MILLIMAN WHITE PAPER

Multiemployer health and welfare fund statistics: Fall 2020

Milliman analysis finds total expenses per member increased at a higher rate than total income per member for the average plan.

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This is the third annual Milliman Multiemployer Health and Welfare Study, which analyzes various financial disclosures for multiemployer health and welfare plans, also known as Taft-Hartley plans, nationwide.

This year's report includes data for 1,283 plans covering approximately 4.8 million members as of 2018, the most recent reporting year.[1]

Figure 1 summarizes financial information for these plans, based on Form 5500 filings.

Key findings:

- The average plan could pay for approximately one year and one and a half months of benefits and expenses with its net assets, an increase from last year of approximately half a month of total expenses.
- However, the amount by which total income exceeded total expenses decreased by 5.1 percentage points versus the prior year, from 10.6% to 5.5%.
- Administrative expenses represented 5.5% of total expenses, a decrease of 0.1 percentage points from the prior year.
- Total expenses per member increased by a greater rate than total income per member (3.4% vs. 1.6%), a reversal from last year's study.

FIGURE 1: AVERAGE PLAN INFORMATION SPLIT BY MEMBER COUNT

MEMBER COUNT	NUMBER OF PLANS	AVERAGE MEMBERS	AVERAGE NET[2] ASSETS (IN MILLIONS)	AVERAGE INCOME (IN MILLIONS)	AVERAGE EXPENSES (IN MILLIONS)	NET ASSETS (IN MONTHS OF EXPENSES)[3]
FEWER THAN 500	333	286	$5.0	$3.8	$3.6	16.5
500 – 2,499	601	1,205	$19.2	$16.3	$15.4	14.9
2,500 – 4,999	160	3,408	$59.0	$46.8	$44.7	15.8
5,000 – 19,999	154	9,694	$132.1	$121.8	$114.2	13.9
20,000 OR MORE	35	56,777	$559.9	$609.0	$582.9	11.5
TOTAL	**1,283**	**3,776**	**$48.8**	**$45.7**	**$43.4**	**13.5**

[1] Member counts include only active employees, retirees, and surviving spouses and exclude covered spouses, children, and other dependents. This applies to Figure 1, as well as throughout the report.

[2] Note that net assets in Figure 1 are defined as total assets minus liabilities.

[3] Also referred to as "Continuation Value," which is how many months of expenses a plan could pay without any additional contributions or income.

Fund capitalization statistics

Figure 2 groups plans by net assets (surplus) measured in terms of months of total expenses (that is, how many months of total expenses could be paid using only net assets). For example, if a plan's net assets at the end of its plan year are equal to its total expenses for the year, the plan would be able to continue paying benefits for 12 months, even if all contributions and other income ceased and expenses remained unchanged from the prior year.

This year's study found there were 258 plans (20.1% of total plans) holding assets that were less than six months of total expenses as of the end of their 2018 plan years, while 254 plans (19.8% of total plans) held assets that were more than 24 months of total expenses. Last year, 21.7% of plans held assets that were less than six months of total expenses, while 19.7% of total plans held assets that were more than 24 months of total expenses. For the second straight year, there was a decrease in the percentage of plans holding assets of less than six months of total expenses and a corresponding increase in the percentage of plans holding assets of more than 24 months of total expenses. The percentage of plans whose assets were between six and 24 months of total expenses increased slightly compared to 2017, indicating an overall increase in fund capitalization (from 13.1 months of total expenses to 13.5 months).

FIGURE 2: NUMBER OF PLANS BY NET ASSETS (SHOWN AS MONTHS OF TOTAL EXPENSES)

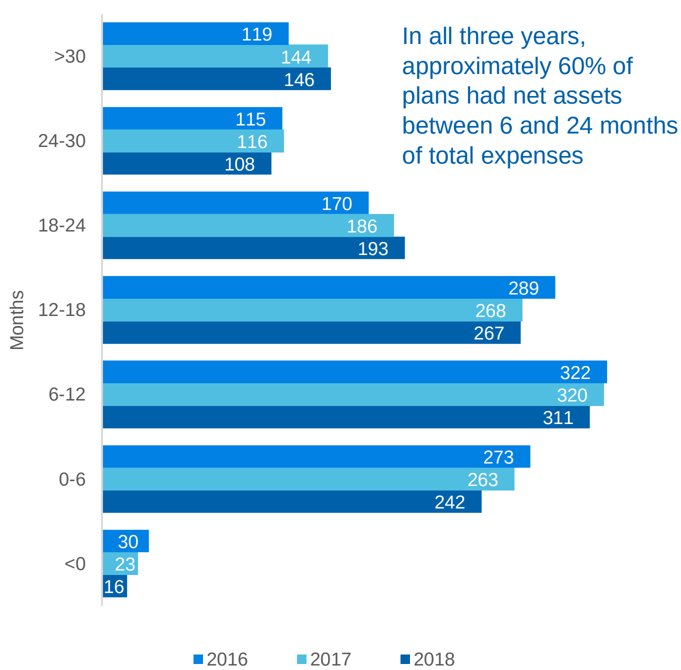
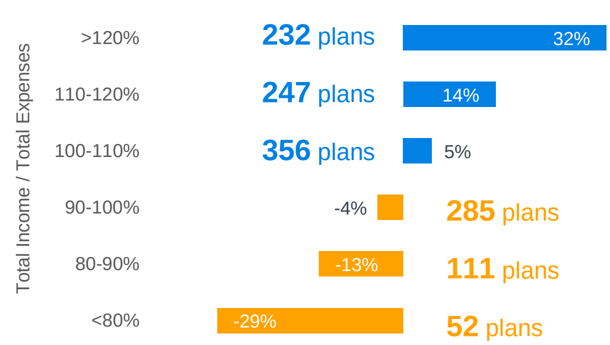


Figure 3 groups plans by total income over total expenses on a percentage basis, with each bar representing the average gain/(loss) by subgroup**.** Total income over total expenses reflects the excess/(shortage) of income versus expenses. For example, if total income is greater than total expenses, the plan is building surplus (increasing net assets). There were 448 plans (34.9% of total plans) that dipped into their net assets in 2018 (i.e., had a loss for the year), while 830 plans (64.7% of total plans) increased net assets (i.e., had a gain for the year), and five plans that covered total expenses exactly for the year. This is a negative shift of approximately 8.3 percentage points from the prior year, when 26.5% of total plans had a loss for the year while 73.0% of total plans had a gain for the year. While there was a reduction in the percentage of plans that experienced a gain in net assets from 2017 to 2018, in the aggregate income continued to exceed expenses (by approximately 5.5% in 2018).

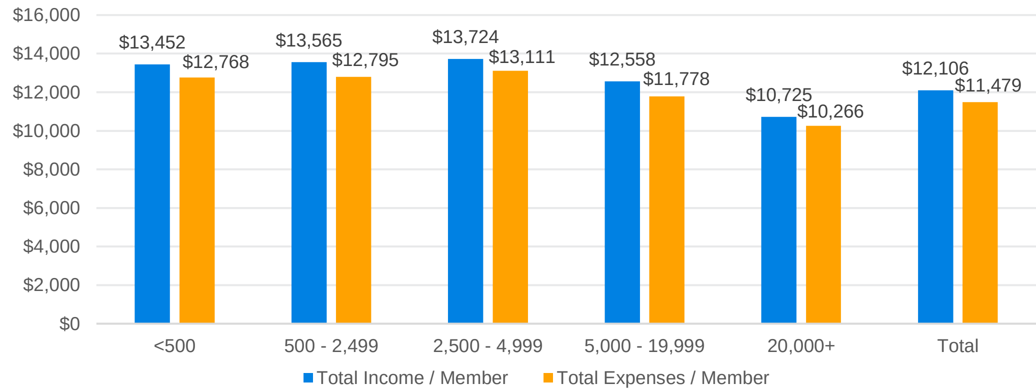
FIGURE 3: AVERAGE GAIN OR LOSS (SHOWN AS % OF TOTAL EXPENSES)



Per member statistics

Figure 4 shows the average total income and average total expenses per member per year by plan size, while Figure 5 shows the average annual change from 2016 to 2018 in the total income per member and total expenses per member, both by plan size and in aggregate.

FIGURE 4: AVERAGE TOTAL INCOME AND EXPENSES PER MEMBER PER YEAR



All else being equal, larger plans can reduce costs through economies of scale

FIGURE 5: AVERAGE CHANGE FROM 2016 TO 2018 IN TOTAL INCOME AND TOTAL EXPENSES PER MEMBER

For the Taft-Hartley plans included in this study, Figure 4 shows that income and expense patterns by plan size were largely similar to each other; for groups with more than 5,000 members, average total expenses per member are markedly lower than those plans with lower membership. Plans with more membership generally have larger purchasing power and can reduce costs through economies of scale, as well as being more likely to be self-insured, which can reduce plan costs. Figure 5 shows that the average total expenses per member increased from 2016 to 2018 by a larger percentage than average total income per member for all subgroups. All subgroups saw an increase in average total expenses per member ranging from 1.9% to 4.6%, whereas the increases in average total income per member ranged from 0.1% to 3.1%. In total, average expenses per member saw a percentage increase (3.4%) that was more than double the increase in average income per member (1.6%). However, that was largely attributable to a decrease in investment income per member in 2018; average employer and member contributions per member increased by a similar percentage as average expenses per member.

About this study

A single Form 5500 filing can contain information pertaining to more than one benefit program, including non-health-related plans such as life insurance.

The following methodology was used to identify the plans to include in this study from the entire 2018 Internal Revenue Service (IRS) Form 5500 database:

1. Excluded plans that did not have code "1" listed in Part I (A) of the Form 5500. Code "1" indicates that the plan is a multiemployer plan.
2. Excluded plans that did not have code "4A" listed in Part II (8b) of the Form 5500. Code "4A" indicates that a health plan is offered.
3. Excluded plans where the fiscal plan year did not fall at least partially in 2018 (13 plans).

4. Excluded plans that did not submit a Schedule H (410 plans). Schedule H provided the basis for the information presented in this report. There are a few reasons that a plan may not submit a schedule H. For example, fully insured, unfunded, or a combination of unfunded and fully insured welfare plans are not required to submit a Schedule H.
5. Excluded plans that did not report any members (16 plans).
6. Excluded plans that included data that were determined to be outliers (258 plans). Outliers were determined using an "inner fence" methodology for the statistics presented in this report, so as to limit the range of the charts. In this report, the term "outlier" is defined simply as a data point that is greater than a certain distance away from the 25th or 75th percentiles of the data sets. It does not necessarily mean that the data point is erroneous or unreasonable.

The resulting data set consisted of 1,283 plans. The data used in this report was not adjusted to a common date, as this would not have a material impact on the results.

The per member figures were developed using active, retiree, and surviving spouse member counts as of the end of the plan year, as reported on the 2018 Form 5500. The member counts include only active employees, retirees, and surviving spouses and exclude covered spouses, children, and other dependents. These counts might overstate or understate the actual per member figures if there were a large increase or decrease in the member count throughout the year. If that occurred, the count at the end of the year might not be indicative of the average throughout the year.

Using the information reported on the Form 5500, and in particular the Schedule H, 2018 statistics were developed for multiemployer plans, as provided in this report. These statistics were developed on a nationwide basis and with no regard to funding arrangement (that is, plans were not separated between fully insured and self-insured). Although there were 1,967 multiemployer health plans that filed a Form 5500 in 2018, the statistics are based on data for 1,283 multiemployer plans that were determined to provide sufficient information for this study, as detailed above. The 2018 year was the most recent for which information was available for a large number of Taft-Hartley plans.

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