PRIVATE PENSIONS

Multiemployer Plans Face Short- and Long-Term Challenges

What GAO Found

Following 2 decades of relative financial stability, multiemployer plans as a group appear to have suffered recent and significant funding losses, while long-term declines in participation and new plan formation continue unabated. At the close of the 1990s, the majority of multiemployer plans reported assets exceeding 90 percent of total liabilities. Recently, however, stock market declines, coupled with low interest rates and poor economic conditions, appear to have reduced assets and increased liabilities for many plans. PBGC reported an accumulated net deficit of $261 million for its multiemployer program in 2003, the first since 1981. Meanwhile, since 1980, the number of plans has declined from over 2,200 to fewer than 1,700 plans, and there has been a long-term decline in the total number of active workers.

PBGC monitors those multiemployer plans, which may, in PBGC’s view, present a risk of financial insolvency. PBGC also provides technical and financial assistance to troubled plans and guarantees a minimum level of benefits to participants in insolvent plans. PBGC annually reviews the financial condition of plans to determine its potential insurance liability. Although the agency does not trustee the administration of insolvent multiemployer plans as it does with single-employer plans, it does offer them technical assistance and loans. PBGC loans have been rare, with loans to only 33 plans, totaling $167 million since 1980.

Several factors pose challenges to the long-term prospects of the multiemployer system. Some are inherent to the multiemployer regulatory framework, such as the greater perceived financial risk and reduced flexibility for employers compared to other plan designs, and suggest that fewer employers will find such plans attractive. Also, the long-term decline of collective bargaining results in fewer new participants to expand or create new plans. Other factors threaten all defined benefit plans, including multiemployer plans: the growing trend among employers to choose defined contribution plans; the increasing life expectancy of workers, which raises the cost of plans; and continuing increases in employer health insurance costs, which compete with pensions for employer funding.