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Trusted Advice for Multiemployer Plans

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Identifying Retirement Plan Risk

An Important First Step to Managing It

All professionals involved with retirement plans, whether they be defined benefit (DB) or defined contribution (DC), look to measure and, to varying degrees, manage "risk." Pension actuaries, investment advisors, recordkeepers and auditors understand that no matter how carefully investment and contribution strategies are designed, there is inherent uncertainty associated with every benefit program over time that cannot be avoided. As the leading actuaries and consultants to multiemployer plans, Segal Consulting knows this widespread interest in risk needs to be put in context. One of the primary reasons multiemployer retirement plans were established was to protect workers and employers in an industry and mitigate hazards by pooling large groups of employees from different employers. The collaborative labor-management structure at the heart of multiemployer plans assures that the interests of all stakeholders are taken into account. These unique characteristics of multiemployer plans have contributed to their strength, with nearly two-thirds of multiemployer plans continuing to be well-funded, despite the economic turmoil of the last two decades.

Retirement plan trustees fulfill their fiduciary obligation to participants and to the plan by understanding and exploring the ramifications of various factors that can affect a multiemployer plan. Understanding these factors (or risks) is the first step to being able to appropriately manage retirement plans — both DB plans and DC plans — in order to allow trustees to be best positioned to make decisions to achieve the specific goals of each plan.

Although we commonly perceive risk as something to be avoided, it is worth keeping in mind that there is an upside to risk. Investors who understand that duality refer to risk and reward as two sides of the same coin.

- ***Withdrawal Liability*** If a contributing employer that withdraws from a multiemployer DB plan incurs withdrawal liability, it is required to continue making payments to the plan to help continue to fund the plan's unfunded liability for vested benefits. For the remaining contributors, to the extent payments from withdrawn employers are insufficient to completely pay their allocated unfunded vested benefits, they may have to increase contributions in order to fund any shortfall created by the withdrawing employer.
- ***Accounting*** The Financial Accounting Standards Board and/or the American Institute of Certified Public Accountants can change accounting and disclosure requirements for DB plans or the companies sponsoring them. Rating agencies, like Moody's and Standard & Poor's, can change their approach to taking into account an employer's contribution commitments to multiemployer plans in their ratings of the company's creditworthiness.

Risks Unique to DC Plans

Less familiar risks associated exclusively with DC plans include the following, all of which can increase costs and lead to lower investment returns for the participants:

- ***Participation*** In multiemployer DC plans that allow participant contributions, this refers to the extent to which participants actively participate — or do not participate — in their plan. Lack of participation, or participation at too low of a contribution rate, will reduce the amount of income accumulated at retirement for a given individual. Moreover, a plan with fewer active participants has a smaller group over which to allocate administrative expenses.
- ***Vendor Management and Communications*** A well-functioning team of vendors, including recordkeepers, investment managers, consultants and legal counsel, will theoretically maximize returns and minimize expenses. Lack of communication can result in participants not fully understanding the value of the plan's benefits. Additionally, vendors that do not work well together increase the likelihood of administrative errors and duplication of expenses.
- ***Investment and Administration Fees*** Plan fees that are too high, are allocated inequitably or are not sufficiently transparent produce an inefficient program and, ultimately, lower net investment returns and the retirement benefit for participants.

Identifying Risks Is the First Step to Managing Them

When reviewing retirement plan risk, it is important not to lose sight of the fact that multiemployer plans continue to be a great way to provide retirement benefits because they share risks among all stakeholders. Risk sharing is one of the main reasons why these plans were established in the first place. Over the years, management of these risks has become more challenging.

Knowing a multiemployer fund's risk exposure is only the first step in the process of managing risk. Once the risks have been identified and thoroughly explored, the next step is to understand the tools available to help measure and manage them.

The next publication in this series will focus on quantifying retirement plan risk, including tools to help trustees analyze risk. As the publications are released, they will be accessible from the Managing Pension Risk page on Segal's website.

Questions? Feedback? Contact Us.

To discuss how Segal Consulting can help you identify the risks associated with your fund's defined benefit and defined contribution retirement plans, contact your Segal benefits consultant, or one of the experts listed below.

Strategic Consulting Services for Multiemployer Retirement 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 the appropriate strategies for maintaining and enhancing benefit security. Our strategic consulting services for multiemployer pension plans include the following:

- Performing forward-looking projections of the plan's funded status,
- Updating current Funding Improvement Plans or Rehabilitation Plans to stay on target,
- Investigating the potential for benefit suspensions and partitions, and
- Assessing risks and evaluating options for reducing or eliminating them.

For information about these strategic consulting services, contact your Segal consultant, the nearest Segal office or one of our experts.

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Segal Consulting

Segal Understands Multiemployer Plans

Since our founding in 1939, Segal Consulting has been a trusted advisor to multiemployer benefit plans. Working with hundreds of multiemployer plans enables us to understand and provide innovative, cost-effective solutions to the challenges facing funds. We firmly believe that the "right" course of action for each client depends on many variables.

In other words, in our experience, "one size" does *not* fit all multiemployer plans. Segal helps trustees assess their plan's situation objectively. We draw on a number of projection approaches along with a risk-profiler tool, which helps trustees to narrow their choices based on their own experience and objectives.

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. We give unbiased advice to help you make decisions in the broader context of other multiemployer plans.

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