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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Effects Of The 1980 Multiemployer Pension Plan Amendments Act On Plan Participants' Benefits

The Multiemployer Pension Plan Amendments Act of 1980 changed federal requirements for funding and insuring the benefits of over 8 million participants in multiemployer defined benefit pension plans nationwide. A major change increased employers' liability for unfunded benefits when they withdrew from the plans.

GAO found that plan terminations increased from 27 in the 6 years before the act's passage to 66 in the 4 years after. According to plan officials, the act's employer liability changes contributed to the increases, but economic and other factors played a more significant role. Plan terminations after the act affected less than 1 percent of the participants nationwide. Most of those affected are to receive all benefits earned, and alternative pension coverage was made available for most of the participants still working.

Benefit practices of most of the 139 plans GAO sampled were changed after the act. According to plan officials, the act's employer liability provisions contributed to changes causing 12 percent of the 3.2 million sample plan participants to receive either no benefit increases after the act when they had been given benefit increases before or smaller increases than previously received. However, much higher percentages of the plans' participants were similarly affected or received greater benefit increases because of changes not related to the act.

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JUNE 14, 1985

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

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To the President of the Senate and the
Speaker of the House of Representatives

This is one in a series of reports in response to the requirement in the Multiemployer Pension Plan Amendments Act of 1980 that GAO study the effect of the act on employers, participants, and others. It assesses the effect of the act's changes on multiemployer plan participants.

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretaries of Labor and the Treasury; the Board of Directors and Executive Director of the Pension Benefit Guaranty Corporation; and other interested parties.

Charles A. Bowsher
Comptroller General
of the United States

In 1974, the Employee Retirement Income Security Act (ERISA) established an insurance program and other provisions to protect the benefits of over 8 million multiemployer defined benefit plan participants. The Multiemployer Pension Plan Amendments Act (MPPAA) made major changes to the provisions in September 1980 because of concern that plans experiencing financial difficulty could terminate, causing 1.3 million participants to lose benefits already earned or forgo future pension coverage.

MPPAA required GAO to report the effects of the act's provisions on participants and others. This report, one of a series, focuses on the act's effects on plan terminations, plan benefit changes, and plan participants. (See pp. 3 to 9.)

BACKGROUND

Multiemployer plan benefit practices govern the amount of benefits participants can earn and when they can receive them. Under ERISA's provisions, the insurance program guaranteed, within certain limits, participants' benefits not funded by employers. Unfunded guarantees were to be financed by premiums paid by insured plans.

This changed in 1980 when ERISA was amended. MPPAA generally made employers liable for their share of unfunded benefits when they withdrew from a plan rather than when the plan terminated and required employers contributing to plans at termination to continue to pay for unfunded vested benefits. The insurance program provides assistance (repayable loans) to plans when they do not have enough money to pay guaranteed benefits to retired participants. (See pp. 1 to 4.)

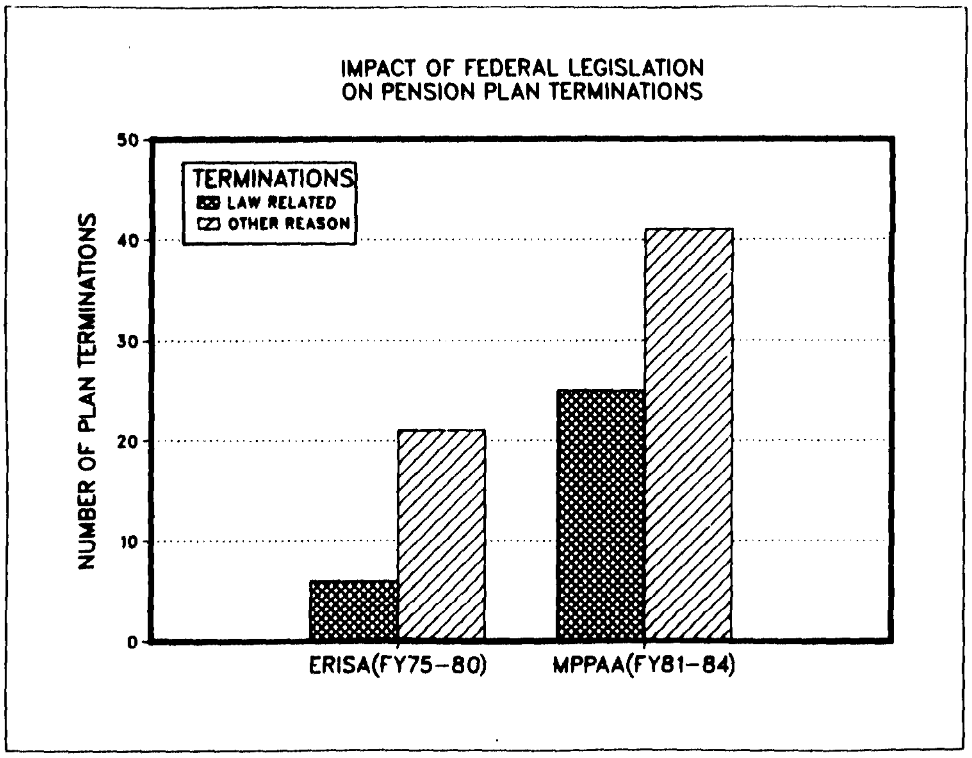
RESULTS IN BRIEF

Plan terminations increased from 27 in the 6 years before MPPAA's enactment to 66 in the 4 years after. According to plan officials, MPPAA's changes to employers' withdrawal liability were a major reason for the increase, but economic and other factors played a more significant role. Terminations after MPPAA affected less than 1 percent of the 8 million participants nationwide. Further, most participants affected by terminations are to receive all benefits earned and alternative pension coverage was made available for most of those still working. (See ch. 3.)

Benefit practices of most of the 139 sample plans reviewed by GAO were changed after MPPAA's enactment. According to plan officials, MPPAA's withdrawal liability provisions contributed to changes that resulted in 12 percent of the 3.2 million working or retired participants in the plans either receiving no benefit increases after MPPAA when they had been given benefit increases before or receiving smaller increases than previously received (unfavorable changes). However, 44 percent of the participants had benefit increases (favorable changes), and 22 percent were unfavorably affected by changes made for non-MPPAA reasons. (See ch. 2.)

PRINCIPAL FINDINGS

Plan Terminations



Plan officials said that MPPAA's withdrawal liability provisions contributed to the increased terminations after the act's passage. They did not cite ERISA as a reason for any of the terminations after MPPAA. (See pp. 22 to 26.)

GAO found that the 66 terminations after MPPAA affected relatively few participants because:

--The participants affected represented less than 1 percent of the over 8 million participants in multiemployer plans nationwide--about 23,631 in MPPAA-related and 17,411 in non-MPPAA-related terminations. (See pp. 27 to 30.)

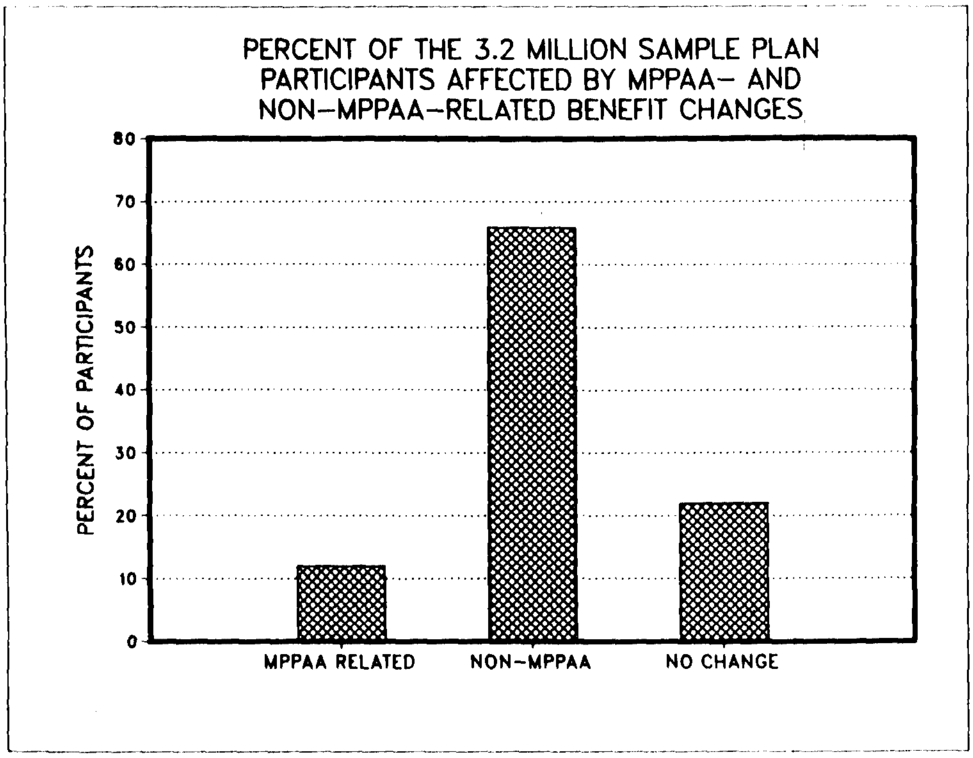
--76 percent of the 41,042 terminated plan participants (29,035 working and 12,007 retired or inactive participants) were to receive all earned benefits (vested and nonvested), and most of the other participants were to receive their vested benefits. (See pp. 30 and 31.)

--Alternative pension coverage was made available through other plans for 88 percent of the 29,035 working participants in the plans. (See pp. 32 and 33.)

Plan Insolvencies

Further, program loans to two insolvent ongoing plans helped pay benefits to their 9,104 retired participants and continue pension coverage for the two plans' 2,748 working participants. (See p. 33.)

Plan Practice Changes



All but 24 of the 139 ongoing sample plans changed benefit practices in the 32 months after MPPAA's enactment. According to plan officials, the act's employer liability provisions contributed to changes in 24 plans that unfavorably affected the benefits of about 386,000 of the 3.2 million participants in the sample plans. The changes were considered unfavorable because participants received no benefit increases after MPPAA when they had received them before or received smaller increases than previously received.

However, changes were made to 91 plans for economic and other reasons not related to MPPAA. These changes resulted in

--about 726,000 participants not receiving benefit increases after MPPAA when they had before or receiving lower benefit increases than previously received and

--about 1.4 million participants receiving higher benefit increases or being allowed to retire earlier than before MPPAA. (See pp. 10 to 20.)

RECOMMENDATIONS

This report presents descriptive information. GAO is making no recommendations.

AGENCY COMMENTS

The Pension Benefit Guaranty Corporation suggested some technical changes to the report which were made, where appropriate. Department of Labor and Internal Revenue Service officials advised GAO that they had no comments on the report. (See p. 5.)

Contents

Page

APPENDIX

ILLUSTRATIONS

CHART

Page

TABLE

ABBREVIATIONS

ERISA	Employee Retirement Income Security Act of 1974
GAO	General Accounting Office
MPPAA	Multiemployer Pension Plan Amendments Act of 1980
PBGC	Pension Benefit Guaranty Corporation

CHAPTER 1

INTRODUCTION

A government insurance program, administered by the Pension Benefit Guaranty Corporation (PBGC), was established in 1974 to guarantee that participants of multiemployer defined benefit pension plans receive, up to certain limits, their earned retirement benefits. However, mandatory insurance coverage was delayed for several years because the Congress was concerned about the program's financial viability. In July 1978, PBGC reported that the program could incur billions of dollars in insurance liabilities, and over a million participants could lose benefits earned and forego pension coverage if program provisions were not changed. The Multiemployer Pension Plan Amendments Act of 1980 (MPPAA) modified the insurance program's design and changed the federal standards for plan funding. This report, one in a series, focuses on how the act affected plan participants' benefits.

MULTIEMPLOYER DEFINED BENEFIT PENSION PLANS

Multiemployer defined benefit pension plans (hereafter referred to as multiemployer plans) are established and maintained through collective bargaining agreements between one or more employee organizations and more than one employer. The plans pay a particular retirement income, determined in advance by a formula, to employees of contributing employers. Over the past three decades, multiemployer plans contributed substantially to the increase in private pension coverage. According to Department of Labor information, about 1 million employees were covered by multiemployer plans in 1950. PBGC's records show that about 2,500 plans covered over 8.7 million employees by 1982. The following sections provide a general overview of how plans are administered, who is covered, and what types of benefits are provided.

How are plans administered?

Multiemployer plans are primarily financed by employers' contributions to a trust fund, generally at a fixed rate (e.g., dollar or percent) times a base unit (e.g., hours of employment or wages earned) set in a collective bargaining agreement. The trust fund can earn additional income by investing plan assets in various types of marketable securities. A board of trustees usually determines the types and amounts of benefits to be provided and the eligibility requirements for such benefits. Employers and employees generally have equal representation on the board. Routine administrative duties, such as collecting contributions, processing retirement applications, and paying benefits, are generally performed by an outside firm or a salaried plan manager. In addition, plans often rely on independent parties for a wide range of professional services, such as legal and investment. More detailed information on plan administrative practices is included in tables 1 through 6 of appendix I.

Who is covered?

A multiemployer plan generally covers employees of employers signing a collective bargaining agreement with either a local union, several local unions in one or more states, or a national or international union. Plans often set minimum age or service requirements that must be met before an employee can earn benefits during employment (become a participant) or retain eligibility for earned benefits when employment is terminated before retirement (become vested).

Multiemployer plans usually cover employees working in an industry or craft in a specific geographical area. Plans are classified, however, according to the industry predominantly represented by their contributing employers. The major industries include construction; wholesale and retail trades; transportation, communication, and utilities; and manufacturing. More detailed information on plan coverage characteristics is included in tables 7 through 9 of appendix I.

What benefits are provided?

Although primarily designed to provide income for employees after they retire, multiemployer plans may provide benefits when an employee dies or becomes permanently unable to work because of injury or disease. For each type of benefit, practices are established to determine what and how benefits will be earned and when and how they will be paid.

Retirement benefits, for example, are generally earned based on a formula which includes a prescribed rate (e.g., dollar or percent) times a base unit (e.g., years of employment, contributions made, or wages earned). Regardless of the type of formula used, plans may periodically increase the rate of benefits earned. Each multiemployer plan specifies one or more minimum age or service requirements for when an employee can normally retire (normal retirement) and when, if at all, an employee can retire early (early retirement). At retirement, an employee may elect to receive a full monthly benefit for life or a reduced benefit that will allow a beneficiary to receive benefits after the employee's death. Benefit payments to retirees may be increased automatically or at a plan's discretion. More detailed information on plan benefit practices is included in tables 10 through 18 of appendix I.

CHANGES MADE BY MPPAA

On September 2, 1974, the Employee Retirement Income Security Act of 1974 (ERISA) established a self-financing insurance program to guarantee the payment of retirement benefits for multiemployer plans that terminate without sufficient assets.[1] PBGC was established to administer the program and collect premiums from insured plans to finance terminated plans' unfunded guaranteed benefits and other program costs. Benefits guaranteed were limited to a maximum amount, to be annually assessed and adjusted, if needed, by PBGC (originally $750 a month), and each employer contributing to a plan within 5 years of termination was liable for a share of the unfunded guaranteed benefits. However, an employer's liability was limited to 30 percent of net worth--the difference between the value of business assets and liabilities at a point in time. ERISA also established minimum funding standards to help ensure that plans had enough assets to pay earned benefits when due.

Although mandatory insurance was scheduled to begin after December 31, 1977, the Congress delayed coverage because of a concern about the impact of potential insurance claims for unfunded guaranteed benefits on the program's financial viability. In a July 1978 report to the Congress, PBGC pointed out that termination could be an attractive alternative for about 10 percent of the multiemployer plans experiencing financial difficulties because the cost of maintaining the plans exceeded employers' limited liability to the insurance program for unfunded benefits. According to the report, the program could incur insurance liabilities of about $4.8 billion if these plans terminated. To fund such liabilities, the report estimated that the program's annual premium rate would have to increase from 50 cents a participant to about $80 a participant.

In response to PBGC's report, the Congress enacted MPPAA on September 26, 1980, to encourage the maintenance and growth of plans, provide reasonable protection for plan participants, and provide a financially self-sufficient insurance program. The act requires an employer who withdraws from a plan to continue to be liable for and pay its portion of the plans' unfunded benefits (hereafter referred to as withdrawal liability).

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[1]Before ERISA, employees and their beneficiaries could lose some or all of their earned retirement benefits if a plan terminated without sufficient assets to pay benefits because employers' liability was limited to making required annual contributions.

Each terminating plan must collect annual contributions or withdrawal liability from employers, but withdrawal liability ceases when sufficient assets are available to pay all vested benefits.[2] In addition, the program's insurable event was changed. Under MPPAA, the insurance program no longer automatically incurs a liability for the unfunded guaranteed benefits when a plan terminates. Rather, the program must provide financial assistance, in the form of repayable loans, to help pay benefits only when a plan becomes insolvent[3] and is unable to pay benefits at the PBGC-guaranteed level.

In addition, the benefit guarantees for participants in multiemployer plans were lowered, within prescribed limits.[4] Further, MPPAA increased the program's premium rate, originally 50 cents per plan participant per year, to $1.40 for the first 4 plan years after its enactment.[5] The rate is scheduled to increase $.40 every 2 years until it reaches $2.60 in September 1988. MPPAA also changed ERISA's minimum funding provisions to better ensure that plan assets were available to pay benefits and to reduce the risk to the insurance program.

OBJECTIVES, SCOPE, AND METHODOLOGY

MPPAA requires GAO to (1) study the effect of its provisions on participants, employers, and other parties and (2) report the results to the Congress by June 30, 1985. This report, one in a series, focuses on the extent to which MPPAA's changes affected (1) ongoing plans' benefit practices and (2) plan terminations and their effects on participants' benefits. MPPAA's

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[2]Vested benefits, at any point in time, consist of the total amount of benefits earned by participants to which a nonforfeitable right has been established.

[3]Plans are considered insolvent if available cash, marketable assets, employers' contributions and withdrawal liability payments, and investment earnings are not sufficient to pay administrative expenses and benefits when due.

[4]Benefits attributable to increases within 5 years of termination are not guaranteed. Also, the maximum guaranteed benefit was reduced to 100 percent of the first $5 of monthly benefits earned for a year of service plus 75 percent of the next $15 or the remaining earned benefits above $5, whichever is lower, for a year of service.

[5]The rate was increased to $1.00 for the portion of the 1980 plan year that remained after MPPAA's enactment on September 26, 1980.

effects discussed in this report should be considered with those presented in the other reports in our series to reach an overall conclusion on MPPAA's effects on plan participants. Appendix II lists the prior GAO reports on multiemployer plans.

To conduct the study, MPPAA authorized GAO to examine any books, documents, papers, records, or other information pertinent to the study within the possession or control of the administrator or sponsor of any plan. MPPAA, however, prohibited GAO from publicly disclosing the identity of any individual in presenting the information obtained. Therefore, information is presented in this report in a manner designed to protect against disclosing any individual's identity. We conducted our study in accordance with generally accepted government audit standards.

We asked PBGC, the Internal Revenue Service, and the Department of Labor to comment on the report. PBGC officials suggested some technical changes to the report which were made where appropriate. Department of Labor and Internal Revenue Service officials advised us that they had no comment on the report.

Analysis of MPPAA's effect on ongoing plans' benefit practices

To assess MPPAA's effect on ongoing plans' benefit practices, we collected information from a randomly selected, stratified sample of 139 multiemployer plans[6] for the period January 1978 through May 1983. The representative sample of 139 plans was selected from 1,276 multiemployer plans in 14 states and the District of Columbia (study area) which were reported to the government as having 100 or more participants in plan year 1979. The study area was chosen because it had (1) a diversity of plans by industry and geographical coverage and (2) almost 75 percent of the 8.3 million participants reported by 1,924 multiemployer plans with 100 or more participants nationwide.

Although the 139 plans accounted for less than 11 percent of the 1,276 plans in the study area, the plans' 3.4 million participants represented about 54 percent of the 6.2 million multiemployer participants in the study area and about 40 percent of the participants nationwide. We believe that the

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[6]Originally we selected 149 plans. Sufficient information, however, was obtained during our fieldwork to complete analyses on benefit practice changes for only 139 plans. The 10 plans were excluded for several reasons, including plan termination and suspension of plan operations before MPPAA.

139 plans in our sample reasonably represent the sizes and industries common to multiemployer plans administered in the 14 states and the District of Columbia, as reported to the federal government. However, the results may not be projected to the nation as a whole. The tables in appendix III compare plans in the sample and study area to plans nationwide by size and industry.

Our fieldwork was performed from March 1982 through August 1984. We obtained available information on (1) whether the 139 sample plans changed benefit practices after MPPAA, (2) why such changes were made, and (3) what effect the plans' new benefit practices had, in general, on active or retired employees and their beneficiaries.[7] To obtain the information, we reviewed plan records and interviewed plan administrators, trustees representing employers and employees, attorneys, and actuaries (hereafter referred to as plan officials).

Information collected included data on selected practices from January 1, 1978, through May 31, 1983, relating to (1) how working employees earn retirement benefits, (2) what eligibility requirements must be met to retire, and (3) how benefits are paid to retired employees and their beneficiaries. Although changes in most plan practices affect benefits earned or received, we selected practices that, if changed because of MPPAA, could be expected to affect the most participants. The major practices included in our study are presented in appendix I.

During our data analysis, we used telephone interviews with plan officials to verify our observations on whether plan practices were changed and discussed the causes for the changes identified. For each plan, officials provided the reason(s) why each identified change was made. Wherever possible, we obtained written documentation on the causes cited. When written documentation was not provided, we noted no reason to doubt the validity of the causes cited by plan officials for changes made.

Data collected on the 139 plans were computerized so that plan benefit practices could be analyzed over the 33-month

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[7]Of the 3.4 million participants in the 139 sample plans, 3.2 million were retired or working for a contributing employer. About 250,000 participants in the plans were former employees who had not retired but had vested benefits before discontinuing employment with a contributing employer. Our review addresses the effect of plan changes on the 3.2 million working or retired participants because we were not able to readily determine how plan changes would be applied to and, therefore, affect the 250,000 former employees.

period before MPPAA was passed (Jan. 1, 1978, to Sept. 26, 1980) and the 32-month period after its passage (Sept. 27, 1980, to May 31, 1983). We tested our computer programs and procedures to ensure their reliability and verified the computerized data to assure that they were recorded accurately.

Using the data base, we identified plans that changed practices due to MPPAA or other reasons during our period of analysis and determined, on a general basis, whether working or retired participants were favorably or unfavorably affected by the changes. We considered changes favorable to participants if they (1) increased, at rates higher than before MPPAA, the amount of benefits earned or paid to participants or (2) allowed participants to retire at an earlier age or with fewer years of plan participation. Changes were considered unfavorable to participants if they resulted in participants receiving no benefit increases when they had received them before or receiving smaller increases than were previously received. Also changes were considered unfavorable if they required new participants to work longer or be older before retirement. We did not assess the extent to which these benefit practice changes favorably or unfavorably affected plans' financial conditions and the associated effects on participants' benefits.

We did not determine whether the extent of favorable changes to participants was limited by MPPAA or other factors because we believed that available information for such determinations would be based primarily on speculation rather than documented evidence. Further, we did not attempt to quantify the extent to which favorable or unfavorable changes affected the dollar value of participants' benefits. Such a determination would have required a separate computation for each sample plan participant affected by changes using data unique to each participant, such as a participant's age, past and future years of employment, and time of retirement.

Because the dollar value of plans' changes in participants' benefits was not determined, we could not assess the effect of changes in the purchasing power of participants' benefits. In this report, changes were considered unfavorable to participants if they resulted in smaller benefit increases after the act than before. However, the national inflation statistics indicate that the dollar's purchasing power declined at a slower rate during our post-MPPAA study period than during the comparable period before the act. As a result, the percentage increases in participants' benefits would not have to be as large after MPPAA in order for the participants to maintain the same purchasing power that they had before the act.

We also analyzed separately plans that (1) had benefits fully funded, (2) had unfunded benefits, and (3) covered employers in different industries to determine whether any relationship existed.

Analysis of MPPAA's effect on plan terminations and participants' benefits

To assess MPPAA's effect on plan terminations, we collected information on (1) all 93 multiemployer plans terminated from September 2, 1974 (ERISA's passage), to September 30, 1984, and (2) the two plans that had received financial assistance under MPPAA's loan provisions as of December 31, 1984.

For the terminated plans, we gathered data on financial condition, participants, stated reasons for termination, and whether continuing pension coverage was provided to participants through new or other existing plans. The information was obtained from PBGC's or the Department of Labor's records and through discussions with PBGC case officers and plan officials.

Using the data collected, we separated the universe of terminated plans into two groups--plans whose assets were sufficient to pay guaranteed benefits and those whose assets were not sufficient. For each group, we determined (1) how many plans terminated before and after MPPAA and (2) what the reasons were for termination.

For each plan terminated after MPPAA, we examined how the termination affected participants' benefits, including (1) what impact MPPAA's changes had on benefits guaranteed and (2) whether the effects identified for working participants could be minimized by alternative pension coverage. To identify the type of alternative coverage available, we used information provided by PBGC and officials of the terminated plans. A determination of the differences between benefits that would be earned in the future under the terminated plans, if continued, with benefits that would be provided under alternative pension coverage offered was not within the scope of our review. Such a determination would require considerable speculation about future employee participation and benefit earnings in each situation.

For the two insolvent plans, information was collected on their general characteristics as well as on the financial assistance provided by the program. This information was obtained through a review of PBGC's records and discussions with PBGC and plan officials. To assess the effect on participants, we compared benefits received under normal operating conditions with those received under MPPAA's new benefit guarantees for plans receiving financial assistance. We also examined the circumstances surrounding the plan's insolvency and expectations for its future operations, including repayment of program loans.

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We believe the information in this report presents MPPAA's initial effects on plan benefit practices and terminations and their effects on participants' benefits. However, except for assessing the effect of insurance program financial assistance on plan continuation, we did not attempt to determine MPPAA's effects on plans' decisions to continue rather than terminate. We believe such a determination would have been unreliable because it would have had to be based on speculation about what plans' management decisions would have been without MPPAA rather than actual documented events.

CHAPTER 2

WHAT EFFECT HAS MPPAA HAD ON PARTICIPANTS' BENEFITS IN ONGOING PLANS?

MPPAA increased withdrawing employers' liability for unfunded plan benefits. Of the 139 sample plans covered by our review, 24 had benefit practice changes during the 32 months after MPPAA's enactment that plan officials attributed, at least in part, to the increased liability. These changes unfavorably affected about 386,000 of the 3.2 million working or retired participants in the sample plans. The changes were considered unfavorable because participants received either no benefit increases when they had received them before or smaller increases than were previously received. No changes favorable to participants were attributed to MPPAA.

By contrast, plan officials reported that changes were made to 91 plans for reasons not related to MPPAA. These changes unfavorably affected about 726,000 participants and favorably affected about 1.4 million. Most of the participants unfavorably affected by these changes, like the participants affected by MPPAA, received no benefit increases or increases smaller than they had previously received. Most participants favorably affected received benefit increases higher than they had previously received. Also, about 341,000 participants were favorably affected because the changes allowed them to retire earlier.

PLAN CHANGES AFTER MPPAA AFFECTED MOST PARTICIPANTS

Our review showed that during the 32 months after MPPAA's enactment, changes were made to 115 (83 percent) of the 139 sample plans' practices governing the amount of participants' benefits and/or when participants could receive them. These changes affected about 2.5 million (78 percent) of the approximately 3.2 million working or retired participants in the 139 plans. Although many plan participants (about 1.2 million) were unfavorably affected by plan changes, more (about 1.4 million) were favorably affected.[1] We also found that most working and retired participants in the 139 plans were affected by changes--with the majority of each participant group being favorably rather than unfavorably affected.

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[1]As table 2 shows, about 111,000 participants were favorably and unfavorably affected by plan changes.

The following tables show the number of plans that had favorable or unfavorable changes in benefit practices after MPPAA's enactment and the number of working, retired, and total participants affected by the changes.

Table 1

Summary of Plans That Had Changes After MPPAA Favorable or Unfavorable to Participants

Effect of change	Plans Number	Plans Percent
Changes made:		
Favorable to participants	51	37
Unfavorable to participants	42	30
Both favorable and unfavorable	22	16
Total	115	83
No changes made	24	17
Total	139	100
Summary of plans with changes:		
Favorable to participants	73	53[a]
Unfavorable to participants	64	46[a]

[a]Percentages based on 139-plan sample.

Table 2

Summary of Working and Retired Participants Affected by Plan Changes

Effect of change	Participant status: Working Number (thousands)	Working Percent	Retired Number (thousands)	Retired Percent	Total[a] Number (thousands)	Total[a] Percent
Changes made:						
Favorable to participants	1,100	43	218	34	1,319	41
Unfavorable to participants	952	38	134	21	1,086	34
Favorable and unfavorable to same participants	111	4	-	-	111	4
Total	2,163	85	352	55	2,515	79
No changes made	374	15	293	45	668	21[b]
Total	2,537	100	645	100	3,183	100
Participants affected by:						
Favorable changes	1,211	48[c]	218	34[c]	1,430	45[c]
Unfavorable changes	1,063	42[c]	134	21[c]	1,197	38[c]

[a]Totals do not add due to rounding.

[b]Shown as 22 percent in chart 2 because number of participants were rounded to millions.

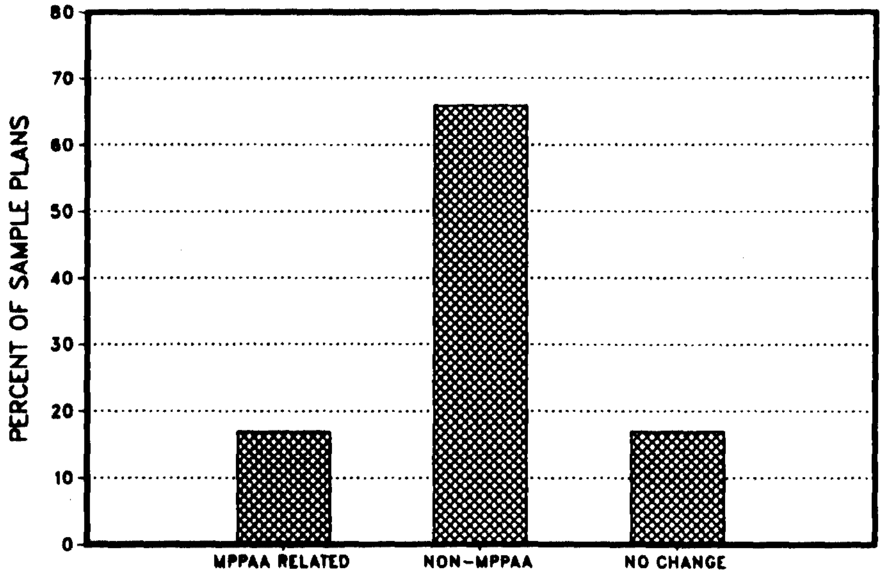
[c]Percentages based on total participants in plans that did and did not make changes.

MPPAA CONTRIBUTED TO PLAN CHANGES UNFAVORABLE TO PARTICIPANTS

Although plan benefit practice changes were most often attributed to non-MPPAA reasons, such as plan financial condition, officials of 24 (17 percent) of the 139 plans in our sample cited MPPAA as a reason for changes unfavorably affecting about 386,000 (12 percent) of the approximately 3.2 million working or retired participants in the sample plans. The changes that were made to the benefit practices of 91 of the 139 plans for reasons not related to MPPAA favorably affected about 1.4 million participants and unfavorably affected about 726,000.

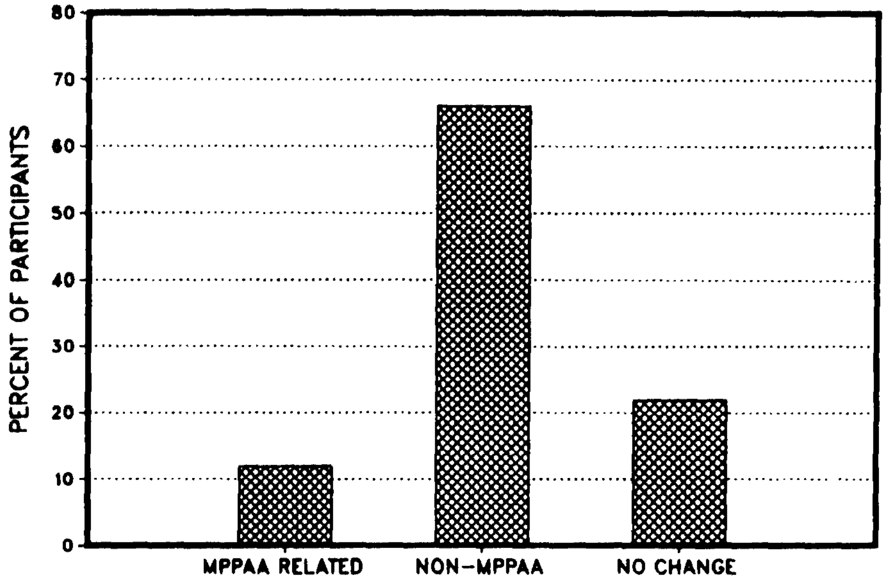
The following charts show the percentage of sample plans that had changes related and not related to MPPAA and the percentage of participants affected by the changes. As discussed later, no changes favorable to participants were attributed to MPPAA, and officials of 5 of the 24 MPPAA-affected plans also cited other reasons for unfavorable plan changes. In addition, 9 of the 24 plans made favorable changes for reasons other than MPPAA.

CHART 1
PERCENT OF SAMPLE PENSION PLANS AFFECTED BY MPPAA- AND NON-MPPAA-RELATED CHANGES



SEVENTEEN PERCENT OF THE SAMPLE PENSION PLANS HAD MPPAA-RELATED CHANGES.

CHART 2
PERCENT OF THE 3.2 MILLION SAMPLE PLAN PARTICIPANTS AFFECTED BY MPPAA- AND NON-MPPAA-RELATED CHANGES



TWELVE PERCENT OF THE SAMPLE PLAN PARTICIPANTS WERE AFFECTED BY MPPAA-RELATED CHANGES.

The following table shows the number of plans that had favorable and unfavorable changes attributed to MPPAA and other reasons and the number of participants affected by the changes. A more detailed discussion of the reasons for non-MPPAA changes follows the table. The MPPAA provisions causing plan changes and the characteristics of plans affected are discussed on pages 17 to 19.

Table 3

Summary of the Reasons Changes Were Made to Plans and the Number of Participants Favorably and Unfavorably Affected by Changes

Reason for change	Plans making changes[a] Number	Plans making changes[a] Percent (n = 115)	Participants affected by changes[b] Number in thousands	Participants affected by changes[b] Percent (n = 2.5 million)
Unfavorable to participants:				
MPPAA related	24	21	386	15
Financial concerns	10	9	31	1
Financial concerns and other non-MPPAA reasons	13	11	123	5
Not MPPAA or financially related	17	15	572	22
Total	64	56	1,112[c]	44
Favorable to participants:				
MPPAA related	0	0	0	0
Financial reasons	31	27	465	18
Financial and other reasons	22	19	256	10
Other than financial reasons	20	17	709	28
Total	73	63	1,430	56

[a]Adds to more than the total plans with changes (115) because 22 plans made both favorable and unfavorable changes.

[b]Does not add to the total of about 2,515,000 participants affected by changes (see table 2) because (1) 22 plans made changes that favorably and unfavorably affected the same 111,000 participants and (2) 85,000 unfavorably affected participants are not included, as discussed in footnote c below.

[c]Adds to less than the total of 1,197,000 participants unfavorably affected by changes (see table 2) because 5 of the 24 plans with MPPAA-related changes had additional changes for other reasons. These additional changes unfavorably affected about 85,000 participants who are not accounted for in this table.

Of the 115 plans that had changes after MPPAA, officials of 91 plans reported that changes were made for reasons other than MPPAA. Of these plans, 51 had changes that favorably affected about 1.2 million participants, and 27 had changes that unfavorably affected about 609,000 participants. The other 13 plans had both types of changes--7 had changes that favorably and unfavorably affected the same participants (about 67,000), and 6 had changes that favorably and unfavorably affected different participants (about 50,000 participants unfavorably and about 116,000 other participants favorably).

Officials of the 51 plans that had changes that only favorably affected participants most often cited financial factors as a reason for the changes. According to the plan officials, changes for financial reasons were generally attributed to favorable aspects of the plans' financial condition. These favorable aspects included higher plan investment earnings or employer contributions that made the changes affordable. Such factors as union or participant pressure to improve plan benefits or a management desire to improve participants' welfare or attract new employers to the plan were cited as nonfinancial reasons for favorable changes.

However, officials of 10 of the 51 plans expressed concern that MPPAA had unfavorably affected the plans' collective bargaining process even though plan changes were favorable to participants. Officials at the 10 plans said that employers were generally more reluctant to negotiate benefit improvements because higher plan costs could result in higher employer withdrawal liability. An official of one of the plans said that the collective bargaining disagreement on plan changes had to be settled in arbitration.

Officials of the 27 plans that had changes only unfavorable to plan participants cited financial and nonfinancial reasons for the changes. Financial reasons most often cited were the funded status of the plans or general economic conditions (Sept. 1980 to May 1983). Although the specific nonfinancial factors cited as reasons for plan changes were usually related to unique aspects of individual plans, they generally reflected a management desire to not continue, at least at the same rate, benefit improvements.

Officials of the 13 plans that had changes both favorable and unfavorable to participants generally attributed changes to reasons similar to those cited by officials of the 78 plans discussed above. However, the reasons cited for individual changes generally reflected the plans' competing desires to (1) improve participants' benefits and (2) minimize plan costs. For example, 8 of the 13 plans had multiple changes that were favorable to one participant group, such as working participants, and unfavorable to the other (retired participants). These plans often cited financial concerns for changes affecting one group and nonfinancial reasons for changes affecting the other. The other five plans cited primarily financial concerns as the reasons for multiple changes that favorably and unfavorably affected the same participant group (working participants).

MPPAA-RELATED CHANGES ATTRIBUTED TO WITHDRAWAL LIABILITY PROVISIONS

Officials of the 24 plans affected by MPPAA said that changes were made because of concern about the effects of the act's provisions governing withdrawing employers' liability for unfunded plan benefits. Although the provisions have a greater potential impact on some plans (such as those with unfunded benefits) than others (such as fully funded plans),[2] we found that they contributed to changes in both categories of plans.

Before MPPAA, employers withdrawing from a plan were not liable for a share of unfunded vested benefits unless the plan terminated within 5 years of their withdrawal. Also, liability was limited to 30 percent of the employers' net worth. MPPAA removed the net worth limitation and made each withdrawing employer, unless covered by special rules or relief provisions, liable for its allocated portion of a plan's unfunded benefits (general withdrawal rules). The special withdrawal liability rules, which generally apply to plans in the construction and entertainment industries, exempt withdrawing employers from liability unless they continue to work in the same geographic area without an obligation to contribute to the plan.

Officials of 17 of the 24 plans told us that benefit practices, affecting 264,000 participants, were changed so that increases in the plan's unfunded benefits, and therefore employers' withdrawal liability, could be minimized. Officials of the other seven plans that were fully funded said that changes, affecting 122,136 participants, were made to avoid unfunded benefits and the resulting potential withdrawal liability for employers.

Although officials of 19 plans cited the withdrawal liability provisions as the sole reason for changes, officials of 5 plans said that non-MPPAA factors also contributed to the

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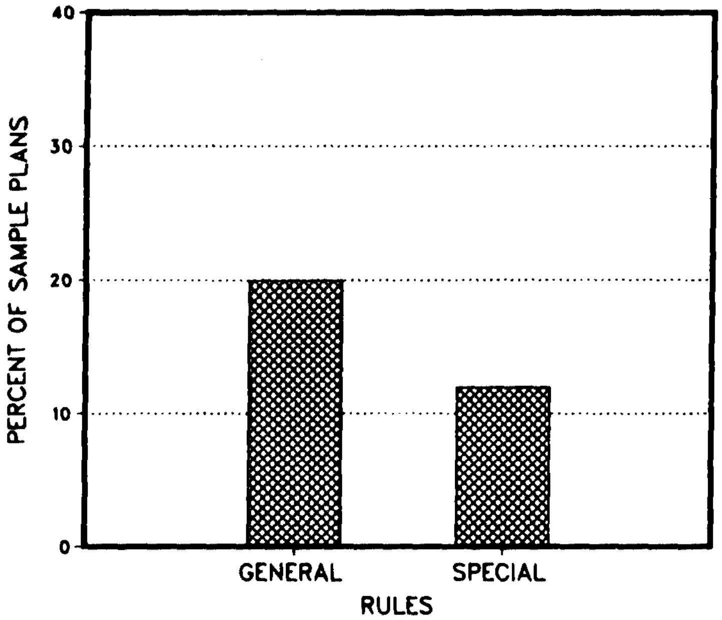
[2]Fully funded plans have assets equal to or greater than the present value of their vested benefits.

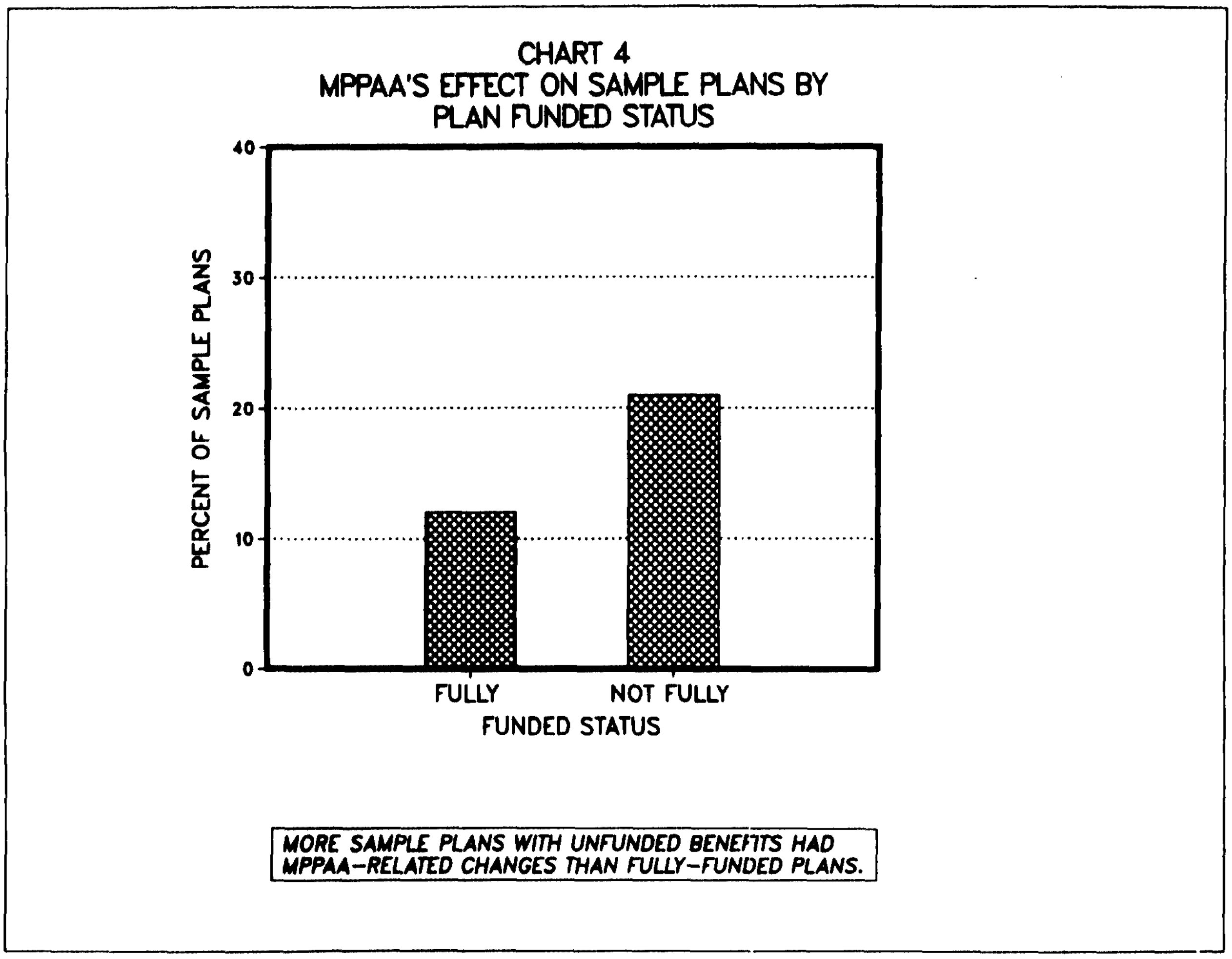
changes. These factors included unfavorable economic or business conditions or nonfinancial factors, unique to individual plans, that generally reflected a management desire to not continue, at least at the same rate, benefit improvements. Further, 9 of the 24 plans that made unfavorable changes because of the withdrawal liability provisions also made favorable changes that were attributed primarily to nonfinancial factors, such as union or participant pressure to improve plan benefits.

The potential impact of the withdrawal liability provisions on plans and employers depends greatly on whether the plans (1) have unfunded vested benefits or (2) are covered by MPPAA's special withdrawal rules. As shown by the following charts, about 12 percent of sample plans in the special rule category and fully funded category made changes because of the withdrawal liability provisions, whereas about 20 percent in the general rule category and unfunded benefit category made changes.

CHART 3
MPPAA'S EFFECT ON SAMPLE PLANS BY THE TYPE OF WITHDRAWAL LIABILITY RULE COVERAGE



MORE PLANS COVERED BY GENERAL RULES HAD MPPAA-RELATED CHANGES THAN THOSE COVERED BY SPECIAL RULES.



The 139 sample plans covered primarily employees in four major industries: construction, manufacturing, transportation and communication, and wholesale and retail trades. Also, the size of the sample plans varied considerably, ranging from about 100 to over 500,000 participants. The tables in appendix IV provide a comparison of MPPAA's effect on sample plans by industry and participant size groups.

CHANGES MOST OFTEN AFFECTED PARTICIPANTS' BENEFITS RATHER THAN WHEN THEY COULD RETIRE

Plan practices determine the amount of benefits earned and payable to working participants when they retire as well as the level of benefit increases received by retired participants.

They also affect when working participants can retire and receive benefits earned. We found that about 83 percent of the 139 sample plans had changes during the 32 months after MPPAA's enactment that affected the amount of benefits earned or paid to about 2.46 million participants. In contrast, changes were made to about 11 percent of the 139 sample plans that affected when about 341,000 employees working at the time of our review could retire.[3]

Of the 2.46 million participants affected by benefit amount changes, about 1.2 million in 64 plans were given either benefit increases at a lower rate than before MPPAA or no increases after MPPAA when they had been given increases before MPPAA (unfavorable changes).[4] Of the 64 plans, 24 had MPPAA-related changes unfavorable to the benefits of about 386,000 participants. In contrast, about 1.38 million participants in 71 plans were given benefit increases (1) in greater amounts after MPPAA than before or (2) after MPPAA but not before (favorable changes).

Further, 13 plans had changes allowing about 341,000 working participants to retire earlier. Although two plans had changes requiring participants to be older or work longer before they could retire, plan officials reported that none of the changes were made for MPPAA-related reasons. Also, the working employees in the two plans were not unfavorably affected because the changes applied only to workers becoming plan participants after the effective date of the changes.

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[3]The number of participants affected by changes adds to more than the total of 2.5 million participants affected (see table 2) because some participants were both favorably and unfavorably affected by changes.

[4]Benefit amounts already earned before MPPAA were not reduced.

CHAPTER 3

WHAT EFFECT HAS MPPAA HAD ON

PLAN TERMINATIONS AND PARTICIPANTS' BENEFITS?

During the 6 years before MPPAA was enacted in September 1980, 27 multiemployer plans with fewer than 12,000 participants terminated. However, a PBGC study estimated that plans with over a million participants could terminate if ERISA's insurance program and plan funding provisions were not changed. Such plan terminations could result in participants losing benefits already earned as well as future pension coverage. MPPAA's changes were designed to help protect plan participants by requiring (1) employers to assume increased financial liability for unfunded vested benefits[1] and (2) the insurance program to loan money to insolvent plans to pay guaranteed benefits,[2] thereby encouraging their maintenance rather than termination.

Multiemployer plan terminations increased to 66 during the 4 years after MPPAA's enactment. According to plan officials, MPPAA contributed to the increase, but economic and other factors played a more significant role.[3] With regard to the terminations after the act:

--The number of participants in the 66 plans terminated after MPPAA--about 23,631 in MPPAA-related and 17,411 in non-MPPAA-related terminations--was small compared to the over 8 million participants in multiemployer plans nationwide. MPPAA-related terminations affected only 0.3 percent of all participants nationwide.

--Of the 41,042 participants in the terminated plans, 76 percent are to receive all earned benefits (vested and nonvested), and most of the others are to receive their vested benefits, including amounts in excess of those guaranteed by the program.

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[1]The present value of earned benefits to which participants have a nonforfeitable right.

[2]Within certain limits, benefits vested at the time of plan termination are guaranteed by the insurance program (see footnote 4 on p. 4).

[3]We obtained information on factors causing plan termination from documents provided to PBGC by plan officials or directly from plan officials through interviews.

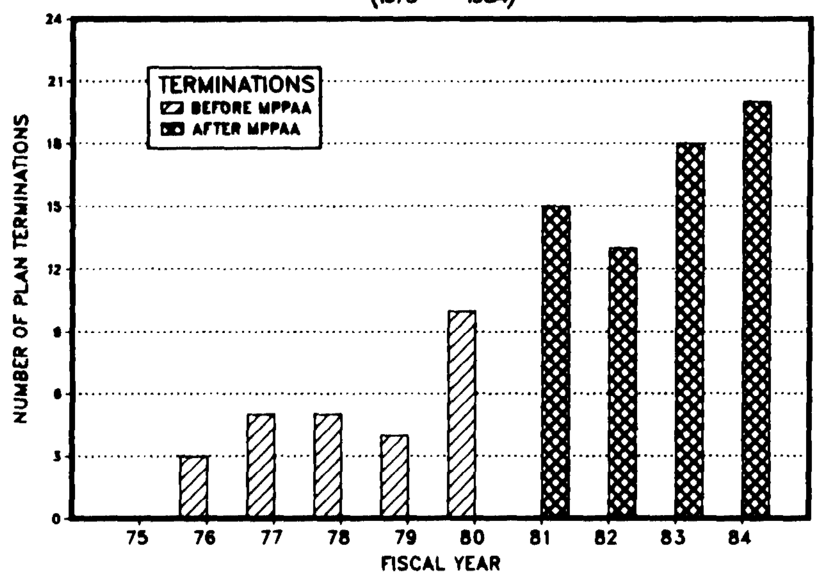
--Alternative pension coverage was made available through other plans for 88 percent of the 29,035 working participants in the terminated plans.

Further, loans made by the program to two insolvent ongoing plans helped the plans to pay benefits to 9,104 retired participants and protected 2,748 working participants from being adversely affected by plan terminations.

PLAN TERMINATIONS INCREASED AFTER MPPAA'S ENACTMENT

During the 6 fiscal years between ERISA's establishment of the insurance program and MPPAA's enactment (1975 to 1980), 27 multiemployer plans terminated--an average of about 4.5 plans a year. As shown by chart 5, the number of plan terminations increased to 66 during the 4 fiscal years after MPPAA--a yearly average of about 16.5 plans.

CHART 5
PENSION PLAN TERMINATIONS OCCURING BEFORE AND AFTER IMPLEMENTATION OF MPPAA
(1975 -- 1984)

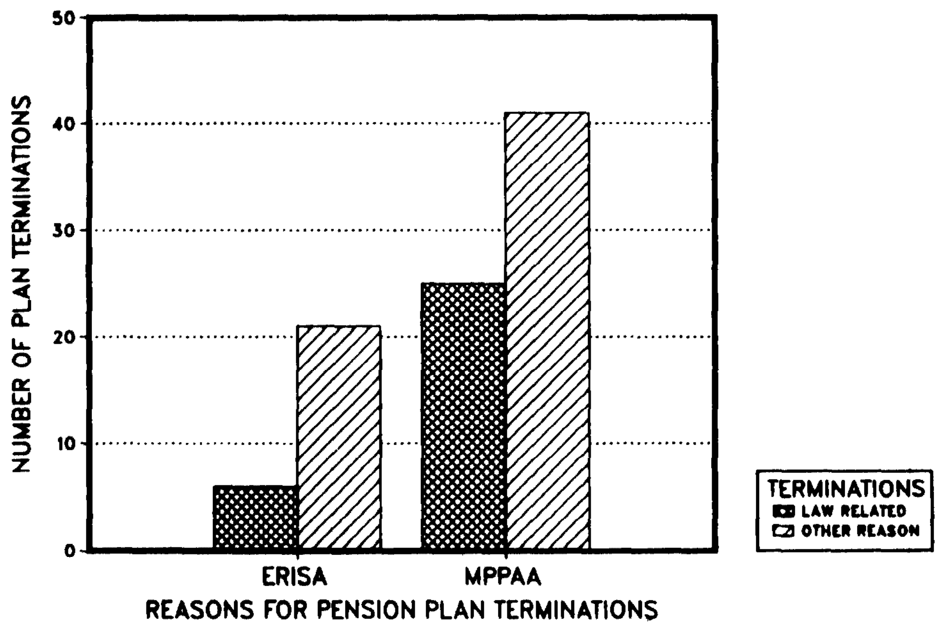


MORE PENSION PLANS TERMINATED AFTER THE IMPLEMENTATION OF MPPAA THAN UNDER ERISA.

MPPAA CONTRIBUTED TO PLAN TERMINATIONS

Although plan officials cited federal legislation (ERISA or MPPAA) as a reason for many of the 93 plan terminations since the insurance program was established in 1974, such citations increased after MPPAA's enactment. As shown by chart 6, where ERISA was cited as a reason for the termination of 6 (or 22 percent) of the 27 plans during the 6 years before MPPAA, MPPAA was given as a reason for 25 (or 38 percent) of the 66 plans terminated during the 4 years after its enactment. Also, ERISA was not cited as a reason for any of the plan terminations after MPPAA.

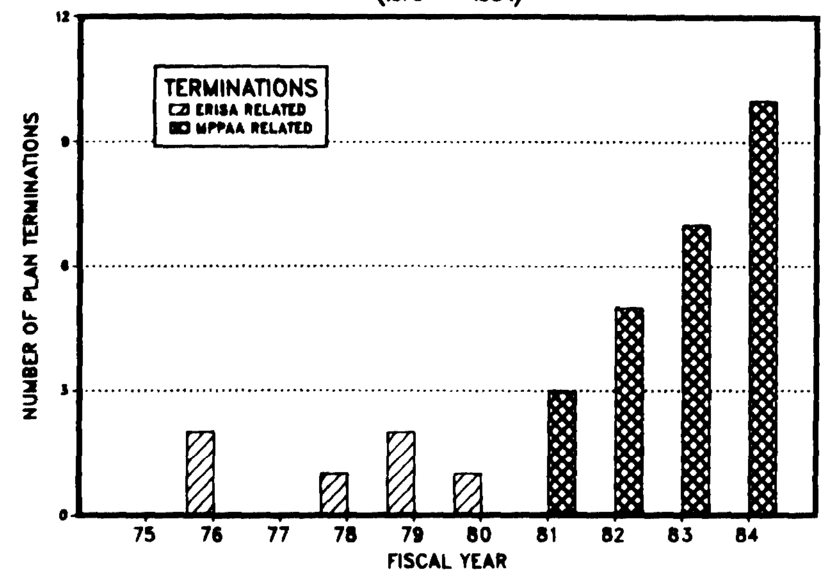
CHART 6
IMPACT OF FEDERAL LEGISLATION
ON PENSION PLAN TERMINATIONS



MPPAA'S CHANGES CONTRIBUTED TO MORE PLAN TERMINATIONS THAN DID ERISA, BUT MOST PLANS ENDED FOR NON-LEGISLATIVE-RELATED REASONS.

As shown by chart 7, although ERISA's contribution to plan terminations remained relatively constant during the 6 fiscal years before MPPAA's enactment, the number of plan terminations attributed to MPPAA continually increased, ranging from 3 plans (or 20 percent) in fiscal year 1981 to 10 plans (or 50 percent) in fiscal year 1984. Although MPPAA's withdrawal liability provisions were cited as a factor in the 25 MPPAA-related terminations, other factors, such as economic conditions, were also given as a reason for terminating many of the 25 plans.

CHART 7
FEDERAL LEGISLATION CITED AS THE REASON FOR PENSION PLAN TERMINATIONS
(1975 -- 1984)



WHILE ERISA-RELATED TERMINATIONS WERE RELATIVELY CONSTANT, MPPAA-RELATED TERMINATIONS INCREASED YEARLY.

Terminations attributed to MPPAA

Plan officials reported that the increased employer withdrawal liability requirements were a factor in the termination decision of each of the 25 plans affected by MPPAA. Increases in administrative costs partially due to MPPAA's changes, such as the premium increase,[4] were also given as a reason for the termination of two plans. The concerns over MPPAA's withdrawal liability requirements were based generally on uncertainty about employers' future liability. For example, an official representing three construction industry plans said that employers were considering leaving the plans and the union because they feared that they could incur a liability under MPPAA's withdrawal provisions if the plans' benefit and contribution rates were increased. By terminating the plans, the employers could remain within the union and establish defined contribution plans.[5] These plans allow contributions and benefits to be increased without the risk of future liabilities for the employers because such plans are not covered by the insurance program.

However, MPPAA was not the only reason given for 13 of the 25 plan terminations. Officials of 3 of the 13 plans indicated that current or anticipated future declines in their contribution bases from employers withdrawing from the plans or a general decline of their industry contributed to plan termination decisions. For example, an attorney for a manufacturing industry plan said that employers feared that the economy and their declining share of the industry may cause larger employers to declare bankruptcy and withdraw from the plan. Because these employers would probably not pay their withdrawal liability, the remaining employers' liability could increase.

Further, termination decisions for the other 10 plans were affected by such factors as (1) increased social security costs, (2) concern about pension liability being reported on an employer's balance sheet, or (3) a preference by union membership to start or join a defined contribution plan.

Terminations not related to MPPAA

For the 41 other plans, officials reported that the termination decisions were related primarily to economic conditions or general dissatisfaction with the plans. For example, officials of 20 plans cited economic problems, such as adverse

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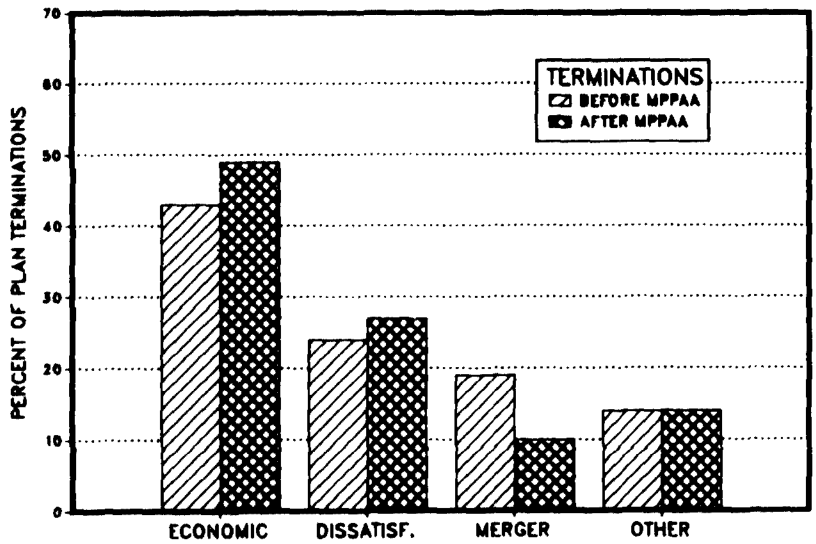
[4]Before MPPAA, the insurance program's premium rate was 50 cents per participant per year. MPPAA increased the rate to $1.40 per plan participant for each of the first 4 full years after its enactment and established a schedule that increases it $.40 every 2 years thereafter, until it reaches $2.60 in September 1988.

[5]A defined contribution plan is a plan in which the contributions, but not the benefits, for each participant are fixed and readily determinable.

business conditions, declining industries, or the plans' high costs. The officials of 11 plans cited employee or employer dissatisfaction with the plan or a desire to switch to a defined contribution plan. Four plans were terminated because unions were merged. The reasons for the termination of the other six plans included the failure of employers and employee representatives to renew collective bargaining agreements or the cessation of work activity by contributing employers in the area covered by the plan.

The following chart shows the percentages terminated before and after MPPAA for reasons not related to ERISA or MPPAA.

CHART 8
PERCENT OF PENSION PLANS THAT GAVE REASONS OTHER THAN FEDERAL LEGISLATION FOR TERMINATION



THE NON-LEGISLATIVE REASONS CITED FOR TERMINATING PENSION PLANS DID NOT VARY GREATLY BEFORE AND AFTER MPPAA.

RELATIVELY FEW PARTICIPANTS AFFECTED BY TERMINATIONS

The 27 plans that terminated before MPPAA had a total of 11,377 participants. Before MPPAA's enactment, however, PBGC estimated that additional plans with many participants could terminate unless ERISA's insurance program and plan funding provisions were changed. In a May 1979 report to the Congress, PBGC pointed out that "Should the plans choose to terminate, 1.3 million workers who have earned benefits under these plans could lose some of their benefits and most importantly the opportunity to earn additional pension credits."[6]

The 66 plans terminated after MPPAA had a total of 41,042 participants, or less than 1 percent of the approximately 8.7 million multiemployer plan participants nationwide.[7] The 25 MPPAA-related plan terminations covered about 23,631 participants, or about 58 percent of the 41,042 participants. Although the average of 945 participants in the MPPAA-related plan terminations was over twice that of non-MPPAA-related terminations, it was significantly lower than the 3,502-participant average for multiemployer plans nationwide.

The following table compares the number of participants in the MPPAA-related plan terminations with those in plans terminated for other reasons and ongoing plans nationwide.

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[6]Revising Multiemployer Plan Termination Insurance: A Guide to PBGC Recommendations to Congress, PBGC (Washington: May 1979), preface.

[7]Based on an average of participants in multiemployer plans paying insurance premiums to PBGC during plan years 1980-82.

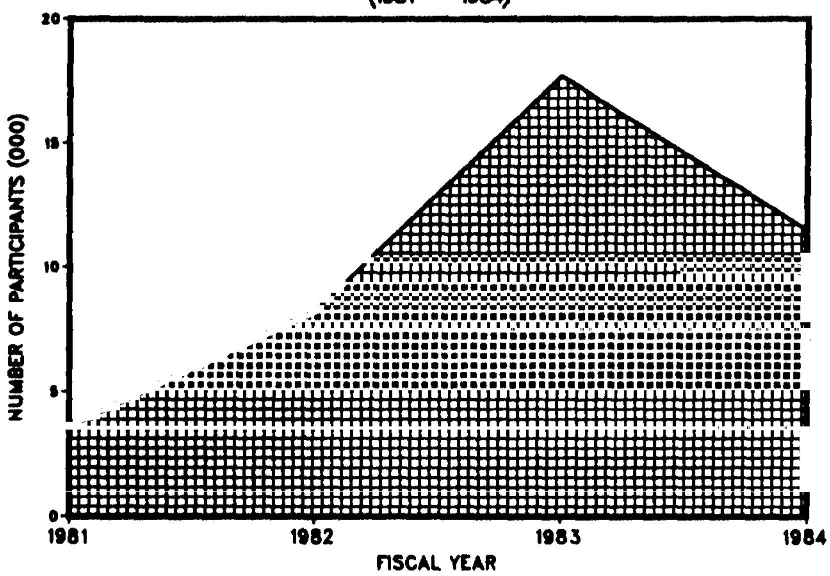
Table 4

Comparison of Participants in Plans Terminated During the 4-year Period After MPPAA With Participants in All Plans

Category	Plans	Plan participants: Total	Plan participants: Average per plan	Plan participants: Plan range
Post-MPPAA terminations:				
MPPAA related	25	23,631	945	49 to 3,000
Non-MPPAA related	41	17,411	425	10 to 4,164
Total	66	41,042	622	10 to 4,164
All plans nationwide	2,493	8.7 million	3,502	fewer than 50 to more than 500,000

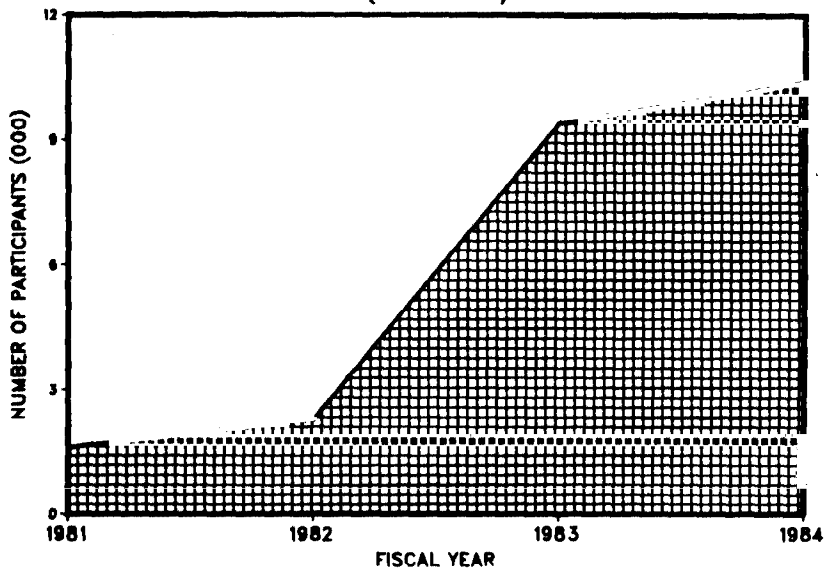
As shown by chart 9, the number of participants in terminated plans decreased during fiscal year 1984 for the first time since MPPAA's passage. Chart 10 shows, however, that the number of participants in MPPAA-related terminations continued to increase, ranging from 1,580 in 1981 to 10,435 in 1984. Moreover, the total number of participants covered by MPPAA-related plan terminations during 1983 and 1984 was over 5 times the total participants in MPPAA-related terminations during 1981 and 1982, the first 2 years after the act's passage.

CHART 9
TOTAL NUMBER OF PENSION PLAN PARTICIPANTS
AFFECTED BY PLAN TERMINATIONS
(1981 --- 1984)



THE NUMBER OF TERMINATED PENSION PLAN PARTICIPANTS DECREASED IN 1984 FOR THE FIRST TIME SINCE MPPAA's IMPLEMENTATION.

CHART 10
NUMBER OF PENSION PLAN PARTICIPANTS
AFFECTED BY MPPAA-RELATED PLAN TERMINATIONS
(1981 -- 1984)



THE NUMBER OF PARTICIPANTS AFFECTED BY MPPAA-RELATED PLAN TERMINATIONS INCREASED EACH YEAR.

TERMINATED PLAN FUNDING AND MPPAA CHANGES HELPED PROTECT PARTICIPANTS' BENEFITS

Before ERISA, terminating plans were required to pay participants all benefits earned, whether or not vested, to the extent that assets were available at termination. Under ERISA, the insurance program paid, within certain limits, participants' vested benefits that were not covered by terminated plan assets and employer liability. MPPAA did not change the requirement that plans pay all earned benefits (vested and nonvested) covered by plan assets, but did require plan employers to continue to fund vested benefits that were unfunded at the time of termination. Generally, MPPAA's changes require participants' vested benefits to be reduced to amounts guaranteed by the program only when a plan becomes insolvent.

The funding status of terminating plans and MPPAA's requirement that employers continue to fund benefits protected the benefits earned by most of the 41,042 participants in the 66 plans terminated after MPPAA. Fifty-nine of the plans had enough assets to cover all benefits earned (vested and nonvested) at the time of termination. The 59 plans covered 31,250 (or 76 percent) of the 41,042 participants. Two plans, covering 4,308 participants, had enough assets to cover the total benefits earned by 1,059 vested participants but had not completed benefit determinations for 3,249 nonvested participants. Of the 25 MPPAA-related plan terminations, 23 had enough assets to cover all benefits earned by plan participants. The 23 plans covered 21,250 (or 90 percent) of the 23,631 participants in the MPPAA-related plan terminations.

Although five plans had about $13 million in unfunded vested benefits when they terminated, participants (2,988) in four of the five plans, including two MPPAA-related terminations covering 1,487 participants, are expected to receive all vested benefits. As required by MPPAA, contributing employers continued to fund two of the four plans after termination, and employers in the other two plans were assessed sufficient withdrawal liability to cover unfunded vested benefits.[8]

An official of the other plan, which had 1,172 vested participants, said that benefits for 339 of the 648 participants already retired were reduced in November 1984 to guaranteed levels in anticipation of plan insolvency and the need for loans from the program to make benefit payments. However, the official said that the earned benefits of most, if not all, of the 524 vested participants still working are not expected to be reduced when they retire because the benefits earned are already below MPPAA's guaranteed level.

However, about 1,324 participants in these five plans, including 894 participants in two MPPAA-related terminations, are not expected to receive earned benefits with an estimated present value of $2 million because the participants were not vested at termination and the benefits earned were neither covered by plan assets nor required to be funded by employers or the insurance program.

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[8]Vested participants in the three plans may not receive all of their benefits earned if their plan becomes insolvent because benefits earned may be higher than the amount guaranteed by the insurance program.

ALTERNATIVE PENSION COVERAGE REDUCED POTENTIAL EFFECT ON TERMINATED PLAN PARTICIPANTS

Working participants in terminated plans would receive lower benefits than anticipated because their benefits are based on employment up to termination and additional benefits are not earned for future employment unless the employer joins or starts a different plan. Of the 66 plans terminated after MPPAA, 61 had 29,035 participants who were still working with contributing employers and 5 covered no working employees. The effect of forgone retirement benefits was reduced for participants in 45 plans, including all 25 MPPAA-related terminations, because plan officials said alternative pension coverage was made available through new or existing plans. The 45 plans covered 25,555 (or 88 percent) of the 29,035 participants. Officials of the other 16 plans were not aware of alternative coverage being made available for 3,480 participants.

The availability of alternative coverage should reduce or eliminate the adverse effect of plan termination on working participants. The effects on participants' benefits depend on whether an employee who is switched in mid-career from one pension plan to another (e.g., from a defined benefit to a defined contribution plan) receives as much at retirement from the combination of a partial career under each plan as he or she would have received from a full career under the terminated plan. However, we were not able to determine the extent of the reduction for the working participants in the 45 plans because it depends on such factors as (1) whether individual employers elect to participate in the alternative coverage available for plan participants working for them and (2) the extent to which employees continue to work for employers electing alternative coverage. The following sections discuss the availability of alternative coverage for participants in terminated plans affected and not affected by MPPAA.

MPPAA-related terminations

Officials of the 25 plans that were terminated at least in part because of MPPAA said that alternative pension coverage was made available for the 17,508 working participants in the plans. Working participants (17,460) in 24 of the 25 plans had continuing coverage available under defined contribution plans that were newly established by the same bargaining groups that operated the terminated plans or other parties. For the 48 working participants in the other plan, a defined benefit plan was established.

Non-MPPAA-related terminations

Of the 36 plans with working participants that terminated for reasons other than MPPAA, alternative coverage was made available to 8,047 participants in 20 plans. At the time of our review, officials of the other 16 terminated plans were not aware of any alternative coverage made available to the 3,480 working participants in their plans.

MPPAA HELPED INSOLVENT PLANS AVOID TERMINATION

MPPAA required PBGC to provide money, under certain conditions, to help insolvent plans pay monthly benefits and continue providing pension coverage to participants. As of December 31, 1984, PBGC had loaned two plans about $2.6 million to help pay benefits to 9,104 retired participants. Although MPPAA limited the benefit amount (guarantee level) that a plan receiving program loans could pay to participants, this change did not affect the retired participants in the two plans because their benefits did not exceed the guarantee levels. In addition, 2,748 working employees in the plans continued to earn benefits because the loans helped the plans avoid termination.

The biggest of the two plans, covering 11,030 working and retired participants, started receiving loans to pay benefits in June 1981 because production generally declined in the contributing employers' industry and contributions were not paid during a strike. As of December 31, 1984, the plan had received 10 loans totaling $2.2 million which were used to help pay benefits to 8,722 retired participants. In addition, 2,308 working participants continued to earn benefits under the plan. According to a PBGC official, financial assistance was continuing during calendar year 1985.

The other plan, which became insolvent in March 1983, covered 822 working and retired participants. PBGC had made over 21 loans totaling about $427,000 to the plan as of December 31, 1984, to help pay benefits to 382 retired participants. As with the larger plan, 440 working participants continued to earn additional benefits, and financial assistance continued in 1985.

CHAPTER 4

CONCLUDING OBSERVATIONS

Two years before MPPAA's passage, PBGC raised the concern that the termination of underfunded multiemployer pension plans over the next decade could endanger the financial viability of the insurance program and cause 1.3 million participants to lose benefits already earned and future pension coverage. MPPAA's provisions, including those increasing employers' liability for unfunded plan benefits, were expected to protect participants by improving plan funding and encouraging plan continuation. The findings of this report deal only with MPPAA's effects on plan terminations and changes to plan benefit practices. These findings should be considered with those presented in the other reports in our series on MPPAA's effects (see app. II) to reach an overall conclusion on MPPAA's effects on plan participants.

Plan terminations increased during the 4 years after MPPAA's enactment. However, although the act's employer liability changes were a major reason cited by plan officials for the increase, economic and other factors were cited as playing a more significant role.

With regard to the terminations after the act, (1) the number of participants in the terminated plans represented less than 1 percent of those covered by all multiemployer plans, (2) most of the participants are to receive benefits earned before plan termination, and (3) alternative pension coverage was made available for most of the plans' working participants. Further, the benefits and pension coverage of a small number of participants were protected because MPPAA-authorized insurance program loans prevented two insolvent plans from terminating.

However, MPPAA's employer liability provisions had affected a greater number of participants in ongoing plans (compared to terminated plans) during the 32 months after its enactment. Reaction to the liability resulted in changes being made to ongoing plan benefit practices, which caused about 12 percent of the 3.2 million working or retired participants in sample plans covered by our review to receive smaller benefit improvements than they had received before MPPAA's passage. However, the benefits of 22 percent of the participants were similarly affected by plan changes made for non-MPPAA reasons. In addition, plan changes for non-MPPAA reasons resulted in 44 percent of the participants receiving greater benefit improvements after MPPAA than before.

Although MPPAA has unfavorably affected some multiemployer plan participants, not enough time has elapsed since its enactment in 1980 to accumulate sufficient experience to determine what the long-term effects will be. Those future effects may differ from the initial effects. The unfavorable effects discussed in this report could be the result of initial reaction to MPPAA's changes, which might be expected from major changes to federal law. If this is true, MPPAA's long-term effects could be different from the early unfavorable effects discussed in this report.

Officials of about 20 percent of the plans that had changes improving participants' benefits told us that employers improved benefits reluctantly because such improvements could result in higher employer liability. Further, during the 4 years after MPPAA's passage, the number of terminated plans increased each year, officials of plans increasingly cited the liability provisions as a termination reason, and the number of participants in MPPAA-related terminations has increased. If such early experience represents a trend, MPPAA's unfavorable effects on participants' benefits could be greater in future years.

TABLES PROVIDING MORE DETAIL ON THE GENERAL CHARACTERISTICS OF OUR 139 MULTIEMPLOYER PLAN SAMPLE[1]

Table 1

Summary of Who Sets Employer Contribution Requirements

	Plans	
	Number	Percent
Board of trustees	5	4
Collective bargaining-- employers bargain individually	25	18
Collective bargaining-- employers bargain collectively (employers' associations)	48	34
Combination of employers bargaining individually or collectively	46	33
Other, such as board or union setting rate based on total dollars negotiated for employees' fringe benefits	15	11
Total	139	100

[1]Characteristics presented in **bold face** type were covered by our review.

Table 2

Types of Base Units Used to Compute Employers' Contribution Amounts[a]

	Plans	
	Number	Percent
Hours worked	90	65
Tons produced	1	1
Dollars (wages, sales)	21	15
Time (months, weeks)	18	13
Other, such as number of full- or part-time employees	9	6
Total	139	100

[a]Employers' contributions to a plan's trust fund are generally at a fixed rate (e.g., dollars or percent) times a base unit.

Table 3

Summary of Who Sets Benefits

	Plans	
	Number	Percent
Board of trustees	132	95
Collective bargaining-- employers bargain individually	1	1
Collective bargaining-- employers bargain collectively (employers' association)	4	3
Other	2	1
Total	139	100

Table 4

Summary of Employer and Employee Representation on Board of Trustees[a]

	Plans Number	Plans Percent
Plan has equal number of employer and employee trustees	133	96
Plan has equal number of employer and employee trustees as well as a neutral third party	4	3
Unknown	2	1
Total	139	100

[a]Range of plan trustees: 2 to 66
Median: 8.185

Table 5

Summary of Who Performs General Administrative Responsibilities

	Plans Number	Plans Percent
Self-managed	79	57
Independent firm	56	40
Combination of self-managed and independent firm	4	3
Total	139	100

Table 6

Summary of Who Manages Plan Assets

	Plans	
	Number	Percent
Self-managed	14	10
Independent firm	118	85
Combination of self-managed and independent firm	7	5
Total	139	100

Table 7

Summary of Types of Geographic Areas Covered

	Plans	
	Number	Percent
Single metropolitan area	37	27
Single state	17	12
Multi-state	31	22
National	16	12
International	6	4
Other, such as multi-county	32	23
Total	139	100

Table 8

Summary of Plan Minimum Participation Requirements

	Plans	
	Number	Percent
No age or years of employment	61	44
No age; up to 1 year of employment	75	54
Age 25 and up to 1 year of employment	2	1
Other	1	1
Total	139	100

Table 9

Summary of Plan Vesting Requirements

	Plans Number	Plans Percent
All benefits vested after 10 years; none before	114	82
Benefits partially vested at intervals between 5 to 15 years	8	6
Other, such as all benefits vested after 5 years; none before	17	12
Total	139	100

Table 10

Summary of Benefits Offered in Addition to Normal Retirement Benefits

Type of benefit offered	Plans Number	Plans Percent of sampled plans (N=139)
Early retirement	129	87
Preretirement death	139	100
Disability	130	93
Postretirement death	85	61
Other	15	11

Table 11

Summary of Types of Requirements for Normal Retirement Benefits

	Plans Number	Plans Percent
Age only	6	4
Years of employment only	0	0
Age and years of employment	95	68
Either age or years of employment	1	1
Combination of requirements	37	27
Total	139	100

Table 12

Summary of Types of Requirements for Early Retirement Benefits

	Plans Number	Percent
Age only	0	0
Years of employment only	1	1
Age and years of employment	115	89
Age or years of employment	0	0
Combination of requirements	13	10
Total	129	100

Table 13

Summary of Types of Requirements for Preretirement Death Benefits[a]

	Plans Number	Percent
Age only	1	1
Years of employment only	21	15
Age and years of employment	43	31
Age or years of employment	1	1
Combination of requirements	73	52
Total	139	100

[a]Retired participants were automatically eligible for post-retirement death benefits.

Table 14

Summary of Types of Requirements for Disability Benefits

	Plans Number	Plans Percent
Age only	1	1
Years of employment only	84	65
Age and years of employment	20	15
Age or years of employment	0	0
Combination of requirements	21	16
No requirement	4	3
Total	130	100

Table 15

Summary of Types of Formulas Used to Compute Normal Retirement Benefits

	Plans Number	Plans Percent
Dollar amount for each year of employment	91	66
Dollar amount for a minimum number of years of employment	2	1
Percent of earnings	3	2
Percent of contributions	4	3
Combination of two or more of above or other	39	28
Total	139	100

Table 16

Summary of Whether and How Benefits Were Reduced if Early Retirement Option Elected

	Plans	
	Number	Percent
Reduced based on normal retirement formula	124	96
Reduced using other methods	5	4
Not reduced	0	0
Total	129	100

Table 17

Summary of Whether Plans Increased Benefits for Working Participants During the 33 Months Before MPPAA's Enactment

	Plans	
	Number	Percent
Benefits increased	94	68
Benefits not increased	45	32
Total	139	100

Table 18

Summary of Whether and How Retirees' Benefits Were Increased During the 33 Months Before MPPAA's Enactment

	Plans	
	Number	Percent
Benefits increased automatically	4	3
Benefits increased on an ad hoc basis	60	43
Benefits not increased	75	54
Total	139	100

LIST OF OUR REPORTS PREVIOUSLY ISSUED ON MPPAA

This report is one of a series prepared in response to section 413 of the Multiemployer Pension Plan Amendments Act, which required the Comptroller General to conduct a study of the amendments' effects. The following list includes reports previously issued in response to the mandate.

1. Multiemployer Pension Plan Data Are Inaccurate and Incomplete (GAO/HRD-83-7, Oct. 25, 1982)

2. Assessment of Special Rules Exempting Employers Withdrawing From Multiemployer Pension Plans From Withdrawal Liability (GAO/HRD-84-1, May 14, 1984)

3. Incomplete Participant Data Affect Reliability of Values Placed by Actuaries on Multiemployer Pension Plans (GAO/HRD-84-38, Sept. 6, 1984)

4. The 1980 Multiemployer Pension Plan Amendments Act: An Assessment of Funding Requirement Changes (GAO/HRD-85-1, Feb. 27, 1985)

5. Effects of Liabilities Assessed Employers Withdrawing from Multiemployer Pension Plans (GAO/HRD-85-16, Mar. 14, 1985)

TABLES COMPARING, BY INDUSTRY AND PLAN PARTICIPANT SIZE, OUR MULTIEMPLOYER PLAN SAMPLE WITH TOTAL PLANS AND PLANS ADMINISTERED IN THE STUDY GEOGRAPHIC AREA COVERED BY THE SAMPLE

Table 1

Comparison by Plan Size of Our Multiemployer Pension Plan Sample to Total Plans and Plans Administered in the Study Geographic Area[a] Covered by the Sample with 100 or More Participants[b]

Plan size (based on number of participants)	Plans			Percent of sample plans to	
	Total	Study area	Sample	Total plans	Plans in study area
100 to 999[c]	1,048	665	38	3.6	5.7
1,000 to 9,999[c]	737	505	49	6.6	9.7
10,000 to 24,999	86	62	21	24.4	33.9
25,000 and over	53	44	31	58.5	70.5
Total	1,924	1,276	139	7.2	10.9

[a]The geographic area covered by the sample includes 14 states and the District of Columbia.

[b]Unless otherwise noted, information obtained from PBGC computer records of plans with 100 or more participants paying plan year 1979 insurance program premiums as of July 1981.

[c]One of the plans in this interval had not paid plan year 1979 premiums as of July 1981 but was included in Internal Revenue Service records as filing a plan year 1979 ERISA annual report (Form 5500).

Table 2

Comparison by Plan Size of Participants Covered by Our Multiemployer Pension Plan Sample to Total Plans and Plans Administered in the Study Geographic Area[a] Covered by the Sample with 100 or More Participants[b]

Plan size (based on number of participants)	Participants in: Total plans	Participants in: Study area plans	Participants in: Sample plans	Ratio of sample participants to participants in: Total plans	Ratio of sample participants to participants in: Study area plans
	(thousands)			(percent)	
100 to 999[c]	446	286	14	3.0	4.9
1,000 to 9,999[c]	2,249	1,590	180	8.0	11.3
10,000 to 24,999	1,331	991	362	27.2	36.5
25,000 and over	4,311	3,329	2,801	65.0	84.1
Total	8,337	6,196	3,357	40.3	54.2

[a]See note a page 45.

[b]See note b page 45.

[c]See note c page 45.

Table 3

Industry Comparison of Our Multiemployer Pension Plan Sample to Total Plans and Plans Administered in the Study Geographic Area[a] Covered by the Sample with 100 or More Participants[b]

Industry	Plans: Total	Plans: Study area	Plans: Sample	Percent of sample plans to: Total plans	Percent of sample plans to: Plans in study area
Construction[c]	1,001	599	52	5.2	8.7
Manufacturing	267	209	37	13.9	17.7
Transportation, communication, and utilities	132	104	18	13.6	17.3
Wholesale and retail trades	270	199	17	6.3	8.5
Services	166	104	9	5.4	8.7
Other[d]	88	61	6	6.8	9.8
Total	1,924	1,276	139	7.2	10.9

[a]See note a page 45.

[b]See note b page 45.

[c]Two of the plans had not paid plan year 1979 premiums as of July 1981 but were included in Internal Revenue Service records as filing a plan year 1979 ERISA annual report (Form 5500).

[d]Includes plans that could not be classified specifically and plans in the agriculture, fishing, and forestry; finance and insurance; and mining industries. Plans that could not be classified more specifically include those where (1) the employers contributing to the plan were not predominantly involved in one business activity or (2) adequate information was not available for determining specific industry classification.

Table 4

Industry Comparison of Participants Covered by Our Multi-employer Pension Plan Sample to Participants Covered by Total Plans and Plans Administered in the Study Geographic Area[a] Covered by the Sample with 100 or More Participants[b]

Industry	Participants in Total plans	Participants in Study area plans	Participants in Sample plans	Ratio of sample participants to participants in Total plans	Ratio of sample participants to participants in Study area plans
	------(thousands)-----			---(percent)---	
Construction[c]	2,556	1,820	713	27.9	39.2
Manufacturing	1,674	1,539	1,127	67.3	73.2
Transportation, communication, and utilities	1,643	1,018	735	44.7	72.2
Wholesale and retail trades	1,309	923	268	20.5	29.0
Services	667	462	246	36.9	53.2
Other[d]	488	434	267	54.7	61.5
Total	8,337	6,196	3,356[e]	40.3	54.2

[a]See note a page 45.

[b]See note b page 45.

[c]See note c page 47.

[d]See note d page 47.

[e]This total differs from total sample plan participants shown in table 2 of the appendix due to rounding.

SUMMARY OF OUR SAMPLE PLANS AFFECTED BY MPPAA AND NON-MPPAA FACTORS BY INDUSTRY AND PLAN PARTICIPANT SIZE

Table 1

MPPAA- and Non-MPPAA-Related Plan Changes by Industry

Changes	Construction	Manufacturing	Transportation and communication	Wholesale and retail trades	Other	Total
	(percent)					
MPPAA related	14	14	22	41	7	17
Non-MPPAA related	73	62	78	41	60	66
No change	13	24	0	18	33	17
Total	100	100	100	100	100	100
	N=52	N=37	N=18	N=17	N=15	N=139

Table 2

MPPAA- and Non-MPPAA-Related Plan Changes by Plan Participant Size

Changes	Number of participants: Less than 1,000	1,000 to 9,999	10,000 to 25,000	More than 25,000	Total
	(percent)				
MPPAA related	10	17	18	27	17
Non-MPPAA related	77	60	59	65	66
No change	13	23	23	8	17
Total	100	100	100	100	100
	N=39	N=52	N=22	N=26	N=139

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