Multiemployer Plans Are Predominantly “Green”: Survey of Plans’ Zone Status

With several financially troubled multiemployer plans currently making headlines, it is easy to lose sight of the important reality that a majority of multiemployer plans are in the green zone, as confirmed by Segal Consulting’s latest Survey of Plans’ Zone Status. Moreover, the average Pension Protection Act of 2006 (PPA’06) funded percentage has remained stable: 87 percent for 2016 calendar-year plans (compared to 88 percent in the prior year).

Segal Observation: What is particularly notable is that the calendar-year results are coming on the heels of 2015 experience in which investment returns fell short of expectations: the median investment return for the calendar-year plans was just 0.1 percent.

Nevertheless, while 64 percent of plans are in the green zone based on all zone certifications filed in the 12 months ending in March 2016 (subsequently referred to as the full set of plan data), this news should not obscure the fact that just under half of all participants are in plans in the red zone based on the full set of plan data. Significantly, about half of these red-zone participants (23 percent overall) are in plans that are considered to be “critical and declining.”

About the Survey

The survey presents the most recent data available: 2016 results for calendar-year plans, as well as results for all Segal client plans based on zone certifications filed in the 12 months ending in March 2016. The 2016 certification data for calendar-year plans is based on 209 multiemployer plans covering 2.3 million participants with combined assets of more than $100 billion. The full set of plan data includes just over 375 plans covering 3.8 million participants and with combined assets of nearly $185 billion. A review of previous survey results for Segal clients and Form 5500 reports for all multiemployer plans indicates that Segal clients’ zone status by number of plans are representative of that universe as a whole.

1 Under the funding provisions of the Pension Protection Act of 2006 (PPA’06) and the Multiemployer Pension Reform Act of 2014 (MPRA), trustees must review projections of the financial status of multiemployer plans at least annually in order to identify emerging funding challenges. The plan’s actuary must prepare a zone certification no later than 90 days after the beginning of the plan year. (For example, for the plan year that began on January 1, 2016, certification was required by March 30, 2016). For a summary of MPRA, see Segal’s December 2014 Bulletin, “Multiemployer Pension Reform Passed by Congress Expected to Become Law.”
Zone-Status by Number of Plans: Majority in the Green Zone

Of the 2016 calendar-year plans, 66 percent are in the green zone, up from 65 percent in 2015. A similar percentage (64 percent) of plans in the full set of plan data are also in the green zone. That is also a slight increase from the previous year: 63 percent.

About one-quarter of plans in both data sets are in the red zone. Just under 40 percent of plans in the full set of data (35 out of 94) were classified as critical and declining. MPRA provides additional corrective options for these plans, specifically eligibility to apply for benefit suspensions, partitions and PBGC financial assistance for mergers.

Breakdown of Certified Zone Status by Percentage of Plans in Each Zone

Of the 2016 calendar-year plans, 66 percent are in the green zone. ...[and] about one-quarter of plans...are in the red zone.

Source: Segal Consulting, 2016

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2 Suspension refers to the temporary or permanent reduction of a portion of accrued benefits. For information about those conditions, refer to Segal’s December 2014 publication.
Segal Observation  While it is expected that some plans will migrate between zones, having eight plans improve to green-zone status is notable, and is due to actions that have been taken to improve plan funded status, despite the 2015 investment results. Actions to improve funded status include benefit changes, recommended changes in contribution rates to the bargaining parties and changes to investment policies. The case study on this page summarizes one fund’s strategic approach to improving its funded position.

Five plans moved from green or yellow zone into the yellow or red zone, as illustrated below, in part reflecting the adverse investment experience in the past year.

**Reduced Zone Status by Number of Plans for the Full Set of Plan Data**

<table>
<thead>
<tr>
<th>Zone Transition</th>
<th>Number of Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green to Yellow</td>
<td>3</td>
</tr>
<tr>
<td>Yellow to Red</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Segal Consulting, 2016

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**Creating a Rehabilitation Plan with Confidence**

Trustees of a large regional pension fund in the red zone used stochastic modeling to help develop a Rehabilitation Plan with a high probability of success. The stochastic modeling consisted of many different deterministic projections (those based on a single set of assumptions) where all assumptions about the future were held constant except for the investment return.

That approach enabled the trustees to build a “cushion” into the Rehabilitation Plan, which allowed the plan to move into the yellow zone — even after the poor investment return in 2015.

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3 MPRA introduced a Special Emergence rule for certain plans in critical status. The rule allows recognition of a 431(d) amortization extension in projecting the Funding Standard Account in determining the zone status, and modifies the funded percentage requirements.
Zone-Status Statistics by Number of Participants: More “Red” than “Green”

Just under half of participants are in red-zone plans. Of the 94 red-zone plans, 35 (9 percent of plans in the survey) are also in critical and declining status. Twenty-three percent (approximately 870,000) of the total number of participants (3.8 million) in the survey are in these critical and declining plans. As noted above, given their status as critical and declining plans, these plans are eligible to apply for benefit suspensions and they may be eligible for partitions and PBGC financial assistance for mergers.

Breakdown of Zone Status by Percentage of Participants in Each Zone for the Full Set of Plan Data

![Chart showing zone status percentages]

Source: Segal Consulting, 2016

According to the Treasury Department’s website, as of May 25, 2016, five multiemployer plans (not all of which are Segal clients) had applied for benefit suspension. One application was denied and one was withdrawn and resubmitted.4

“Twenty-three percent of the total number of participants...in the survey are in...critical and declining plans.”

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4 For details, see the Applications for Benefit Suspension page on the Treasury Department’s website.
Looking Ahead: Plans Projected to Become “Red” and Yellow-Zone Plans Eligible to Become “Green”

MPRA also requires projections for plans that are not in the red zone to determine whether the plan will be in critical status in any of the next five years. If projected to be in the red zone in the next five years, the trustees may elect to be in critical status in the current year, in order to consider immediate use of the special rules available to plans in the red zone. Of the 2016 calendar-year plans that are certified as “green” or “yellow,” 11 percent (17 plans) were projected to be “red” in the next five years. The trustees of four of these plans elected to be “red,” while 13 plans did not elect to be “red.” Of the 2015 calendar-year plans that were certified as “green” or “yellow,” only seven were projected to be “red” in the next five years. The trustees of two of these plans elected to be “red.”

Trustees that have elected to be “red” may be motivated by the red-zone tools available to them and a desire to avoid doing both a Funding Improvement Plan and, eventually, a Rehabilitation Plan. There are numerous reasons that most plans in this category do not elect to be red. One such factor is the plan’s desire to address their projected funding challenges outside the statutory framework for plans in critical status.

Lastly, MPRA allows plans that were in the green zone in the prior year, and that would otherwise be in the yellow zone this year, to remain in the green zone if the plan is projected to emerge back into the green zone without the benefit of the remedial Funding Improvement Plan normally required for a yellow-zone plan. There were four 2016 calendar-year plans where this provision was applicable.

“Of the 2016 calendar-year plans that are certified as ‘green’ or ‘yellow,’ 11 percent... were projected to be ‘red’ in the next five years.”
The number of active participants compared to the number of inactive participants in a plan is correlated to its zone status. (Most inactive participants are retirees, but some are vested, terminated participants.) The charts below illustrate that, in general, green-zone calendar-year plans have a higher percentage of active participants while red-zone plans have a higher percentage of inactive participants.

**Demographic Characteristics:**
*Ratio of Retirees to Actives Correlated to Zone Status*

The charts below illustrate that, in general, green-zone calendar-year plans have a higher percentage of active participants while red-zone plans have a higher percentage of inactive participants.

**Distributions for 2016 Calendar-Year Plans by Type of Participant* and Zone**

<table>
<thead>
<tr>
<th>Zone</th>
<th>Actives</th>
<th>Non-Actives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Zone</td>
<td>39%</td>
<td>61%</td>
</tr>
<tr>
<td>Yellow Zone</td>
<td>37%</td>
<td>63%</td>
</tr>
<tr>
<td>Red Zone: Critical</td>
<td>34%</td>
<td>66%</td>
</tr>
<tr>
<td>Red Zone: Critical and Declining</td>
<td>11%</td>
<td>89%</td>
</tr>
</tbody>
</table>

* This is based on the median of the inactive to active ratios among calendar-year plans.

Source: Segal Consulting, 2016

**Segal Observation**
There is a correlation between zone status and the inactive-to-active ratio that is most evident for plans in critical and declining status. While contribution income from actives continues to be important, mature plans are much more dependent upon investment income. Nonetheless, Trustees of all plans should monitor industry conditions, employment levels and plan maturity in order to be prepared to respond as plan demographics shift.

"There is a correlation between zone status and the inactive-to-active ratio that is most evident for plans in critical and declining status."
Industry Data: Mostly “Green,” with Some Notable Exceptions

The Construction and Entertainment industries have the highest percentages of plans in the green zone and the lowest percentages of plans in the red zone. The reverse is true of the Retail Trade and Transportation industries.

In addition, more than half of participants in three industry groups are in the red zone: Transportation, Manufacturing and Service. The percentage of participants in plans in the green zone is greatest in the Entertainment, Construction and Retail Trade & Food industries.

Industry Breakdown of Zone Status by Plans and by Participants for the Full Set of Plan Data

Source: Segal Consulting, 2016

More than half of participants in three industry groups are in the red zone.
Average Funded Percentage Is High

The average PPA'06 funded percentage for the 2016 calendar-year plans is 87 percent, down from 88 percent in 2015. For the full set of plan data, the average PPA'06 funded percentage is 86 percent, down from 87 percent in the prior year. The graph below shows a breakdown of the 2016 calendar-year plans in the survey by their PPA'06 funded percentage and their zone status.

Percentage, Number and Certified 2016 Zone Status of Calendar-Year Plans by 2016 PPA'06 Funded Percentage Range

<table>
<thead>
<tr>
<th>Funded Percentage Range</th>
<th>Percentage of Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;50%*</td>
<td>5%</td>
</tr>
<tr>
<td>50% - 59%*</td>
<td>5%</td>
</tr>
<tr>
<td>60% - 69%*</td>
<td>9%</td>
</tr>
<tr>
<td>70% - 79%*</td>
<td>13%</td>
</tr>
<tr>
<td>80% - 89%</td>
<td>22%</td>
</tr>
<tr>
<td>90% - 99%</td>
<td>21%</td>
</tr>
<tr>
<td>100% - 109%</td>
<td>13%</td>
</tr>
<tr>
<td>110% - 119%</td>
<td>8%</td>
</tr>
<tr>
<td>120%+</td>
<td>4%</td>
</tr>
</tbody>
</table>

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

Source: Segal Consulting, 2016

Segal Observation This data underscores that no single measurement is sufficient to determine a plan's zone status under PPA'06. Moreover, when assessing plan risks, trustees should monitor other measures beyond funded percentage, such as cash flow, projected credit balance, contribution margins or deficits and potential employer withdrawal liability.

The average PPA'06 funded percentage for the 2016 calendar-year plans is 87 percent.

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 actuarial value of assets.
There is some correlation between average funded percentage by industry and the inactive-to-active ratio. Industries with more actives and fewer inactives tend to have better funded percentages.

### Industry Ranking by Average Funded Percentage Compared to Median Inactive-to-Active Ratio for the Full Set of Plan Data

<table>
<thead>
<tr>
<th>Industry</th>
<th>Average Funded Percentage</th>
<th>Median Number of Inactives for Each Active</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entertainment</td>
<td>92%</td>
<td>0.7</td>
</tr>
<tr>
<td>Service</td>
<td>88%</td>
<td>1.5</td>
</tr>
<tr>
<td>Construction</td>
<td>87%</td>
<td>1.7</td>
</tr>
<tr>
<td>Retail Trade &amp; Food</td>
<td>86%</td>
<td>1.8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>81%</td>
<td>4.6</td>
</tr>
<tr>
<td>Transportation</td>
<td>80%</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Source: Segal Consulting, 2016

### How Is Your Plan’s Zone Status Likely to Change?

The actuarial zone status certification provides an assessment of your plan as of the beginning of each plan year. While it is important to look at your plan’s current measures and zone, it is equally important to look ahead.

Part of looking ahead is understanding vulnerability to risks, such as investment risk (i.e., the volatility of returns), employment risk (i.e., an employment level that falls short of expectations) and longevity risk (i.e., increased life expectancy), so that appropriate preemptive or corrective actions can be considered. To assess a plan’s vulnerability to risks, it can be helpful for trustees to consult their advisors for answers to questions like the following:

- **For red-zone or yellow-zone plans**, how much of an effect will changes in investment strategies, contribution rate increases, or benefit modifications, make on existing rehabilitation or funding improvement plans?
- **For plans in the green zone**, to what degree can investment strategies mitigate the near-term probability of falling out of that zone without materially harming the longer-term financial health of the plan?

A green-zone plan that is heading toward the red zone is in an entirely different position from a green-zone plan that is expected to be “evergreen.” Being in the green zone on a particular measurement date means that a plan is not in the red zone or the yellow zone but it is not a measure of a plan’s long-term financial well-being. In essence, there are many shades of green. The variance in hue only emerges as additional zone projections are performed. Understanding shades of green (or yellow or red, for that matter) is a vital part of plan stewardship.⁶

Your Segal consultant can provide more information about this survey as well as discuss additional tools available to evaluate a plan’s position to help trustees understand their options going forward.

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⁶ See Segal’s October 2014 Newsletter, “Shades of Green: Key Questions to Ask About Being in the Green Zone.”
If you have questions about Segal’s Survey of Plans’ Zone Status, contact your Segal consultant or Tammy Dixon, the survey expert, at 818.956.6767 or tdixon@segalco.com.

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Consultants and actuaries from Segal Consulting, together with investment consultants from Segal Rogerscasey (the SEC-registered investment solutions member of The Segal Group), can be of assistance in developing the appropriate strategies for maintaining and enhancing benefit security. Our strategic consulting services for multiemployer pension plans include the following:

- Performing forward-looking projections of the plan’s funding status,
- Updating current Funding Improvement Plans or Rehabilitation Plans to stay on target,
- Investigating the potential for benefit suspensions and partitions, and
- Assessing risks and evaluating options for reducing or eliminating them.

For information about these strategic consulting services, contact your Segal consultant, the nearest Segal office or one of our experts.

Segal’s Multiemployer Pension Experts

Dave Dean
312.984.8533
ddean@segalco.com

Tammy Dixon
818.956.6767
tdixon@segalco.com

Diane Gleave
212.251.5185
dgleave@segalco.com

Eli Greenblum
202.833.6480
eygreenblum@segalco.com
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- Compliance consulting,
- Participant communications, including personalized statements,
- Administration and technology consulting, and
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