

Survey of Calendar-Year Plans' 2009 Zone Status and Freeze Elections

The market downturn has had a dramatic impact on the zone status of multiemployer pension plans. The Segal Company's *Survey of Calendar-Year Plans' 2009 Zone Status and Freeze Elections* found that, compared to one year earlier, many more plans are now in the red zone and the yellow zone while the number of plans in the green zone has dropped precipitously. (The text box on page 2 provides background on the zones.) In addition, the survey found that the average PPA'06 funded percentage for calendar-year plans declined to 85 percent from 97 percent in 2008.¹ The survey also reports the number of calendar-year plans that elected to freeze their zone status, as allowed by the Worker, Retiree and Employer Recovery Act of 2008 (WRERA).²

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, negotiated contribution rates and investment performance through the end of 2008. The plans in the survey

represent a wide range of industries from across the country and combined assets of close to \$100 billion.

ZONE STATUS

Details about the striking shift in calendar-year plans' zone status follow:

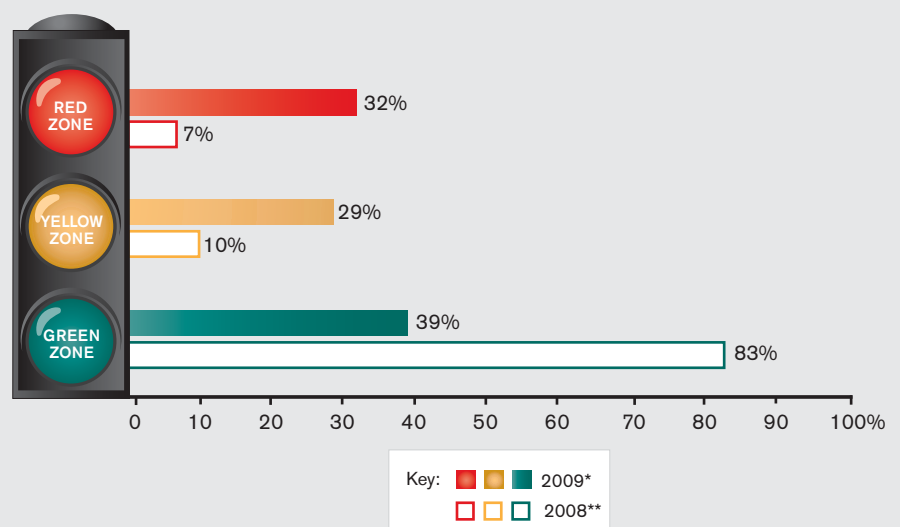
- **Only 39 percent of calendar-year plans are now in the green zone.** This represents a dramatic decline of 44 percentage points since 2008, when an overwhelming majority of calendar-year plans (83 percent) were in the green zone.
- **The percentage of calendar-year plans in the yellow zone almost tripled between 2008 and 2009.** Only 10 percent of calendar-year

plans were in the yellow zone in 2008. That share has grown to 29 percent.

- **Almost one-third (32 percent) of calendar-year plans are in the red zone for 2009.** That percentage exceeds the percentage of yellow-zone plans, and is a substantial increase from 2008, when only 7 percent of the plans were in the red zone.

Graph 1 illustrates the breakdown of calendar-year plans' zone status in 2009 and 2008. The 2009 data is based on plans' zone status before any election to freeze zone status for 2009. Not all plans are operating in these zones in 2009 because, as discussed later in this report, some plans elected

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



¹ This decline reflects a smoothed actuarial value of assets and, as such, does not yet reflect the full decline in asset values.

² 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> Although plans with plan years ending October 2008 through December 2008 were also allowed to freeze their zone status, those plans are not included in this report, which focuses on calendar-year plans.

* These plans' certifications, which were due by the end of March 2009, reflected investment performance as of December 31, 2008.

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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, 2009, certification was required before the end of March 2009.

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 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>

** 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.

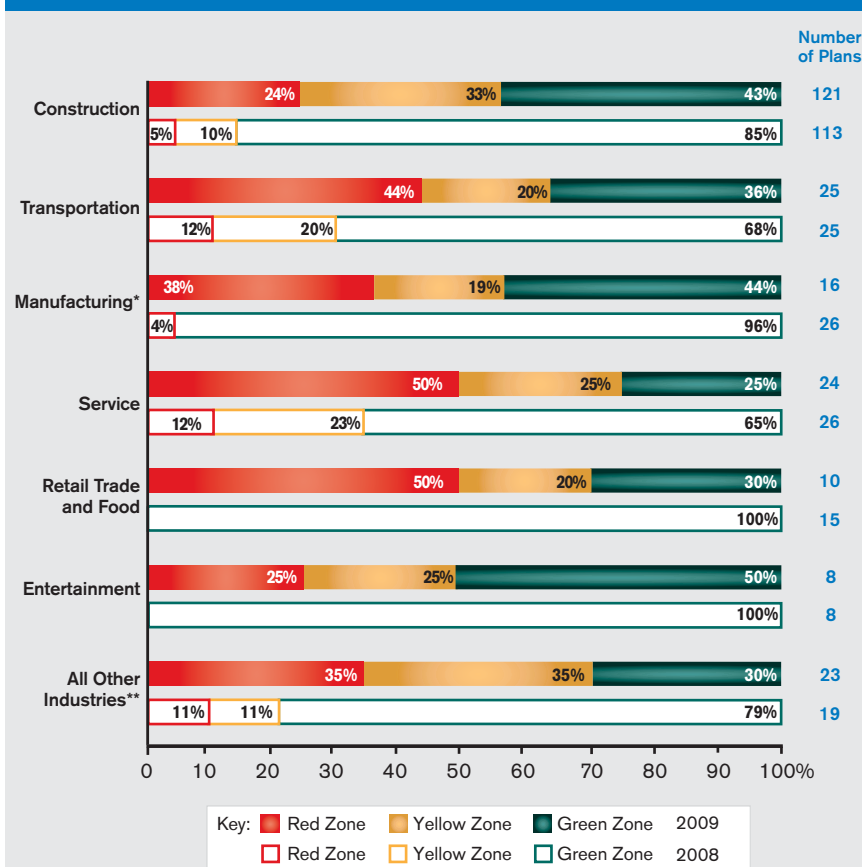
to freeze their zone status at a different "color," as allowed by law.

Although all industries were affected by the market downturn, the survey found a few industry differences in the calendar-year plans' zone status. Notably, for 2009, plans in the entertainment industry had the greatest percentage of plans in the green zone, with the manufacturing and construction industries not far behind. The service and retail trade and food industries had the greatest percentage of red-zone plans for 2009. See Graph 2.

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 actuarial assumptions and the plan's actuarial asset valuation method. As noted, the average PPA'06 funded percentage for the plans in this *Survey of Calendar-Year Plans' 2009 Zone Status and Freeze Elections* is 85 percent, a significant decline from 97 percent in 2008 for calendar-year plans. This PPA'06 measure is based on the "actuarial asset value" for each plan; using market values would produce a far

Graph 2: Industry Breakdown of Calendar-Year Plans' 2009 and 2008 Zone Status by Percentage of Plans in Each Zone



* Total does not equal 100 percent due to rounding.

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

lower funded percentage.³ 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 percentage of 100 percent or more, a significant decline from 37 percent in 2008 for calendar-year plans. The bars in Graph 3 show a breakdown of plans in the survey by their 2009 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 to determine a plan's zone status under PPA'06.

FREEZE ELECTIONS

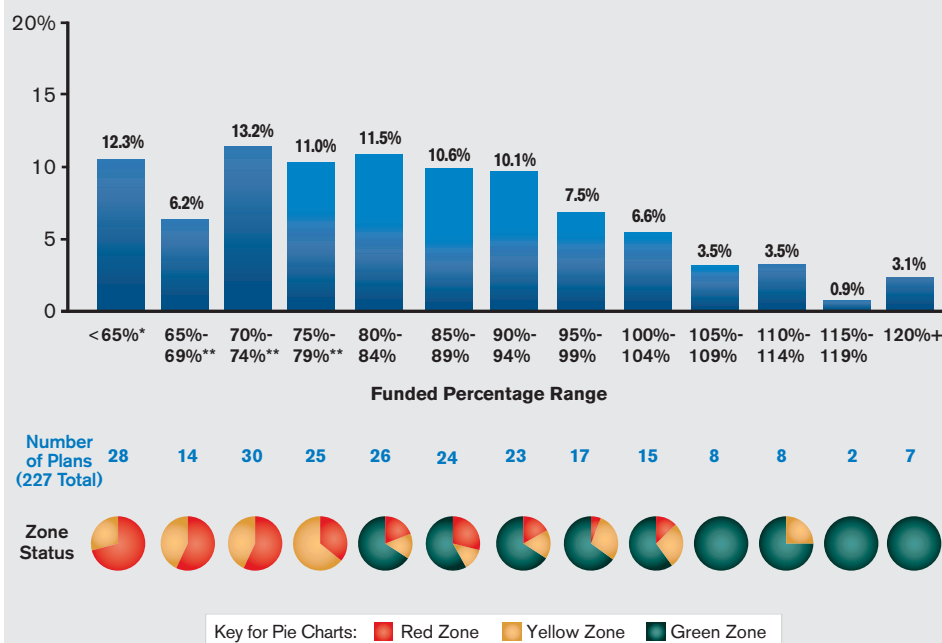
For the 2009 plan year, WRERA gives trustees the option to freeze their plan's zone status at the level determined for 2008.⁴ A plan in the yellow or red zone for 2008 that has its zone status frozen would not have to update its funding improvement or rehabilitation plan or the contribution and benefit schedules in 2009. WRERA also gives trustees the option to add three years to their funding improvement or rehabilitation period if the plan is in the yellow or red zone in 2008 or 2009.

Whether or not to freeze a plan's zone status or opt for the three-year extension is a complex decision. Trustees must consider many variables, including the effect of the three-year extension of the funding

³This is not the same as having unfunded vested benefits for withdrawal liability purposes.

⁴If a plan with a plan year beginning in the last quarter of 2008 elects the freeze, its status would be frozen at the level the plan would have been assigned for the 2007 plan year. This survey data does not include the three that elected a freeze.

Graph 3: Percentage, Number and 2009 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.

“By the end of April, 74 percent of the calendar-year plans eligible to freeze...opted to freeze their zone status for 2009 at the 2008 level.”

improvement or rehabilitation period, the timing of collective bargaining cycles and the likely impact of their current actions on improving the plan's funded status. On April 30, 2009, the Internal Revenue Service extended the deadline for calendar-year plans to make a zone-status freeze election under WRERA to June 30, 2009.⁵

The *Survey of Calendar-Year Plans' 2009 Zone Status and Freeze*

⁵ For more information about this extension, see Segal's May 1, 2009 *Compliance Alert*: <http://www.segalco.com/publications-and-resources/compliance-alert/archives/?id=1266>

Elections found that, by the end of April, 74 percent of the 138 calendar-year plans eligible to freeze (102 plans) opted to freeze their zone status for 2009 at the 2008 level. More than two-thirds of red-zone plans (68 percent, or 50 of 73 plans) and 80 percent of yellow-zone plans (52 out of 65 plans) opted to freeze.⁶ With the extended deadline noted above, plans that had not opted to freeze by the end of April have time

⁶ An online supplement to this survey report illustrates the zones into which these plans froze. It is available on the following page of the Segal Web site: <http://www.segalco.com/publications/surveysandstudies/spring09calendarzonessupp.pdf>

to reconsider.⁷ Graph 4 compares the breakdown of *all* plans' zone status both before and after the freeze election as of April 30, 2009. The post-freeze breakdown is very similar to the 2008 breakdown shown in Graph 1 on page 1.

As of April 30, 2009, 29 percent of the eligible⁸ calendar-year plans (16 of 55 plans) in the survey opted to use the additional three years for making a funding improvement or rehabilitation plan. Many more of the eligible plans may opt to do so before the end of the year.

OUTLOOK

The survey data indicates that, over the next few years, about half of the plans that are certified as green may migrate into the yellow or red zone unless additional actions are taken.

Trustees of multiemployer pension plans that are already in the yellow zone or red zone must take corrective actions to improve their plans' zone status this year, as required by PPA'06 unless the freeze was elected. Trustees of plans currently in the green zone or that have frozen in the green zone are also weighing their available options. This includes plan changes, reopening bargaining agreements where possible and/or recommending higher contribution rates to the bargaining parties. If the tough economy continues, it will be increasingly difficult for bargaining parties to increase contribution levels.

Even if the economy improves in the coming months, it may take a 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.

It is more important than ever for all trustees to use the tools available to understand their plan's risk profile so that appropriate corrective actions can be considered.⁹



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:

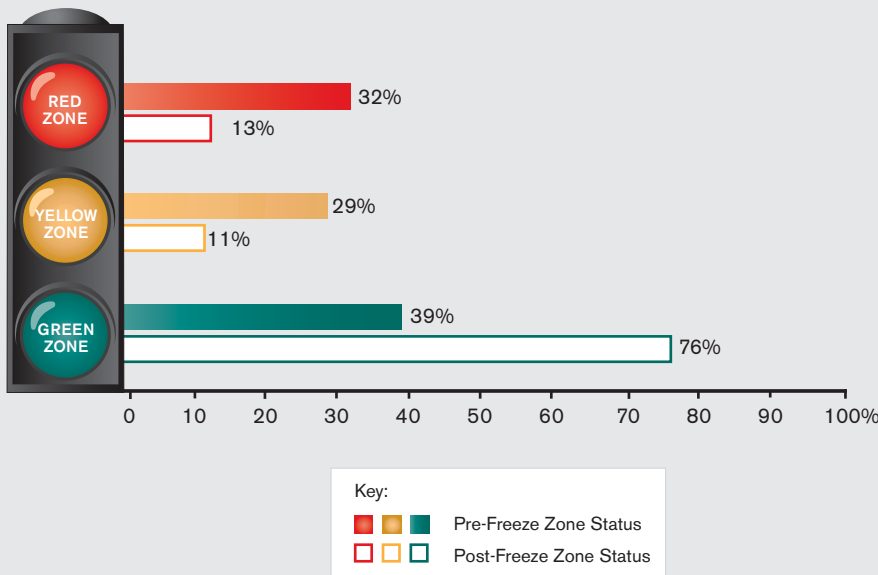
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⁷ Plans may also reconsider their election to freeze, but they need permission from the Internal Revenue Service to revoke that decision.

⁸ Plans that remained in the green-zone in 2009 or froze back to the green-zone were not eligible for this relief.

⁹ 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>

Graph 4: Breakdown of Calendar-Year Plans' Pre- and Post-Freeze Zone Status by Percentage of Plans in Each Zone



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Cleveland	216.687.4400
Denver	303.714.9900
Hartford	860.678.3000
Houston	713.664.4654
Los Angeles	818.956.6700
Minneapolis	952.857.2480
Montreal	514.989.3735
New Orleans	504.483.0744
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