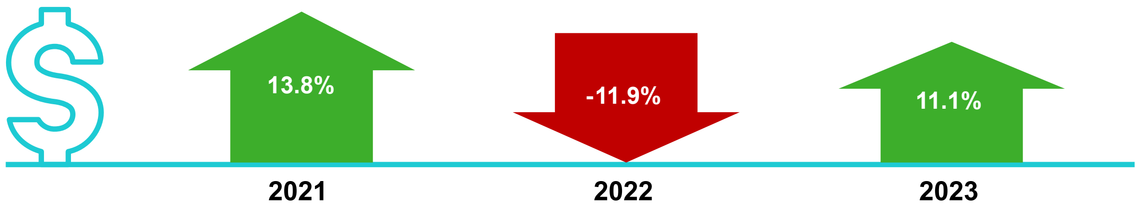
Strong Investment Returns Lead to Improvement in Zone Status

Three-quarters of all multiemployer pension plans in Segal's latest survey are in the green zone following strong 2023 investment performance.

Survey Snapshot

Investment volatility and PBGC Special Financial Assistance (SFA) impact zone status

Median Net Investment Return for Plans in the Survey



In the year following strong investment returns, a higher percentage of plans are in the green zone. Conversely, poor investment returns result in fewer green-zone plans in the next year. In addition, there are fewer plans in critical and declining status in 2024 since some critical and declining plans applied for and received SFA. Upon receipt of SFA, plans are deemed to be in critical status until 2051.

The average PPA'06 funded percentage stayed level

Between 2021 and 2024, the market-value funded percentage has fluctuated each year in line with the prior year's investment performance. The market-value funded percentage in 2024 increased nine points, which includes a five-point increase attributable to receipt of SFA. Due to asset smoothing, the average Pension Protection Act of 2006 (PPA'06) funded percentage, which does not include the current value of SFA, increased 1 point between 2023 and 2024.

Market-Value Funded Percentage

PPA'06 Funded Percentage

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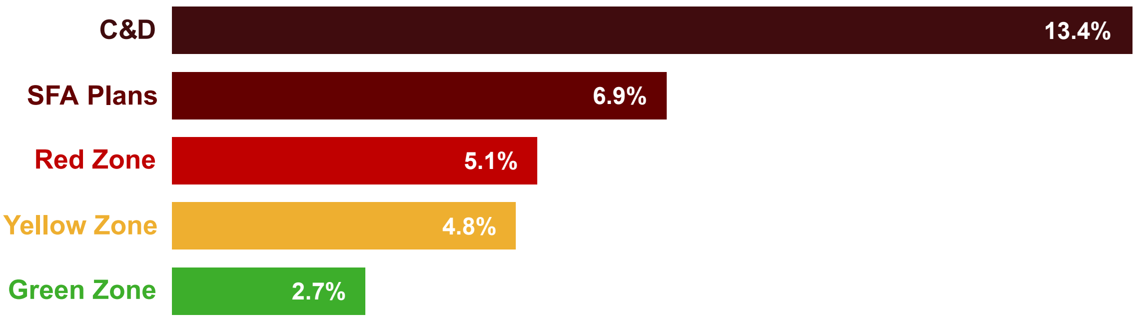
C&D plans have much higher “burn rates” than other plans

Burn rate is the rate of asset decline as a percent of total assets, without regard to investment income.

Burn Rate =
(Benefits + Expenses − Contributions) ÷ Assets

In general, more mature plans (plans with a higher ratio of retirees to actives) will have higher burn rates, since the level of benefits paid out of plan assets is large compared to the level of contributions paid into the plan, relative to total plan assets.

The median burn rate for C&D plans in the 2024 survey is more than double the burn rate for red-zone plans. Plans that received SFA are very mature plans, and continue to have high burn rates, even after receipt of SFA. While plans that received SFA have seen improvement in their burn rates due to the inclusion of SFA in the plan’s total assets, they remain mature plans and continue to have high burn rates.



Plans with lower burn rates are better equipped to weather fluctuations in the markets. For a plan’s assets to grow, the annual investment return must exceed the burn rate.

Looking ahead

Over the next few years, we expect:

- C&D plans will continue to apply for and receive PBGC SFA and will improve their funded status.
- Plans should monitor their maturity levels and burn rate.

About the survey

The **184 plans** included in this survey are those with plan years beginning January 1, 2024.

As a group, these plans:

Have **$180 billion in assets**

Provide benefits to just over **2.7 million participants**

We can help you manage changes in your plan’s zone status.

Ask us to run projections that can help you make decisions with confidence.

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