

Poll: Multiemployer Pension Plans

How trustees manage challenges affecting their plans' health

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The Multiemployer Pension Plan Management Research Panel recently surveyed 46 trustees of multiemployer pension plans to learn about some of the challenges they face. The poll findings reveal how Trustees feel about their plans' health, certain outside factors that impact their plan, and efforts to improve the overall asset allocation and effectiveness in meeting goals.



ZONE STATUS

WHAT IS YOUR PENSION PLAN'S CURRENT FUNDED STATUS?

Funded categories, or zones, of multiemployer pension plans were established in the Pension Protection Act of 2006 (PPA) and the Multiemployer Pension Reform Act of 2014. These categories are, in part, based upon the funding ratio of plan assets to plan liabilities.

Although 56% of plans are in the green zone, nearly half (44%) have a current funding status of “endangered” or worse. More than a quarter (27%) of all plans surveyed are in the red or “critical” zone.

Unfunded liabilities are a concern

Regardless of the zone status, trustees do not appear to have a clear path for making up the funding difference. Three-quarters (75.6%) of all trustees surveyed agree that the plan’s unfunded liabilities are a significant concern.

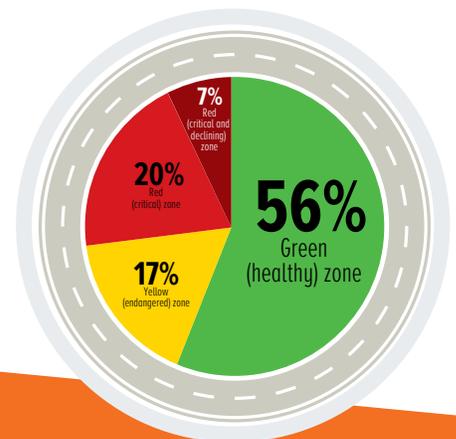
Many trustees who are not within the green zone lack confidence about the health of their plan

Almost half (44%) of trustees with plans currently in red zone status lack confidence that the plan will meet the targets in its rehabilitation plan. A quarter (25%) of those in the yellow/endangered zone lack confidence that their plan will meet the targets in their funding improvement plans and move into the green zone.



Zone & Funded Status (Generally)

- > **Green zone**
Healthy plans that have a funding ratio greater than 80%
- > **Yellow zone**
Endangered plans that have a funding ratio between 65% and 79%
- > **Red zone (critical)**
Plans that are less than 65% funded
- > **Red zone**
Plans that are expected to be insolvent in 15 years



Despite three-quarters of respondents being significantly concerned about their plans’ unfunded liabilities, a significant majority (87%) feel confident in the process they have for analyzing, reviewing and understanding the impact of long-term return projections on the pension’s funded status. The other 13% either have a process, but do not have a strong understanding of the impact (8.7%), or do not have any process in place at all (4.35%).





UNDERFUNDING IMPROVEMENTS

WHICH UNDERFUNDING IMPROVEMENTS ARE UNDERWAY?

In an effort to improve the plan's health and bridge the gap of underfunded liabilities, plans appear to be focused on increasing contributions and increasing alpha-generating investments, which include a higher allocation to alternative investments and an active management approach.

According to the survey, trustees are either planning to or considering over the next 12 months:

- › Increasing contributions (75.61%)
- › Increasing allocations to alternative investments (62.16%)



Nearly three quarters (74%) of those surveyed have 10% or less currently allocated to alternative investments. A fifth (20%) have no allocation to alternatives at all.

Which of the following best describes the percentage of the portfolio currently allocated to alternative investments?



It appears that the majority of trustees are not considering:

- › Closing the plan to new hires (91.67%)
- › Reducing benefits (66.67%)
- › Moving to a hybrid plan (for example, variable pension or cash balance) (72.97%)
- › Increasing allocation to passive investments (62.68%)



ADDITIONAL FACTORS

WHAT ADDITIONAL FACTORS ARE AFFECTING MULTIEMPLOYER PLANS?

- › Nearly two-thirds (62%) of participants have seen reduced pay increases due to the pension.
- › Sixty-nine percent believe that laws and regulations, such as the Multiemployer Pension Reform Act of 2014, have done more harm than good to multiemployer plans.
- › Almost three-quarters (70%) of plans agree that increasing dependency ratios, the percentage of inactive versus active participants, have had a negative impact on their plans.
- › The results were split on whether the trustees agreed (49%) or disagreed (51%) that the pension's status has made collective bargaining more difficult.
- › Despite all of the negative impacts above, a large majority (88.6%) do not believe that the normal retirement age should be raised to 67.

OCIO model is trending

Nearly two-thirds (60%) currently use a consultant to conduct manager research. Those trustees are then responsible for managing changes to portfolio asset allocation, and monitoring, hiring and firing managers.

Not all multiemployer trustees use external resources for assistance in the overall investment management process.

7%
said they handle this process internally.

Of the firms who use external resources

83% either already outsource some level of investment decision-making or believe it's worth evaluating using an OCIO during their next review.



Fast fact: Half (50%) of the surveyed plans that are currently using an OCIO for discretion over manager oversight and changes are between \$100 million and \$300 million in size. Nearly two-thirds (63%) of the plans using an OCIO for manager and asset allocation decisions are also in that size range. When looking at plans' current funded status, that same size range (\$100 - \$300M) makes up the largest percentage of plans within the green zone (31%).



DEMOGRAPHICS

OF POLL RESPONDENTS

The polled trustees represented unions from the following industries

Transportation	6.52%
Building and construction	39.13%
Entertainment and arts	8.70%
Electrical	13.04%
Plumbing and steam fitting	10.87%
Other	21.73%

The size ranges by assets of the polled union plans are as follows

Under \$100M	26.67%
\$100M–\$500M	42.22%
Over \$500M	31.11%

CONCLUSION

HOW IS THE OVERALL HEALTH OF MULTIEMPLOYER PLAN, AND WHAT IS TRENDING FOR THE FUTURE?

The poll results show that more than half of multiemployer plans are in the green zone and have a strong funded status; however, many trustees remain concerned about their plans' unfunded liabilities and the ongoing impact of those liabilities on their plans. For trustees overseeing plans not in the green zone, nearly half lack confidence that their plans can get to that status.

All trustees appear to be looking for areas of potential improvement and ways to generate alpha, especially in the current environment when expectation for returns is low. Some of the strategies include increasing contributions to close the underfunding gap and increasing allocation to alternative investments. Yet, there are many flavors of alternatives. Choosing the correct alternatives and investment strategy for the multiemployer plan is an essential part of the equation, as well as managing risk with discipline and clear vision.

LEARN MORE.

Visit seic.com/MEpoll or contact us at

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Important information

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The Multiemployer Pension Plan Management Research Panel, sponsored by SEI's Institutional Group, conducts industry research in an effort to provide members with current best practices and strategies for the investment management of multiemployer plans.

The Multiemployer Pension Plan Management Research Panel recently (2Q 2017) surveyed trustees from 46 multiemployer plans with assets ranging from \$25 million to over \$1 billion, none of which are SEI clients. This information is for educational purposes only. Not intended to be investment, legal and/or tax advice. Please consult your financial/tax advisor for more information. Information provided by SEI Investments Management Corp., a wholly owned subsidiary of SEI Investments Company.