



NEWS RELEASE

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MCAA and Horizon Actuarial Services, LLC Release Fourth Edition of the Comprehensive Inventory of Construction Industry Multiemployer Pension Plans

Ground breaking analysis of historical trends in pension plans' key operating data will aid stakeholders and public policy makers in ensuring plans' futures with fact-based, in-depth analysis of plan experience over ten year periods

ROCKVILLE, MD—The Mechanical Contractors Association of America, Inc. (MCAA), in conjunction with Horizon Actuarial Services, LLC, has released the Fourth Edition (February 2016) of its comprehensive inventory and analysis of construction industry multiemployer defined benefit pension plans. The report examines trends in plan demographics, cash flows, investment returns, funding status, and other plan costs and expenses over the 10-year period from 2004 through 2013 plan years, the most current Form 5500 data completely available for compilation and analysis.

According to the Fourth Edition of the *MCAA/Horizon Actuarial Services Inventory of Construction Industry Pension Plans*, Form 5500 data show that long-term trends remain challenging for multiemployer defined benefit plans, ***documenting the continuing need for Congressional action to enact reforms—such as the Solutions Not Bailouts legislative reform allowing trustees to choose alternate plan designs—composite plans—that will build greater resilience and sustainability into the future of the valuable multiemployer defined benefit plan system for the industry workforce, sponsoring employers, and participants and***

beneficiaries of the plans. The Solutions Not Bailouts alternate plan design proposal option is strongly backed by MCAA and the National Coordinating Committee for Multiemployer Plans' (NCCMP) legislative coalition.

The MCAA/Horizon report offers a factual and objective analysis from direct plan Form 5500 filings with the Department of Labor (DOL), and reflects the most comprehensive and up-to-date data available. The inventory is not a survey of a subset of plans in the construction industry; it is based on the entire DOL database of plan filings. The MCAA/Horizon inventory, analysis, and report leads to several inescapable conclusions about the long-term viability of the multiemployer plan system.

- 1) ***Median funding levels remain on the mend*** – Multiemployer plan joint labor/ management trustee administration provides resilience to plan operations, as the majority of plans have adapted well to unprecedented asset volatility over the period since the stock market declines in 2001 and 2002 , and then even greater challenges in the 2008 Great Recession, with combined precipitous declines in asset values and work hours plunging plans into precarious positions; since then, there has been a slow and halting recovery and improved funding status over the ensuing years. The median funded percentage at December 31, 2013, was 86.9%, up sharply from 78.4% at the end of 2012, and surpassing the 86.2% level at the end of 2007, just before the 2008 economic crash. Still, adverse demographic and cash flow trends, combined with recurring asset and market volatility, counsel strongly against complacency in plan oversight and future planning.

- 2) ***Green Zone status improves*** – Nearly 60% of plans were in the Green Zone at the end of 2013, up marginally from 2012, but significantly from 2009, when only 37% of plans were in the Green Zone; Yellow and Orange (endangered status) plans decreased slightly in 2013, and Red Zone (critical status) plans increased marginally.

- 3) ***Long-term adverse demographic trends remain intractable*** – The median plan active-to-inactive participant ratio fell to 68% at the end of 2013, down slightly from 69% the year before, and trending inexorably down over the 10-year period. In the median plan, there are fewer than 7 active workers for every 10 retired, vest-inactive participants, or other beneficiaries. According to the ***Inventory*** analysis and report, this trend, combined with adverse cash flow data, warrants a Congressional policy reassessment of plan risk factors and re-balancing of the risk allocation in traditional plan designs as proposed in the ***Solutions Not Bailouts*** composite plan design alternatives, allowing trustees to reinvigorate plan demographics by attracting new contributors and stanching the outflow of current participating employers, and restoring the valuable multiemployer defined benefit system to long-term sustainability.

- 4) ***MPRA 2014 remedial effects not shown in the Inventory data yet*** – The beneficial remedial effects of the Multiemployer Plan Reform Act of 2014 (MPRA) (Kline/Miller Act) are not reflected in the Fourth Edition of the ***Inventory***, but the data on plan negative cash flow data as compared with asset return data does permit some assessment of the number of plans likely to be in “critical and declining” status that may be available to apply for benefit suspensions in the future under the Internal Revenue Service’s MPRA procedures. The median plan net cash flow as a percentage of assets stood at -3.0% at the end of 2013, a slight improvement from -3.2% the year before. The ***Inventory*** shows construction industry plans in critical status or endangered status with negative cash flows exceeding 8% of assets, foreshadowing a critical and declining status certification in the not too distant future.

- 5) ***Investment returns improve again, but recurrence of volatility persists too*** – The median investment return for 2013 came in at an impressive 16.5%, up from a strong return of 11.1% just the year before. As we know, in subsequent years 2014 and 2015 not reflected in the data, there were wide asset return fluctuations and a considerable flattening of the return curve. Still, much remains to be gained back following the

precipitous drop of -23.4% in 2008; and, as of press time 2016 began with an inauspicious market correction.

- 6) ***Costs of paying for unfunded past benefits liability comes down a little*** – The median plan is now paying \$5,333 annually *per active participant* for the costs of benefits accrued in the past, down somewhat from \$5,939 the year before, yet still far surpassing the cost for paying for current year benefits (\$2,551 annually per active participant – up from \$2,453 the year before) and the costs of plan operating expenses (\$600 annually per active participant at the end of 2013, up from \$571 the year before).

- 7) ***Employer contributions are rising steadily*** – The median plan now is collecting \$8,964 in employer contributions annually per active participant at the end of 2013, up from \$8,434 in 2012, and \$8,090 in 2011. The ***Inventory*** report notes that the trend on increasing contributions may be expected to continue as many Red and Yellow Zone Rehabilitation and Funding Improvement Plans spread increased contributions out over multiple future years. The competitive pressures of plan participation on sponsoring employers continues to mount overall as compared with those market competitors offering lesser pension benefits for their workforce.

- 8) ***Plan expenses and fees remain stable*** – Plan expenses and fees remain stable, although there is some modest inflation from year to year. Large plans continue to exhibit cost efficiencies stemming from economies of scale.

In addition to these overall key findings stemming from Horizon’s detailed analysis of the 790 construction industry plans in the database as of December 31, 2013, with fully 4 million participants and over \$230 billion in assets. These plans are a subset of the 1,349 multiemployer plans in all industries nationwide, covering 10.4 million participants with over \$460 billion in assets. There are several other very helpful aspects of the ***Inventory***, analysis, report and data tables for contributing employers, plan trustees, plan professionals, and

participating employees to use to evaluate their plan's performance and benchmark against similar plans in their craft by plan asset size. These features include:

- 1) Tables of key results for multiemployer defined benefit pension plans covering different trades within the construction industry.
- 2) Summary statistics for multiemployer defined benefit pension plans in the construction industry, including tables showing the number of plans by state and certification status under PPA. For comparison, also included are the same tables for all multiemployer defined benefit pension plans, in all industries.
- 3) A listing of all multiemployer defined benefit pension plans in the construction industry, including identification information. This listing will enable sponsoring employers and their financial advisors to access plan data for purposes of complying with the footnote disclosure requirements of the Financial Accounting Board (FASB).

MCAA President Steve Dawson, announced the publication of the Fourth Edition of the MCAA/Horizon Inventory today, saying, "MCAA is extremely proud to partner with one of the premier professional actuarial firms in the industry, Horizon Actuarial Services, LLC, to bring this ground-breaking work forward and maintain it on a periodic basis for the benefit of the industry overall. Jason Russell and his colleagues at Horizon are to be commended for their outstanding work on this product – it is an impressive array of data, analysis, and very coherent commentary."

"Before MCAA and Horizon began this collaboration in 2011," MCAA President Dawson noted, "this type of analytical data was not available. We had three purposes in mind when we began this collaboration: 1) provide analytical data for policy makers to use in addressing regulatory and legislative policy affecting our plans; 2) provide resources for MCAA members and others to answer the mounting disclosure requirements put on sponsoring employers by the newly minted Financial Accounting Standards Board rules; and 3) provide plan trustees, sponsoring

employers, labor organizations and plan participants and beneficiaries with objective data to use in evaluating their own plan against industry performance overall.”

“On all three objectives,” Dawson concluded, “we have hit our targets and continue to provide this valuable publication – to the wide acclaim of industry users of this report. I am very proud that MCAA continues to meet specific market and public policy needs with top-quality, professional publications, analysis and data. We truly are advancing the overall interests of the industry in the most professional manner. By the way, we make the publication available to the industry, without charge.”

The report is available on MCAA’s website at www.mcaa.org. For questions about MCAA’s analysis, please contact John McNerney at jmcnerney@mcaa.org or 301-869-5800. For additional information about Horizon Actuarial Services’ analysis, please contact Jason Russell, F.S.A. at Jason.Russell@HorizonActuarial.com or 240-247-4522.

The Mechanical Contractors Association of America, Inc. (MCAA) serves the unique needs of approximately 2,800 firms involved in heating, air conditioning, refrigeration, plumbing, piping, and mechanical service. We do this by providing our members with high-quality educational materials and programs to help them attain the highest level of managerial and technical expertise. MCAA includes the Mechanical Service Contractors of America, the Plumbing Contractors of America, the Manufacturer/Supplier Council, the Mechanical Contracting Education and Research Foundation and the National Certified Pipe Welding Bureau.

Horizon Actuarial Services, LLC is a leading firm that specializes in providing actuarial and consulting services to multiemployer benefit plans. Horizon is the actuary for over 80 multiemployer pension plans in various industries, including construction, trucking, professional sports, hospitality, entertainment, and retail food. More information can be found at www.horizonactuarial.com.

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