



Keeping the retirement promise

Milliman Sustainable Income Plan™ (SIP): Revolutionizing risk management for multiemployer plans

WHAT'S A RETIREMENT PLAN FOR?

Retirement plans meet the social need of securing income for people in old age. America's labor unions have a longstanding commitment to provide a reliable standard of living for members who are working—and those in retirement. This commitment is essential to attract new union workers and keep union employers competitive in the market place.

WHAT'S THE PROBLEM?

Financial market risk. In recent years, poor investment returns have resulted in plan underfunding. Correcting underfunding often requires substantial increases in employer contributions, particularly in mature plans with a high percentage of retirees.

Employers in the program have to undergo difficult renegotiations of collective bargaining agreements to secure increased funding. These increased costs can threaten the health of employers' businesses. Contribution increases may also ultimately come out of participants' pockets in the form of pay freezes for current workers and the inability to provide cost of living adjustments for retirees. In the worst cases, benefit suspensions may be required.

TRADITIONAL OPTIONS FALL SHORT

Trustees of multiemployer plans have had ample opportunity to learn from the experience of their counterparts in the corporate pension world. The overwhelming shift to DC plans was a response to contribution and funded status volatility that had threatened the viability of many corporate sponsors.

However, as the first generation of DC-only participants begins to retire, it's clear that the majority have inadequate retirement savings. While DC plans solve the contribution and funded status volatility problems for employers, this leaves participants on the hook for all major retirement risks,

including investment, interest rate, longevity, and inflation risks. The result is that many participants are vulnerable to poverty in old age.

WHAT TRUSTEES WANT

Multiemployer plan trustees have maintained their commitment to keep participants covered by DB plans. Yet, the consequences of continued market volatility can't be ignored. Many trustees are looking for a better plan design that stays fully funded in all markets, minimizes withdrawal liability, stabilizes employer contributions, and provides retirees with stable benefits.

ENTER THE SIP

The Milliman Sustainable Income Plan™ (SIP) addresses all of those needs. It's a variation on a plan design approved in 1953. In that basic design, benefits accrue as in a traditional DB plan. The benefits then move up and down based on the Fund's actual investment return. This keeps liabilities and assets in balance, and the Plan maintains 100% funding in all market conditions. However, in that design, retiree benefits routinely move up and down.

The SIP addresses the benefit volatility problem. By providing slightly smaller benefit increases when returns are particularly good, the SIP builds a reserve that is used to prevent benefit declines when investment returns are poor. Regulations published in 2014 make the SIP possible.

The SIP stays funded in all market conditions, provides lifelong increasing benefits to retirees, all with stable, predictable contribution requirements.

The SIP truly provides the best of both worlds, combining the stability and predictability of the contributions found in a DC plan along with the secure lifelong benefits of a DB plan.

BENEFITS OF THE SIP

- Remains well funded in all market conditions
- Maintains a stable contribution level from year to year
- Does not develop withdrawal liability
- Provides lifelong benefits by pooling longevity risk
- Protects against inflation
- Utilizes professional investment management to maximize returns and benefits
- Avoids inequitable risk transfer from one generation to another

THE SIP BALANCES THE RISKS

The chart shows how well plan designs compare on important features. Green squares are best, gray squares are worst. You can see that defined contribution plans do well on funding considerations while defined benefit plans do well on benefits considerations.

The SIP meets both funding and benefit needs. It is a solution that can restore the ability of multiemployer plans to provide a retirement plan that fulfills its intended mission.

COMPARING FEATURES OF DIFFERENT RETIREMENT PLANS

		PLAN TYPE		
		MILLIMAN SIP*	DEFINED CONTRIBUTION	DEFINED BENEFIT
Funding Considerations	PLAN MAINTAINS 100% FUNDING IN ALL MARKET CONDITIONS	■	■	■
	PREVENTS INVESTMENT LOSSES FROM CREATING CONTRIBUTION VOLATILITY	■	■	■
	LARGER RETURNS DUE TO PROFESSIONAL ASSET MANAGEMENT	■	■	■
Benefit Considerations	LIFELONG INCOME AND LONGEVITY POOLING PROVIDES LARGER BENEFITS	■	■	■
	DESIGNED TO PROVIDE INFLATION PROTECTION IN RETIREMENT	■	■	■
	RETIREE BENEFIT NEVER DECREASES	■	■	■

*The Milliman Sustainable Income Plan is a variation on the variable annuity plan design.

For more information:



Email
SIP@milliman.com



Milliman SIP Site
milliman.com/SIP