# Milliman analysis shows a sharp decline in multiemployer plans' funded ratio from 91% to 80% in the first half of 2022. The funded ratio would have been 79% without the Special Financial Assistance (SFA) under the American Rescue Plan (ARP) Act of 2022

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Milliman's mid-year 2022 Multiemployer Pension Funding Study is an interim update to our annual study published in the first quarter of the year. This study updates the estimated funded status of U.S. multiemployer defined benefit (DB) plans as of June 30, 2022, showing the change in funding levels from December 31, 2021.

## Key findings

- The estimated investment return for our simplified portfolio for the first six months of 2022 was about -12.3%.
- The aggregate market value funded percentage for multiemployer plans is estimated to be 80% as of June 30, 2022, down from 91% at the end of 2021.
- The $6.7 billion in SFA under ARP that has been paid through June 30 has increased the aggregate funded percentage by about 1%.
- In total, the Pension Benefit Guaranty Corporation (PBGC) estimates $74 billion to $91 billion in SFA will be paid, with a median estimated payout of $82 billion.

## Current funded percentage

Figure 1 shows that the funding shortfall for all plans rose by about $85 billion for the six-month period ending June 30, 2022, resulting in a decrease in the aggregate funded percentage from 91% to 80%.

**FIGURE 1: AGGREGATE FUNDED PERCENTAGE (IN $ BILLIONS)**

| | 12/31/2021 | 6/30/2022 | Change |
|---|---|---|---|
| Accrued benefit liability | $761 | $771 | $10 |
| Market value of assets | 692 | 617 | (75) |
| Shortfall | $69 | $154 | $85 |
| Funded percentage | 91% | 80% | (11)% |

Based on plans with complete IRS Form 5500 filings. Includes 1,216 plans as of December 31, 2021, and 1,213 plans as of June 30, 2022.

The liabilities in Figure 1 are projected using discount rates equal to each plan's actuarial assumed return on assets, which generally falls between 6% and 8%. The weighted average assumption for all plans is about 6.8%.

The assets in Figure 1 are based on each plan's most recently reported market value of assets, projected forward assuming asset returns observed for a diversified portfolio typical for a U.S. multiemployer pension plan. Our simplified portfolio earned about -12.3% in the first six months of 2022, ending the surge in investment performance since March 2020. The loss is nearly 16% because plans expected to return 3.4%, half of the assumed 6.8% per year.

The amounts in Figure 1 reflect the $6.7 billion of SFA paid to eligible plans by the PBGC as of June 30, 2022. The PBGC estimates the median total SFA payout will be about $82 billion, all of which is expected to be paid by 2027. If all estimated SFA was included in the market value of assets as of June 30, 2022, the aggregate funded percentage would increase from 80% to 91%. However, this estimated impact of SFA does not factor in the variability and timing of the amount and assumes no changes in plan liability measurements. The amount of future SFA will depend on market conditions at the time eligible plans apply for SFA, and the timing of SFA payments will vary. The amounts in Figure 1 will be updated as the SFA payments are reflected in plans' reported asset values.

In addition, the study is based primarily on the 2019 Form 5500 filings, therefore the impact of COVID-19 on plan participation and contribution levels is not fully reflected. The effect of ARP and the pandemic on multiemployer plans will emerge in future studies as more information becomes available.

## Historical funded percentage

Figure 2 shows the aggregate historical funded percentage of all multiemployer plans since the end of 2007 by their current zone status. For example, the green line shows the historical funded percentages of plans currently in the green zone (without regard to their previous zone statuses). The blue dotted line represents all plans combined.

**FIGURE 2: AGGREGATE HISTORICAL FUNDED PERCENTAGE, BY CURRENT ZONE STATUS**

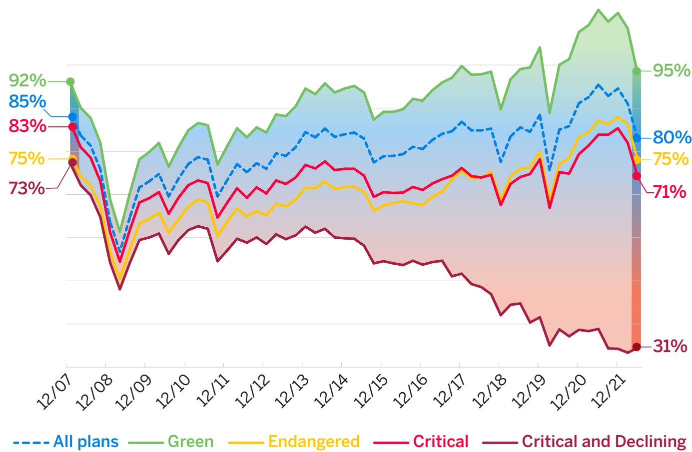


Figure 2 illustrates how the year-to-date market declines have returned most plans to pre-pandemic funding levels. Investment performance is the primary driver of funded percentage for most plans. The exceptions are plans in critical and declining status, which have seen their funded status creep downward over time despite the market's overall recovery since the 2008 global financial crisis. This is primarily due to large negative cash flows (i.e., benefit payments plus expenses exceeding contributions) that prevent recovery after market declines.

Notably, 2022 has been approximately flat for critical and declining plans due to the $6.7 billion in SFA paid so far in 2022, most of which went to these plans. Without this assistance, the funded percentage for these plans would have been about 25%.

## What lies ahead?

In July 2022, the PBGC issued its final rule on the SFA program and the IRS issued guidance related to plans that receive SFA and merge with a non-SFA plan. Plans that will benefit from the SFA are generally those that were in critical and declining status, those that received benefit suspensions under the Multiemployer Pension Reform Act of 2014 (MPRA), and some plans in critical status. Our Multiemployer Review summarizes the PBGC final rule describing eligibility for SFA, the SFA amount, how the SFA may be invested, and the conditions and restrictions that apply to plans that receive SFA.

In total, the PBGC estimates that about $82 billion in assistance will be paid to over 200 plans covering more than 3 million participants. So far, the PBGC has paid $6.7 billion of SFA through June 30, 2022. Most eligible plans must wait to apply for SFA until March 11, 2023.

While most plans will continue to be influenced primarily by investment returns, the key factor impacting the future funded percentage of critical and declining plans will be the amount of SFA they receive and how that is managed over time. We expect the continued infusion of SFA will immediately improve the funded status of these plans, at which point future investment performance will again be more meaningful. However, these plans will continue to face challenges. SFA amounts are generally projected to extend solvency until 2051, but how well assets perform relative to projections will determine whether that goal is met. While there are no constraints on how non-SFA assets can be invested, SFA assets are required to be invested largely in investment-grade fixed income securities, with up to 33% invested in return-seeking assets.

While everyone continues to navigate the new normal that includes COVID-19, uncertain market conditions are creating serious headwinds that threaten the funding for all plans.

**ABOUT THIS STUDY**

The results in this study were derived from publicly available Internal Revenue Service (IRS) Form 5500 data as of June 2022 for all multiemployer DB plans, numbering between 1,200 and 1,300, depending on the measurement date used. Data for a limited number of plans that clearly appeared to be erroneous was modified to ensure the results were reasonable and a sufficiently complete representation of the multiemployer universe.

Liability amounts were based on unit credit accrued liabilities reported on Schedule MB and were adjusted to the relevant measurement dates using standard actuarial approximation techniques. For this purpose, each plan's monthly cash flow, benefit cost, and actuarial assumptions were assumed to be constant throughout the year and in the future. Projections of asset values to the measurement date reflect the use of constant cash flows and monthly index returns for a simplified portfolio composed of 21.9% U.S. stocks, 10.7% international stocks, 10.8% global equity, 27.8% U.S. fixed income, 1.2% global or international fixed income, 1.0% cash, 10.1% private equity, 6.8% real estate equity, and 9.7% alternative investments. This asset portfolio is the average asset mix as of September 30, 2021, for the top 1,000 union-defined benefit plans, as reported in the February 14, 2022, issue of Pension & Investments.

Significant changes to the data and assumptions could lead to much different results for individual plans but would likely not have a significant impact on the aggregate results or the conclusions in this study.

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