



Understanding Multiemployer Defined Benefit Plans

Presented by:
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Agenda

- Multiemployer Defined Benefit Plan Overview
- Understanding Plan Status
- Withdrawal Liability
- Assumptions



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Defined Benefit Plan

Purpose: provide lifetime retirement income

- Trustees determine level of retirement benefit and ancillary benefits, such as disability benefits and death benefits.
- Funded through contributions:
 - Actuary annually determines annual cost of the plan using set of assumptions selected by actuary.
 - Contributions plus investment return accumulate to pay for benefits and administrative expenses.



Multiemployer Defined Benefit Plan

- Two or more employers contribute to same pension plan
 - Under one or more Collective Bargaining Agreements
- Employers contribute at fixed rates, set in CBA
 - Contributions not readily adjustable
- Operated through a trust overseen by joint labor/management Board of Trustees
- In bargaining, pension contributions are explicit trade-off for wages or other benefits

History—Legal

1976: ERISA is first landmark pension legislation—signed into law on Labor Day 1974 by Gerald Ford

- **Reason:** collapse of Studebaker and consequent pension losses
- ERISA mandated funding rules, tax deduction rules, plan design rules, and set up PBGC

1980: MPPAA introduces concept of withdrawal liability

2006: Pension Protection Act (PPA'06): strengthens plan funding requirements starting in 2008

- **Reason:** Notable large bankruptcies resulted in shifting corporate plan liabilities to PBGC



History—Legal *(cont.)*

2008: Worker, Retiree, and Recovery Act

- Introduced short-term funding relief

2010: Pension Relief Act

- Additional temporary funding relief

2014: Multiemployer Pension Reform Act (MPRA)

- Eliminated the “sunset” provisions of PPA’06 and made changes to selected “zone” status rules
- PBGC premiums were doubled
- Additional tools to delay or eliminate insolvency for “critical and declining” plans

MPRA Applications to Suspend Benefits

Applications as of February 28, 2018	Number
Total number of plans submitting applications	15
Approved applications 1. Iron Workers Local 17; Cleveland, OH; 1/27/2017 (2 nd attempt) 2. United Furniture Workers; Nashville, TN; 7/20/2017 (2 nd attempt, includes partition) 3. New York State Teamsters; Syracuse, NY; 9/13/2017 (2 nd attempt) 4. IAM Motor City; Detroit, MI; 11/6/2017 (1 st attempt)	4
Applications denied, not yet resubmitted	4
Applications withdrawn, not yet resubmitted	4
Applications under review 1. Western States Office Employees; Portland, OR; 8/24/2017 (2 nd attempt) 2. Alaska Iron Workers; Anchorage, AL; 12/19/2017 (2 nd attempt) 3. Iron Workers Local 16; Baltimore, MD, 12/28/2017 (2 nd attempt)	3

Recent Developments

- Treasury published additional guidance in Rev Proc 2017-43 (July 2017)
- New Special Master appointed (September 2017)
- Treasury approved suspension application on first submission (November 2017)
- Treasury is now open to pre-application conferences (November 2017)

MPRA Participant Votes

Overview of MPRA Participant Vote Rules

- Participant vote takes place 30 days after Treasury approves suspension
- Suspension takes effect unless rejected by a majority of participants (not ballots)
 - An unreturned ballot counts as a vote in favor of the suspension
- Treasury will override participant vote for plans that are “systemically important”

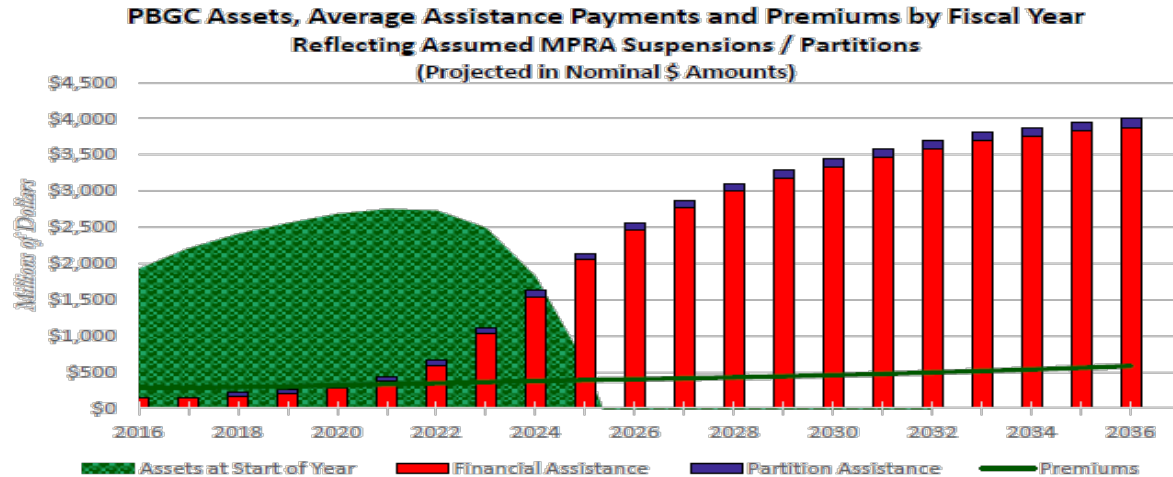
Participant votes as of December 31, 2017

- All 4 participant votes conducted to date have failed to reject the suspension
- However, in 3 votes, the majority of returned ballots were against the suspension

Participant Vote Results	Certified	Reject	Approve	Not Returned	Against %
Iron Workers Local 17	1/27/2017	320	616	1,002	17%
United Furniture Workers	8/31/2017	1,928	1,041	6,304	21%
New York State Teamsters	9/13/2017	9,788	4,081	20,767	28%
IAM Motor City	12/13/2017	371	126	714	31%

PBGC Multiemployer Program

- Multiemployer Program projected to become insolvent around FY2025
- Projected deficit for FY2026 is about \$58 billion, discounted to today's values
- Premium increases needed to support the program



Joint Select Committee

Joint Select Committee on Solvency of Multiemployer Pension Plans			
Senate		House	
Orrin Hatch (R-UT)*	Sherrod Brown (D-OH)*	Virginia Foxx (R-NC)	Richard Neal (D-MA)
Lamar Alexander (R-TN)	Joe Manchin (D-WV)	Phil Roe (R-TN)	Bobby Scott (D-VA)
Michael Crapo (R-ID)	Heidi Heitkamp (D-ND)	Vern Buchanan (R-FL)	Donald Norcross (D-NJ)
Rob Portman (R-OH)	Tina Smith (D-MN)	David Schweikert (R-AZ)	Debbie Dingell (D-MI)
* Co-Chairperson			

Committee Overview

- Created as part of two-year budget deal: Bipartisan Budget Act of 2018
- Tasked with finding legislative solution for multiemployer pension solvency crisis
 - Over 100 plans in critical and declining status, facing insolvency within 20 years
 - PBGC multiemployer program projected to become insolvent within 10 years

Process for 2018

- First Committee meeting to take place by March 11, 2018 (met March 14)
- Must conduct at least 5 public meetings, including at least 3 public hearings
- Committee report on findings and recommendations due by November 30, 2018
- Congress must vote on any motion by Committee before last day of session

Various Legislative Proposals

Legislative Proposals Related to Multiemployer Pension Plans	
Keeping our Pension Promises Act*	<ul style="list-style-type: none"> • Key sponsor: Sen. Bernie Sanders (I-VT) • Would expand PBGC's ability to partition orphan liability • Funded through certain tax increases on wealthy individuals • Would also permit transfers from PBGC's single-employer program to its multiemployer program
Pension Accountability Act*	<ul style="list-style-type: none"> • Key sponsor: Sen. Rob Portman (R-OH) • Would change participant voting rules under MPRA • Would eliminate "systemically important" override
Loan Proposals	<ul style="list-style-type: none"> • Proposals to provide federally-backed loans to troubled plans • Different proposals by UPS, International Brotherhood of Teamsters, and National Coordinating Committee for Multiemployer Plans (NCCMP)
American Miners Pension Act	<ul style="list-style-type: none"> • Sponsors: Sen. Manchin (D-WV), Sen. Capito (R-WV), Rep. McKinley (R-WV), Rep. Welch (D-VT), Rep. Norcross (D-NJ) • Would allow funds to be transferred from the Abandoned Mine Land fund to the United Mine Workers 1974 Pension Plan • Would also provide low interest loans to the Plan
"Composite Plan" Proposal	<ul style="list-style-type: none"> • Originally part of NCCMP's "Solutions Not Bailouts" proposals • Would allow new hybrid, adjustable design for multiemployer plans • Composite plan would apply to future service benefits only • Strict funding requirements for legacy benefits

* Reintroduced from previous Congress

Composite Plan Proposal

Background

- Developed as part of NCCMP “Solutions Not Bailouts” proposals
- Modeled after Canadian plan design

Key Features

- Optional design available to eligible plans
- By definition, neither defined benefit (DB) nor defined contribution (DC)
 - Lifetime income; benefit amount subject to adjustment
 - No unfunded liability, no withdrawal liability
 - No PBGC guarantees, no PBGC premiums
- Legacy plan benefits remain intact, must be funded



Composite Plan Proposal: A Brief History	Date
“Solutions Not Bailouts” Report	Feb 2013
Multiemployer Pension Reform Act (MPRA)—Passed <i>without</i> composite plan proposal	Dec 2014
Multiemployer Pension Modernization Act—Draft legislation introduced	Sep 2016
Giving Retirement Options to Workers Act (GROW Act)	Feb 2018



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Plan Status

PPA'06 requires annual actuarial Plan status certification:

- **Critical Status:** Rehabilitation Plan required—adjust future and/or some past benefits, increase contributions
 - Critical and Declining Status introduced under MPRA
- **Endangered Status:** Funding Improvement Plan required—adjust future benefits, increase contributions
- **Neither Endangered nor Critical:** No action required



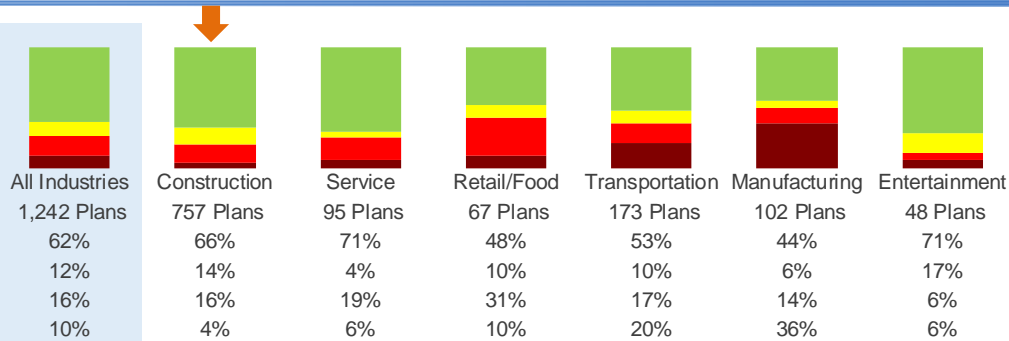
NIA's 63rd Annual Convention
 April 18–20, 2018

Zone Status: Industry Comparison

Plans

Total Plans

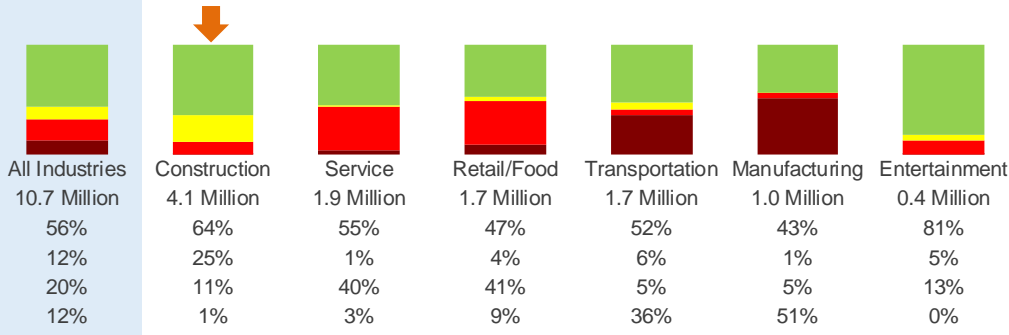
- Green Zone
- Endangered
- Critical
- Declining



Participants

Total Participants

- Green Zone
- Endangered
- Critical
- Declining



Percentages may not add, due to rounding.

For simplicity, certain industries and trades are grouped as follows:

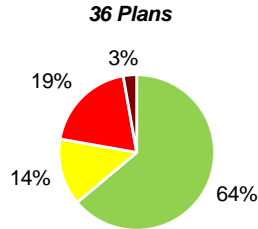
- Transportation includes trucking and freight, warehouse workers, bakery drivers, and maritime

- Manufacturing includes bakery workers, printing, energy, mining, and agriculture

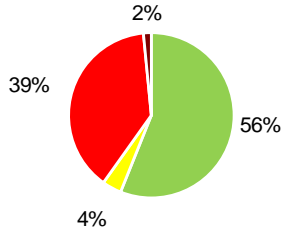
- Service includes hospitality, healthcare, education, and communications

Zone Status: Plans and Participants

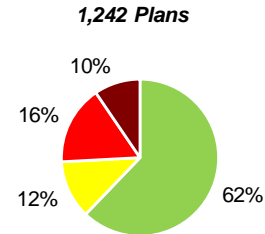
**Insulators Plans
by Zone Status**



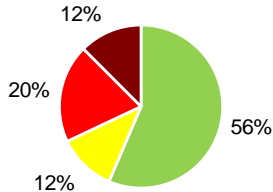
28,000 Participants



**Multiemployer Universe
by Zone Status**



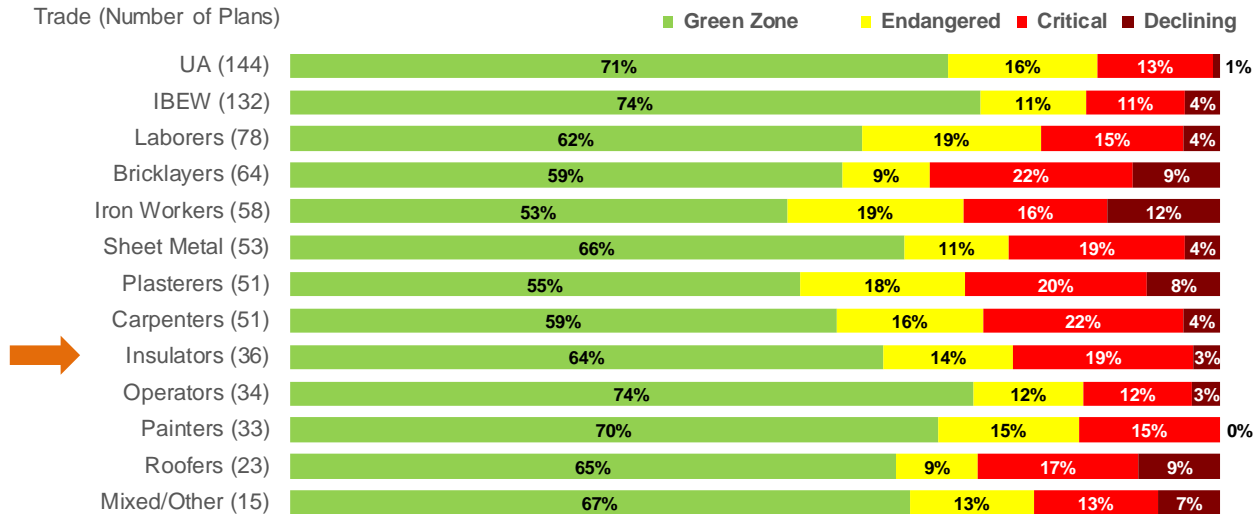
10.7 Million Participants



Source: Segal Consulting analysis of Form 5500 data for plan years ending in 2016. Zone status applies to plan years ending in 2017.

Zone Status by Construction Trade (Plans)

Zone Status by Construction Trade: Distribution of Plans

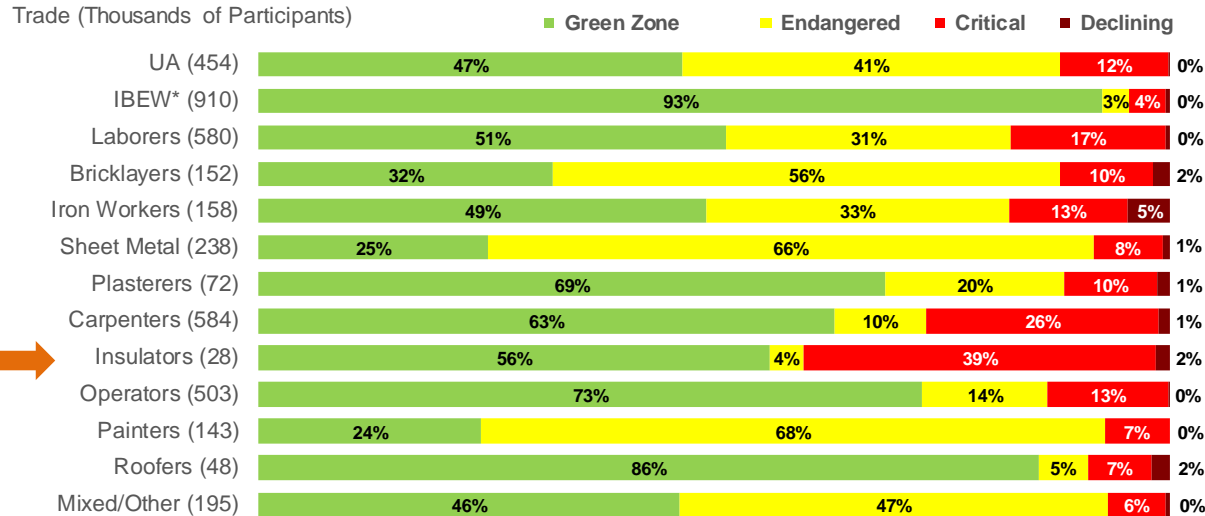


Zone status is for plan years beginning on or about January 1, 2017 and is estimated based on Form 5500 data and other publicly-available information

Figures above include a small number of manufacturing industry plans covering members of the building and construction trades

Zone Status by Construction Trade (Participants)

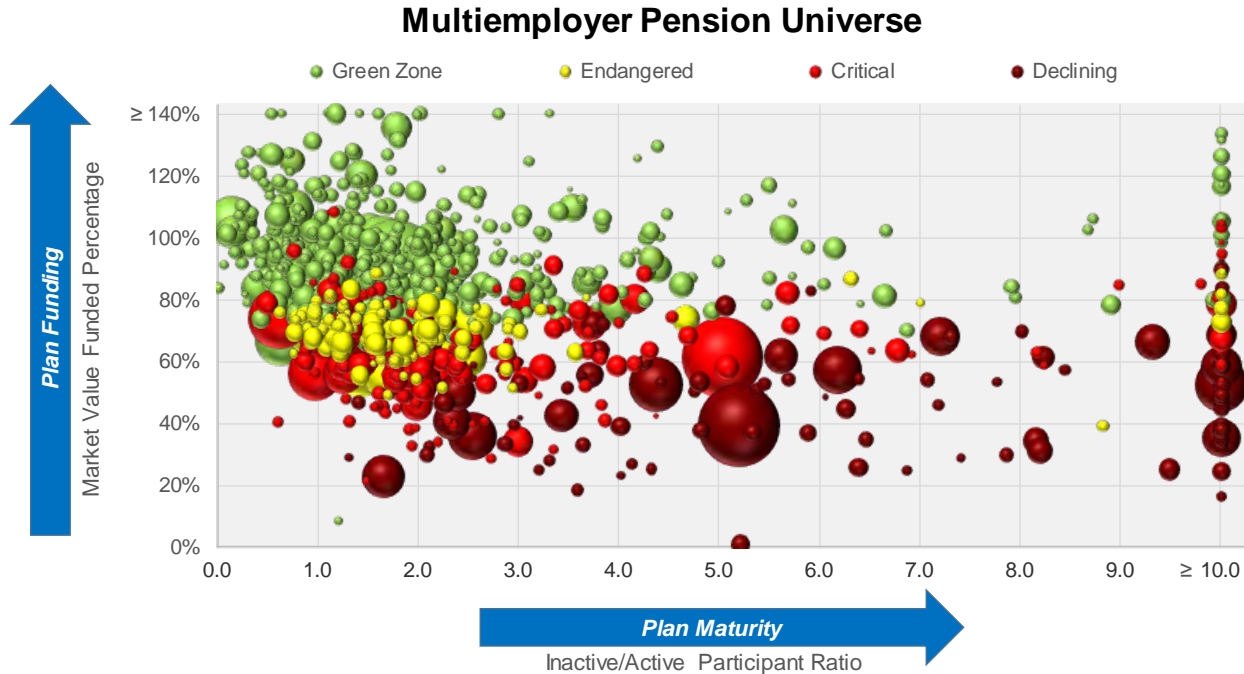
Zone Status by Construction Trade: Distribution of Participants



Zone status is for plan years beginning on or about January 1, 2017 and is estimated based on Form 5500 data and other publicly-available information
Figures above include a small number of manufacturing industry plans covering members of the building and construction trades

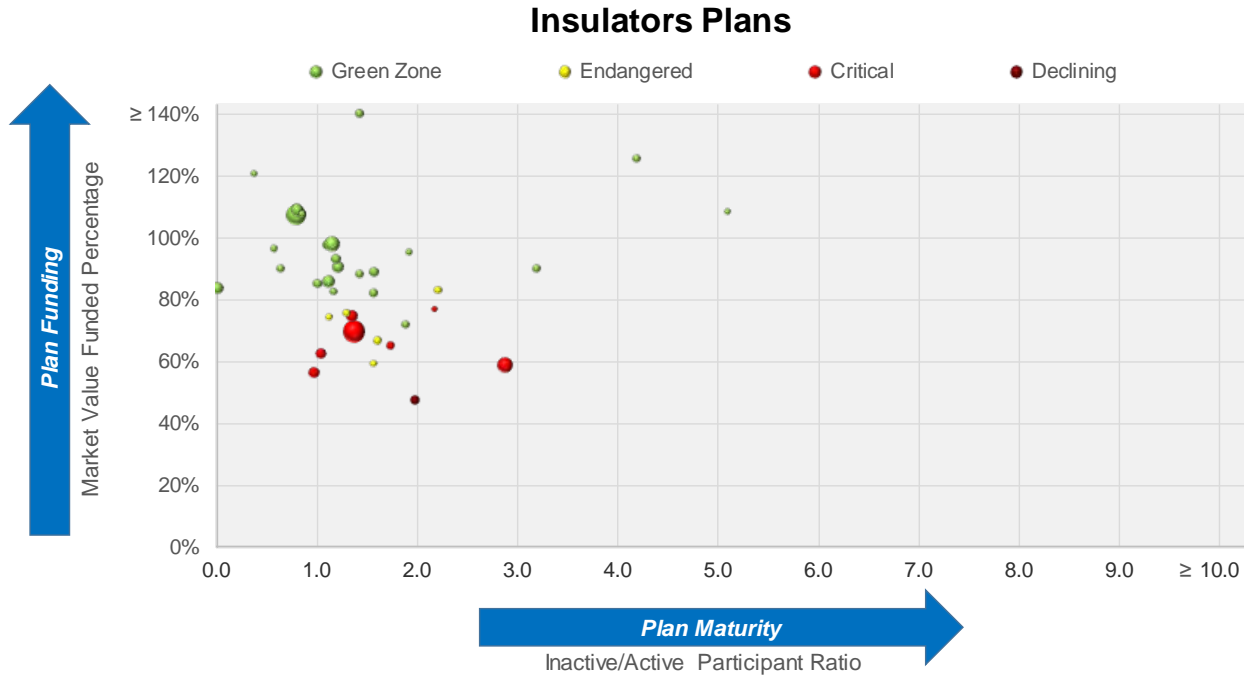
* The statistics for IBEW plans may be skewed by the fact that many members who are participants in a local or regional IBEW pension plan are also participants in the National Electrical Benefit Fund (NEBF). The NEBF itself has about 565,000 participants and is in the "green zone."

Multiemployer Universe: All Plans



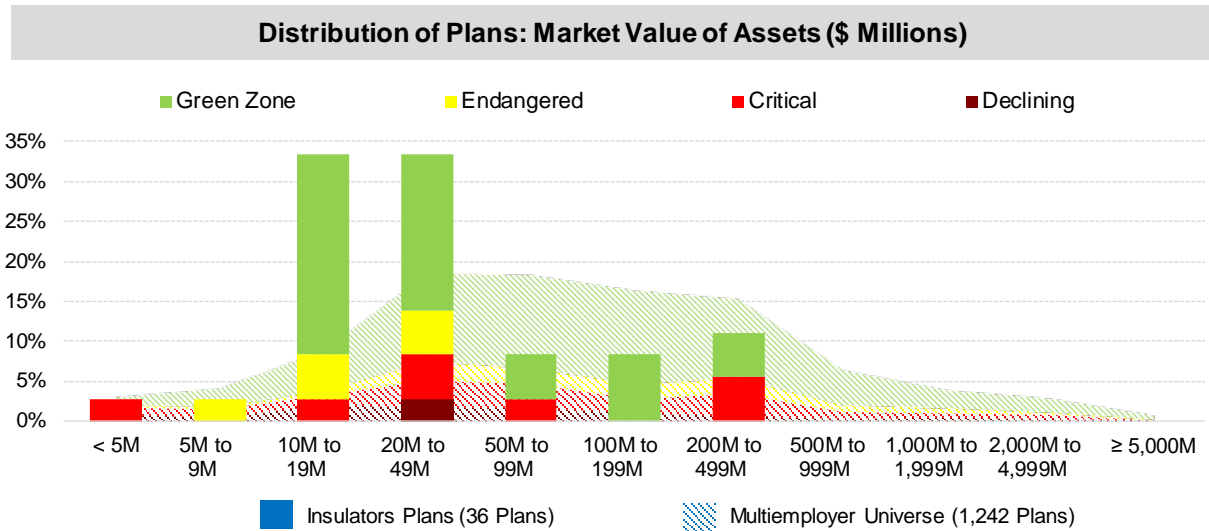
Source: Segal Consulting analysis of Form 5500 data for plan years ending in 2016. Zone status applies to plan years ending in 2017.

Multiemployer Universe: Insulator Plans Only



Source: Segal Consulting analysis of Form 5500 data for plan years ending in 2016. Zone status applies to plan years ending in 2017.

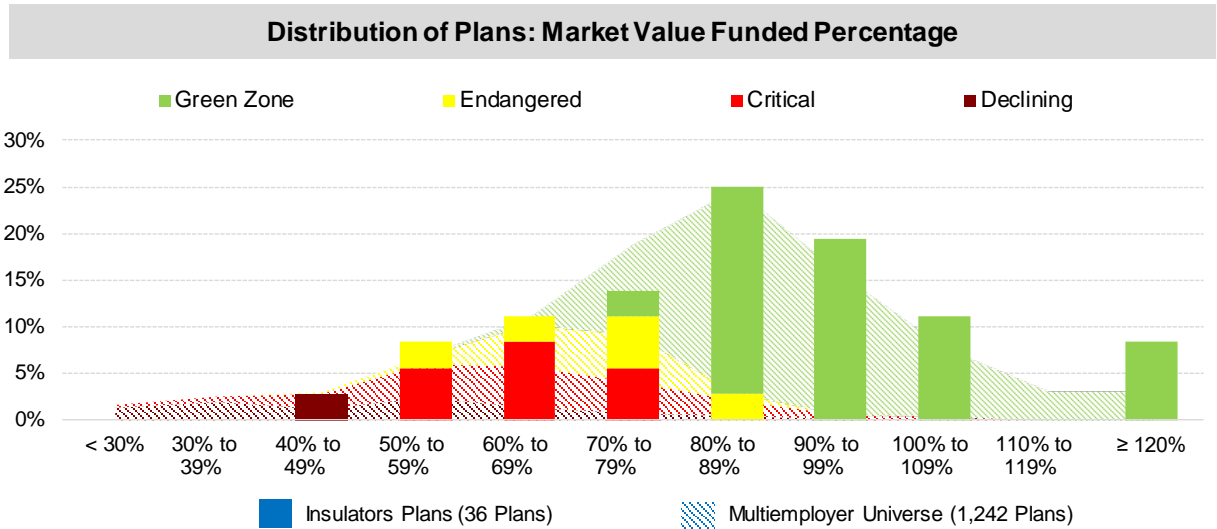
Plan Size: Asset Value



Median Results: Insulators Plans = 29M; Multiemployer Universe = 88M

Source: Segal Consulting analysis of Form 5500 data for plan years ending in 2016. Zone status applies to plan years ending in 2017.

Plan Funded Percentage



Median Results: Insulators Plans = 85%; Multiemployer Universe = 82%

Source: Segal Consulting analysis of Form 5500 data for plan years ending in 2016. Zone status applies to plan years ending in 2017.



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Multiemployer Pension Plan Amendments Act of 1980 (MPPAA)

Introduced the Concept of Withdrawal Liability

- Employer leaving a multiemployer pension plan assessed share of plan's unfunded vested benefits
- Only an obligation once employer withdraws

What is a withdrawal?

- Employer ceases to have an obligation to contribute
- Employer permanently ceases operations covered by plan

Construction Industry Rules

- Withdrawal occurs only if employer continues (or within five years resumes) same type of work in area covered by plan, without again agreeing to contribute



Multiemployer Pension Plan Amendments Act of 1980 (MPPAA)

Allocates Unfunded Vested Benefit (UVB) Liability

- Present value of vested benefits only
- Compared to value of assets

Core Principle: UVBs are allocated in proportion to a withdrawn employer's participation in the plan

Allocation Methods

Presumptive Method

- Each year's change in UVB creates a “pool” of liability
 - Pools can be positive or negative
- Each pool is allocated among employers that contributed during year pool was created
 - Pools allocated based on contribution history over 5 years
- Pools written down 5% per year from inception
 - Maximum of 20 pools can apply
- **Only method available to construction industry plans**

Others

- One Pool
- Direct Attribution

Presumptive Method

Example

Develop the Pools of Liability for Each Year

		Pools (\$ Millions)			
12/31:	Plan Wide UVB for W/L	2014	2015	2016	2017
2014	\$100.0	\$100.0	\$95.0	\$90.0	\$85.0
2015	\$90.0	N/A	-\$5.0	-\$4.75	-\$4.5
2016	\$120.0	N/A	N/A	\$25.25	\$24.99
2017	\$90.0	N/A	N/A	N/A	-\$15.49
Total		\$100	\$90	\$120	\$90

Presumptive Method

Example (cont.)

Allocate the Liability Pools

Presumptive Method					
	5-Year Contributions (\$ Millions)		Percentage	For a 2018 Withdrawal (\$ Millions)	
	Plan	Employer		Pools	Allocated Amount
2014	\$65.1	\$0.7	1.08%	\$85.0	\$0.91
2015	\$63.6	\$0.6	0.94%	-\$4.5	-\$0.04
2016	\$63.0	\$0.5	0.79%	\$24.99	\$0.20
2017	\$62.0	\$0.4	0.65%	-\$15.49	-\$0.10
					\$0.97

De Minimis Deductible

- Withdrawal liability is waived if employer's UVB allocation is less than the lower of:
 - 0.75% of plan's UVB, or
 - \$50,000
- If the allocation is between \$50,000–\$150,000, withdrawal liability is reduced
- Plan may increase these amounts to \$100,000 and \$250,000, respectively



DeMinimis Amount

Example

Subtract from Allocated Amount of UVB Amount

Allocated Amount	DeMinimis Amount
<\$50,000	Allocated Amount
\$50,001 – \$100,000	\$50,000
\$100,001 – \$150,000	\$50,000 minus excess over \$100,000
>\$150,000	\$0

Example:

- Allocated Amount = \$120,000
- DeMinimis = \$50,000 - \$20,000 = \$30,000
- Withdrawal Liability = \$120,000 - \$30,000 = \$90,000

New Rules

Critical Status Plans (PPA'06):

- Benefit reductions disregarded for purposes of determining withdrawal liability
- Surcharges disregarded in determining allocation of UVBs (except if using attributable method)
- PBGC simplified method in Technical Update 10-3
 - Essentially, add the employer's share of unamortized (over 15 years) balance of benefit reductions back into calculation

MPRA provides that contribution increases required to meet terms of a Funding Improvement Plan or a Rehabilitation Plan that go into effect after December 31, 2014, are disregarded in:

- Allocating the UVB
- Highest contribution rate for the payment schedule

Payment Amount

Uses highest contribution rate, and highest 3-consecutive year contribution base units in last 10 years

Example:

Year:	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Hours:	31,200	35,360	39,520	37,939	36,421	34,964	33,565	32,222	30,933	29,696
Rate:	\$1.00	\$1.05	\$1.10	\$1.10	\$1.15	\$1.20	\$1.25	\$1.25	\$1.35	\$1.40

- Highest 3-consecutive year average (2010–2012) = 37,960
- Highest contribution rate = \$1.40
- Annual payment amount = 37,960 x \$1.40 = \$53,144
- NOT a function of Allocated Amount
- 20-year cap on payments

Assumptions and Methodology

MPPAA stipulates that PBGC may promulgate regulations regarding the determination of UVB

- 38 years later—no regulations

“Actuary’s best estimate” applies

- “Funding assumptions” and “Segal Blend” commonly used assumptions
- “Segal Blend” recognizes that Withdrawal Liability is a settlement of the withdrawing employer’s obligation
 - All risks are transferred from the withdrawing employer to continuing employers
- Uses a blend of PBGC interest factors and long-term valuation discount rate compared to market value of assets

Important Principle Liabilities Never “Escape”

Deductibles, uncollectible withdrawal liability, and amounts forgiven due to 20-year payment cap, remain as unfunded and must be reallocated to remaining employers

- Each of the liability allocation formulas includes a formal reallocation process





NIA's 63rd Annual Convention
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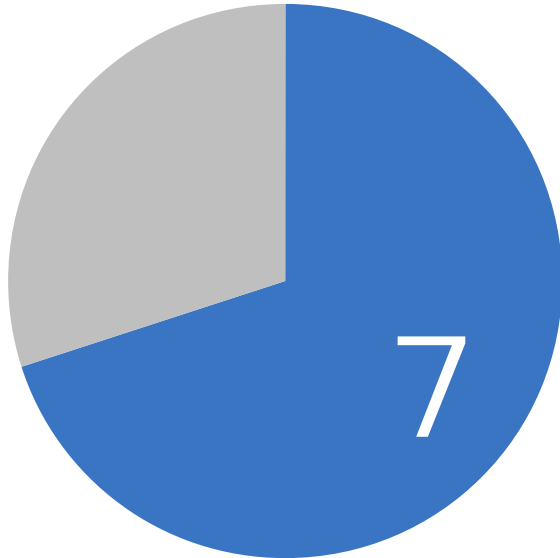
“Free Look”

Optional tool to help recruit new employers
Allows an employer that contributes no more than 5 years (or vesting period, if shorter) to withdraw without liability, if:

- Assets to benefit payments = 8:1 when it joined
- Employer's contributions were less than 2% of the total each year
- Plan provides for cancellation of pre-participation benefit credit on withdrawal



Partial Withdrawal



Decline in an employer's contribution base units (e.g., hours worked) that persists over a sustained period of time

- An 8-year period must elapse
- Sharp declines usually either become complete withdrawals or recover before a partial withdrawal occurs
- Special Construction Industry Rule
- Partial withdrawal if employer contributing only for “an insubstantial portion” of its continuing work in the area



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Actuarial Assumptions

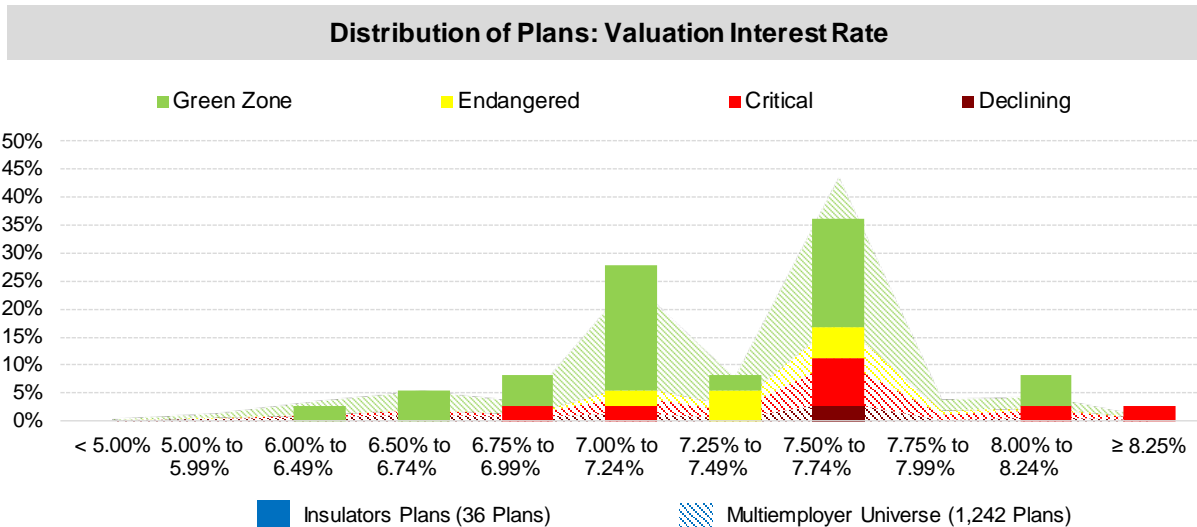
Demographic Assumptions

- When benefits will be payable:
 - Retirement
 - Turnover
 - Disability
 - Mortality
- Amount of benefits
 - Annual accruals
 - Payment forms

Economic Assumptions

- How assets grow:
 - Investment return
 - Average contribution hours

Investment Return Assumption



Median Results: Insulators Plans = 7.25%; Multiemployer Universe = 7.50%

Source: Segal Consulting analysis of Form 5500 data for plan years ending in 2016. Zone status applies to plan years ending in 2017.



Thank You!

