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"The Cost of Inaction: Why Congress Must Address the Multiemployer Pension Crisis"

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The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Distinguished Members of the Subcommittee:

On behalf of the Pension Practice Council of the American Academy of Actuaries, I am Josh Shapiro, vice president, pension at the Academy. I appreciate this opportunity to provide testimony to the United States House Committee on Education and Labor, Subcommittee on Health, Employment Labor, and Pensions. The Academy is a strictly nonpartisan, objective and independent professional association representing U.S. actuaries before public policymakers. As a member of the Academy, I am also bound by its qualification standards, its Code of Professional Conduct, and the actuarial standards of practice.

The Academy's Pension Practice Council and Multiemployer Plans Committee have spent a considerable amount of time in recent years studying the general financial condition of multiemployer plans. In the past year, we have participated in numerous meetings and discussions with congressional staff as they have sought to find potential ways to address the challenges facing the multiemployer pension system. My testimony will provide information regarding how multiemployer plans operate and their current funding outlook.

Introduction

The multiemployer pension system covers more than 10 million participants from a wide range of collectively bargained employers. Of these participants, roughly 4 million are currently employed by the companies that sponsor the plans, and 6 million are either retired and are receiving benefits or are no longer working for the plan sponsors.

The industries in which multiemployer plans are common tend to have certain characteristics. Many of these industries include a large number of small businesses that could not readily sponsor retirement plans on their own. They are often characterized by a high degree of employee mobility from one employer to another. If each of these employers sponsored a separate retirement plan, workers might never have enough service in any plan to earn a meaningful retirement benefit. These industries also often include many lower-wage workers with correspondingly small benefit levels, where the economies of scale created by multiemployer plans help make the benefits cost-efficient.

While the majority of multiemployer plans are not currently in financial distress, a significant minority of plans are severely underfunded and are unable to recover. In its 2017 Projections Report, the Pension Benefit Guaranty Corporation (PBGC) reported that approximately 130 multiemployer plans covering over 1.3 million participants have determined that they expect to be insolvent within the coming 20 years.

The PBGC is a government-sponsored organization that backstops private-sector pension plans in the event that they are unable to pay the benefits that participants have earned. PBGC guarantees benefits through its insurance program for single-employer plans and its program for multiemployer plans, each of which has separate premium amounts, benefit guarantees, and procedures for insolvent plans. PBGC's Multiemployer Program typically does not cover participants' entire benefit amounts, and the maximum amount that is guaranteed for a participant with 30 years of service is approximately $1,100 per month. Participants in insolvent plans that receive financial assistance often lose a large portion of their benefits due to the limitations on the PBGC guarantee.

The 2017 PBGC Projections Report also concluded that the PBGC's Multiemployer Program has a 99 percent likelihood of being insolvent itself by the end of 2026. Because the PBGC receives all of its funding from premiums paid by plans and is not supported by general revenues, if the multiemployer insurance programs runs out of resources, the guarantee would decline to what it could afford on a pay-as-you-go basis out of annual premium receipts. In this situation, participants in insolvent multiemployer plans could see their benefits cut by 90 percent or more. Participants affected by benefit reductions of this magnitude might need to rely on social safety net programs.

Multiemployer Plan Basics

Within U.S. retirement systems, the universe of employer-sponsored plans is generally divided into defined benefit plans and defined contribution plans. A defined benefit plan spells out the retirement benefits that participants have earned, and it is up to the plan sponsor to fund those benefits. A defined contribution plan spells out the contributions that the plan sponsor must pay, and it is up to the participants to figure out how to convert their account balances into retirement income.

In a defined contribution plan, participants must choose how fast to draw down their account balances after they retire. If they draw the money too quickly, they may outlive their savings and face financial challenges in old age. On the other hand, some retirees could be so concerned about exhausting their savings that they are unwilling to spend any of their retirement account funds. These decisions are difficult because nobody is able to predict how long their time in retirement~~s~~ will last. Defined benefit plans address this problem through what is known as "longevity risk pooling." Because the plans pay benefits to a large group of retirees out of a single asset base, they can budget over the average retirement period among all retirees, which is far more predictable than the retirement period for an individual retiree. Research[1] in 2017 concluded that a pooled approach to providing retirement income costs between 15 percent and 25 percent less than an individual approach.

A multiemployer plan is sponsored by two or more employers that are obligated to contribute to the plan pursuant to collective bargaining agreements. These plans can be local, regional, or national in scope. A multiemployer retirement plan can be a defined benefit or defined contribution plan. In contrast with single-employer plans, in the multiemployer plan system defined benefit plans provide the majority of the benefits, with defined contribution plans typically providing smaller supplemental benefits. This testimony exclusively addresses multiemployer defined benefit plans.

Defined benefit pension plans typically provide employees with annuities that begin when they retire and continue for the remainder of their lifetimes. Some defined benefit plans offer participants the option of receiving their benefits as lump sum payments instead of annuities, although this option is rare among multiemployer plans. Multiemployer plans most commonly calculate benefits by multiplying the number of years of service a participant has worked by a fixed dollar amount. For example, if a plan has a $50 per month benefit level, and a participant works for 30 years, he or she would be entitled to a pension benefit of $1,500 per month.

The PBGC's 2016 Pension Insurance Data Book shows that the construction industry has the largest number of multiemployer plans, with over 35 percent of the participants in the multiemployer system

[1] *Longevity Risk Pooling: Opportunities to Increase Retirement Security* published by the Society of Actuaries

working in that industry. Roughly 20 percent of multiemployer plan participants work in the service industry, which consists of the administrative support, health care and social assistance, and accommodation and food service sectors. Other significant industries include transportation (about 15 percent of all participants), manufacturing (about 10 percent), and retail trade (about 15 percent).

Contribution rates to multiemployer pension plans are established by the collective bargaining process. Rates are most commonly expressed as a dollar amount per hour worked, but in some cases could be based on days or weeks worked, or as a percentage of employee wages. A plan is obligated to pay premiums to the PBGC to support its insurance guarantee. For 2019, the PBGC premium rate for multiemployer plans is $29 per participant. Multiemployer plan assets are held in qualified trusts, and the plan trustees retain investment professionals to assist with the management of the assets. The plan assets are typically invested in highly diversified portfolios that include both traditional equities and bonds, with many plans also investing in real estate, private equities, hedge funds, and international securities.

Multiemployer pension plans are governed by joint boards of trustees, consisting of equal numbers of employer and employee representatives. The trustees are held to a fiduciary standard of care, which means that they must make decisions for the sole and exclusive benefit of the participants and beneficiaries in the plan. In most cases, the board of trustees has sole authority to determine the plan design and the level of benefits, but in some cases collective bargaining agreements can describe the plan design and benefits.

Multiemployer Funding Rules

Multiemployer plans are subject to minimum funding rules under the Employee Retirement Income Security Act of 1974 (ERISA). In general, the contributions that employers pay into to a multiemployer plan each year must be sufficient (a) to pay for the new benefits that active participants will earn in that year, and (b) to fund any unfunded past liabilities over a period of 15 years.

The amounts that employers contribute to a plan each year is equal to the contribution rate that was negotiated during the collective bargaining process, multiplied by the level of employment. For example, if the negotiated pension contribution rate is $5.00 per hour and an employer has ten employees who each work 2,000 hours of covered employment in a year, that company would contribute $100,000 to the plan for that year ($10,000 for each of the ten employees).

If the contributions into a defined benefit plan fall short of the ERISA minimum funding amount, the employer or employers sponsoring the plan are obligated to make up the shortfall, and they could be subject to excise tax penalties. In the multiemployer context, the ERISA minimum contribution can have a significant impact on collective bargaining, as the employers need to be sure that the contributions are sufficient to satisfy the minimum funding amount in order to ensure that they are not subject to excise taxes. When underfunding develops in a multiemployer pension plan, it can necessitate an increase the negotiated pension contribution rate. This increase could increase the employer’s labor costs, it might reduce employee wages by causing a larger portion of the wage package to be devoted to the pension plan, or a combination of the two.

In some instances, the contribution rate necessary to satisfy the ERISA minimum funding requirement can increase dramatically over a short period of time. Sudden and extraordinary increases in the contribution rates might drive the contributing employers into bankruptcy, or the employers might choose to withdraw from the plans to avoid paying the higher rates. The employees might also support a withdrawal from the plan if they become concerned that an unreasonably large portion of their total wage packages are being diverted to support the pension plan, or because they realize that the bankruptcy of the company would cause them to be unemployed. Withdrawing from an underfunded multiemployer plan typically results in a withdrawal liability assessment for the employer. An employer that is concerned that the cost of contributing to a plan will continue to increase in the future might decide to withdraw now and pay the withdrawal liability bill, rather than be subject to the ongoing risk of higher contribution requirements.

The Pension Protection Act of 2006 (PPA) introduced several new features to ERISA's multiemployer funding rules. It created the designation of an "endangered" plan, which is essentially an early warning program for plans that may have difficulty satisfying their funding requirements in future years. Such plans are subject to additional funding standards and are required to adopt a "funding improvement plan" that describes how they intend to improve their funding levels through employer contribution rate increases, reductions in future benefit accruals, or a combination of both.

PPA also introduced the designation of "critical status" plans, which are generally plans that have failed to satisfy their minimum funding requirements or are in imminent danger of doing so. These plans are required to adopt a "rehabilitation plan" that describes how they intend to emerge from critical status over time. While the rehabilitation plan is being developed, a contribution rate surcharge is imposed on employers, which is removed once the plan is finalized and they agree to a contribution rate that complies with the terms of the rehabilitation plan. Importantly, as long as these plans adopt and follow a valid rehabilitation plan, the employers are exempt from excise taxes, even if the ERISA minimum funding requirement is not satisfied.

In addition to increasing employer contribution rates and reducing future benefit accruals, critical status plans also have the ability to reduce or eliminate certain ancillary benefits. These "adjustable benefits" would otherwise be subject to ERISA's anti-cutback protections. Most significantly, these plans can reduce or eliminate any subsidized early retirement benefits that have been earned by participants who are not yet in payment status. These plans are unable to make any cuts to participants' accrued benefits payable at their normal retirement ages, and they are generally unable to make any cuts to benefits for participants who are in payment status.

As discussed previously, dramatic increases in contribution rates could cause employers to go out of business or to withdraw from the plans. As a result, very large increases in the required contribution rates can become counterproductive to the health of a plan when few if any employers would actually be willing and able to pay those rates. PPA contains a provision that recognizes this reality. If the trustees of a plan conclude that a rehabilitation plan has exhausted all reasonable measures for improving the funding strength of a plan, and any further measures would not improve the funding level of the plan, then the contributing employers are protected from the excise tax penalties as long as they continue to follow the rehabilitation plan. This excise tax protection remains in effect even when it is clear that the contributions will remain below the minimum levels otherwise required by ERISA and that the funding level of the plan is not expected to improve.

The Multiemployer Pension Reform Act of 2014 (MPRA) added an additional status category called “critical and declining” status. In order to be classified as critical and declining, a multiemployer plan generally must be projected to fully exhaust its assets within 20 years. Subject to a variety of constraints, a plan in this status has the ability to reduce benefits that participants have already earned, including participants who are retired and receiving their benefits. No benefit can be reduced below 110 percent of the amount guaranteed by the PBGC, and disabled participants and participants over age 80 must be excluded from the reductions (with phased-in protection for participants age 75 and older). The reductions must be projected to be sufficient to prevent the insolvency of the plan, while not materially exceeding the level that is needed to prevent insolvency. Plans seeking to use this provision must apply to the Treasury Department for approval, and there must be a participant vote in which a majority of the plan participants can override the decision to reduce benefits.

Withdrawal Liability

There are a variety of circumstances that can cause an employer to cease contributing to a multiemployer pension plan. Once an employer ceases contributing, its employees will no longer earn any new benefits in the plan, but the plan will remain obligated to pay employees the benefits that they earned prior to the withdrawal.

Employers contribute to these plans pursuant to collective bargaining agreements, and at any time the company and the union could amend the agreements to permanently cease the obligation to contribute. This situation is commonly referred to employers “bargaining out” of the plans. Companies can also decide to no longer employ unionized workers, which would result in no further contributions being paid into a plan. Companies might stop contributing because they become insolvent and go through a liquidation process, or in the case of small businesses, because the owners simply decide to retire. In some circumstances a withdrawal could also occur because all or part of a company was purchased by a new owner, or because one or more lines of business were either terminated or sold.

If a multiemployer pension plan is less than fully funded when an employer withdraws, in accordance with the requirements of ERISA, the plan will typically assess the company withdrawal liability. While the calculations can be complex, withdrawal liability represents the withdrawing employer’s share of the unfunded liabilities in the plan. As a simple example, consider a plan that has $5 million dollars of unfunded liability, and ten contributing employers, each of which has an equal number of covered employees in the plan. If one of those employers were to withdraw, it would be assessed one-tenth of the unfunded liabilities of the plan, or $500,000. Note that the withdrawal liability calculation is generally the same regardless of the reason the employer withdrew from the plan.

The ERISA withdrawal liability rules do not require that companies satisfy their withdrawal liability assessments with a single payment immediately after withdrawing. Instead, companies may pay their withdrawal liability assessments according to a payment schedule that can last for many years. The calculation of the amount that must be paid each year is prescribed by law, and the annual payment is typically comparable to the amount that the employer was contributing to the plan prior to the withdrawal. The payment schedule continues until the employer has fully paid off the withdrawal liability assessment, subject to a 20-year limit. Withdrawal liability payments generally cease after 20 years even if the employer has not fully paid off the assessment.

The 20-year cap can have a very significant impact on the amount that a withdrawn employer owes to a plan, and correspondingly on the amount that the plan is able to collect. In the previous example, an employer would have a withdrawal liability assessment of $500,000. If the withdrawal liability payment amount is $10,000 per year, and the effects of interest are ignored, then ERISA would only allow the plan to collect $200,000 from the employer, even though its share of the unfunded liabilities is $500,000.

Any withdrawal liability amounts not paid by a withdrawn employer are reallocated to the remaining employers. These unpaid amounts could be due to the impact of the 20-year payment cap, bankruptcies, or other factors. In many plans these uncollectible amounts can be significant, and some plans report only being able to collect a small portion of the liabilities that are allocated to withdrawing employers.

Insolvent Multiemployer Plans

Historically, multiemployer plan funding has required periodic rebalancing. During periods of economic strength, plan assets produce investment gains. Plan trustees tend to increase benefit levels during these periods, while contribution rates stay relatively flat or increase only modestly. In more difficult economic times, contribution rates increase by larger amounts and the rate at which participants earn new benefits increases very little, or in some cases experience declines. These down periods occasionally place some stress on the contributing employers and participating employees, but only in very rare circumstances have those stresses been so great as to jeopardize the long-term survival of plans.

This situation began to change rapidly around the year 2000. The 1990s produced very large investment gains in the financial markets, which put many multiemployer plans into an overfunded position. Tax laws that made contributions to overfunded plans non-deductible to the employers, combined with a broad desire to share the investment gains with participants, caused many plans to significantly raise benefit levels over a short period of time. Subsequently, the first decade of the new century produced significant losses in the financial markets, which erased much of the investment gains that plans experienced in the prior decade. While a large portion of the investment gains ended up being temporary, the higher benefit levels that accompanied those investment gains were permanent, and plans quickly found themselves with very large funding deficits.

Nearly all multiemployer plans had to take some level of corrective action following the economic downturn that occurred between 2000 and 2010. Due to reductions in benefit accruals and increases in contribution rates, a large majority of plans have been able to weather the storm. But as discussed previously, there are currently around 130 multiemployer plans covering well over 1 million participants that are projected to fully exhaust their assets in the coming 20 years. The trustees of these plans have concluded that they have taken all reasonable measures to improve their funding levels and that there are no further actions they can take to prevent these insolvencies. Raising the contribution rates to the levels that are required to restore funding levels would drive the remaining contributing employers into bankruptcy or into withdrawing from the plans. These plans are unable to recover from the effects of the recession.

The primary tools that multiemployer plans are able to use to improve their funding levels are increases in the contribution rates and decreases in the rate at which active participants accrue new benefits. These tools are most effective when a plan has a strong base of active participants and contributing employers, and become less effective as these populations become smaller. For example, consider a hypothetical plan that historically had 100 contributing employers, but due to economic and industrial shifts only five of those employers remain in the plan. If that plan experiences losses on its investments, it is possible that a modest increase in the contribution rate would have been sufficient to offset the losses if the cost had been spread across 100 employers. However, with only five employers remaining, a much larger increase in the contribution rate is necessary and it might be impossible for those companies to bear that burden.

The plans that are projected to be insolvent are highly correlated with plans that have experienced significant reductions in their employer and active employee populations. In most cases these plans did not experience greater losses on their investments than healthier plans, nor did they adopt larger benefit increases during the years of strong performance. Rather, the erosion of their contribution bases has made them incapable of implementing measures that are sufficient to recover. The trustees generally have no ability to influence the number of employers that contribute to a plan, so they could not have prevented the workforce declines and are unable to bring more employers into a plan.

It is important to understand that a declining population of contributing employers and active employees does not mean that a multiemployer plan is destined to fail. It means that the plan has less ability to withstand adverse experience than plans with more favorable demographics, which could be a consideration when the trustees are developing their investment and funding policies.

Factors Contributing to Funding Shortfalls

While each multiemployer plan has a unique set of circumstances, there are certain factors that have generally contributed to the current funding shortfalls.

- Significant losses that were experienced on plan assets in the first decade of the twenty-first century
- Benefit improvements that were adopted in response to the investment gains of the 1990s
- Maturing of pension plans as retiree populations become a larger component of liabilities
- Shifts in the industries supporting multiemployer pension plans

<u>Investment Losses</u>

Plan trustees typically invest assets in diversified portfolios that are intended to produce strong investment returns over a long-term time horizon. However, these portfolios have the potential to produce gains or losses, particularly over short time periods. For example, nearly all plans invest in equity securities issued by large corporations. The standard benchmark for the performance of these investments is the Standard and Poor's (S&P) 500 Index, which experienced a return of approximately negative 37 percent in 2008. Measured on this basis, 2008 was the single worst year for stock market returns since 1931. Since plans invest in many assets classes in addition to corporate stocks, they were partially insulated from this collapse, but the average multiemployer plan still lost 23% of its assets in 2008. For the decade from 2000 to 2010, the average annual return on the S&P 500 index was negative one percent, which is roughly the same as the return experienced during the Great Depression. This highly adverse investment experience substantially reduced the funding levels of multiemployer plans, and was a major source of the financial distress that threatens the survival of many plans.

It is also important to understand that the average return on the S&P 500 Index for the 30-year period that ends with (and includes) 2008 was 10.9 percent. While the short-term returns at the end of this period were negative, over a longer period the experience was positive. To a large extent, the benefits that have been jeopardized by poor asset performance were only available in the first place due to past investment gains. While the investment in diversified asset portfolios has done more to raise benefit levels than it has to lower them, it has also caused benefits that were previously viewed as secure to now be exposed to the possibility of reduction.

Benefit Improvements

The funding requirements for multiemployer plans are based in part on the expected rate of return on plan assets. The rates of return earned on diversified asset portfolios can vary considerably from year to year, and the expected rate of return is intended to represent the average return over a period of many years. In order for this approach to produce stable funding costs, investment gains need to be available to offset investment losses.

When multiemployer plans experienced exceptionally large investment gains, as occurred during the late 1990s, many plans became overfunded. Due to both regulatory constraints that made contributions to overfunded plans non-deductible to employers, and a belief that it was appropriate to spend the overfunding on higher benefit levels, a large portion of these investment gains were converted into benefit increases and therefore were not available to offset the significant investment losses that occurred in the subsequent decade.

Tax deductibility is a particularly important issue in the multiemployer system, since contributions that are negotiated in collective bargaining agreements (which often extend for three or more years), must be paid to the plan regardless of whether the plan has a funding shortfall. This situation differs from single-employer plans, where plan sponsors could simply take a contribution holiday in response to overfunding. Contribution holidays are generally not practical for multiemployer plan sponsors, so it was necessary for plans to take steps to take steps to preserve the deductibility of the contributions. Note that the tax deduction limits for multiemployer plans were raised in 2003 so that in the future, if plans become overfunded there will not be the same pressure to raise benefit levels that occurred in the 1990s.

Maturing of Pension Plans

A pension plan is considered to be “mature” when a large portion of its liabilities are attributable to participants in payment status, and a smaller portion is attributable to active participants who are working and earning new benefits. Pension plans tend to become more mature gradually over time as workers transition from active status to retired status. Plan maturity has a significant impact on cash flows. Plans with relatively large populations of active participants tend to receive large amounts of employer contributions, while paying smaller amounts of participant benefits and experiencing smaller investment returns. However, in more mature plans this situation is reversed, with small amounts of employer contributions in comparison to the investment returns and benefit payments.

As a plan matures, investment earnings become a larger component of its cash flows, which makes the financial position of the plan more sensitive to investment experience. Further, when participant benefit payments exceed the employer contributions it becomes more difficult for plans to recover from investment losses, as subsequent investment gains are earned on a smaller base of assets. Lastly, the measures available to trustees to improve funding levels (i.e. contribution rate increases and decreases in the accrual of future benefits) are generally only effective with respect to active participants. For these reasons, significant investment losses, such as those that occurred between 2000 and 2010, have a greater impact on more mature pension plans than on less mature plans.

Shifts in Industries Supporting Plans

While the gradual maturing of multiemployer plans occurs naturally, in some cases this process has been accelerated by specific circumstances. One example is the trucking industry, where deregulation combined with low barriers to entry caused a shift away from unionized employee populations. Technology improvements can also play a role, as in the graphic printing industry where workforces have shrunk due to the increased role of automation and computers. Some construction industry plans have matured significantly due to decreased economic activity in certain regions of the country. In industries that are characterized by a relatively small number of large employers, such as the retail food and bakery and confectionary industries, the bankruptcy of one or more employers has contributed to the maturing of multiemployer pension plans.

Because of these factors, some multiemployer plans have become substantially more mature than others have in recent years. The plans that are expected to become insolvent are highly correlated with the plans where special circumstances have contributed to unusually high degree of maturity. While most multiemployer plans have been able to absorb the asset losses that have occurred, the minority of plans that have exceptionally small populations of active employees lack the economic resources necessary to recover.

Summary of Current System Challenges

The multiemployer pension system consists of roughly 1,250 active plans that cover between 10 million and 11 million people. Data available from the Department of Labor shows that approximately 65 percent of multiemployer plans are not in any zone status (often referred to as the “green zone”), 10 percent are in endangered status, 15 percent are in critical status, and 10 percent are in critical and declining status. The plans in critical and declining status are eligible to apply for benefit reductions under MPRA, though not all plans are able to meet the criteria for approval. MPRA contains limits on the benefits that may be reduced, and for many plans the maximum reductions allowed under MPRA would be insufficient to eliminate the projected insolvency. Among the 15 percent of plans that are in critical status, some are projected to recover and emerge from critical status, while others have exhausted all reasonable measures and do not expect to recover. Some in the latter category of these plans are likely to be certified in critical and declining status in the future.

Analysis prepared by the Society of Actuaries in 2016 found that between 2009 and 2013, the average contribution paid into multiemployer plans per active participant increased by an average of 11.4 percent per year. During this same period of time, the average normal cost per active participant, which is a measure of the benefits that participants are earning, remained essentially flat. The data suggest that employers and employees agreed to increase the average negotiated contribution rate by more than 50 percent over that four-year period, while the benefits that participants earned remained unchanged. These figures are for all multiemployer plans, and it is likely that among highly distressed plans, the average contribution rate increases were even greater and that the benefits earned by participants in those plans tended to decrease.

The trustees of the plans that are projected to be insolvent face a very difficult situation. Because, generally, their populations of active participants and employers have shrunk, the contribution rate increases and benefit accrual decreases that they have adopted have not been sufficient for recovery. The contribution rate increases needed to achieve recovery are so great that if they were imposed, the employers would be unable to remain in business or would choose to withdraw from the plans. For the plans that are unable to meet the criteria for benefit reductions under MPRA, they have no alternative other than to spend down their assets and wait for insolvency to occur.

Unlike a single-employer plan, a multiemployer plan that is projected to become insolvent continues to pay full benefits until the insolvency occurs. Then, when a multiemployer plan finally exhausts its assets and begins to receive PBGC assistance, all participant benefits are reduced to the PBGC guarantee level. A middle-income participant who participated in a multiemployer plan over his or her full career might have earned a pension of $25,000 per year from the plan. The PBGC guarantee would cover approximately half of this pension (about $12,800), meaning that the retiree would have a 50 percent benefit cut when the plan runs out of assets. Further, the PBGC Multiemployer Program lacks the resources needed to support even this guarantee level. When that program runs out of money—which is projected to occur in less than ten years—benefits for affected retirees will be reduced to only pennies on the dollar.

Summary

The multiemployer pension system stands at a crossroads. These plans have allowed millions of American workers to retire with reliable lifetime income that most would have been unable to achieve had these plans not been there. But the system has proved to not be strong enough to withstand the combination of demographic trends, industrial shifts, and economic declines that have occurred in recent years. As a result, more than a million participants face the possibility of losing their retirement benefits, and thousands of businesses are in jeopardy.

Congress faces a dual challenge. Action is needed to address the looming crisis that will occur when both plans and the PBGC exhaust their resources and reach the point of insolvency. The multiemployer system also needs to be reformed so it can continue its invaluable mission of providing retirement income to people who need it, while also ensuring that the system does not fall into crisis again.

I hope this background information on the operation of the multiemployer system and its current challenges proves useful as Congress considers potential legislative action. The Pension Practice Council of the American Academy of Actuaries looks forward to continuing to provide objective and unbiased actuarial analysis to lawmakers and their staffs as they work to address these difficult challenges.