May 27, 2010

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Highlights

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

PRIVATE PENSIONS

Long-standing Challenges Remain for Multiemployer Pension Plans

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.
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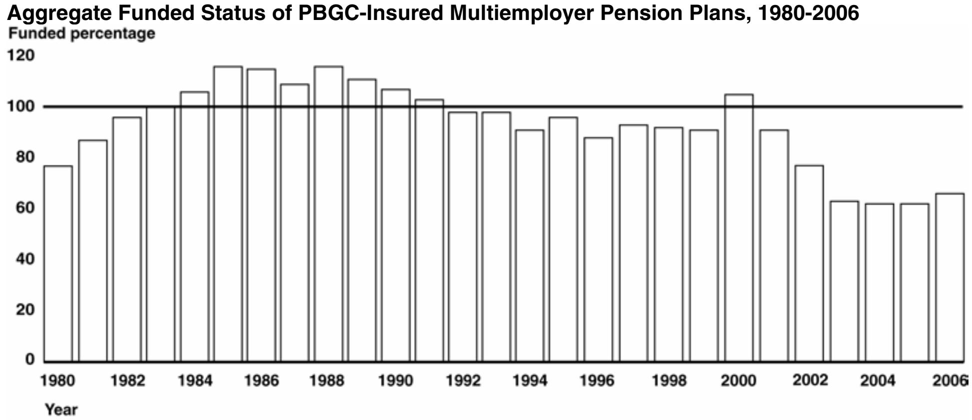
What GAO Found

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



Source: GAO analysis of PBGC data.