ABSTRACT

Private sector multiemployer pension plans are negotiated by unions with groups of employers, typically in the same industry. As of 2014, about 10.1 million employees and retirees are covered by about 1,400 multiemployer pension plans.[1] These plans were well funded during the 1990s, saw funding levels collapse in the wake of the dot-com bubble bursting at the turn of the century, and have continued to decline.

The Multiemployer Pension Reform Act (MPRA) of 2014, introduced as a response to the decline in health of a significant number of multiemployer plans, has not proven to be a cure-all. As of September 2017, the Treasury has approved only three of the 15 benefit-cut requests submitted by these plans. Although five applications have been denied and three withdrawn, four applications still remain under review. So, while the ultimate effectiveness of MPRA still remains to be seen, it is clear that other solutions must be explored to meet the multiemployer challenge.

At this stage, the majority of proposed solutions to the multiemployer crisis entail (1) alleviating the burden of orphan members on plans (those whose employers have exited the system) through partitions to the Pension Benefit Guaranty Corporation (PBGC) and/or (2) providing subsidized loans, with the government lending directly at reduced rates or encouraging private sector loans through government guarantees. Whatever the ultimate solution, a case can be made for employers (tailored not to sink already fragile plans), plan participants, and taxpayers to bear some of the burden.

A concerted effort to solve the multiemployer crisis must include a recognition of how plans found themselves in this desperate plight. The plans that have already applied for benefit cuts under MPRA tend to be local or regional plans stationed in areas of decline or those that had contributions concentrated in a large, single employer that failed or withdrew from the plan. In general, the worst-off plans – those labeled “critical-and-declining” – have lower funded ratios, a larger share of inactive members, and more severe negative cash flow. They also pay less of their actuarially required contributions (ARC). One clear warning sign for plans is a negative cash-flow rate in excess of -10 percent. Based on this measure, there are 11 relatively large critical plans – covering about 86,000 members – that could become "critical-and-declining" in the near term. Early action that focuses on some of these indicators might be able to stabilize other plans heading for trouble. Any solution to the multiemployer problem must be comprehensive and forward-looking – helping not only those in serious trouble today but also staving off future problems.

[1] U.S. Department of Labor (2016a).