06, trustees must review projections of the financial status of multiemployer plans at least annually in order to identify emerging funding challenges so they can be addressed effectively. The plan's actuary must prepare a formal certification no later than 90 days after the beginning of the plan year. For example, for plan years that began January 1, 2010, certification was required by March 31, 2010.

If the actuary's projections reveal an emerging funding problem, a plan will be classified as being in either "endangered status" (colloquially referred to as being in the yellow zone) or "critical status" (nicknamed the red zone). In either case, the trustees and bargaining parties generally will be required to design specific actions to improve the plan's financial status.*

Plans with funding status that is neither endangered nor critical are considered to be in the green zone. Although PPA'06 does not require that these plans take any particular action, trustees of green-zone plans need to continue to pay attention to all of the funding indicators that were important prior to PPA'06, in addition to the new PPA'06 measurements, in order to monitor and manage their plans' financial condition effectively.**

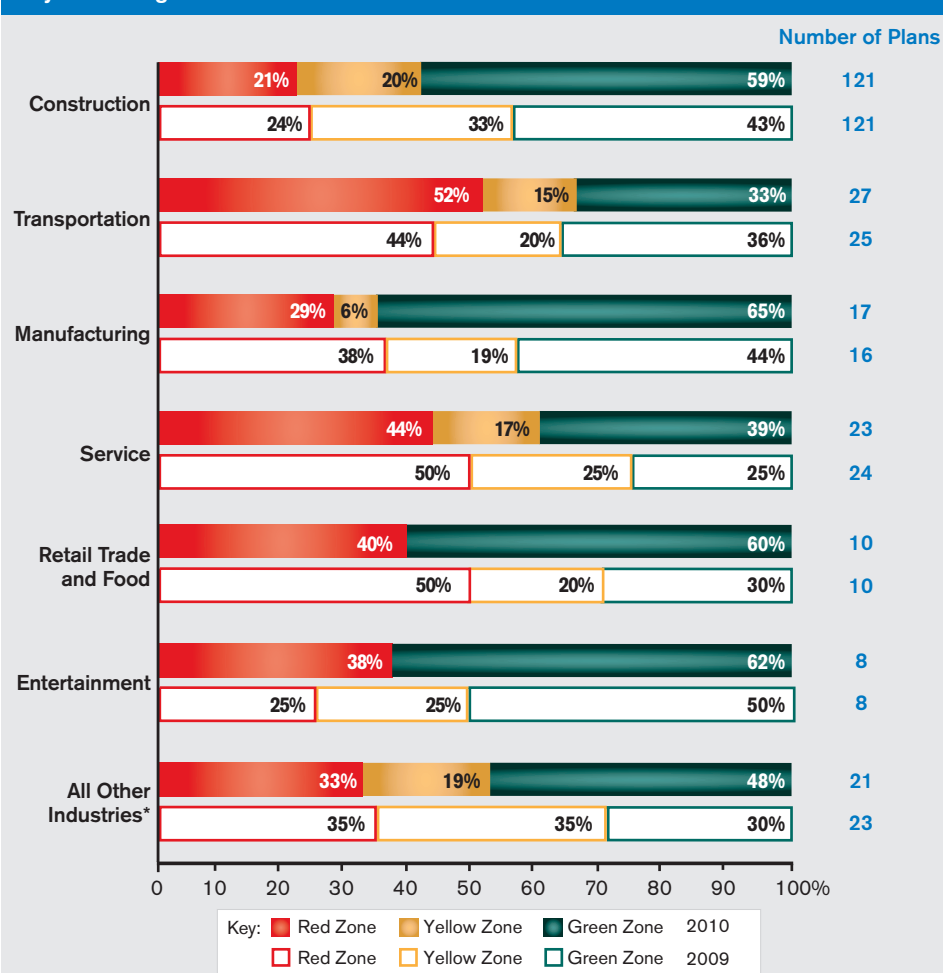
* The criteria for an emerging funding problem are summarized in a supplement to this report available on the following Web page: <http://www.segalco.com/publications/surveysandstudies/Spring2010zonesupp1.pdf>

** Segal's September 2008 *NewsLetter*, "Does Green Mean Go? Trustee Decision-Making in the Post-PPA'06 Era" (<http://www.segalco.com/publications/newsletters/sept2008.pdf>) discusses this subject.

(The adjacent text box provides background on the zones.) Most of the increase in the percentage of green-zone plans (two-thirds) between the 2009 and 2010 surveys is attributable to plans that were formerly in the yellow zone. Plans that had been in the red zone were responsible for one-third of that growth. Most of the drop in yellow-zone plans from 2009 to 2010 was because of movement to the green zone. The small decline in the percentage of red-zone plans reflects plans that moved to the

yellow or green zone mitigated by plans that primarily moved from the yellow zone in 2009 to the red zone in 2010. The survey found a few industry differences in the calendar-year plans' zone status. Notably, for 2010, plans in the manufacturing industry had the greatest percentage of plans in the green zone, with the entertainment, retail and construction industries not far behind. The transportation industry had the greatest percentage of red-zone plans for 2010. See Graph 2.

Graph 2: Industry Breakdown of Calendar-Year Plans' 2010 and 2009 Zone Status by Percentage of Plans in Each Zone



* Includes five plans for which industry information is not available.

Note: An online supplement to this survey report, which includes graphs showing the zone status breakdown of plans by plan assets and number of participants, is available on the following page of Segal's Web site: <http://www.segalco.com/publications/surveysandstudies/Spring2010zonesupp2.pdf>

PPA'06 FUNDED PERCENTAGE

The PPA'06 funded percentage is based on a ratio of assets to accrued benefits, measured using the plan actuary's funding assumptions and the plan's actuarial asset valuation method. As noted, the average PPA'06 funded percentage for the plans in the *Survey of Calendar-Year Plans' 2010 Zone Status* is 86 percent, a one-percentage-point increase from the 2009 survey, but still significantly lower than the 2008 survey: 97 percent. The PPA'06 funded percentage is based on the "actuarial asset value" for each plan; using market values would produce much lower funded percentages for 2009 and 2010.² An improvement in the PPA'06 funded percentage is likely to lag any overall improvement in the investment markets.

About 18 percent of the plans in the survey have a PPA'06 funded

² This is generally not the same measure as unfunded vested benefits for withdrawal liability purposes.

percentage of 100 percent or more, the same percentage for 2009 calendar-year plans. The bars in Graph 3 show a breakdown of plans in the survey by their 2010 PPA'06 funded percentage. The small pie charts indicate the zone status for the plans in each funded percentage range. Together, both sets of data illustrate the correlation between the PPA'06 funded percentage and zone status. However, it is important to remember that no single measurement is sufficient for an actuary to determine a plan's zone status under PPA'06.

2010 ZONE STATUS OF PLANS THAT ELECTED A FREEZE FOR 2009

For the 2009 plan year, the Worker, Retiree and Employer Recovery Act of 2008³ (WRERA) gave trustees the

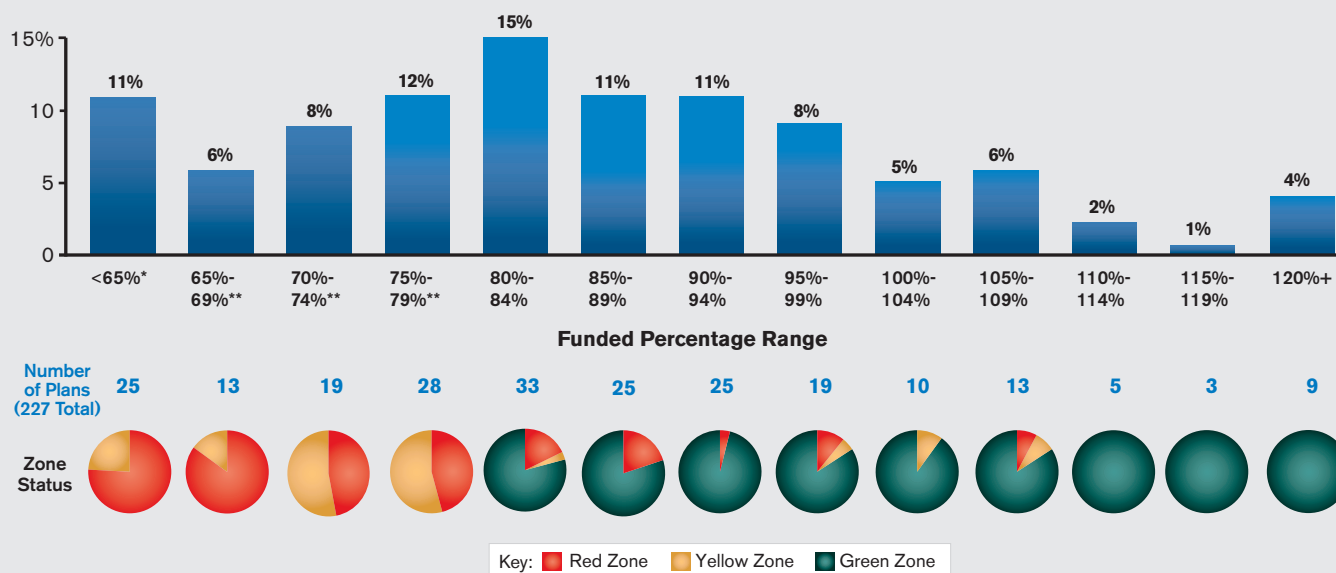
³ For information about this provision in WRERA, see Segal's December 2008 *Bulletin*, "Pension Relief Bill's Provisions Affecting Multiemployer Plans": <http://www.segalco.com/publications/bulletins/dec08pensionrelief.pdf>. A link to Segal's report on plans' freeze elections appears in the second footnote of Graph 1.

"The average PPA'06 funded percentage...is 86 percent."

option to freeze their plan's zone status at the level determined for 2008. Of the surveyed plans, just over 100 (about 75 percent of those eligible) had elected to freeze their 2009 zone status at the level determined for 2008. More than one-quarter of those plans (almost 30) are in the green zone for 2010. Although many of these plans may have re-entered the green zone for 2010 because of trustees' actions, favorable market returns are also likely to have contributed to this outcome.

The other three-quarters of the surveyed plans that elected a freeze in 2009 (almost 75 plans) remain in the yellow or red zone for 2010. Trustees of these plans must design corrective actions to improve their plans' zone status this year, as required by PPA'06.

Graph 3: Percentage, Number and 2010 Zone Status of Calendar-Year Plans by PPA'06 Funded Percentage Range



* This funded percentage threshold is important because it is one of the criteria for determining red-zone status.

** A funded percentage less than 80 percent is one of the criteria for determining yellow-zone status.

COMMENTARY AND OUTLOOK

Much of the improvement in calendar-year plans' zone status is doubtless attributable to investment gains. Plans are starting to recover from the substantial losses they incurred during the market downturn of late 2008 through early 2009. A contributing factor is the hard decisions undertaken by some boards of trustees on plan design and funding changes that will help stabilize and improve their plans' financial status. Boards of trustees of almost half of the more than 100 yellow- or red-zone plans surveyed in 2010 have already taken some formal actions to improve funding.

Despite the progress that has been made, multiemployer plans are still facing formidable funding challenges triggered by the market downturn and exacerbated by the recent recession. Many industries are still far short of pre-recession employment levels. Even if the economy improves in the coming months, it may take a

2010 could migrate into the yellow or red zone unless additional actions are taken. Trustees of yellow- and red-zone plans must design corrective actions to improve their plans' zone status, as required by PPA'06. Plans in those zones that elected a freeze in 2009 will begin the process this year. Trustees of yellow- and red-zone plans that have already developed a corrective plan, must continue to monitor their progress and make adjustments as needed along the way to improve funding.

Trustees of plans currently in the green zone are also considering available courses of action to avoid slipping into the yellow or red zone and to strengthen their plan's financial status. For some this may mean plan changes and/or recommending higher contribution rates to the bargaining parties. It remains important for all trustees to use the tools available to understand their plan's vulnerability so that appropriate corrective actions can be considered.⁴

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long time to recoup the investment losses of 2008. Moreover, the impact of 2008's losses will be felt for many years because the impact of market volatility on all multiemployer plans was mitigated somewhat by the use of an actuarial asset-valuation methodology that gradually recognizes market-value losses over a number of years.

The survey data indicates that, over the next few years, 30 percent of the plans that are certified as green for

If Congress passes funding relief quickly, an outcome that was not certain at the time this survey report was published, plans would have additional tools to maintain their green-zone status or to moderate the pace of improvement necessary to meet their yellow- or red-zone goals. Certainly,

⁴ 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>

“Any funding relief from Congress could be an important element in easing the path to general recovery.”

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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. For assistance, contact your Segal consultant or one of the following experts:

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