



## CLIENT BULLETIN

### ***GAO Releases Testimony Before Congress on Multiemployer Pension Plans and Recent PBGC Reports***

The PBGC recently published a detailed news release on several reports sent to Congress by federal *ERISA* agencies that deal with multiemployer pension plans. See webpage at: <http://www.pbgc.gov/res/annual-reports/multiemployer-plan-news-and-info.html>.

On March 5, 2013, the Government Accounting Office (GAO) released a written copy of testimony presented before Congress about the challenges facing multiemployer pension plans and the PBGC. Before discussing the GAO testimony, let's take a look at the recent PBGC reports. These reports are:

#### [Multiemployer Plan Report](#)

Reports on multiemployer plans and the effects of the PPA

#### [PBGC's Multiemployer Program](#)

Reports current premiums will be inadequate to maintain current guarantee levels

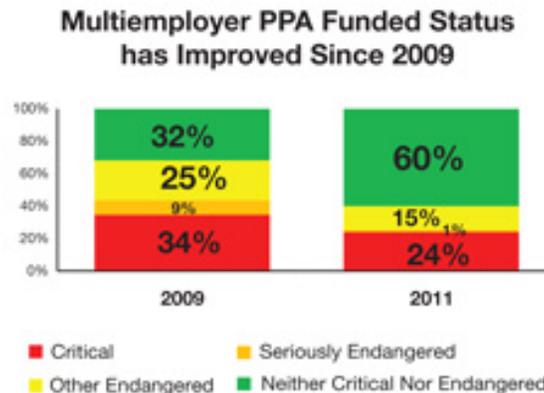
#### [Annual Report - Exposure Report](#)

More information about the financial condition of PBGC's insurance programs

The PBGC news release showed how multiemployer plans cover participants in businesses throughout America:



While multiemployer funded status has improved, many plans are still in trouble:



The PBGC reports also highlighted the financially strained PBGC's multiemployer insurance program:

At the end of FY 2012, the multiemployer insurance program had a \$5.2 billion deficit, with assets of \$1.8 billion and booked liabilities of \$7.0 billion; the deficit at the end of FY 2011 was \$2.77 billion. PBGC paid \$95 million in financial assistance for benefits and plan expenses to insolvent plans in FY 2012. This amount is projected to rise rapidly – with payments exceeding \$500 million in 2022 – as more plans become insolvent. These projected payments are related solely to plans with booked liabilities through FY 2012.

Over the next decade or so, even before any new obligations are added, there is a substantial risk that, without significant change to the multiemployer plan system and PBGC's program, the multiemployer insurance program will become insolvent and not be able to pay financial assistance. PBGC has begun discussions with the Congress about approaches to reduce this risk.

On the heels of the PBGC reports, the GAO released testimony about multiemployer plans to the Subcommittee on Health, Employment, Labor and Pensions, Committee on Education and the Workforce, House of Representatives titled: *PRIVATE PENSIONS Multiemployer Plans and PBGC Face Urgent Challenges*.

The full GAO testimony is available at: <http://www.gao.gov/assets/660/652687.pdf> or by "[clicking here](#)." For other testimony and information "[click here](#)."

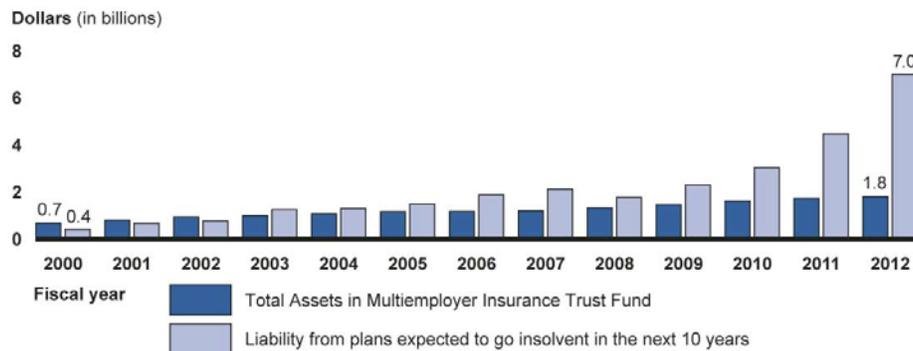
### **What GAO Found**

According to the summary of the GAO report, the most severely distressed multiemployer plans have taken significant steps to address their funding problems and, while most plans expected improved financial health, some did not. The report noted a survey conducted by a large actuarial and consulting firm serving multiemployer plans suggests that the majority of the most severely underfunded plans—those designated as being in critical status—developed plans to increase employer contributions or reduce certain participant benefits.

In some cases, these measures will have significant effects on employers and participants. For example, one plan representative stated that contribution increases had damaged some firms' competitive position in the industry. Similarly,

the report continued, reductions or limitations on certain benefits—such as disability benefits—may create hardships for some older workers, such as those with physically demanding jobs. Most of the 107 surveyed plans expected to emerge from critical status, but about 26% did not and instead seek to delay eventual insolvency.

The report emphasized that the Pension Benefit Guaranty Corporation's (PBGC) financial assistance to multiemployer plans continues to increase, and plan insolvencies threaten PBGC's multiemployer insurance fund. As a result of current and anticipated financial assistance, the present value of PBGC's liability for multiemployer plans that are insolvent or expected to become insolvent within 10 years increased from \$1.8 to \$7.0 billion between fiscal years 2008 and 2012. Yet PBGC's multiemployer insurance fund only had \$1.8 billion in total assets in 2012. PBGC officials said that financial assistance to these plans would likely exhaust the fund in or about 2023. If the fund is exhausted, many retirees will see their pension benefits reduced to a small fraction of their original value because only a reduced stream of insurance premium payments will be available to pay benefits.



Source: GAO analysis of PBGC data.

Certainly, multiemployer pension plans face many challenges. However, the plans have for a large part shown to be as resilient as the men and women who participate in such plans.

In light of such turbulent times, various groups are working together to promote legislation that will help stabilize multiemployer plans. Most notably, the National Coordinating Committee for Multiemployer Plans (NCCMP) has released a report prepared by its Retirement Security Review Commission entitled:

***Solutions not Bailouts - A Comprehensive Plan from Business and Labor to Safeguard Multiemployer Retirement Security Protect Taxpayers and Spur Economic Growth.***

We will take a look at the report in another newsletter. In the interim, interested readers can access the report at: <http://www.solutionsnotbailouts.com/> or by "[clicking here.](#)" Readers are advised to check the website for any updates to the report. To keep abreast of NCCMP news, go to: <http://nccmp.org>.

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