

*Fast Facts*

Contribution Analysis: U.S. Multiemployer Pension Plans

SUMMARY

Funding multiemployer pension plans involves many intricate factors, including collective bargaining, complex funding regulations, investment returns, discount rates and other actuarial assumptions. Regardless of the intricacies, the goal is to provide the plan with enough assets to pay participants' benefits when they come due.

This study analyzes whether U.S. multiemployer plan contributions—in isolation from other factors that affect funded status—reduced unfunded liabilities.

The authors found that for 2016, 83% of plans covering 69% of multiemployer participants received enough contributions to reduce their unfunded liabilities as computed with funding discount rates.

The authors caution that a plan that receives enough contributions to reduce its unfunded liability may still see its unfunded liability increase because of other factors that affect funded status.

HIGHLIGHTS

- In 2016, 83% of plans that covered 69% of all multiemployer pension plan participants received enough contributions (assuming all actuarial assumptions were met) to reduce their unfunded liabilities as measured with funding discount rates. This percentage is down from 86% of plans covering 78% of participants in 2015.
- Of the 83% of plans whose contributions were enough to reduce unfunded liabilities in 2016:
 - 50% of plans were on pace to eliminate unfunded liabilities within 8.3 years;
 - 80% were funding at a pace to eliminate unfunded liabilities within 16.8 years; and
 - 90% were funding at a pace of 23.4 or fewer years.
- Larger plans tended to be on a longer funding pace than smaller plans.
- More than 80% of all multiemployer plans received at least their legally required minimum contributions in 2016.¹ However, 31% of multiemployer plans received insufficient contributions to prevent their unfunded liabilities from growing.
- When using much lower Current Liability discount rates, 7% of plans received enough contributions in 2016 to reduce their unfunded liabilities.²

¹ Internal Revenue Code §§431-432 and accompanying regulations set forth funding requirements for multiemployer pension plans.

² Discount rates used to compute Current Liability are based on an average of Treasury rates, which roughly approximates a risk-free rate. In addition, Current Liability reflects prescribed mortality assumptions that were developed largely from single employer (corporate) plan experience. Internal Revenue Code §431(c)(6)(D) governs the assumptions and methods used to compute Current Liability for multiemployer plans.

LINK TO FULL REPORT

Contribution Analysis for U.S. Multiemployer Pension Plans

<https://www.soa.org/resources/research-reports/2016/2016-multiemployer-pension-plan-analysis/>

METHODOLOGY

- Time frame: 1999–2017; the most recent year of complete reporting is for plan years beginning in 2016. In addition, data reflect 2017 reporting for about 55% of plans representing roughly 70% of total multiemployer plan liabilities.
- Computation:
 - Benchmark for reducing unfunded liability: Normal cost plus interest on the unfunded liability. To reduce the unfunded liability, contributions must exceed this benchmark.
 - Benchmark for eliminating unfunded liability in 15 years: normal cost plus 15-year, level-amount amortization payment on the unfunded liability. To reduce the unfunded liability, contributions must exceed this benchmark.
- Funded status: liabilities are computed with the unit credit actuarial cost method and compared to the market value of assets.

REPORT SPECS

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- Authors: Lisa Schilling, FSA, EA, FCA, MAAA, and Patrick Wiese, ASA
- Contents: Introduction and executive summary, contribution ratios defined, contribution ratios at funding discount rates, contribution ratios at Current Liability discount rates, funding paces, aggregate contributions and benchmarks, aggregate liabilities and funded status, data and methods, acknowledgements, 9 figures, and 1 table.
- Data source: Department of Labor database of Form 5500 “Annual Return/Report of Employee Benefit Plan” filing database as of Dec. 6, 2018.



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