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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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FEBRUARY 29, 1980

RELEASED

The Honorable Harrison A. Williams, Jr.
Chairman, Committee on Labor and
Human Resources
United States Senate SEN07106

Dear Mr. Chairman:

Subject: Reliability of the Pension Benefit Guaranty Corporation's Estimated Cost of Proposed Revisions to the Multiemployer Pension Plan Insurance Program (HRD-80-65)

On January 31, 1980, you asked for our current views on the reliability of the Pension Benefit Guaranty Corporation's estimated cost of proposed revisions to the multiemployer pension plan insurance program, established by the Employee Retirement Income Security Act (ERISA).

As you pointed out, we testified before the Subcommittee on Oversight, House Committee on Ways and Means, on September 28, 1978, on the reliability of estimated alternative multiemployer program provision costs, as presented in the Corporation's July 1, 1978, report, "Multiemployer Study Required by P.L. 95-214."

In our testimony, we concluded that the number and uncertainty of estimates and assumptions made by the Corporation in forecasting costs reflected the tremendous uncertainty of program costs, which could be much lower or higher than estimated. We also concluded that the limited historical data available on multiemployer plan characteristics and program provision experience, and the potential effect of factors (such as future economic trends) made it virtually impossible at that time to reliably estimate the costs of alternative program provisions.

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We continue to believe the Corporation's estimated program costs could be much lower or higher than actual, and that it is still virtually impossible to reliably estimate these costs.

Because of the short time frame available to provide you with our current views on the Corporation's estimated program costs, our findings are based on discussions with Corporation officials and the review of readily available information rather than on a detailed evaluation of the cost estimates. As requested by your office, we did not obtain agency comments.

BACKGROUND

On May 1, 1979, the Corporation submitted proposed legislation for revising the multiemployer insurance program to both Houses of Congress. The proposed legislation was introduced at the request of the administration as H.R. 3904 and S. 1076 on May 3, 1979. Some of the major provisions in the proposed legislation include:

--A requirement that sponsoring employers, who withdraw from a plan, fund their fair share of the plan's unfunded vested liabilities through withdrawal liability payments.

--A strengthening of funding standards designed to help ensure that employer contributions and plan assets will be sufficient to pay benefits, except in the case of a severe decline in the plan's contribution base.

--A requirement that financially troubled plans reorganize to improve the balance between promised benefits and contributions by increasing contributions and/or limiting or reducing benefits.

--A reduction in the present level of guaranteed benefits.

--Corporation financial assistance to plans to the extent plan assets are not sufficient to pay guaranteed vested benefits.

--An increase in the premium rate.

The proposed legislation called for an increase in the premium rate from the present $.50 per participant per year to $2.60, phased in over 5 years, beginning with the first plan year after enactment of the proposed legislation. According to the Corporation, the $2.60 premium rate was selected from estimated premium rates ranging from $2.29 to $3.79, which would be needed to finance estimated 20-year program costs ranging from $177 to $313 million.

Corporation officials advised us that these premium and cost estimates were based on the same information and estimating techniques used to estimate the program provision costs in its July 1, 1978, report.

To make the July 1, 1978, cost estimates, the Corporation made numerous estimates and assumptions on the financial condition and characteristics of a sample of multiemployer plans, which plans would become unable to pay promised benefits, and the effects of different program provisions. The Corporation then used these results to estimate alternative program provision costs for all multiemployer plans.

Corporation officials told us, however, that by January 1980 the cost projection model had been improved by the addition of more and better information.

MULTIEMPLOYER PROGRAM COST ESTIMATES REMAIN UNCERTAIN

According to the Corporation, the changes made to the cost projection model included substantially increasing the size of the multiemployer sample from 279 to 413 plans, using more complete and current information annually reported under ERISA (Form 5500), and using more current Bureau of Labor Statistics' projections of industry employment. Corporation officials stated that adding more plans to the sample also increased the quality of plan information, because efforts had been made to collect data directly from the administrators of many of the additional plans.

The changes made by the Corporation improved the information used in projecting program costs. We found, however, that the plan information used was not verified through audit and the cost projections continue to be based on many estimates of the plans' financial and operational characteristics.

For example, in our September 1978 testimony, we pointed out that the characteristics for which estimates were made included (1) the age of, and number of years worked by the active and separated vested plan participants and (2) the rates of investment return on the assets of the plans. These characteristics are critical elements in forecasting the financial condition of the sample plans, including the amount of benefits that will be owed to participants by the plans, the amount of plan assets that will be available to pay the benefits, and thus, the amount of claims against the multiemployer insurance program.

Information provided to us indicates that the Corporation's revised cost projection model continues to be based on estimates of age and length of service for about 80 percent of the sample plans and estimates of rates of return on investments for more than 50 percent of the plans.

Further, the Corporation made assumptions on how participants of and employers sponsoring multiemployer plans will react to the proposed program revisions. For example, the original and revised cost projection models both estimate the lower range of program cost and premium requirements using assumptions that plans will reorganize and meet proposed funding requirements, and that sponsoring employers will not withdraw from the plans in reaction to the proposed program revisions. These judgmental assumptions alone make the cost estimates uncertain.

The Corporation recognizes that participant and employer behavior uncertainties could alter the estimated costs. In a January 29, 1980, letter to the Chairman of the Subcommittee on Labor-Management Relations, House Committee on Education and Labor, the Corporation estimated the costs of certain revisions to H.R. 3904 being considered by the Subcommittee. The Corporation stated that there were uncertainties in the cost estimates, including:

"1. the degree to which sponsoring parties are prepared to increase contribution rates or adjust benefits during reorganization;

"2. the degree to which employer liability requirements, premium requirements, benefit guarantee levels, and funding standards may affect employer withdrawals from, or entry into, plans;

"3. the degree to which benefit guarantee levels and funding standards affect the sponsoring parties' willingness to increase contributions above minimum funding standards; and

"4. future changes in covered employment under multiemployer plans."

With regard to the reliability of the cost estimates, the Corporation further stated that:

"* * * the cost estimates reflect projections of plan populations and plan characteristics. Consequently, actual program costs could be higher or lower than the model estimates."

CONCLUSIONS

We believe that the number and uncertainties of estimates and assumptions used by the Corporation in its original and revised cost projection models for forecasting the costs and premium requirements of proposed multiemployer insurance program revisions continue to cause the estimates to be highly uncertain. Therefore, the actual program costs and premium requirements could be much higher or lower than estimated.

Further, we believe that the limited available data on multiemployer plan characteristics, the uncertainty of how participants and employers will react to proposed program revisions, and the potential effect of other factors (such as economic trends) make it virtually impossible at this time to reliably estimate the costs and premium requirements of proposed program revisions.

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As arranged with your office, we will send copies of this report to interested parties and make copies available to others on request.

Sincerely yours,

Comptroller General
of the United States