CBO TESTIMONY

Statement of
Douglas Holtz-Eakin
Director

Multiemployer Pension Plans

before the
Subcommittee on Select Revenue Measures
Committee on Ways and Means
U.S. House of Representatives

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Mr. Chairman, Ranking Democratic Member McNulty, and Members of the Subcommittee, thank you for this opportunity to discuss the financial status of and government insurance for multiemployer defined-benefit pension plans. My presentation today will focus on three general points:

- Although multiemployer pension plans and single-employer pension plans are both designed to provide specified monthly benefits to workers at retirement, there are major differences between the two types of plans in how they are structured.

- The multiemployer plans, as a group, are significantly underfunded—by an amount estimated by the Pension Benefit Guaranty Corporation (PBGC) to total $150 billion. In contrast to its responsibility for single-employer plans, PBGC underwrites a relatively small portion of the benefits associated with any shortfall in multiemployer plans.

- Given the financial exposure that both workers and employers face in multiemployer plans, questions arise about whether current funding rules should be altered to better promote the long-term financial security of the plans and whether additional changes should be made to promote the availability of timely, accurate information about the financial condition of the plans.

Characteristics of Multiemployer Pension Plans

Given all of the recent attention on PBGC's single-employer insurance program, it is sometimes easy to overlook the smaller multiemployer program. According to PBGC's estimates, last year the agency provided insurance coverage to 9.8 million participants in about 1,600 multiemployer plans. Those participants constituted over 20 percent of all participants in a defined-benefit plan whose pension is protected under the Employee Retirement Income Security Act (ERISA).

A multiemployer plan is a pension arrangement between a labor union and a group of at least two unrelated employers, usually in a common industry. Like a single-employer pension plan, a multiemployer plan generally provides specified monthly benefits at retirement. But unlike participants in a single-employer plan, whose benefits generally are based on years of service and a measure of earnings, participants in a typical multiemployer plan receive benefits based on a flat dollar amount for each year of service in employment covered by the plan. For example, a worker in a plan that credits participants with $100 per month for each year of service who retires after 30 years of service in covered employment would be eligible for a monthly pension of $3,000 per month (or $36,000 per year).

Also unlike participants in a single-employer plan, participants in a multiemployer plan generally can continue to accrue credits toward their pension when they change employers, as long as the new employer is a part of the plan. That

portability makes such plans particularly attractive in industries such as construction, in which workers move from work site to work site, sometimes employed by different companies.

Participation in multiemployer plans is heavily concentrated in certain sectors of the economy. Half of all participants are in just two industries: construction and trucking (see Table 1); and few workers in those industries are in single-employer plans. Those two industries account for less than one-tenth of all private-sector employment.

As with single-employer plans, the percentage of the nation's private-sector wage and salary workers participating in multiemployer plans has been declining for over two decades (see Figure 1). In recent years, only about 4 percent of private-sector employees have been in multiemployer plans, down from almost 8 percent in 1980. (The comparable figures for the single-employer plans are 15 percent and 27 percent.)

Moreover, in both types of plans, the percentage of participants still working has steadily declined, and the percentage who have retired or who are vested but have not yet begun receiving a pension has steadily risen. In recent years, about half of all participants are still working in a job covered by their plan, compared with three-quarters in 1980 (see Figure 2).

Nearly three-quarters of participants in multiemployer plans and two-thirds of those in single-employer plans are in plans with more than 10,000 people. Participation in relatively small plans (those with fewer than 1,000 participants, for example) is more likely for people in single-employer plans; about 9 percent of participants in single-employer plans are in such plans, while just 3 percent of participants in multiemployer plans are (see Table 2).

Funding

The benefits paid by multiemployer plans are financed by participating employers through contributions generally specified in collective bargaining agreements. Those contributions are typically based on the number of hours worked by employees covered by the plan. Thus, if a plan is sponsored by employers that all have 100 covered full-time employees, each employer pays a comparable amount into that plan, while a firm with 200 such workers pays twice as much.

Like single-employer plans, multiemployer plans can become underfunded for a number of reasons. For example, underfunding may have resulted from plans' adopting a lower discount rate, which would increase the present value of their

Table 1.

Participation in PBGC-Insured Multiemployer Plans, by Industry, 2003

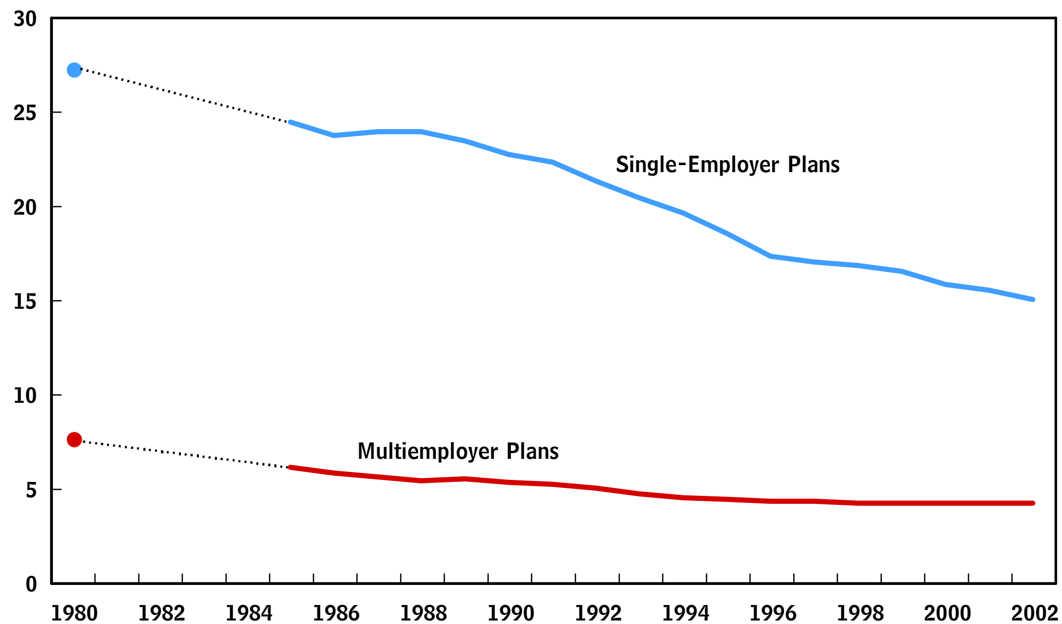
	Insured Participants	
	Number	Percent
Construction	3,542,568	37
Manufacturing	1,483,441	15
Services	1,392,810	14
Retail Trade	1,380,438	14
Trucking	1,374,717	14
Other	524,966	5
Total	**9,698,940**	**100**

Source: Congressional Budget Office based on Pension Benefit Guaranty Corporation, *Pension Insurance Data Book 2004* (Spring 2005), p. 89.

Figure 1.

Share of Private-Sector Employees Who Participate in PBGC-Insured Pension Plans

(Percentage of private-sector wage and salary workers)



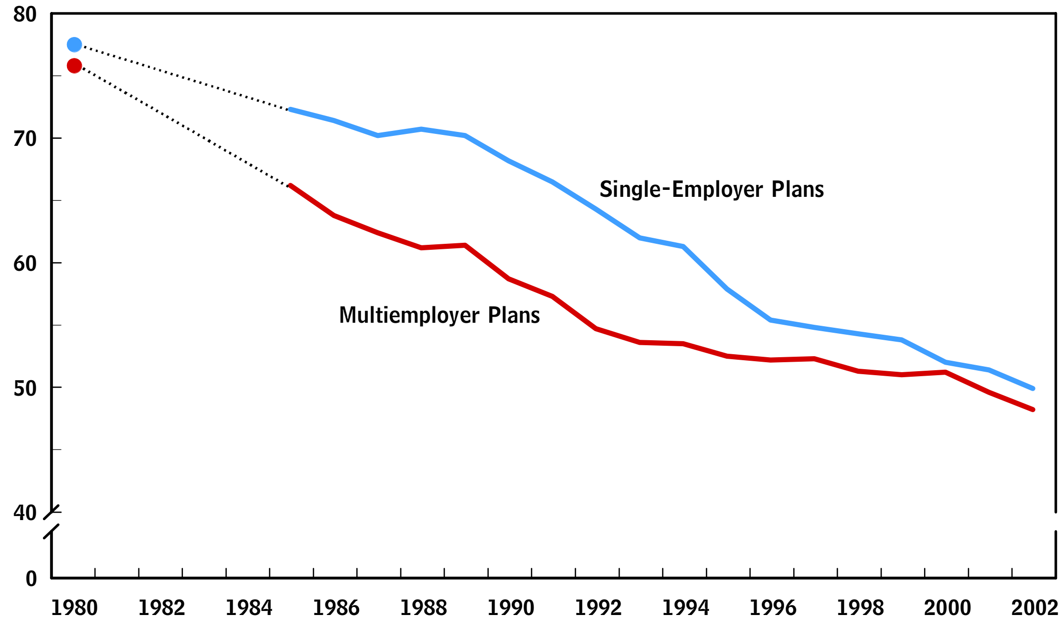
Source: Congressional Budget Office based on Pension Benefit Guaranty Corporation, *Pension Insurance Data Book 2004* (Spring 2005), p. 58.

Note: Data for 1981 through 1984 were unavailable.

Figure 2.

Share of Participants in PBGC-Insured Pension Plans Working in a Job Covered by Their Plan

(Percentage of total participants)



Source: Congressional Budget Office based on Pension Benefit Guaranty Corporation, *Pension Insurance Data Book 2004* (Spring 2005), pp. 57 and 88.

Note: Data for 1981 through 1984 were unavailable.

Table 2.

Participants in PBGC-Insured Multiemployer and Single-Employer Plans, by Size of Plan, 2004

Number of Participants in Plan	Multiemployer Plan Participants		Single-Employer Plan Participants	
	Number (Thousands)	Percent	Number (Thousands)	Percent
10,000 or More	7,248	74	22,425	65
5,000 to 9,999	898	9	3,619	10
1,000 to 4,999	1,364	14	5,526	16
Fewer Than 1,000	319	3	3,047	9
Total	**9,828**	**100**	**34,617**	**100**

Source: Congressional Budget Office based on Pension Benefit Guaranty Corporation, *Pension Insurance Data Book 2004* (Spring 2005), pp. 55 and 86.

future liabilities, or from a drop in the value of their assets. Under those conditions, sponsors of both types of plans are allowed to amortize the underfunding over as many as 30 years.

A unique concern in the financing of multiemployer plans is the treatment of firms that leave them. If a plan is adequately funded—that is, it contains enough assets to pay the present and future vested claims that participants have already accrued—then a firm's departure would not affect the plan's financial status. But if the plan is underfunded, then the remaining employers would be left with the departing firm's share of the unfunded liabilities. To address that problem ERISA established a special set of rules for firms that wish to discontinue their co-sponsorship of a multiemployer plan. Such a sponsor owes a "withdrawal liability," which represents the firm's pro rata share of the plan's unfunded liabilities, and must make payments periodically over a multiyear schedule specified in statute. However, those rules may not help if the firm leaves the plan because it has gone out of business.

According to forms filed by multiemployer plans in 2002, most participants are in plans that appear to be underfunded (see Table 3). In 2002, 26 percent of participants were in plans with assets sufficient to cover less than 70 percent of projected liabilities; 51 percent were in plans with assets to cover 70 percent to 89 percent; and 12 percent were in plans to cover 90 percent to 99 percent. Only 11 percent of participants were in plans that had at least enough assets to cover projected liabilities. The average funding ratio in that year was 77 percent, and underfunded plans existed in every major industry (see Table 4). (According to unpublished data from PBGC, the average funding ratio fell to 71 percent in 2003.)

Table 3.

Participants in PBGC-Insured Multiemployer Plans, by Percentage of Plans' Liabilities Funded, 2002

	Multiemployer Plan Participants	
Funding Ratio (Percent)	**Number (Thousands)**	**Percent**
Less Than 70	2,511	26
70 to 89	4,880	51
90 to 99	1,190	12
100 or More	1,049	11
Total	**9,630**	**100**

Source: Congressional Budget Office based on Pension Benefit Guaranty Corporation, *Pension Insurance Data Book 2004* (Spring 2005), p. 94.

Table 4.

Funding of PBGC-Insured Multiemployer Plans, by Industry, 2002

	Average Funding Ratio (Percent)
Construction	77
Manufacturing	83
Services	83
Retail Trade	78
Trucking	70
All PBGC-Insured Multiemployer Plans	**77**

Source: Congressional Budget Office based on Pension Benefit Guaranty Corporation, *Pension Insurance Data Book 2004* (Spring 2005), p. 95.

The Role of the PBGC

While single-employer and multiemployer pensions originally were treated similarly under ERISA, enactment of the Multiemployer Pension Plan Amendments Act of 1980 changed the treatment of multiemployer plans significantly. PBGC's multiemployer program is legally distinct from its single-employer program, and cross-subsidization between the two programs, including mixing assets and receipts from premiums, is not permitted.

The insured events under the two programs are very different. For single-employer plans, PBGC insures against the termination of an underfunded plan. If a single-employer plan is terminated without sufficient assets to pay all current and future promised benefits, PBGC takes over the plan's assets and liabilities and attempts to recover additional funds from the sponsor. PBGC then makes monthly benefit payments to beneficiaries, up to a limit set in law. For multiemployer plans, the insured event is the insolvency of a plan. A multiemployer plan is considered insolvent if, in a given year, it does not have sufficient funds on hand to pay promised benefits in that year. In that event, the plan's benefit payments are limited to an amount guaranteed by PBGC, and the agency provides loans to the plan on a quarterly basis to make up for any funding shortfall. PBGC does not take over the plan, and the plan remains in operation. The loans continue until the plan recovers or until all vested benefits have been paid. If the plan recovers from insolvency, it is required to repay all of the outstanding loans on a commercially reasonable schedule in accordance with regulations. In most cases to date, however, the plans have not recovered, and PBGC has had to write off the loans.

The guarantee limits on benefits in the two programs also differ substantially. In the single-employer program, the current limit on annual benefits for a worker re-

tiring at age 65 with a single-life annuity is about $46,000. For the multiemployer program, the limit is lower and depends on a participant's promised benefits and number of years of service in the plan. For example, the maximum annual guarantee for a worker with 30 years of covered employment is about $13,000.

The multiemployer program is financed through a premium that is levied on plans according to the number of insured participants. Currently, that annual premium is $2.60 per participant, and in 2004, PBGC collected about $25 million in premium receipts. In contrast, the premium in the single-employer program is based on a per-participant charge (currently $19 per participant) plus an additional charge (of $9 per $1,000 of underfunding per participant) for plans that are underfunded. In 2004, PBGC collected a total of $1.5 billion in premiums in the single-employer program.

As with the single-employer program, the annual cashflows of the multiemployer program are recorded in the federal budget. Premium collections and repayments of loans are shown as offsetting receipts, while benefit payments, financial assistance (loans), and administrative expenses appear as outlays. Only rarely has the budget recorded an annual deficit for the multiemployer program.

In contrast to that of PBGC's single-employer program, the financial condition of the multiemployer program has been generally favorable. The program was in surplus from 1985 to 2002 and fell into deficit only recently, in 2003 and 2004 (see Figure 3). At the end of fiscal year 2004, PBGC's multiemployer account had assets (from premiums and investment returns) totaling about $1.1 billion. At the same time, it had liabilities totaling $1.3 billion. Nearly all of those liabilities represented the present value of nonrecoverable future financial assistance that PBGC expected to provide to insolvent multiemployer plans. The net position of the multiemployer program, the difference between assets and the present value of liabilities, was a deficit of $236 million. (At the same time, PBGC's single-employer program had a deficit of $23.3 billion.)

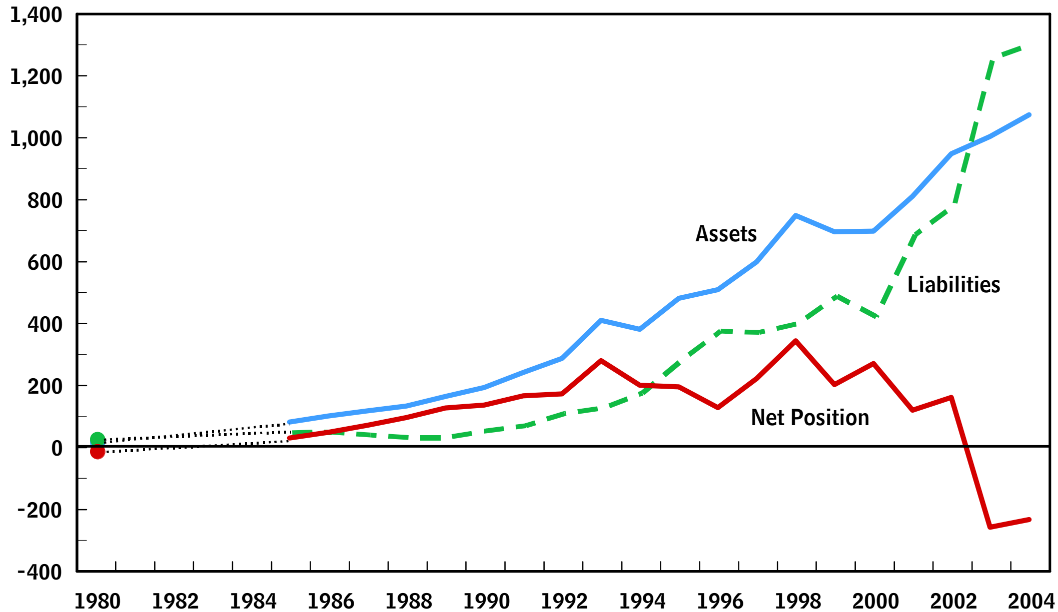
The difference between PBGC's exposure in the single-employer and multiemployer programs is illustrated by other financial information provided by PBGC. According to the agency's estimates, at the end of 2004, total pension underfunding was $150 billion in multiemployer pension plans and $450 billion in single-employer plans. Furthermore, by PBGC's estimates, it was "reasonably possible" that multiemployer plans would require future financial assistance of about $108 *million*; the comparable liability for single-employer plans was $96 *billion*.

The contrast between the financial condition of PBGC's multiemployer program and its single-employer program is partly a result of the quite different responsibilities that the agency has for each. In effect, employers and their workers

Figure 3.

Net Financial Position of PBGC's Multiemployer Program

(Millions of dollars)



Source: Congressional Budget Office based on Pension Benefit Guaranty Corporation, *Pension Insurance Data Book 2004* (Spring 2005), p. 82.

Note: Data for 1981 through 1984 were unavailable.

bear much more of the risks associated with underfunding in multiemployer plans than they do in single-employer plans.

In a multiemployer plan that is underfunded, employers bear more of the risks because a firm must pay an exit fee when it withdraws. Moreover, to the extent that the plan remains underfunded, the remaining firms are required to increase their payments into the plan. Workers bear more of the risks because the level of the pension guaranteed by PBGC is much lower for multiemployer plans that are insolvent than it is for single-employer plans that the agency has taken over.

Issues

For the millions of workers who are employed in a company that participates in a multiemployer defined-benefit pension plan, the promised annuity is often an important part of their retirement income. Unlike most other forms of compensation, which workers receive when they provide their services, pension benefits may be paid long after they are earned. Therefore, the availability of benefits from multiemployer plans depends on the adequate funding of those benefits in advance.

Funding rules that are strict, along with strong enforcement, lessen the need for (and therefore the appropriate price of) pension insurance. Conversely, looser funding requirements increase the risks to the insurance provider (in this case, PBGC) and raise the appropriate price of the insurance.

PBGC's experience over the past 25 years might lead one to conclude that the existing structure of funding requirements and pension insurance has worked much better in the multiemployer program than in the single-employer program. The agency's financial reports show very little exposure, either historically or prospectively, resulting from multiemployer plans, whereas billions in claims have been booked in the single-employer program, and tens of billions in claims are likely to be acquired over the next quarter century.

However, the level of claims should not be the sole measure by which policies addressing pension funding and insurance are assessed. The overall question to ask is, are the goals of the pension system being achieved in the most efficient manner and with the least impact on the economy in general?

Toward that end, one issue is whether current funding rules should be altered to better promote the long-term financial security of multiemployer plans and thereby lessen the chances that they will not be able to pay the promised pensions. For instance, some observers have raised concerns that limits on employers' contributions (designed to prevent firms from reducing their tax liabilities by overfunding pensions) have led to underfunding and limited flexibility. Similarly, some have suggested that tax rules (both the deductibility of contributions and the applicability of excise taxes to overfunding) have encouraged plans' trustees to increase benefits above the levels that could be safely maintained in the event of an industry downturn or a fall in the ratio of active to retired workers.

A second issue is whether additional changes should be made to promote the availability of timely, accurate information about the financial condition of the plans. For multiemployer plans, achieving transparency is more complicated than it is for single-employer plans, and it may be even more important to participants in multiemployer plans than to those in single-employer plans because of the difference in the guaranteed amounts in the two programs. Concerns have been raised, for example, that firms not represented on a plan's board of trustees are not receiving adequate information. Concerns have also been raised about whether disclosure rules are sufficient, although they were enhanced last year.