Milliman analysis shows multiemployer pension funded status improved in first six months of 2017

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Welcome to Milliman's Fall 2017 Multiemployer Pension Funding Study, an interim update to our annual study published in the spring. This study updates the estimated funded status of all U.S. multiemployer plans as of June 30, 2017, showing the change in funding levels from December 31, 2016.

Key findings

- Multiemployer plan funding as of June 30, 2017, is nearing its best position since the market collapse of 2008.
- The aggregate funded percentage for multiemployer plans is estimated to have improved to 81% as of June 30, 2017, compared with 77% as of December 31, 2016, reducing the system's shortfall by $21 billion.
- The estimated investment return for our simplified portfolio for the first six months of 2017 was about 7.6%, far outpacing plans' investment return assumptions.
- The gap between the funded percentages of critical versus noncritical plans continues to widen.

Current funded percentage

Figure 1 shows that the funding shortfall for all plans declined by about $21 billion for the six-month period ending June 30, 2017, while the aggregate funded percentage increased from 77% to 81%. This analysis uses market asset values, which paint a clearer current financial picture than using smoothed "actuarial" asset values.

FIGURE 1: FUNDED PERCENTAGE, ALL MULTIEMPLOYER PLANS* (IN $ BILLIONS)

	12/31/2016	6/30/2017	CHANGE
LIABILITY FOR ACCRUED BENEFITS	$634	$642	$8
MARKET VALUE OF ASSETS	488	517	29
SHORTFALL	$146	$125	($21)
FUNDED PERCENTAGE	77%	81%	4%

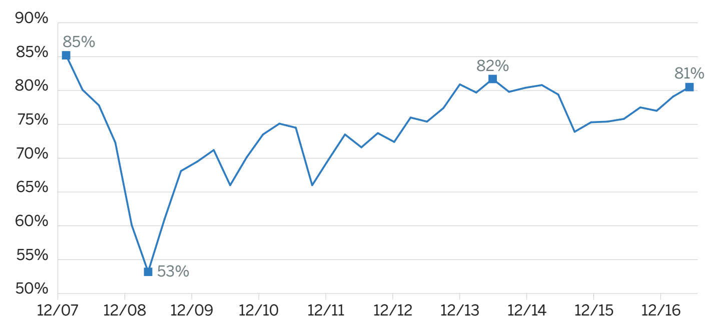
*Based on plans with complete IRS Form 5500 filings. Includes 1,290 plans as of December 31, 2016, and 1,269 plans as of June 30, 2017.

The key assumption here is the discount rate used to measure liabilities, with each plan using its actuary's assumed return on assets. Assumed returns are generally between 6% and 8%, with a weighted average interest rate assumption for all plans equal to 7.43%, consistent with our prior study.

Historical funded percentage

Figure 2 provides a historical perspective on the aggregate funded percentage of all multiemployer plans since the end of 2007 on a market value basis. In aggregate, multiemployer plan funding as of June 30, 2017, is nearing its best position since the market collapse of 2008, once again edging up to more than 80%. This recent improvement is driven largely by favorable investment returns. Our simplified portfolio earned about 7.6% in the first six months of 2017, on the heels of a 7.7% return during the 12 months of calendar year 2016. As discussed in previous studies, the funded status of these plans continues to be almost entirely driven by investment performance.

FIGURE 2: AGGREGATE MULTIEMPLOYER PLAN HISTORICAL FUNDED PERCENTAGE – MARKET VALUE BASIS

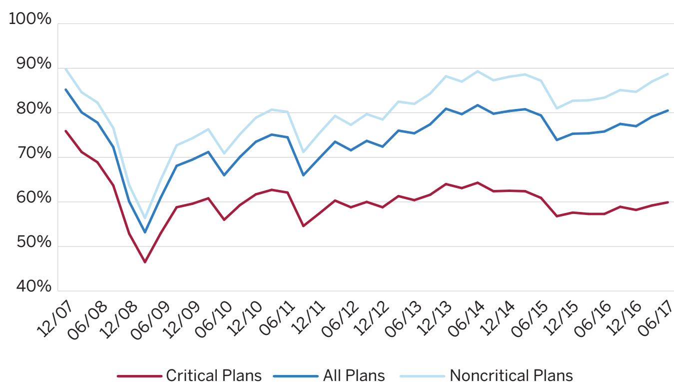


Results vary by plan

Figure 3 shows the historical funded percentage of all multiemployer plans since the end of 2007 separately for plans that are critical now (red line), plans that are not critical now (light blue line), and all plans (dark blue line). As we have noted in previous studies, the gap between the funded percentages of critical versus noncritical plans has widened considerably since the market crash. The aggregate funded percentage of critical plans remains around 60% as of June 30, 2017, while the funded percentage of noncritical plans is approaching 90% after a strong uptick in the first six months of 2017. The substantially lower asset base of critical plans (in relation to their liabilities) requires much stronger asset returns for these plans to see improvement in their funded percentages.

That fact, coupled with severe negative cash flow positions, has proven too difficult for critical plans to realize significant recovery in their funded percentages from their low points after the 2008 crash. This is evident when looking at the red line in Figure 3, which shows no appreciable increase since the end of 2009. On the flip side, the funded percentage for noncritical plans continues to improve since the crash.

FIGURE 3: HISTORICAL FUNDED PERCENTAGE SINCE 2007



What lies ahead?

Multiemployer pension plans continue to show signs of recovery, with an average funded percentage for all plans of 81%. However, the multiemployer pension plan universe continues to face significant pressures, with many of the most troubled plans on track to rely on assistance from the PBGC, which is currently facing its own dire financial issues. Healthier plans face the risk of increased PBGC premiums, and trustees for these plans need to be vigilant in monitoring financial trends and looking for ways to reduce risk exposure as their plans continue to mature.

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ABOUT THIS STUDY

The results in this study were derived from publicly available Internal Revenue Service (IRS) Form 5500 data as of August 2017 for all multiemployer 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 that the results were reasonable and were 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 comprised of 45% U.S. equities, 20% international equities, and 35% U.S. fixed income 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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