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Practical Research for Multiemployer Plans

Winter 2017

Stability in Percentage of Multiemployer Plans in the Green Zone

Latest Results of Survey of Zone Status

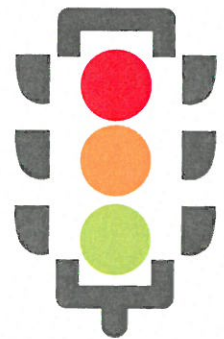
Segal Consulting's latest *Survey of Plans' Zone Status* continues to confirm that a majority of multiemployer plans — 64 percent — are in the green zone.¹ This survey summarizes results for Segal's clients with zone certifications filed in the 12 months from October 1, 2015 through September 30, 2016. The same percentage of plans were in the green zone for the previous 12-month period.

The average Pension Protection Act of 2006 (PPA'06) funded percentage has also remained stable: 86 percent for zone certifications filed in the 12-month period ending on September 30, 2016 compared to 87 percent for the 12-month period ending on September 30, 2015.

The percentage of plans in the red zone is 25 percent, with 10 percent of all plans certified as "critical and declining." It is important to note that 23 percent of all participants are in plans certified as critical and declining. These results are similar to the prior 12-month period.

About the Survey

The survey presents the most recent data available for all Segal multiemployer client plans based on zone certifications filed in the 12 months ending in September 2016. The plan data includes 376 plans covering 3.8 million participants with combined assets of nearly \$184 billion. A review of data from 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.

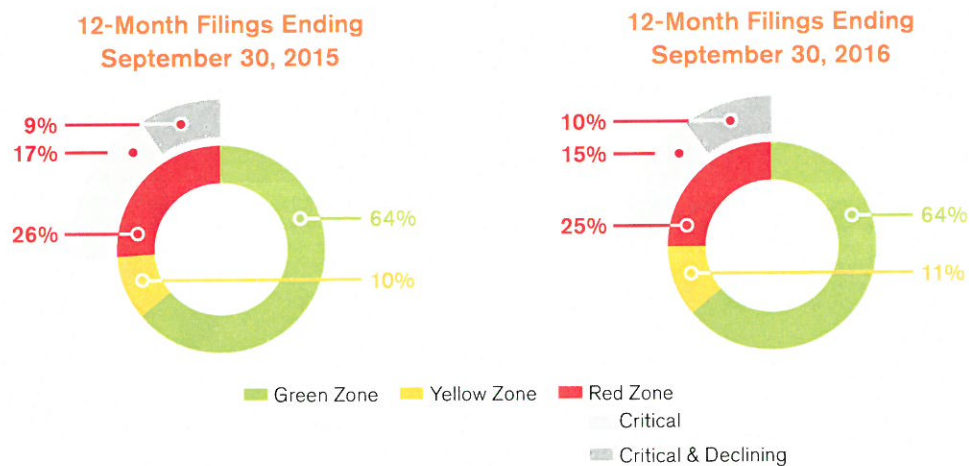


¹ Under the Pension Protection Act of 2006 (PPA'06), trustees must review projections of the financial status of multiemployer plans to identify emerging funding challenges. The plan's actuary must prepare a zone certification no later than 90 days after the beginning of the plan year. Plans that are neither endangered (the "yellow zone") nor critical (the "red zone") are considered to be in the "green zone."

Zone Status by Number of Plans Remains Stable

There has been almost no change in the zone-status breakdown of plans, with most still in the green zone. Ten percent of plans with zone certifications filed in the 12 months ending on September 30, 2016 were classified as critical and declining.

Zone Status for Plans with Certifications Filed Between October 1 and September 30 by Percentage of Plans in Each Zone



Source: Segal Consulting, 2016

Segal Observation In 2015 and the first half of 2016, investment returns fell short of expectations; the median investment return for Segal's clients with zone certifications filed in the 12 months ending on September 30, 2016 was just 0.01 percent. Despite the low returns, the number of plans in the green zone was nearly unchanged.

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Changes in Zone Status Since Prior 12-Month Period: Eight Plans Have Improved Zone Status

A zone-to-zone comparison shows eight plans that improved their zone status since the prior year zone certification filings. Two of the three plans that emerged from red to yellow are a result of the Special Emergence test introduced by the Multiemployer Pension Reform Act of 2014 (MPRA).²

Improved Zone Status by Number of Plans



Source: Segal Consulting, 2016

Segal Observation Actions to improve funded status include benefit changes and changes in contribution rates recommended to the bargaining parties. A summary of actions taken by trustees is shown on page 8.

Five plans moved from the green zone into the yellow zone, in part reflecting the adverse investment experience of the past 12 months.

Diminished Zone Status by Number of Plans



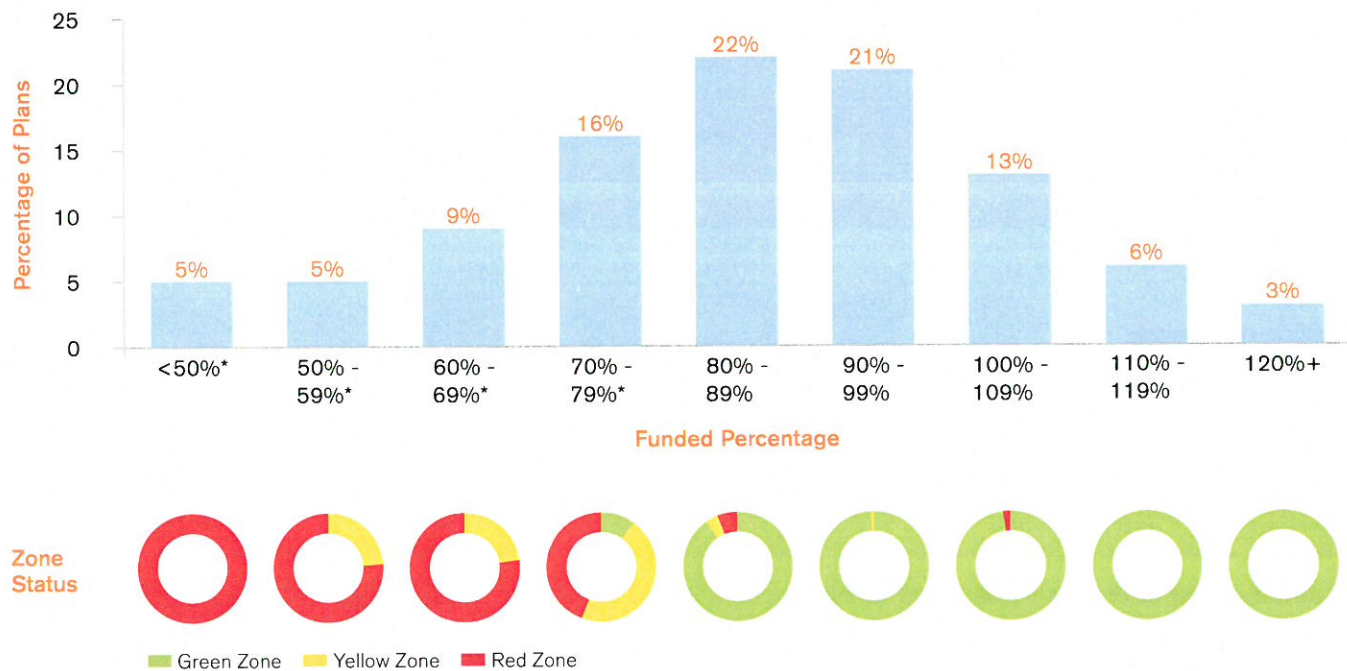
Source: Segal Consulting, 2016

² MPRA introduced a Special Emergence rule for certain plans in critical status to allow recognition of a 431(d) amortization extension in projecting the Funding Standard Account.

Funded Percentage and Zone Status

The average funded percentage is 86 percent for plans with certifications filed in the most recent period, while the lowest funded percentage is 18.4 percent and the highest funded percentage is more than 300 percent.

Zone Status for Plans with Certifications Filed Between October 1 and September 30 by PPA'06 Funded Percentage



* A funded percentage less than 80 percent is one of the primary criteria for determining yellow-zone status. However, under MPRA, a plan may have a funded percentage less than 80 percent and still be in the green zone if no corrective actions would be required by a Funding Improvement Plan.

Source: Segal Consulting, 2016

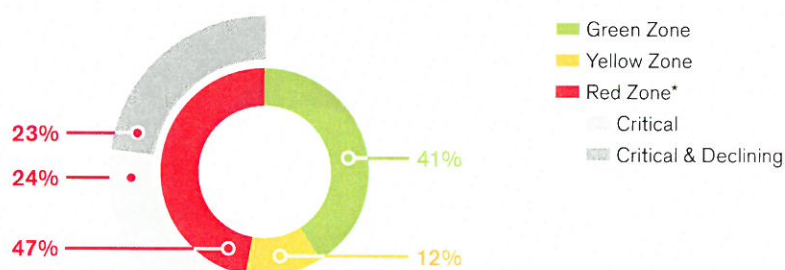
Segal Observation No single measurement is sufficient to determine a plan's zone status under PPA'06, as demonstrated by plans with relatively high funded percentages that are in the red or yellow zones.

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A Majority of Participants Are Not in Red-Zone Plans

More than three-quarters of participants are in plans that are *not* in critical and declining status. The nearly one-quarter of participants in critical and declining plans (approximately 870,000 of the 3.8 million participants in the survey) are at risk of losing benefits if their plans become insolvent.

Zone Status for Plans with Certifications Filed Between October 1 and September 30 by Percentage of Participants in Each Zone



* More than half of the 47 percent of participants who are in red-zone plans are in five plans.

Source: Segal Consulting, 2016

Segal Observation MPRA provides additional corrective options for plans in critical and declining status. Specifically, these plans are eligible to apply for benefit suspensions,³ partitions and Pension Benefit Guaranty Corporation (PBGC) financial assistance for mergers so that participants' benefits are preserved to the maximum extent possible.⁴

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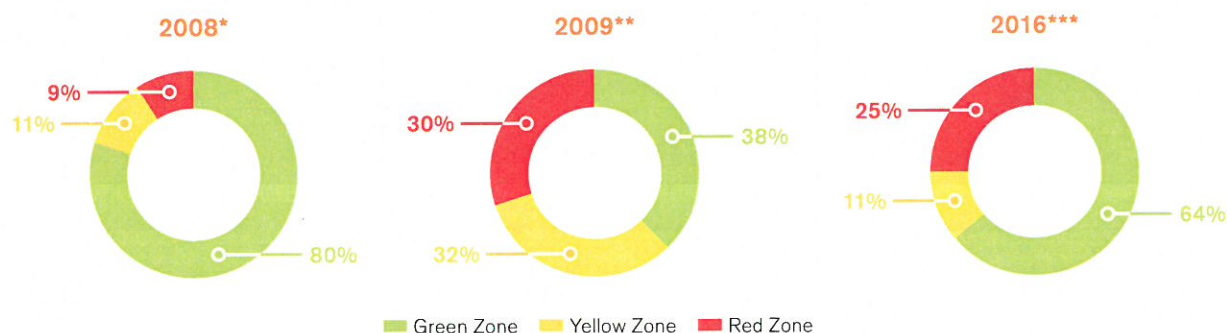
³ Suspension refers to the temporary or permanent reduction of a portion of accrued benefits. For information about those conditions, refer to Segal's December 2014 *Bulletin*, "[Multiemployer Pension Reform Passed by Congress Expected to Become Law](#)."

⁴ The Treasury Department's website has an [Applications for Benefit Suspension](#) page that lists all applications and details about each one, including their current application status.

Looking Back: Zone-Status Data Since 2008

Between 2008, when the first zone certifications were filed, and 2009, after the market downturn and subsequent recession, the share of green-zone plans fell dramatically from a large majority of all plans to 38 percent of all plans. Since 2009, the percentage of green-zone plans has improved by more than two-thirds.

Comparison of Zone Status for Three Years by Percentage of Plans in Each Zone



* The data for 2008 is for all certifications filed for plan years beginning in 2008.

** The data for 2009 is for all certifications filed for plan years beginning in 2009. The results are prior to any elections whereby trustees could elect to keep their 2008 status for 2009. After those elections are taken into account, the zone-status breakdown is 72 percent green, 12 percent yellow and 16 percent red.

*** The data for 2016 includes all plans with certifications filed in the 12-month period ending on September 30, 2016.

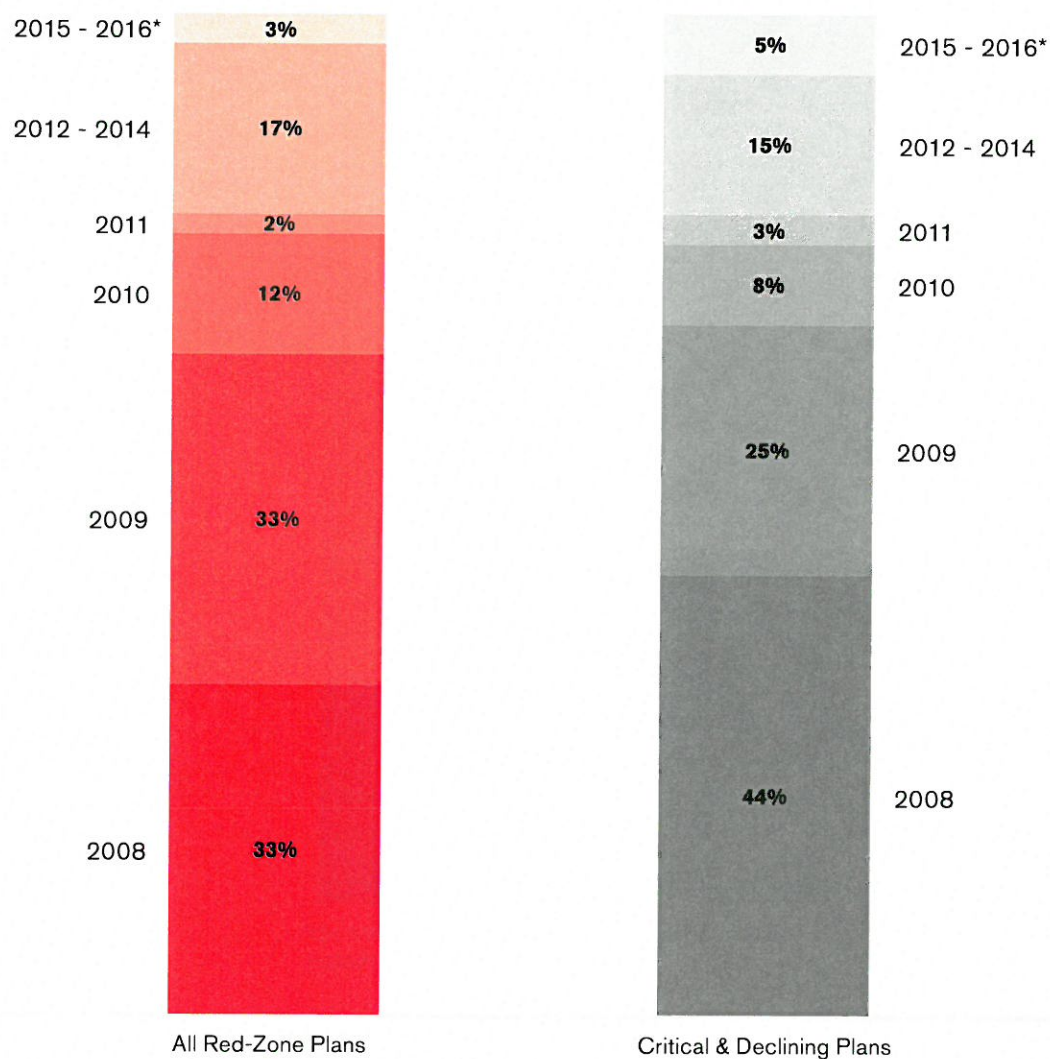
Source: Segal Consulting, 2016

Segal Observation Stability in zone status and the gradual increase in the percentage of green-zone plans over recent years is in part a result of the actions taken by multiemployer plan trustees in their Rehabilitation and Funding Improvement Plans.

Red-Zone Plans: The Two Stories

Of the 92 plans currently in the red zone, only one-third were in the red zone in 2008. Of the 36 plans that are currently also in critical and declining status, 44 percent were in the red zone when first certified in 2008. Roughly one-quarter of plans in both categories were first certified “red” after 2010, during a period in which the recovery from the 2008/2009 market downturn was slow or non-existent in many industries.

Year in Which Current Red-Zone Plans Were First Certified “Red”



* The percentages for this date range are only for 2015 because there were no new red-zone plans in 2016 in certifications filed through September 30, 2016.

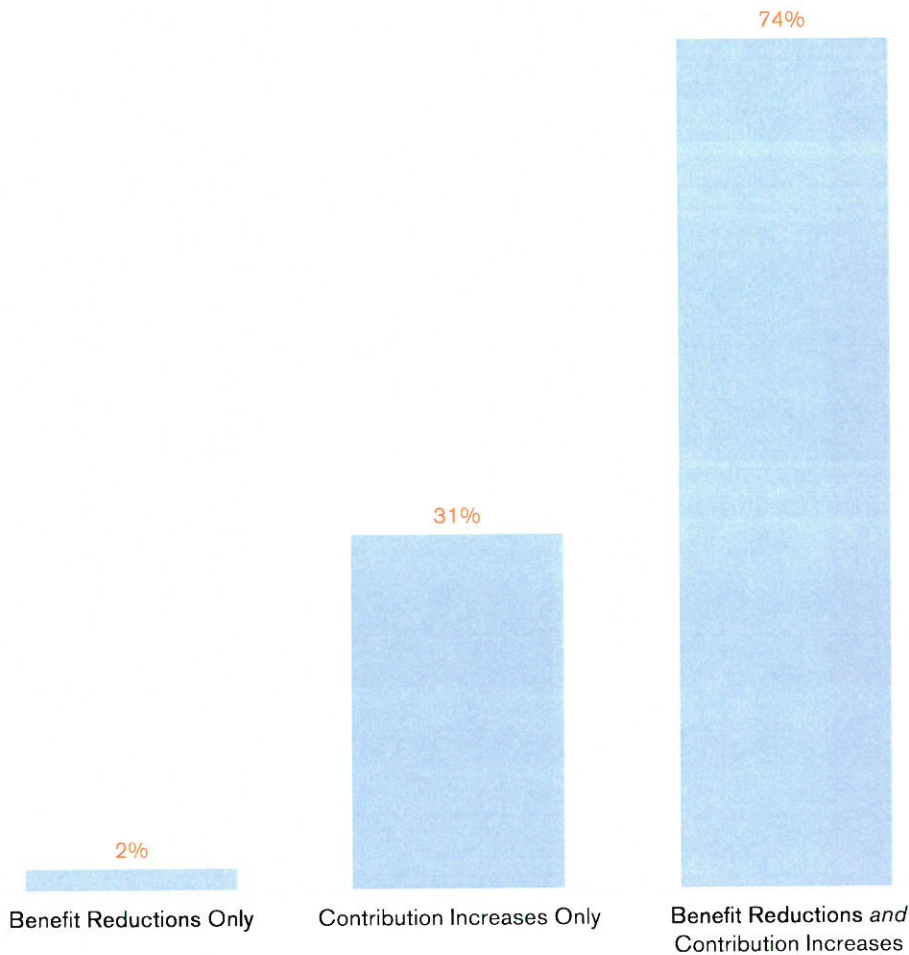
Source: Segal Consulting, 2016

Segal Observation Almost half of plans that are currently in critical and declining status were troubled *before* the 2008/2009 market crash. While most plans that became red as a result of the market downturn will eventually recover, those in critical and declining status are not likely to survive without application for and approval of benefit suspensions or partitions available under MPRA.

Looking Back: Actions Taken by Red-Zone Plans

Trustees of plans in the red or yellow zones are required to adopt formal Rehabilitation or Funding Improvement Plans. The Rehabilitation or Funding Improvement Plans adopted often require both benefit reductions and contribution increases in order to emerge from critical or endangered status. The chart below summarizes the actions taken by red-zone plans through July 2014, the most recent period for which we collected this information.

Red-Zone Plans with Benefit Reductions and/or Contribution Increases*



* All red-zone plans took some action.

Source: Segal Consulting, 2014

Segal Observation Most rehabilitation plans made benefit reductions and also called for contribution increases. It is important to note that trustees of many plans that were in the green zone both in 2008 and after the market downturn also took significant steps in order to remain in that zone.

Looking Ahead: Plans Approaching “Red” and “Yellow” and Plans Eligible to Become “Green”

MPRA requires projections for plans that are not in the red zone to determine whether the plan will be “red” 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. Of the approximately 284 Segal plans that were certified as “green” or “yellow” in the most recent 12-month period, 24 plans (8 percent) were projected to be “red” in the next five years. The trustees of four of these plans elected to be “red,” while 20 plans did not elect 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 the implementation of both a Funding Improvement Plan and, eventually, a Rehabilitation Plan. There are numerous reasons that most trustees of plans in this category do *not* elect to be “red.” One such factor is the trustees’ desire to address their projected funding challenges outside the zone framework.

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 a remedial Funding Improvement Plan normally required for a yellow-zone plan. There were six plans with zone certifications filed in the 12-month period ending on September 30, 2016 where this provision was applicable.

Your Plan and Vulnerability to Risk

The actuarial zone status certification provides an assessment of your plan as of the beginning of each plan year. In addition to meeting ERISA and PPA’06 funding requirements, we encourage all trustees to consider the risks embedded in their plans.

Looking ahead also involves the identification and understanding of risks. Examples of risk include investment risk (*i.e.*, the risk of actual returns different than assumed) and employment risk (*i.e.*, the risk that actual employment levels are different than assumed). Trustees should monitor other measures beyond the zone status, such as cash flow, contribution margins or deficits, and the impact of potential employer withdrawals, so that they can take appropriate measures to manage risks.

Your Segal consultant can provide more information about this survey. In addition, we can discuss methods available to evaluate risks and help trustees better understand their options going forward.

Trustees should monitor other measures beyond the zone status, such as cash flow, contribution margins or deficits, and the impact of potential employer withdrawals, so that they can take appropriate measures to manage risks.

Questions? Feedback? Contact Us.

If you have questions about Segal's *Survey of Plans' Zone Status*, contact your Segal consultant or Tammy Dixon, the survey expert, at 202.833.6443 or tdixon@segalco.com.

To receive *Data* and other Segal Consulting publications of interest to sponsors of multiemployer plans, [join our email list](#).

Strategic Consulting Services for Multiemployer Pension Plans

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

- Assessing risks and evaluating options for managing risk,
- Updating Funding Improvement Plans or Rehabilitation Plans to stay on target, and
- Analyzing the opportunities for benefit suspensions and partitions.

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
egreenblum@segalco.com

Andre Latia
312.984.8519
alatia@segalco.com

Joseph Shearon
602.381.4059
jshearon@segalco.com

Segal: A Trusted Advisor to Multiemployer Plans



Since our founding in 1939, Segal Consulting has been a trusted advisor to multiemployer benefit funds. Working with hundreds of multiemployer plans enables us to understand and provide innovative, cost-effective solutions to the challenges facing funds. Our unbiased, objective advice allows funds to make decisions in the broader context of other multiemployer plans. In addition, our ability to aggregate multiemployer data from our extensive client base enables us to determine trends and offer timely advice on emerging developments. In addition to pension consulting, we provide the following services:

- Defined contribution plan consulting,
- Health and welfare plan consulting for active and retiree coverage, including pharmacy benefit management,
- Compliance consulting,
- Participant communications, including personalized statements,
- Administration and technology consulting, and
- Insurance brokerage services for fiduciary liability insurance, fidelity bonds and cyber liability insurance through [Segal Select Insurance Services, Inc.](#)

We are the only firm with a national commitment to the multiemployer environment. We are actively involved with multiemployer legislation and research and work closely with industry advocacy groups. In working with us, you will have access to professionals who have deep multiemployer subject matter experience and can bring the full resources of Segal to help address your issues.

