Milliman analysis shows flat returns through first half of 2018 have dampened funding progress

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Welcome to Milliman's Fall 2018 Multiemployer Pension Funding Study, an interim update to our annual study published in the spring. This study updates the estimated funded status of U.S. multiemployer plans as of June 30, 2018, showing the change in funding levels from December 31, 2017.

Key findings

- The estimated investment return for our simplified portfolio for the first six months of 2018 was about 0.2%, below plans' investment return assumptions.
- This has resulted in noncritical plans "giving back" some of the funded status gains made in 2017, and critical plans falling further behind.
- The aggregate funded percentage for multiemployer plans is estimated to be 81% as of June 30, 2018, down from 83% at the end of last year.
- The gap between the funded percentages of critical versus noncritical plans is widening.

Current funded percentage

Figure 1 shows that the funding shortfall for all plans increased by about $15 billion for the six-month period ending June 30, 2018, while the aggregate funded percentage decreased from 83% to 81%. This analysis uses the market value of assets, which paint a clearer current financial picture than using smoothed "actuarial" asset values.

FIGURE 1: AGGREGATE FUNDED PERCENTAGE (IN $ BILLIONS)

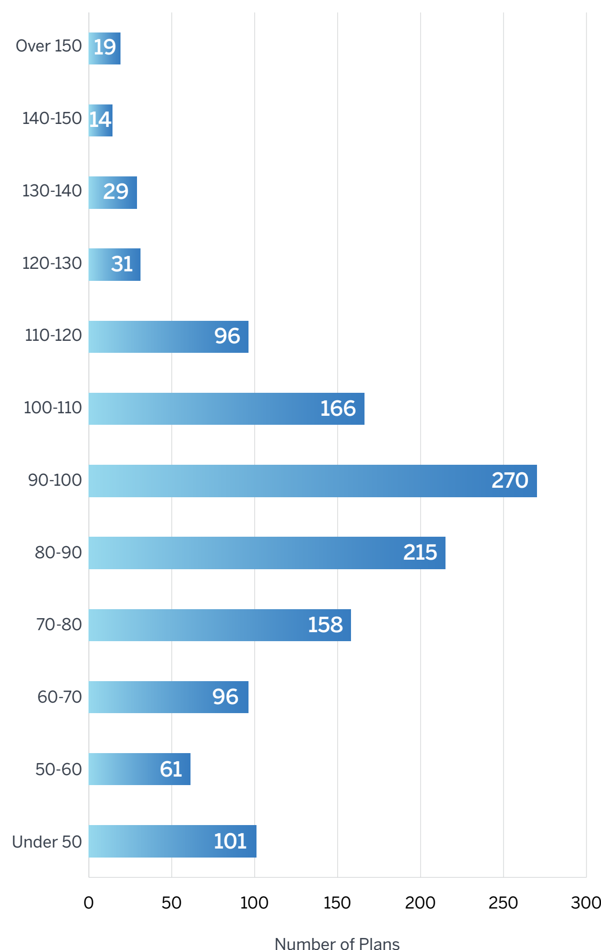
	12/31/2017	6/30/2018	Change
Accrued benefit liability	$659	$666	$7
Market value of assets	549	541	(8)
Shortfall	$110	$125	$15
Funded percentage	83%	81%	-2%

Based on plans with complete IRS Form 5500 filings. Includes 1,263 plans as of December 31, 2017, and 1,256 plans as of June 30, 2018.

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 7.33%, approximately the same as in our prior study.

Figure 2 is a distribution of funded percentages for all plans in the study as of June 30, 2018.

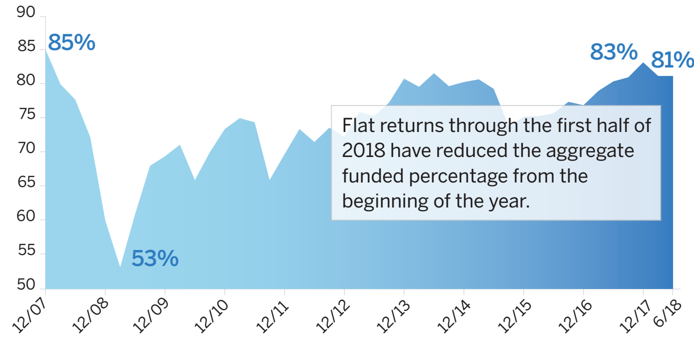
FIGURE 2: MARKET VALUE FUNDED PERCENTAGE (%)



Historical funded percentage

Figure 3 provides a historical perspective on the aggregate funded percentage of all multiemployer plans since the end of 2007.

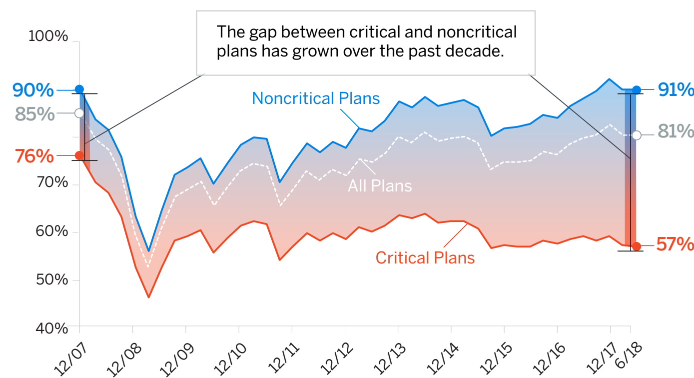
FIGURE 3: AGGREGATE HISTORICAL FUNDED PERCENTAGE MARKET VALUE BASIS



The aggregate funded percentage as of June 30, 2018 was 81%, down slightly from 83% at the end of last year. Returns have been flat through the first six months of 2018, well below the 3% to 4% assumed rate of return over that time period for most plans. Our simplified portfolio earned about 0.2% in the first six months of 2018, on the heels of a 16% return during the 12 months of calendar year 2017. As discussed in previous studies, the funded status of these plans continues to be almost entirely driven by investment performance.

Figure 4 shows the historical funded percentage of all multiemployer plans since the end of 2007 separately for plans that are critical now (red line) and plans that are not critical now (blue line).

FIGURE 4: AGGREGATE HISTORICAL FUNDED PERCENTAGE, CRITICAL VERSUS NONCRITICAL PLANS



The flat returns through the first six months of 2018 have resulted in noncritical plans "giving back" some of the funded status gains they had made during 2017. However, they remain about as well funded as they were at the end of 2007, prior to the global financial crisis. Critical plans continue to struggle as expected, with an aggregate funded percentage of 57% as of June 30, 2018, relatively unchanged over the last eight-plus years. Because these plans are generally more mature than noncritical plans, their recoveries rely heavily on realizing persistent excess investment returns over the actuarial assumption.

What lies ahead?

At the end of May, the Pension Benefit Guaranty Corporation (PBGC) released its 2017 fiscal year projections report, stating that its multiemployer insurance program is "highly likely" to be exhausted of funds by the end of fiscal year 2025, and insolvent with "near certainty" by the end of fiscal year 2026, under current law. The Congressional Joint Select Committee on Solvency of Multiemployer Plans is studying potential solutions to improve the solvency of multiemployer pension plans and the PBGC, including low-interest loans to plans in critical and declining status. Trustees of noncritical plans need to continue exploring ways to reduce risk exposure and maintain plan solvency, increasing the likelihood of staying healthy and fulfilling benefit promises to members.

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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 2018 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 the results were reasonable and 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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