

GAO

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PRIVATE PENSIONS

Long-standing Challenges Remain for Multiemployer Pension Plans

Statement of Charles A. Jeszeck, Acting Director
Education, Workforce, and Income Security Issues



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Highlights of [GAO-10-708T](#), a testimony before the to Committee on Health, Education, Labor and Pensions, U.S. Senate

Why GAO Did This Study

Multiemployer defined benefit pension plans, which are created by collective bargaining agreements covering more than one employer and generally operated under the joint trusteeship of labor and management, provide pension coverage to over 10.4 million participants in the 1,500 multiemployer plans insured by the Pension Benefit Guaranty Corporation (PBGC). Changes to the structure of the multiemployer plan framework and to PBGC's role as insurer have sought to improve plan funding. Reports of declines in plan funding have prompted questions about the financial health of these plans.

The committee asked GAO to provide information on (1) the unique characteristics of multiemployer plans and (2) the challenges that multiemployer plans face and how they may affect PBGC.

GAO provided a draft of this testimony to PBGC for review and comment. PBGC provided technical comments, which were incorporated, as appropriate.

To address these objectives, GAO relied primarily on its previously published reports on multiemployer plans (GAO-04-423 and GAO-04-542T), and data publicly available from PBGC. GAO is not making new recommendations in this testimony.

[View GAO-10-708T or key components.](#)
For more information, contact Charles A. Jeszeck at (202) 512-7215 or jeszeck@gao.gov.

PRIVATE PENSIONS

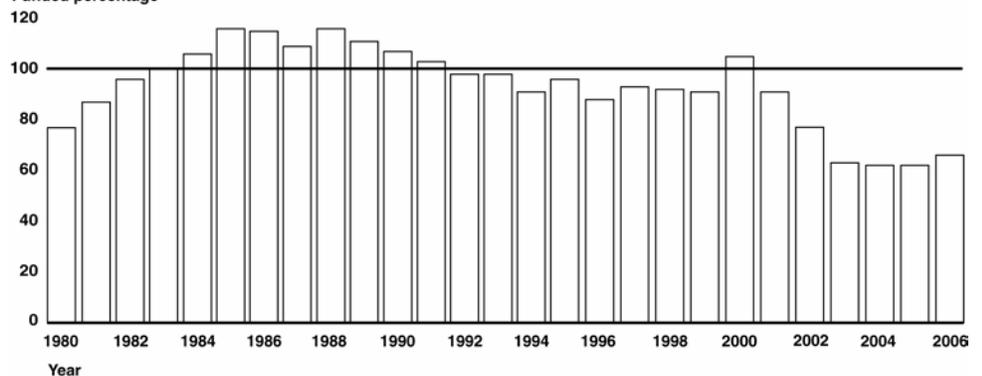
Long-standing Challenges Remain for Multiemployer Pension Plans

What GAO Found

While the Employee Retirement Income Security Act of 1974 funding rules apply to most private sector pension plans, the nation's collectively bargained multiemployer plans have a unique structure intended to provide a certain level of plan stability and benefit portability while mitigating the risks to their insurer, PBGC. Multiemployer plans provide portable benefits to workers who change employers, distribute risk among participating employers and participants, and continue to operate long after an individual employer, or sponsor, goes out of business, because their framework makes remaining employers jointly liable for funding benefits for all vested participants. Multiemployer plans also pay a low insurance premium to PBGC because they typically do not require PBGC assistance. When needed, PBGC will provide loans to a plan that becomes insolvent and can no longer pay benefits at the level guaranteed by PBGC. Since the inception of the multiemployer insurance program in 1980, PBGC has paid \$500 million in financial assistance to 62 insolvent plans.

Multiemployer plans face ongoing funding and demographic challenges that potentially increase the financial burden on PBGC. According to PBGC, multiemployer plans have not been fully funded at the 100 percent or above level since 2000. Other challenges include continuing decreases in the number of these plans and an aging participant base. Further, a decline in collective bargaining in the United States has left few opportunities for plans to attract new employers and workers. As a result, the proportion of active participants paying into the fund to others who are no longer paying into the fund has decreased, thereby increasing plan liabilities and the likelihood that PBGC will have to provide financial assistance in the future.

Aggregate Funded Status of PBGC-Insured Multiemployer Pension Plans, 1980-2006
Funded percentage



Source: GAO analysis of PBGC data.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the multiemployer pension system and the challenges it faces. Multiemployer pension plans constitute an important segment of the nation's private employer pension system.¹ Multiemployer plans are defined benefit (DB) plans established through collectively bargained pension agreements between labor unions and two or more employers.² In 2009, there were about 1,500 multiemployer plans that cover more than 10.4 million workers and retirees—approximately 1 of every 4 workers and retirees in the United States covered by a private sector DB plan. As we reported in 2004, the financial stakes are high for workers, retirees, and employers participating in these plans, as well as for the plans' insurer, the Pension Benefit Guaranty Corporation (PBGC).³

Multiemployer plans cover unionized workers in many industries, including the trucking, retail food, construction, mining, and garment industries and, importantly, provide some portability of benefits. Workers can continue accruing pension benefits when they change jobs if their new employer is a contributing employer in the same plan. Such arrangements are particularly suited to workers in industries such as construction, in which job changes are frequent over the course of a career.

Since 2000, many multiemployer plans have experienced significant reductions in their funded status. Several factors contributed to this underfunding, including stock market losses, which reduced the value of

¹Multiemployer plans are distinct from single-employer plans, which are established and maintained by one employer, and multiple-employer plans, many of which maintain separate funding accounts for each employer.

²Collective bargaining has been the primary means by which workers can negotiate, through unions, the terms of their pension plan. In 1935, the National Labor Relations Act (NLRA) required employers to bargain with union representatives over wages and other conditions of employment, and subsequent court decisions established that employee benefit plans could be among those conditions. The Taft Hartley Act of 1947 amended the NLRA to establish terms for negotiating such employee benefits and placed certain restrictions on the operation of any plan resulting from those negotiations. For example, employer contributions cannot be made to a union or its representative but must be made to a trust that has an equal balance of union and employer representation.

³GAO, *Private Pensions: Multiemployer Plans Face Short- and Long-Term Challenges*, [GAO-04-423](#), (Washington, D.C.: Mar. 26, 2004). We designated PBGC's single-employer pension insurance program as a high risk in 2003, including it on our list of major programs that need urgent attention and transformation. Both of PBGC's insurance programs remain high-risk concern because of an ongoing threat of losses from the terminations of underfunded plans.

plans' holdings, and historically low interest rates, which increased plan liabilities. The economic downturn also affected employers' ability to contribute to these plans. Many companies experienced slowdowns or closed their doors. While recent reports point to a recovering economy, some industries in which multiemployer plans are common have experienced high unemployment, limiting the stream of contributions coming into the plans.

In 2004, we reported that the multiemployer system, in comparison with private single-employer plans, operates under a framework that redistributes risk toward employers and participants and away from government and potentially the taxpayer.⁴ In addition, we noted that this framework can create important incentives for interested parties to resolve financial difficulties. However, we also found that weak economic conditions in the early 2000s and declines in interest rates and equities markets increased the financial stress on the overall multiemployer plan framework, and each of the key stakeholders. We also identified several challenges to the long-term health of these plans, including the lack of employer funding flexibility compared with single-employer plans and the overall decline of collective bargaining. Today, 6 years later, the economic climate within which multiemployer plans must operate is far worse. As you know, we are conducting a study of multiemployer plans for another committee and expect to publish a report on our work later this year. Today I will discuss (1) some of the unique characteristics of multiemployer plans that affect their stability and PBGC's risk, and (2) current challenges faced by multiemployer plans and by PBGC as their insurer.

Today's testimony draws on our work on PBGC, our 2004 report, and publicly available information. In developing our 2004 report, we examined how multiemployer DB pension plans differ from single-employer plans, and reviewed relevant laws and regulations, Form 5500 reports that plans file with the Department of Labor, and prior GAO reports and other pertinent literature. To identify recent and current trends and potential challenges in funding and worker participation rates for multiemployer plans, we reviewed PBGC reports and analyzed data from PBGC, conducting this performance audit in May 2010, in accordance with generally accepted government auditing standards. Those standards

⁴GAO-04-423 and GAO, *Private Pensions: Multiemployer Pensions Face Key Challenges to Their Long-Term Prospects*, GAO-04-542T, (Washington, D.C.: Mar. 18, 2004).

require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

In 1974, Congress passed the Employee Retirement Income Security Act (ERISA) to protect the interests of participants and beneficiaries covered by private sector employee benefit plans.⁵ Title IV of ERISA created PBGC as a U. S. government corporation to provide plan termination insurance for certain DB pension plans that become unable to provide pension benefits. PBGC operates two distinct pension insurance programs, one for multiemployer plans and one for single-employer plans. These plans have separate insurance funds, as well as different benefit guarantees, and insurance coverage rules. The multiemployer insurance program and PBGC's day-to-day operations are financed by annual premiums paid by the plans and by investment returns on PBGC's assets.⁶ For multiemployer plans, PBGC guarantees, within prescribed limits, those participant benefits that are not funded by plan assets when a covered plan is insolvent and unable to pay basic PBGC-guaranteed benefits when due for the plan year.

In 1980, Congress sought to protect worker pensions in multiemployer plans by enacting the Multiemployer Pension Plan Amendments Act (MPPAA).⁷ Among other things, MPPAA (1) strengthened funding requirements to help ensure that plans accumulate enough assets to pay for promised benefits, and (2) made employers, unless relieved by special provisions, liable for their share of unfunded plan benefits when they withdrew from a multiemployer plan. The amount is based upon a proportional share of the plan's unfunded vested benefits.⁸ Liabilities that

⁵29 U.S.C. § 1001 nt.

⁶The single-employer insurance program receives additional financing from assets acquired from terminated single-employer plans and by recoveries from employers responsible for underfunded terminated single-employer plans. PBGC receives no funds from federal tax revenues, but it is authorized under ERISA to borrow up to \$100 million from the federal treasury if it has inadequate resources to meet its responsibilities.

⁷Pub. L. No. 96-364.

⁸Vested benefits are benefits that are no longer subject to risk of forfeiture. Unfunded vested benefits are the difference between the present value of a plan's vested benefits and the value of plan assets as determined in accordance with Title IV of ERISA.

cannot be collected from a withdrawing employer, for example, one in bankruptcy, were to be “rolled over” and eventually had to be funded by the plan’s remaining employers.⁹ The changes were to discourage withdrawals, which shift liabilities to PBGC’s insurance program.

The Pension Protection Act of 2006 (PPA) established new funding and disclosure requirements for multiemployer plans.¹⁰ Under PPA, a plan’s actuary must certify to the Secretary of the Treasury the funding status of the plan within 90 days of the start of the plan year.¹¹ For plans that certify that they are in endangered status (less than 80 percent funded) or critical status (less than 65 percent funded), PPA requires plan trustees to take specific actions to improve the plan’s financial status, such as developing schedules to increase contributions or reduce benefits.¹² Plans certified as endangered must adopt a funding improvement plan, and those certified as critical must adopt a rehabilitation plan.¹³ To assist plans in critical status, PPA amended ERISA to allow plans to reduce or eliminate some payment and early retirement options for plan participants who had not yet retired. In addition, PPA required trustees of plans in endangered or critical status to provide notice of that status to participants and beneficiaries, the bargaining parties, PBGC, and the Secretary of Labor within 30 days of certification.¹⁴ If a plan is in critical status, the notice must also inform employers of a possible contribution surcharge, and participants of a potential reduction in benefits.

⁹These liabilities are frequently referred to as orphaned liabilities.

¹⁰Pub. L. No. 109-280.

¹¹ 26 U.S.C. § 432(b)(3).

¹²Under PPA, a plan is considered to be in endangered status if it is less than 80 percent funded or if the plan is projected to have a funding deficiency within 7 years. A plan that is less than 80 percent funded and is projected to have a funding deficiency within 7 years is considered to be seriously endangered. A multiemployer plan is considered to be in critical status if (1) it is less than 65 percent funded and has a projected funding deficiency within 5 years or will be unable to pay benefits within 7 years; (2) it has a projected funding deficiency within 4 years or will be unable to pay benefits within 5 years (regardless of its funded percentage); or (3) its liabilities for inactive participants are greater than its liabilities for active participants, its contributions are less than carrying costs, and a funding deficiency is projected within 5 years.

¹³26 U.S.C. § 432(c).

¹⁴26 U.S.C. § 432(e)(1)(B) (for plans in endangered status) and 26 U.S.C. § 432(e)(8)(C) (for plans in critical status).

The funding requirements of PPA took effect just as the nation entered a severe economic recession in the fall of 2007. As a result, Congress enacted the Worker, Retiree, and Employer Recovery Act of 2008 (WRERA) to provide multiemployer plans with temporary relief from PPA requirements by allowing plans to temporarily freeze their funded status at the previous year's level.¹⁵ The freeze allows plans to delay creation of or updates to an existing funding improvement plan, rehabilitation plan, or other steps required under PPA.¹⁶ WRERA also requires plans to send a notice to all participants and beneficiaries, bargaining parties, PBGC, and the Department of Labor indicating that the election to freeze the status of the plan does not mean that the funded status of the plan has improved. WRERA also provided for a 3-year extension of a plan's funding improvement or rehabilitation period.

Key Differences Exist Between Multiemployer and Single-Employer Pension Plans

While ERISA and PBGC funding rules apply to both single- and multiemployer plans, there are several important differences that affect the structure and stability of each type of plan. They include the following:

- **PBGC benefit guarantee levels:** PBGC guarantees benefits for multiemployer beneficiaries at up to \$12,870 per year, based on 30 years of employment. PBGC's guarantee for single-employer beneficiaries is considerably higher—up to \$54,000 per year for a retiree at age 65.
- **PBGC premium structure:** PBGC collects insurance premiums for each plan it insures, but premium rates differ significantly, commensurate with the benefit amounts being guaranteed. In 2010, multiemployer plans pay PBGC an annual flat rate premium of \$9 per participant, while single-employer plans pay PBGC \$35 per participant. In addition, underfunded single-employer plans generally pay PBGC an additional variable rate premium based on the plan's unfunded vested benefits, because of the increased risk to PBGC because there are no other sponsors to cover the unfunded liabilities. Multiemployer plans are not required to pay this additional variable rate premium.

¹⁵Pub. L. No. 110-458.

¹⁶Section 204(b) of WRERA provides a special rule for multiemployer plans that would be in critical status for the election year if they had not elected to freeze the plan's funded status. In particular, if the plan has been certified by the plan actuary to be in critical status for the election year, then the plan is treated as being in critical status for that year for purposes of applying the excise tax exception under section 4971(g)(1)(A) of the Internal Revenue Code.

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- **Insurable events:** PBGC’s “insurable event” for its multiemployer program—an event that triggers PBGC financial assistance—is plan insolvency. A multiemployer plan is insolvent and may apply for financial assistance when its available resources are not sufficient to pay benefits at PBGC’s guaranteed level when due. In contrast, the insurable event for the single-employer program is generally termination of a plan, after which PBGC assumes responsibility and pays benefits directly to participants.
 - **Provision of financial assistance:** PBGC provides loans to multiemployer plans when they become insolvent, and a multiemployer plan need not be terminated to qualify for financial assistance. Insolvent multiemployer plans also are required to reduce or suspend payment of any portion of benefits to beneficiaries that exceed PBGC’s guarantee level. If a plan recovers from insolvency, it must begin repaying the PBGC loan. Since the inception of the multiemployer insurance program in 1980, PBGC has provided \$500 million in financial assistance to 62 plans. In fiscal year 2009 alone, PBGC provided \$86 million in financial assistance to 43 insolvent plans. In 30 years, only one plan has paid back its loan. PBGC provides no comparable assistance to single-employer plans because PBGC takes over terminated unfunded plans.
 - **Fiduciary and settlor function:** An employer’s primary responsibility in a multiemployer plan is to pay contributions to the plan in the amount set in the collective bargaining agreement. Contribution requirements are generally a settlor rather than fiduciary function, for both sponsors of single-employer plans and participating sponsors in multiemployer plans. Individual employers in multiemployer plans do not assume a fiduciary role in plan management, which is instead handled by a board of trustees. Single-employer plans, on the other hand, are administered by one employer and may or may not be collectively bargained, so the employer generally assumes fiduciary duty for the pension plan.¹⁷
 - **Risk distribution:** The pooling of risk that is inherent in multiemployer pension plans may buffer these plans from financial shocks because the economic performance of any one employer has less impact. Multiemployer pension plans typically continue to operate long after an individual employer, or sponsor, goes out of business, because the plan’s remaining employers are jointly liable for funding benefits for all vested

¹⁷In 2008, we identified a tension inherent in the single-employer model for the plan sponsors, who must serve both as plan fiduciary and approve investment decisions. See GAO, *Private Pensions: Fulfilling Fiduciary Obligations Can Present Challenges for 401(k) Plan Sponsors*, GAO-08-774 (Washington, D.C.: July 16, 2008).

participants. Single-employer plans generally do not share the risk with other employers.

- **Portability of benefits:** Multiemployer plans provide participants some benefit portability because they allow workers to keep and continue to accrue pension benefits when they change jobs as long as their new employer also participates in the same plan. Because single-employer plans are established and maintained by only one employer, their benefits are not normally portable.
- **Ability to adjust contribution and benefit levels:** While minimum funding rules set out in ERISA and the Internal Revenue Code permit plan sponsors some flexibility in the timing of pension contributions, individual employers in multiemployer plans cannot individually adjust their plan contributions at will, and may be restricted in making changes until the collective bargaining agreement comes up for renegotiation, typically once every 2 or 3 years.¹⁸ Often, any changes in benefit levels must also be renegotiated by the bargaining parties. In contrast, sponsors of single-employer plans, depending on their employees' bargaining rights, may make adjustments to future contributions and benefits according to the company's fiscal condition provided that minimum funding requirements are met.
- **Employer terminations:** If an employer withdraws from a multiemployer plan, the accrued benefits for its workers stay in and are administered by the plan. The plan terminates by mass withdrawal if all contributing employers of a multiemployer plan leave. When the plan becomes insolvent, PBGC begins providing financial assistance to the existing trustees upon insolvency of the plan, after which those trustees continue to administer the plan until all benefits are paid out. With respect to single-employer plans, PBGC assumes trusteeship and administers payment of participant benefits when an underfunded single-employer plan terminates.
- **Plan withdrawal:** To protect the pensions of participants in multiemployer plans, MPPAA holds an employer seeking to withdraw from a plan liable to the plan for its share of the plan's unfunded liability. The law contains formulas for determining the amount, known as withdrawal liability, based on the employer's proportional share of the plan's unfunded vested benefits for all employees covered by the plan. In cases

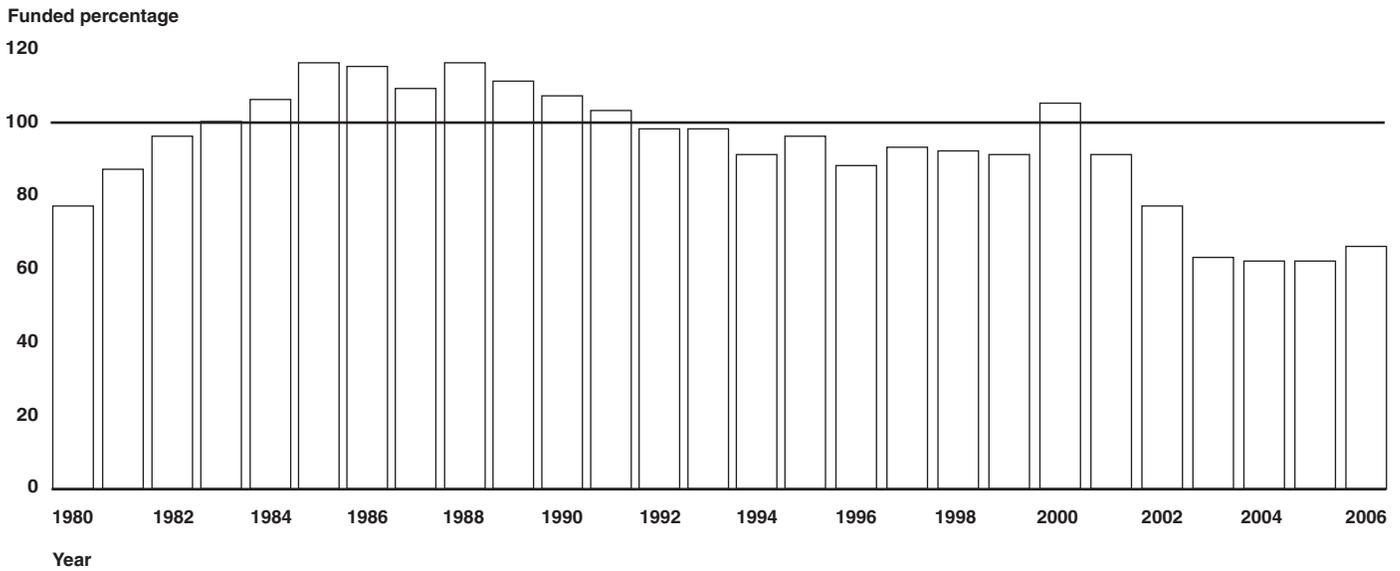
¹⁸Employer contributions to many multiemployer plans are typically made in a set dollar amount per hour of covered work, and thus reflect the number of active plan participants.

of bankruptcy, MPPAA requires the remaining employers in the plan to assume responsibility for funding benefits to the bankrupt employer's participants. This unfunded amount is often referred to as an orphaned liability. There is no comparable withdrawal liability for sponsors of single-employer plans, as the employer is liable for the unfunded benefits of the plan. According to PBGC, this greater financial risk on employers and lower guaranteed benefit level for participants in multiemployer plans, in practice, create incentives for employers, participants, and their collective bargaining representatives to avoid insolvency and to collaborate in trying to find solutions to the plan's financial difficulties.

Multiemployer Plans Continue to Face Funding and Demographic Challenges That Could Significantly Affect PBGC

Multiemployer plans face ongoing funding and demographic challenges that have the potential to place an additional financial burden on PBGC. According to PBGC, multiemployer plans have not been fully funded at the 100 percent or above level since 2000 and their net funding has declined significantly since that time. The aggregate funded status—the percentage of benefits covered by plan assets—in multiemployer plans insured by PBGC declined from 105 percent in 2000 to 66 percent in 2006, the last date for which PBGC data are available. (See fig. 1.) The aggregate position of these plans has further diminished because of investment market declines and the recession beginning in 2007.

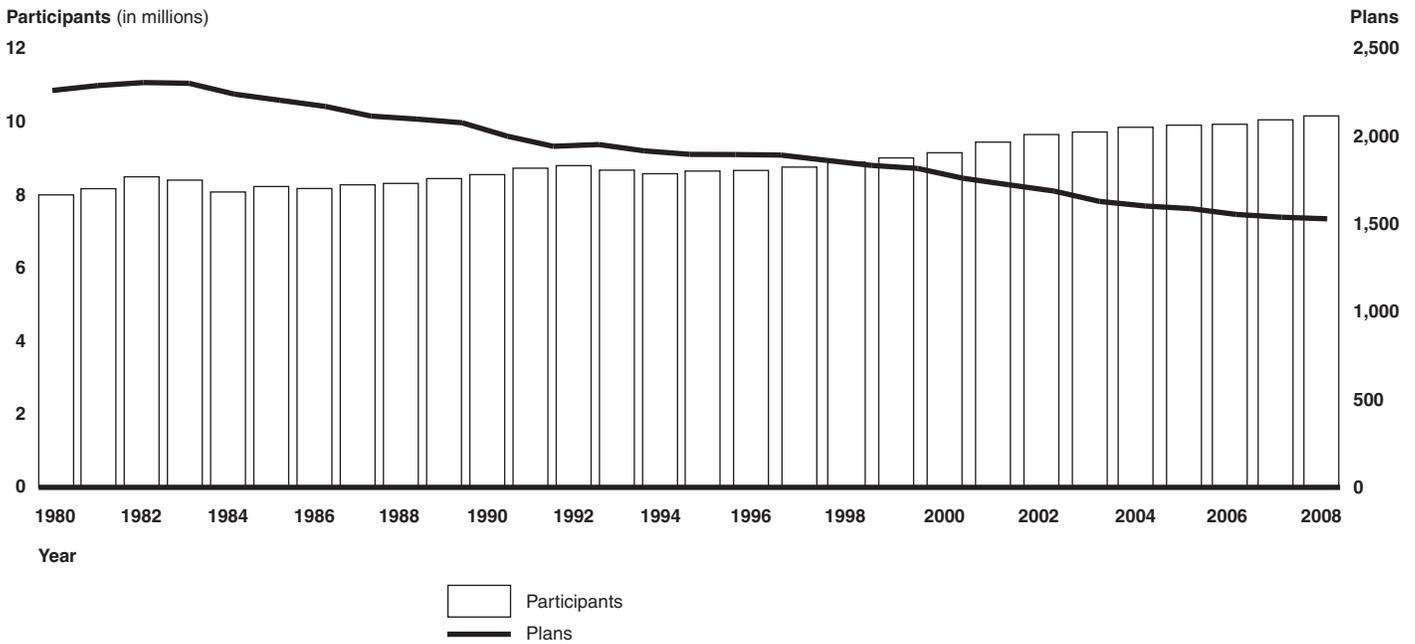
Figure 1: Aggregate Funded Status of PBGC-Insured Multiemployer Pension Plans, 1980-2006



Source: GAO analysis of PBGC data.

Multiemployer plans also face demographic challenges: reductions in the number of plans, an aging workforce, and few opportunities to attract new employers and workers into plans. The number of plans has decreased fairly steadily since the 1980s, likely reflecting plan mergers. (See fig. 2.)

Figure 2: Number of PBGC-Insured Multiemployer Plans and Participants, 1980-2008

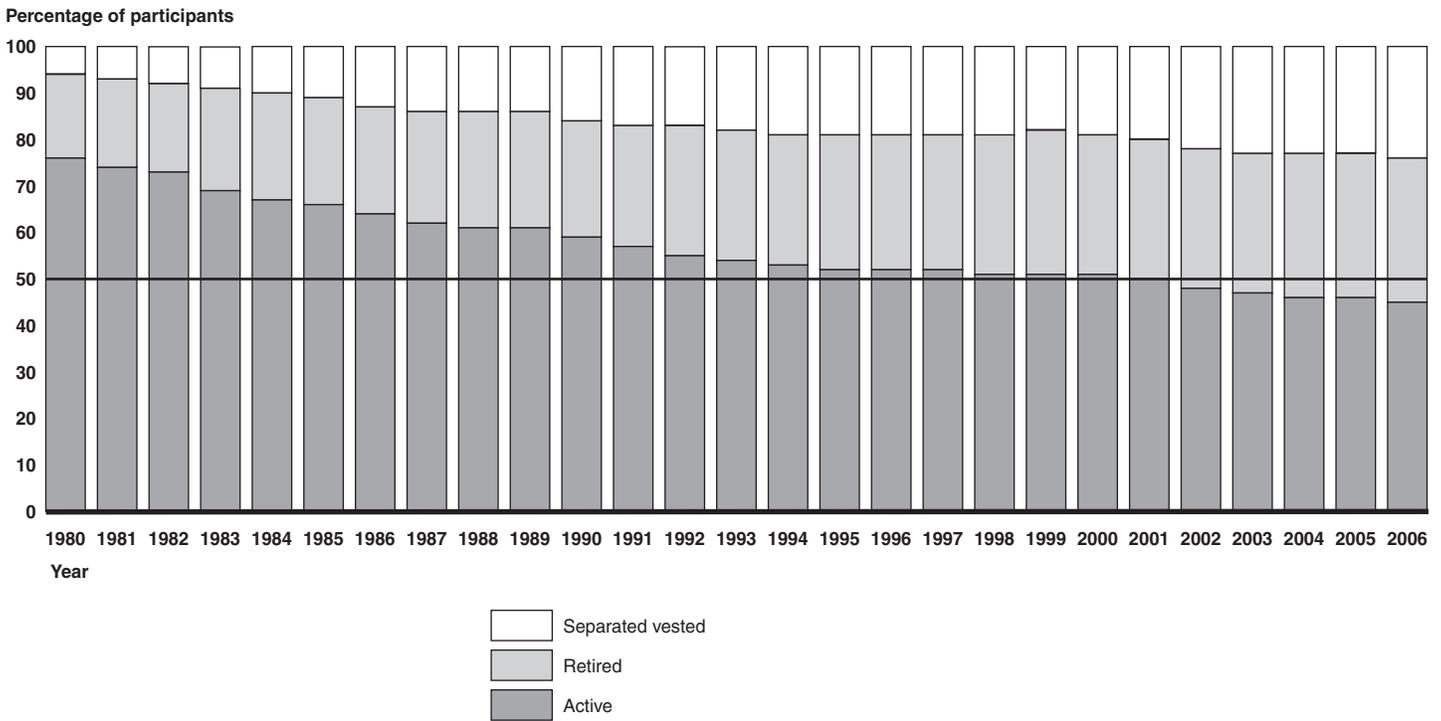


Source: GAO analysis of PBGC data.

Meanwhile, although the number of total participants in multiemployer plans has slowly increased, the proportion of active participants to retirees and separated vested participants has decreased, largely because of an aging workforce.¹⁹ (See fig. 3.) For example, multiemployer plans had 1.6 million fewer active participants in 2006 than in 1980, according to PBGC.

¹⁹A separated vested participant is one who has earned a nonforfeitable pension benefit but is no longer accruing benefits under the plan and has not yet started receiving benefits.

Figure 3: PBGC-Insured Multiemployer Plan Participation, by Participant Status, 1980-2006



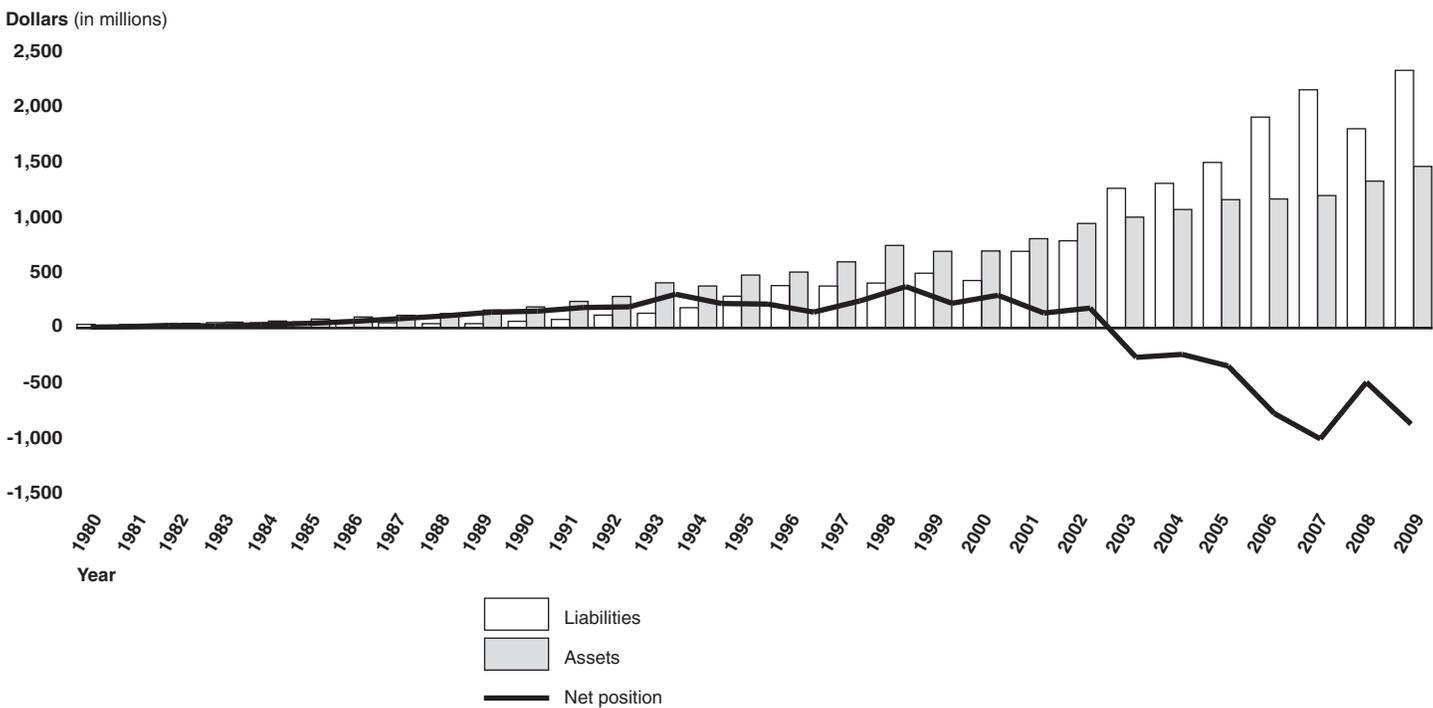
Source: GAO analysis of PBGC data.

Future growth of multiemployer plans is largely predicated on growth of collective bargaining. Yet collective bargaining has declined in the United States since the early 1950s. According to the Bureau of Labor Statistics, union membership—a proxy for collective bargaining coverage—accounted for 7.2 percent of the U.S. private sector labor force in 2009. In contrast, in 1990, union membership in the private sector accounted for about 12 percent, and in 1980, about 20 percent.

Without a new stream of contributions, plans will increasingly have to tap into assets to meet benefit obligations and, everything else being equal, and this will generally lower the plans’ funded status. The conditions that plans currently face increase the risk of insolvency and the likelihood PBGC will be forced to provide financial assistance. PBGC’s ability to assist multiemployer plans is contingent upon its insurance program having sufficient funds to do so. PBGC’s net position for its multiemployer pension insurance program has steadily declined since its highest point in 1998 as program liabilities outpaced asset growth. (See fig. 4.) In fiscal

year 2009, the multiemployer program reported an accumulated deficit of \$869 million.

Figure 4: PBGC Multiemployer Insurance Program Assets, Liabilities, and Net Position, Fiscal Years 1980-2009



Source: GAO analysis of PBGC data.

By promoting risk sharing among participating employers and workers, the framework for multiemployer plans under ERISA and MPPAA is intended to limit PBGC’s exposure to future losses from underfunded plans. However, in fiscal year 2009, PBGC’s estimates of exposure to future losses from underfunded multiemployer plans rose to \$326 million (up from \$30 million in 2008 and \$73 million in 2007).²⁰ PBGC reported that most plans considered at risk were in manufacturing, transportation, services, and wholesale and retail trade. PBGC’s estimate of the exposure

²⁰PBGC classifies the underfunding for vested benefits in other multiemployer plans as reasonably possible exposure. In the multiemployer program, a probable liability is generated when certain plan metrics are sufficiently problematic. Given a sufficiently problematic collection of plan metrics, and a cash-flow projection of insolvency, a plan is classified as probable, and is thus recognized as a PBGC liability.

to future losses from underfunded multiemployer plans could reach \$5.5 billion over the next 10 years.

Concluding Observations

Multiemployer plans continue to provide an important source of retirement income for millions of American workers. These plans provide a useful means for these workers—workers who change jobs frequently within the same industry—to accrue retirement benefits over the course of their careers. But, similar to their single-employer cousins, multiemployer plans are suffering some serious short-term financial stresses within the larger context of a longer-term structural decline. Congress has given PBGC tools to monitor the overall financial health of multiemployer plans and a means to provide financial assistance to help these plans weather difficult financial times. Given recent financial events, however, it will take more time to determine whether the PPA requirements will achieve their intended purpose.

This concludes my prepared statement. I am happy to answer any questions that the committee may have.

GAO Contact and Staff Acknowledgments

For further questions on this testimony, please contact me at (202) 512-7215. Individuals making key contributions to this testimony include Joseph Applebaum, Susan Aschoff, Robert Campbell, David Lehrer, Thanh Lu, Jonathan S. McMurray, and Roger J. Thomas.

Abbreviations

DB	defined benefit
ERISA	Employee Retirement Income Security Act
MPPAA	Multiemployer Pension Plan Amendments Act
NLRA	National Labor Relations Act
PBGC	Pension Benefit Guaranty Corporation
PPA	Pension Protection Act
WRERA	Worker, Retiree, and Employer Recovery Act

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