

Survey of Plans' 2009 Zone Status

This *Survey of Plans' 2009 Zone Status* reports the percentage of multi-employer pension plans that fell into each of the three zones — green, yellow and red — in 2009. (The text box on page 2 provides background on the zones.) The survey data is based on Segal Company certifications through November for more than 360 client plans representing a wide range of industries from across the country that, as a group, have plan years beginning January 1 to September 1.¹ The certifications took into account any changes in plan design, employment, negotiated contribution rates and investment performance, generally through the end of the prior plan year.

KEY FINDINGS

The key survey findings follow:

- The average Pension Protection Act of 2006 (PPA'06) funded percentage for the surveyed plans was 82 percent in 2009.
- In 2009, roughly similar percentages of plans were in each of the three zones, a significant change from the prior year.
- Almost three-quarters of the plans allowed to take advantage of a

one-time opportunity to “freeze” their zone status (an option discussed in more detail on pages 2 and 3) decided to do so.

This report presents details and commentary about these, and other, survey findings. In addition, it provides information about practical steps trustees are already taking, or may wish to consider taking, to improve their plans' future zone status.

ZONE STATUS

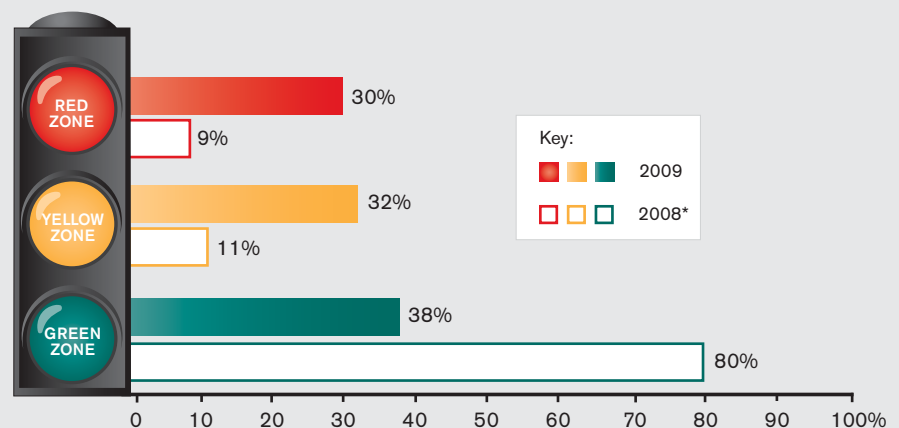
In 2009, 38 percent of the surveyed plans were certified in the green zone and the percentages of plans in the yellow or red zone were each a little less than that (32 percent and 30 percent, respectively). Graph 1 shows the surveyed plans' 2009 zone status compared to their 2008 zone

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status. The significant change in zone status from 2008 to 2009 is directly related to the investment meltdown that occurred in 2008 and carried over into the first quarter of 2009.

The survey found some industry differences in the plans' certified 2009 zone status. Notably, more than half of the surveyed plans in the entertainment industry were in the green zone and only 14 percent were the red zone. The experience in the retail trade and food industry was very different: more than half

Graph 1: Breakdown of Plans' Certified Zone Status in 2009 and 2008 by Percentage of Plans in Each Zone



* About 400 plans were in Segal's *Final Survey of Plans' 2008 Zone Status*. A report of those survey results is on the following page of Segal's Web site: <http://www.segalco.com/publications/surveysandstudies/spring09zonestatus2008.pdf>

¹ The survey excludes about 45 plans that have plan years beginning October 1 to December 1 because information on their certifications is not yet available. By spring 2010, those zone certifications will be finalized and a graph summarizing the 2009 zone status for all plans will be available on the Segal Web site: www.segalco.com

of those plans were in the red zone. For more details and the zone status of plans in other industries, see Graph 2.

The Zones

Under the funding provisions of the Pension Protection Act of 2006 (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 certification no later than 90 days after the beginning of the plan year. For example, if the plan year began on January 1, 2010, certification is required before the end of March 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 take specific actions to improve the plan's financial status.*

Plans with a certified 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/zonesupp.pdf>

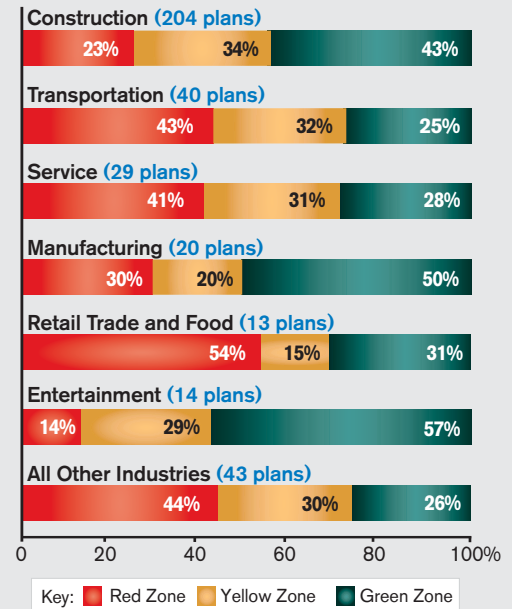
Graph 3 illustrates the zone-status breakdown based on the beginning of the plan year. It shows that a smaller percentage of plans with plan years beginning February 1 to April 1 were in the green zone, as compared with calendar-year plans. Compared to both of those groups, a higher percentage of plans with plan years beginning May 1 to September 1 were in the green zone, which may reflect improved investment performance that began in the second quarter of 2009.

ZONE FREEZE ELECTIONS

The Worker, Retiree and Employer Recovery Act of 2008 (WRERA) gave trustees of 2008 and 2009 yellow-zone and red-zone plans the option to freeze their plan's zone status at the 2008 level for 2009.² Plans in the yellow or red zone that opted to freeze were not required to update or develop their funding improvement or rehabilitation plan or the contribution and benefit schedules in 2009. Of the surveyed plans in the yellow or red zone, 74 percent opted to freeze. It is notable that a little more than one out of four of the plans in the yellow or red zone continued to develop their funding improvement or rehabilitation plan rather than electing a zone-status freeze. In addition, the trustees of some plans that elected to freeze nonetheless took steps to deal with the funding issues faced by those plans. These steps included plan design changes, as well as requests that the bargaining parties allocate additional contributions to the pension fund.

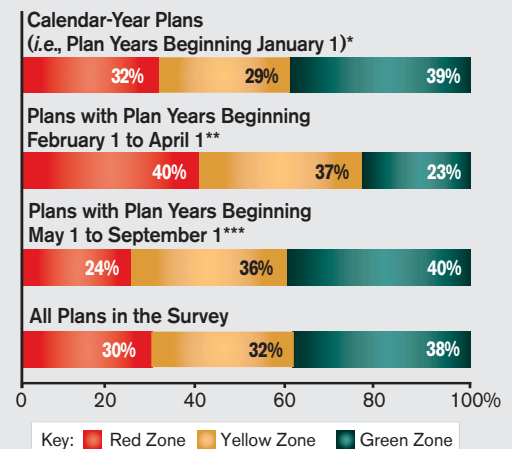
² For information about this provision in WRERA, which applies to plan years beginning before October 1, 2009, see Segal's December 2008 *Bulletin*, "Pension Relief Bill's Provisions Affecting Multiemployer Plans": <http://www.segalco.com/publications/bulletins/dec08pensionrelief.pdf>

Graph 2: Breakdown of Plans' Certified 2009 Zone Status by Industry*



* The fewer the number of plans in a given industry, the less likely the results are to be indicative of an industry's overall status.

Graph 3: Breakdown of Plans' Certified 2009 Zone Status by Start of Plan Year and Percentage of Plans in Each Zone



* These plans' certifications, which were due no later than the end of March 2009, reflected investment performance through December 31, 2008.

** These plans' certifications, which were due no later than the end of June 2009, reflected a portion of 2009 investment performance, through the end of the 2008/9 plan year.

*** These plans' certifications, which were due no later than the end of November 2009, reflected a portion of 2009 investment performance, through the end of the 2008/9 plan year.

Just over 150 plans that were in the green zone in 2008 entered the yellow or red zone in 2009. Trustees of the vast majority of those plans (88 percent) opted to freeze.

Graph 4 illustrates the impact of the freeze election on plans' 2009 zone status. After the freeze, 75 percent of the surveyed plans were in the green zone and far fewer plans were in the yellow or red zones (11 percent and 14 percent, respectively).

WRERA also gave trustees the option to add three years to their plan's funding improvement or rehabilitation period. Trustees of 20 percent of all yellow-zone plans and 55 percent of all red-zone plans chose that extension. Together, those plans represented 40 percent of all plans *eligible* for the extension or 10 percent of all surveyed plans.

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PPA'06 FUNDED PERCENTAGE

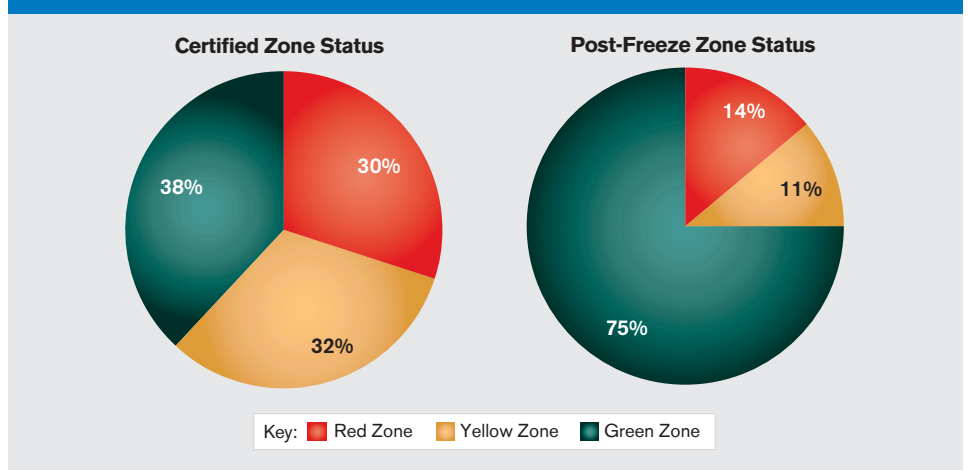
The average PPA'06 funded percentage³ for all surveyed plans of 82 percent in 2009, is down from 93 percent in 2008. This drop

³ The PPA'06 funded percentage is based on a ratio of assets to accrued benefits, measured using the plan actuary's actuarial assumptions and the plan's actuarial asset valuation method.

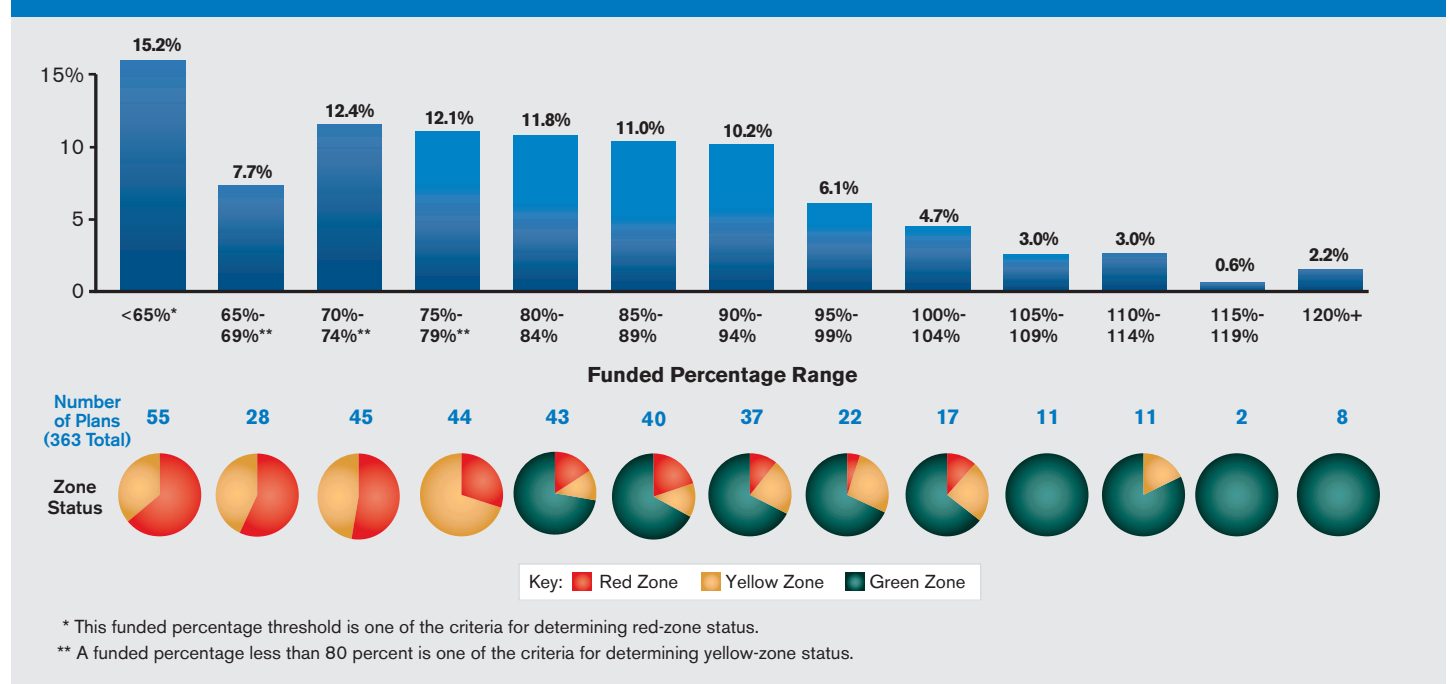
reflects the dramatic investment losses of late 2008 and early 2009.

The bars in Graph 5 show a breakdown of the 2009 PPA'06 funded percentage for the plans in the survey. The small pie charts indicate the certified zone status for the plans in each funded percentage range. Together, both sets of data illustrate

Graph 4: Breakdown of Plans' Certified and Post-Freeze 2009 Zone Status by Percentage of Plans in Each Zone



Graph 5: Percentage, Number and Certified 2009 Zone Status of Plans by 2009 PPA'06 Funded Percentage Range



the correlation between the PPA'06 funded percentage and zone status. However, it is important to remember that *no single measurement* is sufficient to determine a plan's zone status under PPA'06.

COMMENTARY AND OUTLOOK

The results of Segal's *Survey of Plans' 2009 Zone Status* showing a smaller percentage of plans in the green zone in 2009 than one year earlier demonstrate the impact on plans of the relatively significant investment losses suffered by most plans during the fourth quarter of 2008 and the first quarter of 2009. Although the stronger investment performance that began in the second quarter of 2009 will be reflected in Segal's next zone-status survey, a *Survey of Calendar-Year Plans' 2010 Zone Status*, which will be published in the spring, the impact of the 2008-2009 losses will be felt for many years. This is because most of the surveyed plans use "asset smoothing," an actuarial asset-valuation methodology that gradually recognizes market-value losses — and gains — over a number of years.

As noted earlier, many trustees of yellow-zone and red-zone plans that did not elect a zone-status freeze have already developed a funding improvement or rehabilitation plan. In addition, many trustees of plans whose zone status was frozen for 2009 have also started to take corrective actions to improve their plans' zone status, or have asked the collective bargaining parties to do so, because they anticipate being in the yellow or red zone in 2010.

Trustees of green-zone plans may also want to consider taking action because the survey data indicates that, over the next few years, almost

"The survey data indicates that, over the next few years, almost 40 percent of the plans that were certified as green may migrate into the yellow or red zone unless corrective steps are taken."

40 percent of the plans that were certified as green may migrate into the yellow or red zone unless corrective steps are taken. Options might include benefit changes, reopening bargaining agreements where possible and/or recommending higher contribution rates to the bargaining parties.⁴

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Even if the investment markets continue to show relatively strong performance, it could take a long time for plans to recoup the dramatic investment losses of 2008 through the first quarter of 2009. To the extent that some industries are already facing difficult short- and mid-term employment prospects, trustees may wish to consider using available tools to help them understand their plan's risk profile, such as asset-liability modeling (ALM). This will enable plan sponsors to assess the sensitivity of a plan's future actuarial position to various investment performance and employment levels, as well as to see the impact of taking various corrective actions.

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. Segal has developed Forecast, a dynamic ALM tool that allows trustees to do real-time modeling.

For additional information, contact your Segal consultant or one of the following experts:

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⁴ See 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>