Milliman analysis shows aggregate funding levels are nearing 100% due to asset gains in 2024 and special financial assistance

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Milliman's December 2024 Multiemployer Pension Funding Study reports on the estimated funded status of all U.S. multiemployer defined benefit (DB) plans as of December 31, 2024.

KEY FINDINGS

- The aggregate funded percentage for all multiemployer plans was 97% as of December 31, 2024, up from 89% at the end of 2023.
- Our assumed asset portfolio earned approximately 10% for 2024.[1]
- As of December 31, 2024, 102 plans[2] have received nearly $70 billion in special financial assistance (SFA) under the American Rescue Plan Act of 2021 (ARP), which has added 8% to the aggregate funded percentage since the SFA program's inception.
- The latest Pension Benefit Guaranty Corporation (PBGC) median estimate is that the SFA program will pay a total of about $80 billion to 198 plans.[3]

Current multiemployer pension funded percentage

Figure 1 shows that the overall funding shortfall for all plans improved by about $64 billion during 2024 to a total shortfall of approximately $23 billion. The aggregate funded percentage increased from 89% to 97%.

FIGURE 1: AGGREGATE FUNDED PERCENTAGE (IN $ BILLIONS)

	12/31/2023	12/31/2024	CHANGE
Accrued benefit liability	$807	$818	$11
Market value of assets	(720)	(795)	(75)
Shortfall	**$87**	**$23**	**$(64)**
Funded percentage	**89%**	**97%**	**8%**

Based on plans with complete IRS Form 5500 filings. Includes 1,207 plans as of December 31, 2023, and 1,193 plans as of December 31, 2024.

1. Individual plans' returns may have been higher or lower based on their asset allocations, asset classes, and management styles. For more information about the asset portfolio used for this study, see the section "About this study" below.
2. For this study, five of the 102 plans are of immaterial size and were excluded.
3. Pension Benefit Guaranty Corporation (2023). FY 2023 Projections Report. Retrieved February 10, 2025, from https://www.pbgc.gov/sites/default/files/documents/fy-2023-projections-report.pdf.

The amounts in Figure 1 reflect the $70 billion in SFA granted to 97 plans that received the funds by December 31, 2024, including $16 billion paid during 2024. Without the SFA program, the aggregate funded percentage would be approximately 89%.

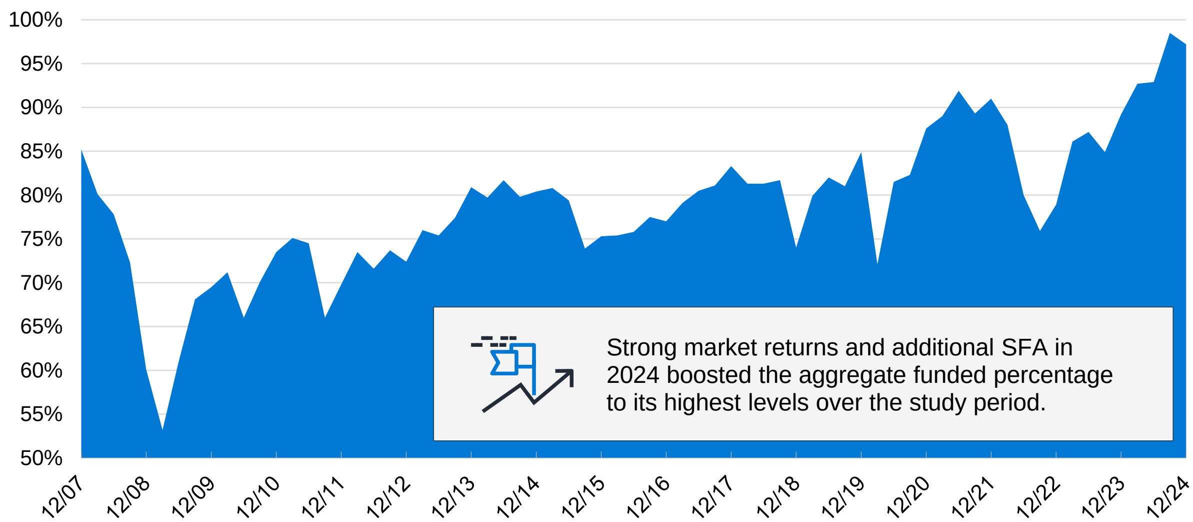
The liabilities in Figure 1 are projected using discount rates equal to each plan's actuarial assumed return on assets. Assumed returns generally fall between 6.0% and 8.0%, with a weighted average interest rate assumption for all plans of about 6.8%, an increase from 6.6% a year ago.

The assets in Figure 1 are based on the most recently reported market value of assets for each plan, projected forward assuming asset returns observed for a diversified portfolio typical for a U.S. multiemployer pension plan. Our simplified portfolio earned about 10% in 2024.

Historical multiemployer pension funded percentage

Figure 2 provides a historical perspective on the aggregate market value funded percentage of all multiemployer plans since the end of 2007.

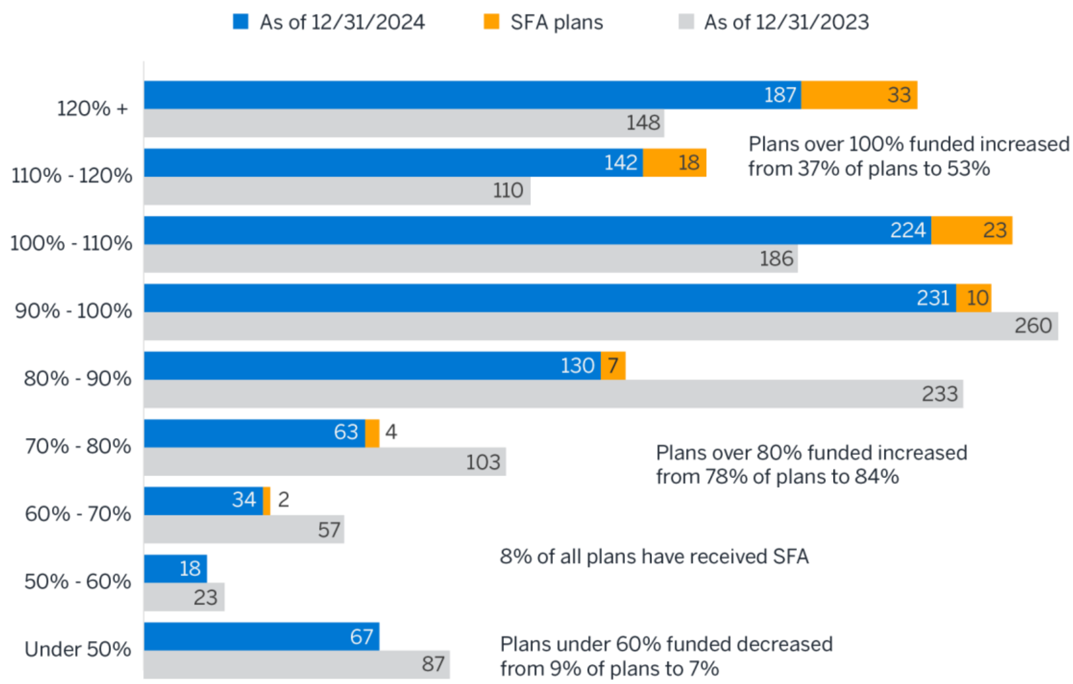
FIGURE 2: AGGREGATE HISTORICAL FUNDED PERCENTAGE - MARKET VALUE BASIS



The significant rise in the aggregate funded percentage in 2024 was largely attributable to the strong asset gains during the first and third quarters of the year. Additional SFA of $16 billion also contributed to the improvement. Despite minor asset losses in the fourth quarter, the aggregate funded percentage at the end of 2024 reached its second-highest point over the study period, marking an improvement of 44 percentage points since the first quarter of 2008. The sharp peaks and valleys of the graph underscore the significance of investment returns on the funded status of these plans.

Figure 3 shows the distribution of funded percentages for all plans in the study as of December 31, 2024.

FIGURE 3: MARKET VALUE FUNDED PERCENTAGE (%) AS OF 12/31/2024



Over half of all plans, 53% (627 of 1,193), are 100% funded or more, and 84% (1,005) are 80% funded or better. Except for SFA plans,[4] these plans are likely in the green zone under the Pension Protection Act of 2006 (PPA). However, they still face significant risks, such as those related to economic volatility and growing plan maturity. Trustees must remain vigilant in managing these risks to keep their plans in the green zone.

At the other end, 7% of plans (85) are below 60% funded and may be headed toward insolvency. Many of these plans are likely eligible for SFA and expected to apply for it in 2025.

Figure 3 shows SFA plans with various funding levels, including 74 that are 100% funded or better. This could be attributable to several factors.

- Our study is based on the accrued liabilities and discount rate reported by each plan on its latest Form 5500 filing, which were determined by the plan's actuary at least two years ago. Plans may have used different assumptions about expected returns, future benefits, administrative expenses, and contributions when applying for SFA based on PBGC guidance. The differences in methodology, assumptions, and timing could produce SFA amounts that are higher or lower than the corresponding liability we reflect in our study. We did not make any adjustments for these differences.
- Additionally, SFA applications could include restored benefits and loan repayments to the PBGC for insolvent plans. Until a plan reports any liability adjustments after receiving SFA on its Form 5500, our study will not reflect them. These factors may result in SFA amounts that are higher than their reported liabilities, leading to funded percentages for some plans appearing over 100%.

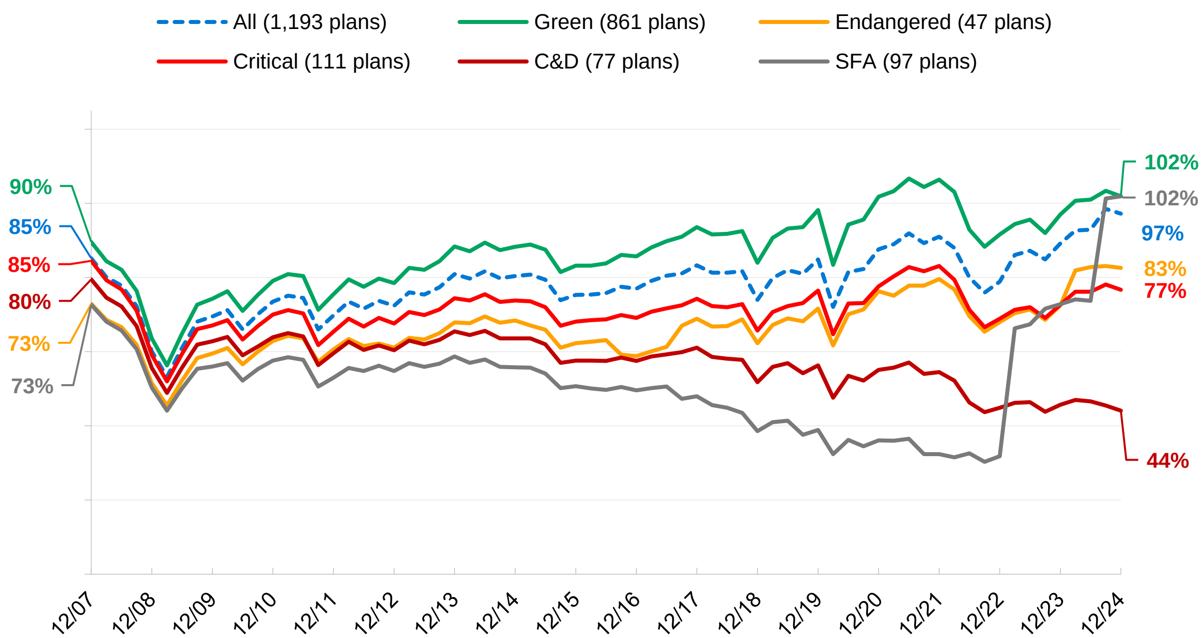
Future studies will reflect these differences when adjusted assets and liabilities are reported on future Form 5500 filings.

4. As required by ARP, plans that received SFA will remain in the red zone through the plan year ending in 2051 regardless of their funded percentage.

Historical funded percentage by zone status

Figure 4 shows the historical funded percentage of all multiemployer plans since the end of 2007 by the zone status reported on the latest Form 5500 used for the study. For example, the green line shows the historical funded percentages of plans reported in the green zone without regard to their previous zone statuses. In addition, we separately categorized plans that have received SFA by December 31, 2024. These plans are identified by the gray line. The blue dotted line represents all plans combined.

FIGURE 4: AGGREGATE HISTORICAL FUNDED PERCENTAGE BY ZONE STATUS AND SFA



Most of the 97 plans that have received SFA so far were either on the brink of insolvency or not expected to recover in the near term. As expected, after receiving SFA their funded statuses have improved substantially.

The 908 plans in the yellow and green zones have, in the aggregate, largely recovered from the 2008 global financial crisis and continue to navigate the ups and downs of the market. In contrast, the 188 plans in critical and critical and declining (C&D) status continue to face significant challenges. Many of these plans are expected to apply for SFA.

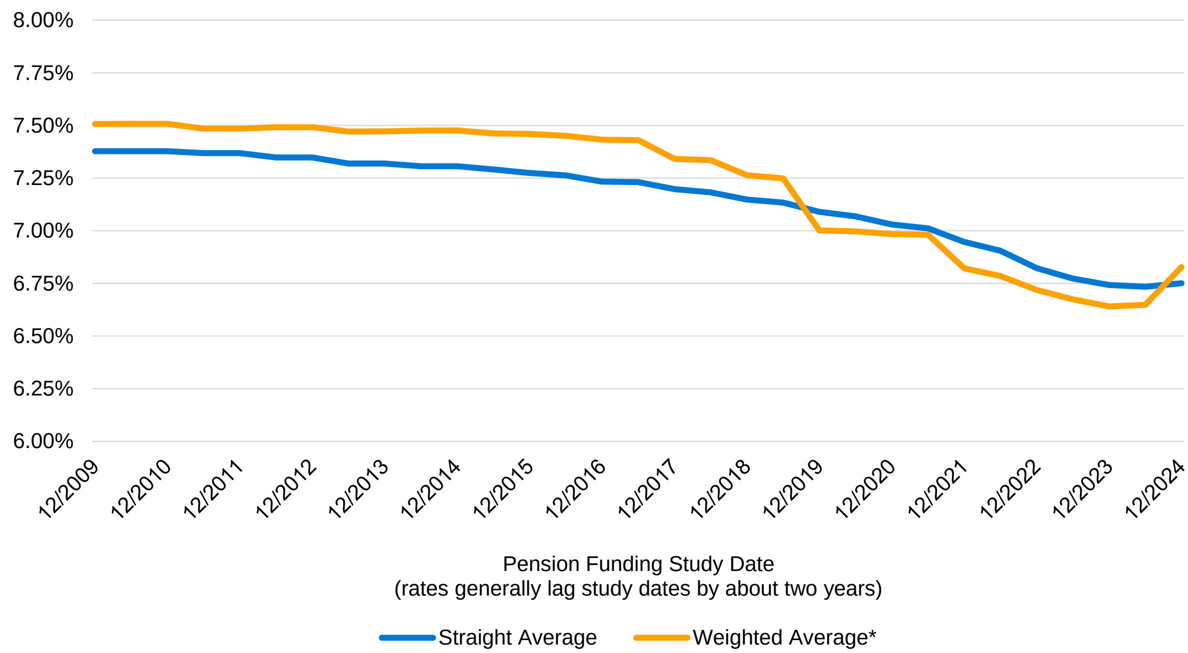
What lies ahead?

The full impact of the SFA will emerge over time and will be reflected in the study as those funds are received. Eligible plans have until December 31, 2025, to submit an initial SFA application, and any revised application must be submitted by December 31, 2026. SFA is expected to be paid to plans through 2026 and possibly into 2027. The PBGC's median estimate is that the SFA program will ultimately distribute about $80 billion to 198 plans. If the remaining estimated $10 billion of SFA were paid now, the aggregate funded status would increase to 98%.

Beyond asset returns and SFA, multiemployer pension plans can also be significantly impacted by changes in the discount rate used to measure plan liabilities.

Figure 5 shows a history of the average discount rate assumption[5] for all plans in our study.

FIGURE 5: AVERAGE DISCOUNT RATE



* The abrupt changes in the weighted average discount rate over the past several years are primarily due to changes in the discount rate for one large plan (Central States, Southeast & Southwest Areas Pension Plan).

The discount rate for each plan is typically set equal to the assumed return on plan assets. That assumption is based on the plan's asset allocation and forward-looking capital market assumptions. Up until recently, the general declines in discount rates have increased multiemployer plan liabilities, all else being equal. As expected, recent increases in general interest rates seem to be flattening out discount rates and may even increase them.

Due to reporting delays (the latest information is as of the beginning of the 2022 or 2023 plan year for most plans), we will not know what current discount rates are for a couple of years. It is difficult to predict how capital markets and asset allocations will change discount rates going forward.

Trustees and plan professionals should continue to monitor these developments and understand the impact of any potential changes on their plans.

5. Figure 5 shows the straight average discount rate (which weights each plan equally and diminishes the impact any one plan has on the overall average) as well as the average discount rate weighted by liabilities.

ABOUT THIS STUDY

The results in this study were derived from publicly available IRS Form 5500 data filed through December 2024 for all multiemployer plans, numbering around 1,200 plans. Data for a limited number of plans that clearly were erroneous was modified to ensure the results were reasonable and a sufficiently complete representation of the multiemployer universe. Such adjustments were associated with an immaterial number of plans.

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 22.2% U.S. stocks, 9.9% international stocks, 11.6% global equity, 18.2% U.S. fixed income, 0.4% global or international fixed income, 0.9% cash, 12.3% private equity, 4.0% private credit/debt, 9.7% real estate equity, and 10.8% alternative investments. This asset portfolio is the average asset mix as of September 30, 2023, for the top 1,000 union-defined benefit plans, as reported in the February 12, 2024, issue of *Pension & Investments*.

Changes to an individual plan's data or assumptions would likely not have a significant impact on the aggregate results or the conclusions in this study.

This study reports on funded percentages and levels based on one reasonable measure of funding for these plans, where liabilities are developed using each plan’s assumed return on assets as the discount rate. Other methods of measuring liabilities and funded statuses may produce different results.

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