Government money should help solve the multiemployer pension crisis

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MarketWatch Blog by Alicia H. Munnell

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Government missteps allowed the situation to get as bad as it is

For those of you who do not think about pensions on a daily basis, multiemployer plans are private sector defined benefit plans created by collective bargaining agreements between a labor union and two or more employers. They typically exist in industries with many small employers.

While the majority of multiemployer plans are returning to financial health since the financial crisis, a substantial minority – covering about one million of the 10 million participants – face serious funding problems and could run out of money within the next 15-20 years. These plans have been deemed "critical and declining."

The size of the "hole" (the difference between assets and the present value of promised benefits) for "critical and declining" multiemployer plans is between \$35 billion and \$76 billion – depending on the interest rate used to discount promised benefits. One plan – Central States Teamsters – accounts for about 45 percent of the problem.

In February, the Congress created a bi-partisan House and Senate **Joint Select Committee** on Solvency of Multiemployer Pension Plans. This committee – co-chaired by Sen. Orin Hatch (R-UT) and Sen. Sherrod Brown (D-OH) – is charged with producing a bill to solve the pension crisis by the final week in November. The issue rolling around in my head is whether a clear case can be made for an infusion of government revenues as part of a solution. I think the answer is unequivocally "yes."

My rationale is threefold. First, the government has not established a meaningful insurance program for participants in bankrupt multiemployer plans. When Congress enacted the Employee Retirement Income Security Act in 1974, no multiemployer plan had ever terminated, so the legislation gave the Pension Benefit Guaranty Corporation (PBGC) discretion over whether or not to insure these plans. When three multiemployer plans sought PBGC protection, Congress in 1980 extended PBGC insurance protection to all multiemployer plans. But the maximum guarantee in 2018 for multiemployer participants (at age 65 with 30 years of service) is only $12,870 compared to $65,045 for those in single employer plans. And even these small amounts are at risk since the PBGC's multiemployer insurance program is expected to run out of money within 10 years.

Second, while the law requires exiting employers to pay a withdrawal liability to cover their share of the plan's underfunding, the rules often produce inadequate amounts. If an employer exits when a plan is fully funded, as many plans were prior to 2000, the employer does not face any withdrawal liability. The risk here, though, is that liabilities that seem fully funded at the time an employer exits may turn out to be underfunded down the road, because plan funded status fluctuates over time with investment returns. In situations where unfunded liabilities *do* exist when the employer exits, the withdrawal payments are based on past contributions rather than attributed liabilities and are capped by law at 20 years. In addition, the withdrawal liability payment is invested by the plan in risky assets, rather than being used to purchase an annuity to finance the liability. The bottom line is that an exiting employer can end up leaving the remaining employers with the liabilities of the exiting employer's so-called "orphan participants."

Third, the "crisis" of multiemployer plans is really about one plan – Central States Teamsters. If not for the imminent failure of Central States, moderate reforms to the PBGC multiemployer program and withdrawal liability procedures could right the multiemployer retirement system. The government has known about the decline of Central States since the late 1970s, when it put the plan into receivership. The government has enabled this problem to grow for four decades and imperil the rest of the system.

So, yes, government money should be part of the solution.