PERSPECTIVES

CHANGE BRINGS OPPORTUNITY FOR MULTIEMPLOYER PLANS

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It has been approximately four years since the passage of the American Rescue Plan Act (ARPA) legislation, which contained a Special Financial Assistance (SFA) provision for certain multiemployer plans.[1] This landmark bill provided the opportunity for financially troubled plans to apply to the Pension Benefit Guaranty Corporation (PBGC) for funding relief. Since this December marks the deadline for an initial application for those plans seeking relief, a quick update on the program is in order. Relatedly, substantially higher interest rates than what were observed in the earlier days of the program merit a reminder of the opportunities for change in multiemployer plan risk management approaches—and not just for plans receiving SFA funding.

According to data obtained from the PBGC website, updated as of 7/18/2025, 161 applications requesting over $70 billion in funds have been approved; applications for 23 plans representing approximately $1.8 billion in requested funds are currently under review; and the possibility for terminated multiemployer plans to apply for SFA representing an additional ~$6 billion in unanticipated relief still looms.[2][3] Given the majority of assets distributed under SFA are required to be invested in investment grade fixed income (IGFI),[4][5] it is important to note that not all fixed income is created equal, especially in the context of investing for the purpose of meeting benefit payments and other expense needs well into the future. A fixed income strategy which may be "low risk" to any other investor is not necessarily the low-risk strategy for a pension plan, and an appropriate fixed income investment structure has significant ability to reduce the risk of insolvency into the future.

For example, a strategy that continually invests in three-month maturity Treasury Bills may produce returns very different from an index fund that tracks the overall investment grade U.S. bond market (U.S. Aggregate), which in turn may behave much differently from a customized portfolio of investment grade corporate bonds designed to generate cash flows that match specific benefit payments of a specific plan's liability. While all of these strategies may be permissible as IGFI under SFA provisions, they may also produce significantly different results depending on various market environments.[5][6] On the surface, Treasury Bills seem like the safest investment from the perspective of principal preservation, and that may be correct, but it's not particularly relevant for a pension plan. Given that benefit payments associated with a pension plan are unique to that particular plan, a tailored approach may be more suitable. We explored the merits of various strategies for plans receiving SFA in a previous Perspectives piece.

Single-employer corporate pension plans have adopted a de-risking framework that seeks to better match fixed income assets to the liability cash flow profile over the past decade, fueled by improvements in funded status, reducing the overall volatility of a plan's funded status ratio. These reductions in funded status volatility in turn reflect asset allocations that by design are more likely to enable the assets to pay for future outflows. According to NISA's 6/30/2025 Pension Surplus Risk Index (PSRX®) which measures funded status volatility of the 100 largest U.S. corporate defined benefit plans, the average funded status increased approximately 17% to 104.1% since the end of 2014, while the funded status volatility of these plans decreased from 9.9% to 5.6% over that same time period. As an example, for an illustrative $1 billion plan that reduced its funded status volatility by these amounts, it suggests there is an approximate one in three chance that in one year the plan could lose or gain more than $56 million in funded status versus $99 million in funded status previously.[7] A $43 million reduction in funded status dollar volatility is significant![7]

Multiemployer plans also now find themselves with an improved funded status position. Investment returns coupled with funding relief from the SFA program in recent years provided a tailwind to funded status levels. According to "Milliman's Multiemployer Pension Funding Study: Year-end 2024," aggregate funding levels reached 97% but have experienced some volatility recently. Based on previous Milliman studies, aggregate funding levels reached 91% at the end of 2021, declined to 79% at the end of 2022, and increased approximately 18% over the past two years to the end of 2024 level. [8] The assistance provided by the PBGC for certain plans helped create an opportunity for change. With higher interest rates and other market developments, this opportunity is certainly not unique to just those plans receiving relief. Any multiemployer plan with a higher funded status may want to consider customized fixed income strategies to manage risk and reduce volatility, e.g., a high-quality bond portfolio designed to generate coupon and principal payments to match expected participant benefit payments over time. Customizing the fixed income allocation to provide a greater certainty of outcome for participants is more relevant now than ever given the overall improvement in funded status.

Additionally, for plans seeking SFA that have their measurement date locked in, there is no need to wait. Many plans locked in the level of funding from SFA at interest rates significantly lower than current rates. Given increases in long-term bond yields, there are also potential ways to protect funded status gains as plans wait for future SFA assets to arrive, effectively hedging against the impact of interest rate decreases. As we noted in a previous post, given the wedge that has developed between fixed income yields and the yields used on SFA applications, we believe now may be an opportune time to secure any funded status gains.

Whether or not the improvement in funded status leads more multiemployer plans to embrace benefit matching fixed income strategies and take a similar path as single-employer plans still remains to be seen, but as businessman Nido Qubein once noted, "Change brings opportunity."

[1] American Rescue Plan Act of 2021, Pub. L. No. 117-2, §9704, 135 Stat. 4.

[2] PBGC Special Financial Assistance applications.

[3] PBGC risk advisory memo, from Nicholas Novak to Alice Maroni, June 16, 2025.

[4] PBGC Special Financial Assistance final rule, Federal Register, Vol. 87, No. 13, July 8, 2022.

[5] SFA Permissible Investments of Special Financial Assistance.

[6] American Rescue Plan Act FAQs re: Permissible Investments, PBGC.

[7] NISA's Pension Surplus Risk Index, or PSRX, is a forward-looking estimate of the funded status volatility of U.S. corporate defined benefit pension plans. As determined by NISA based on publicly available information. The index level represents a one standard deviation change in funded status over a one-year horizon, based on the average of the 100 largest pension plans. Based on common simplifying assumptions, including normal distributions, approximately zero expected surplus return, etc. Please see the PSRX Guide for more detailed descriptions.

[8] Milliman Multiemployer Pension Funding Studies.

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