The Pandemic's Impact on Multiemployer Pension Plans

Small Changes in Zone Status; Notable Shifts in Industry Assumptions

Segal

With a global pandemic and financial market volatility, 2020 was an unprecedented year. Despite the turmoil of the past year and future economic uncertainty, most calendar-year multiemployer pension plans saw little change in their funding levels from January 1, 2020 to January 1, 2021.

According to the latest Segal survey of plan funding and zone status:

- The average funded percentage for all calendar-year plans increased to 89 percent in 2021, up from 87 percent in 2020.
- On average, the percentage of calendar-year plans in the green zone increased to 72 percent in 2021, up from 70 percent in 2020.
- For plans in critical and declining status (projected to become insolvent) in both years, the average funded percentage declined to 31 percent in 2021, from 35 percent in 2020.
- As part of the annual zone-status certification, plan trustees must provide input on their expectations for future industry activity and contribution levels. Overall, trustees of most plans had slightly lower expectations for short-term industry activity, but the same or similar expectations over the long term.
- The majority of plans in the entertainment, manufacturing and retail, trade & food industry reduced both short-term and long-term workforce expectations.
- For the construction and transportation industries, there was no clear trend on expected industry activity versus the prior year, despite economic uncertainty for 2021 and beyond.

In general, the survey results do not take into account the temporary relief provisions for multiemployer pension plans under the American Rescue Plan Act of 2021 (ARPA). We discuss those provisions on page 8.

About the Survey

The survey includes nearly 200 calendar-year plans. That's approximately one-half of all plans for which Segal is the actuary. As a group, these plans have more than $125 billion in assets, provide benefits to nearly 2.5 million participants and represent approximately 25 percent of all participants in multiemployer plans.

When comparing year-over-year experience, we have limited those comparisons to the same plans.

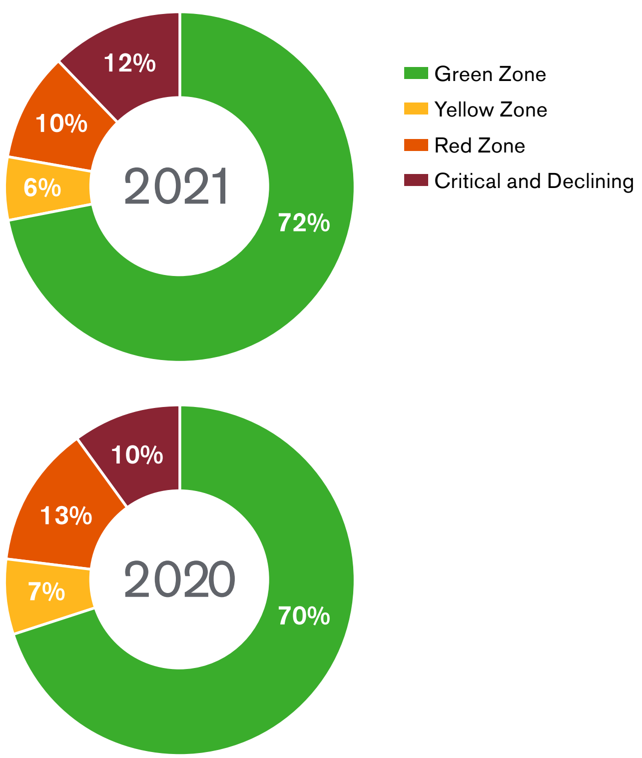
During 2020, the zone status of calendar-year plans improved slightly

The zone status breakdown for plans in the survey shows modest improvement since the prior year. The improvement is primarily due to favorable investment returns.

Although financial markets were down significantly in mid-2020, they recovered by the end of the year. The median net investment return for 2020 was 11.0 percent. Half of plans in the survey had a 2020 investment return within the range of 9.1 percent to 12.7 percent.

It is important to keep in mind that this survey includes only calendar-year plans. Some non-calendar-year plans had less favorable investment returns for their plan years that ended earlier in 2020. (We discussed 2020 zone-status results for those plans in an earlier report.)

Slight Increase in the Percentage of Green-Zone Plans and Slight Decrease in the Percentage of Red-Zone Plans



Source: Segal, 2021

About Zone Status

A series of measurements determine a plan's zone status. The two primary factors are the funded percentage and maintenance of the funding standard account credit balance.

The funded percentage is a point-in-time measure. Since it uses the actuarial value of assets, it reflects only a portion of the market-value investment experience. However, projecting the funding standard account credit balance forward reflects the full impact of market-value returns.

To be in the green zone, a plan must have funded percentage of at least 80 percent, and a projected credit balance, rather than a funding deficiency, at the end of seven years.

Seven plans in the survey improved their zone status in 2021, out of the 58 plans in total that were not in the green zone in 2020 (and therefore had room to improve).

Two plans in the survey had a worse zone status in 2021. Of the 24 plans in the survey that were in critical status in 2020, two moved into critical and declining status for 2021.

Number of Calendar-Year Plans that Changed Zone Status, 2020–2021

Yellow to Green	3
Red to Green	3
Red to Yellow	1
Red to Critical and Declining Status	2

ARPA relief

ARPA gives trustees the option to “freeze” their plan’s zone status for one year. They can do that by setting the zone status for either the 2021 or 2022 plan year to be the same as the zone status from the 2020 plan year.

ARPA has been law for just over a month at the time we published this report. As a result, many plan trustees are still weighing the decision of whether to elect a one-year “freeze” of their plan’s zone status or to take advantage of other potential temporary relief offered by the new law.

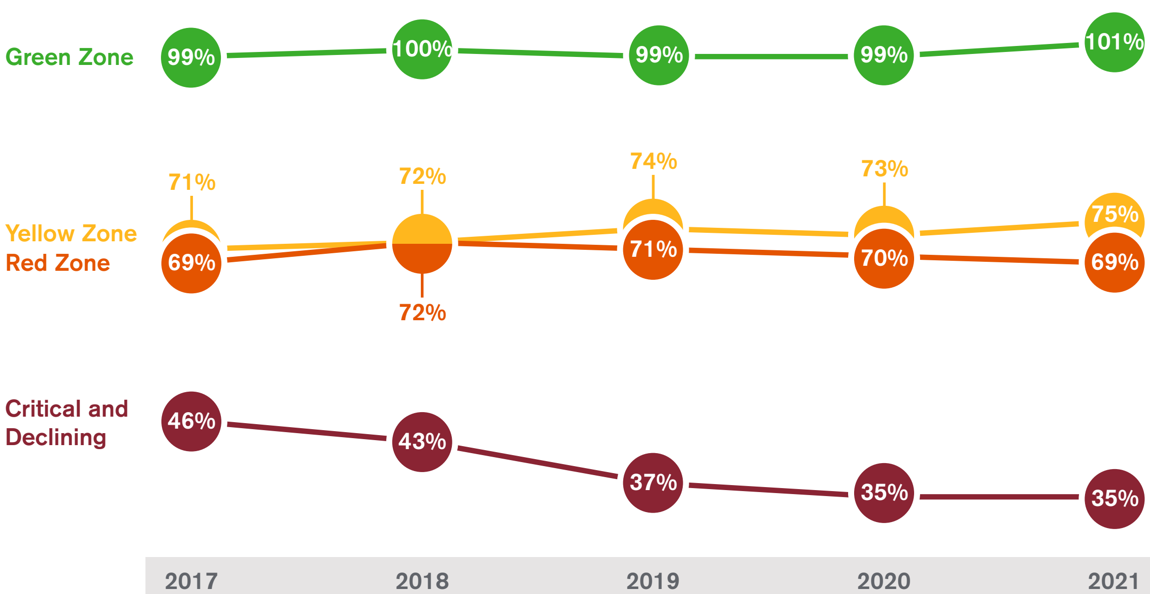
Improved funded percentage for green-zone plans

The PPA'06 funded percentage is the ratio of the actuarial value of assets to the present value of the accrued benefits. More than 70 percent of calendar-year plans in the survey have a PPA'06 funded percentage of at least 80 percent or more. That's an increase of 2 percentage points from 2020. The average funded percentage for green-zone plans exceeds 100 percent in 2021.

The average funded percentage for plans in critical and declining status decreased between 2017 and 2020 and did not change from 2020 to 2021 because two plans first certified as being in critical and declining status in 2021 had relatively high funded percentages. However, for plans that were in critical and declining status in both 2020 and 2021, the average funded percentage declined from 35 percent in 2020 to 31 percent in 2021.

For plans in critical and declining status, even a double-digit investment return may not result in an improved funded percentage from one year to the next.

Average Funded Percentages Have Improved for Plans in the Green and Yellow Zones Since 2017



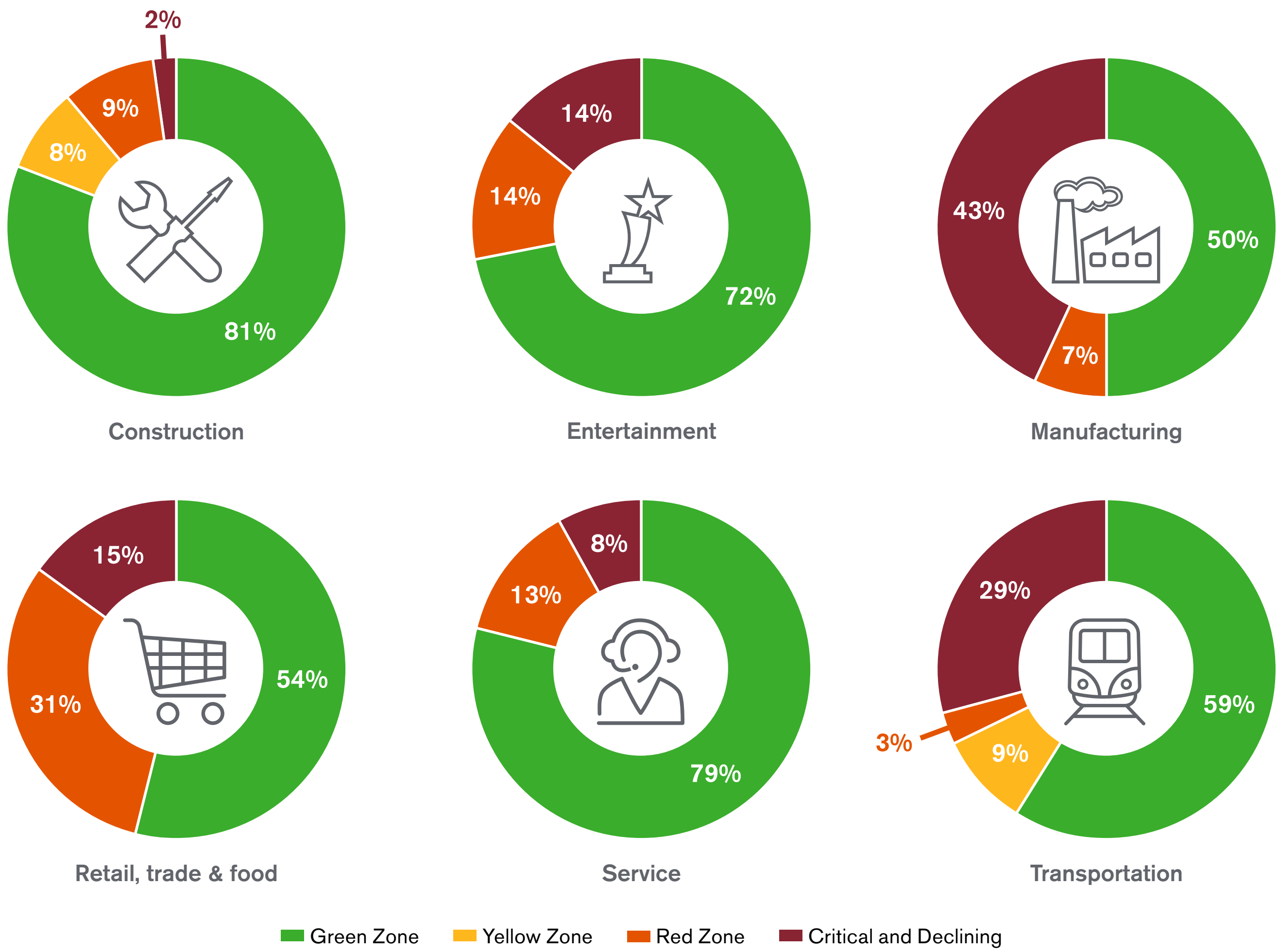
Source: Segal, 2021

Zone status varies by industry

Historically, plans in critical and declining status have been concentrated in the transportation and manufacturing industries. The 2021 survey shows two new plans in critical and declining status. One is in the transportation industry. The other is in the retail, trade & food industry.

The majority of plans in the construction industry continue to be in the green zone.

In All Industries, a Majority of Plans Are in the Green Zone



Source: Segal, 2021

Changes in industry activity assumptions vary by industry

The COVID-19 pandemic has had a disproportionate impact on communities, workers and industries.

The industry activity assumption is a leading indicator of the future financial condition of a multiemployer plan. This assumption reflects input from the plan trustees. It may take into account both short-term and long-term employment expectations. Those expectations include the number of active employees and the total contribution base.

More than 40 percent of calendar-year plans had **short-term** industry activity assumptions for the 2021 zone-status certification that were lower than in the prior year's certification. The size of the decline ranged from 80 percent to less than 1 percent. The average change in short-term industry activity assumptions was a 4 percent decline over the prior year.

Over the **long term**, plans in most industries had future activity assumptions that were the same or close to the same as in the prior year zone certification. However, on average, there was a decline of 1 percent compared to the prior year assumptions.

More than half of the plans in the entertainment, manufacturing and retail, trade & food industries had lower short-term **and** long-term assumptions. These industries had an average decline in the short-term industry assumption of 11 percent and an average decline in the long-term assumption of 6 percent.

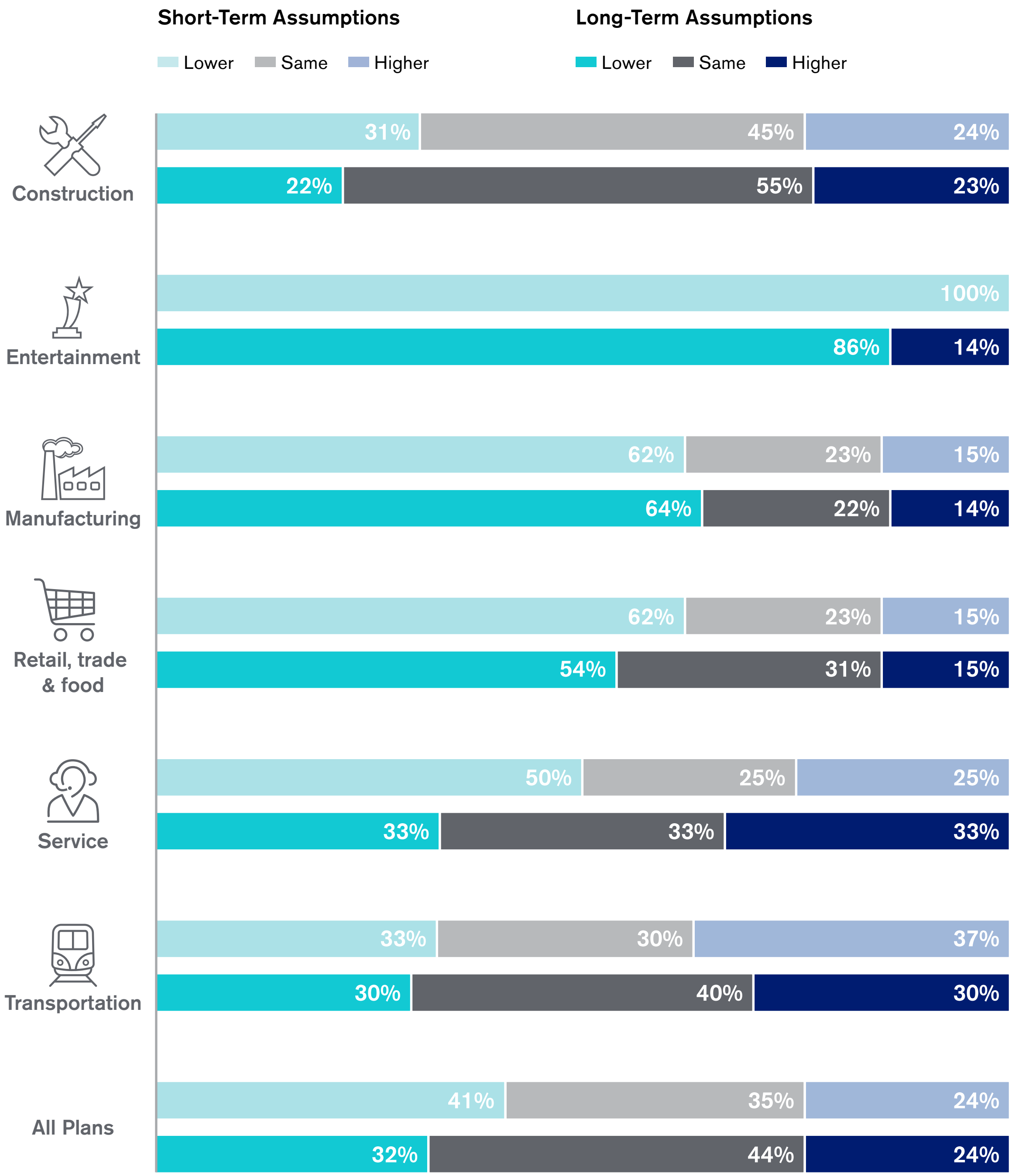
In the service industry, half of the plans had lower short-term assumptions than for the prior year, with an average decline of 12 percent.

Over the longer term, the share of plans in the construction, service and transportation industries that had lower assumptions was roughly equal to the share of plans that had higher assumptions. However, in all industries except construction, this year's long-term industry activity assumptions were, on average, lower than the prior year assumptions.

Plan trustees are doing their best to provide input on employment in the midst of unprecedented uncertainty. Many plans are conducting detailed risk assessments focused on potential industry levels and investment returns. That information will help trustees understand the implications of adverse scenarios on the funding outlook and zone status. If Congress passes an infrastructure bill, industry outlooks may change dramatically.

Anecdotally, boards of trustees that are expecting their industry activity to be the same (or increasing) are cautiously optimistic about the future. They will monitor experience and adjust their anticipated industry levels as needed.

2021 Change in Short-Term and Long-Term Industry Activity Assumptions for Calendar-Year Plans Compared to 2020



Source: Segal, 2021

ARPA financial assistance for troubled plans

Plans certified as critical and declining are moving towards insolvency. Plans facing insolvency may receive financial assistance under ARPA. The sidebar notes the criteria for relief.

Upon insolvency, the plan relies completely on the PBGC for payment of benefits, after reductions required under current law. ARPA addresses the need for financial relief by including financial assistance for eligible plans (using the criteria outlined in the table below).

Based on the January 1, 2021 zone-status certifications, 32 calendar-year plans in the survey are eligible for relief under ARPA. An additional 28 plans are eligible for relief based on the 2020 zone-status certifications for plan years beginning in February through December.

More plans may become eligible next year when the 2022 zone-status certifications are prepared.

We estimated the number of plans in our database that meet the eligibility criteria financial assistance under ARPA: 60. That's 17 percent of all plans in the database. While we believe our database is representative of the multiemployer universe, with respect to PPA'06 zone status and industry breakdowns, the rules relating to eligibility for ARPA financial assistance are plan specific. On that account, these results may not be representative of the broader multiemployer plan population.

Plans Eligible for ARPA Financial Assistance out of 343 Plans in the Segal Database*

Eligibility Criteria for ARPA Financial Assistance	Plans with January 1, 2021 Plan Year	Plans with February 2020 through December 2020 Plan Years*	Total Number of Plans
Critical and declining status	23	16	39
Critical status and current liability funded status <40% *and* active-to-inactive ratio less than 2:3	9**	12	21
Any eligibility criteria	32	28	60

* Plans eligible based on their 2020 certification exclude any eligible plans using their 2021 certification.

** This number includes one plan that is green this year, but was red last year.

ARPA for Insolvent Plans in Brief

ARPA, which became law on March 11, 2021, amended ERISA to authorize the PBGC to provide special financial assistance to these multiemployer pension plans:

- Plans certified to be in critical and declining status for a plan year beginning in 2020-2022
- Plans in critical status in 2020, 2021 or 2022 with "current liability" funded percentage of less than 40 percent and active-to-inactive participant ratio less than 2:3
- Plans with an approved suspension under the Multiemployer Pension Relief Act of 2014 (MPRA) as of the date of enactment
- Plans that became insolvent after December 16, 2014 and have remained insolvent but have not terminated as of the date of enactment

For more information about the relief, see our summary of ARPA's multiemployer pension provisions.

What does the future hold for *your* plan?

The COVID-19 pandemic has illustrated the vast differences among multiemployer plans in various industries. The survey results confirm short-term downturns in the service, manufacturing, retail, trade & food and entertainment industries, followed by an uncertain future.

It is too soon to know which, if any, of these industries will eventually return to pre-pandemic levels. Any infrastructure legislation may have a positive impact on the employment outlook in many industries.

Most multiemployer plans are in the green zone and continue to project sound funding going forward. Other plans (some of which are very large) will likely take advantage of the financial assistance available under ARPA. Trustees have extended amortization options to address any short-term losses related to COVID-19. Longer-term funding relief is available to many plans facing insolvency.

There is always a risk that actual results will differ significantly from the particular set of assumptions used for the zone-status certification, particularly this year. The economic turmoil in financial markets and industry shutdowns of 2020 demonstrate that a study of risks, and possibly even black-swan events, is useful in reaching strategic decisions, even for well-funded plans. Analyzing the following plan characteristics can help trustees to evaluate the long-term sustainability of retirement programs:

- Projections of industry and employment levels
- The potential growth or decline in future contributions
- Alternative benefit designs

Questions? Contact us.

For more information about the latest *Survey of Plans' Zone Status*, or to discuss ARPA opportunities and approaches to evaluate your plan's financial condition and inherent plan risks, contact your Segal consultant or the following subject matter expert on multiemployer pension plans:

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