These FAQs are meant to serve as guidance and as a reminder to fiduciaries of multiemployer plans that prohibited transaction violations of the Employee Retirement Income Security Act of 1974 (ERISA) may arise in leasing or service provider arrangements. The FAQs also describe certain statutory or administrative exemptions that may be available.

Q1. What are common prohibited transactions involving leasing of office space by multiemployer plans?

Two common types of prohibited transactions involve the leasing of office space by multiemployer plans: leases between a plan and a party in interest and self-dealing/conflicts of interest involving multiemployer plan trustees.

Leases of office space between a plan and a party in interest: Section 406(a)(1)(A) of ERISA prohibits a fiduciary of an employee benefit plan from causing the plan to engage in the sale, exchange or leasing of any property between the plan and a party in interest. Section 406(a)(1)(D) of ERISA prohibits such a fiduciary from causing the plan to engage in a transaction constituting a transfer to, or use by or for the benefit of, a party in interest, of any assets of the plan. Parties in interest with respect to an employee benefit plan include: employee organizations whose members are covered by the plan (i.e., unions), contributing employers, and service providers (including other employee benefit plans).

Examples of prohibited leases of office space with parties in interest include:

- Multiemployer Plan A leases office space in a building it owns to Union U, members of which are participants in Multiemployer Plan A. Union U is a party in interest with respect to Multiemployer Plan A.

- Multiemployer Plan A leases office space in a building it owns to Contributing Employer C, employees of which are participants in Multiemployer Plan A. Contributing Employer C is a party in interest with respect to Multiemployer Plan A.

- A Union, members of which are participants in Multiemployer Plan A, leases office space in a building it owns to Multiemployer Plan A. The Union is a party in interest with respect to Multiemployer Plan A.

- Contributing Employer C, whose employees are participants in Multiemployer Plan A, leases office space in a building it owns to Multiemployer Plan A. Contributing Employer C is a party in interest with respect to Multiemployer Plan A.
Multiemployer Plan A leases office space in a facility it owns to Multiemployer Plan B, which provides services to Multiemployer Plan A. Multiemployer Plan B is a party in interest with respect to Multiemployer Plan A.

Multiemployer Plan A leases office space in a facility it owns to Accounting Firm F, which provides services to Multiemployer Plan A. Accounting Firm F is a party in interest with respect to Multiemployer Plan A.

Self-dealing/Conflicts of interest involving multiemployer plan trustees: Section 406(b)(1) of ERISA prohibits a plan fiduciary from dealing with the assets of the plan in his own interest or for his own account (i.e., self-dealing), and ERISA section 406(b)(2) prohibits a plan fiduciary from acting in his individual or any other capacity in any transaction involving the plan, on behalf of a party whose interests are adverse to the interests of the plan or of its participants or beneficiaries.

The prohibitions of ERISA section 406(b) supplement ERISA section 406(a) and prevent plan fiduciaries from exercising the authority or responsibility that makes them fiduciaries when they have interests that may affect their best judgment as fiduciaries. In this regard, multiemployer plan trustees are generally affiliated either with the union sponsoring the plan or a contributing employer.

Additionally, trustees of multiemployer plans often serve on the boards of more than one plan covering the same employees, for example, a multiemployer pension plan and a multiemployer health and welfare plan (“related plans”).

Accordingly, the lease of office space between a multiemployer plan and a union or employer violates ERISA section 406(b)(1) when the multiemployer plan trustees have interests in the lease that may lead the trustees to structure the lease in a manner that benefits the union or employer. Such a lease also violates ERISA section 406(b)(2) when the multiemployer plan trustees have divided interests because they are acting on behalf of another party to the transaction as well as the plan. Violations of ERISA section 406(a)(1)(A) and (D), discussed above, are considered separately from the violations set forth in ERISA section 406(b).

Examples of prohibited conflicts of interest involving multiemployer plan trustees include:

- Trustees of Multiemployer Plan A who are officers of Union U participate in a decision to lease office space in a building owned by Union U to Multiemployer Plan A. The participation by the Union U trustees in the decision to lease office space from Union U would raise self-dealing issues under ERISA section 406(b)(1). In addition, as lessor and lessee, Union U and Multiemployer Plan A have interests that are adverse to each other. The Union U trustees, in acting on behalf of both Union U and Multiemployer Plan A in the transaction, would violate ERISA section 406(b)(2).

- Multiemployer Plan A leases office space in a building it owns to Union U, members of which are participants in Multiemployer Plan A. Multiemployer Plan A’s board of trustees has three trustees who are officers of Union U. The participation by the Union U trustees in the decision to lease office space from Multiemployer Plan A would raise self-dealing issues under section 406(b)(1) of ERISA. In addition, as lessor and lessee, Multiemployer Plan A and Union U have
interests that are adverse to each other. The Union U trustees, in acting on behalf of both Multiemployer Plan A and Union U in the transaction, would violate section 406(b)(2) of ERISA.

- Contributing Employer C, whose employees are participants in Multiemployer Plan A, leases office space in a building it owns to Multiemployer Plan A. Multiemployer Plan A’s board of trustees has three employer trustees, one of whom is an officer of Contributing Employer C. The participation in the decision by the trustee who is an officer of Contributing Employer C to lease the office space from Contributing Employer C would raise self-dealing issues under section 406(b)(1) of ERISA. In addition, Contributing Employer C and Multiemployer Plan A, as lessor and lessee, have interests that are adverse to each other. Such trustee would be acting for both Contributing Employer C and Multiemployer Plan A in the transaction, in violation of section 406(b)(2) of ERISA.

- Multiemployer Plan A leases office space in a building it owns to Contributing Employer C, employees of which are participants in Multiemployer Plan A. The participation in the decision by a trustee of Multiemployer Plan A, who is an officer of Contributing Employer C, to approve the lease of office space to Contributing Employer C would raise self-dealing issues under section 406(b)(1) of ERISA. In addition, Multiemployer Plan A and Contributing Employer C, as lessor and lessee, have interests that are adverse to each other. Such trustee would be acting for both Multiemployer Plan A and Contributing Employer C in the transaction, in violation of section 406(b)(2) of ERISA.

- Multiemployer Pension Plan A leases office space in a building it owns to Multiemployer Health Plan B. The plans are not parties in interest with respect to each other but they share common trustees, and as lessor and lessee, the interests of the plans are adverse to each other. The common trustees of the plans would be acting on behalf of both plans in violation of section 406(b)(2) of ERISA. However, based on these facts alone, there is no violation of section 406(b)(1) of ERISA because the trustees would not be acting in their own interests.

Q2: What relief is provided in statutory or prohibited transaction class exemptions to permit leasing arrangements between multiemployer plans and parties in interest?

Under ERISA, exemptions are available for certain transactions that, although prohibited, are beneficial to multiemployer plans. Some exemptions are part of the ERISA statute, and some have been granted on an administrative basis by the Department. Four exemptions provide conditional relief for lease transactions involving multiemployer plans. Below is a description of the transactions for which relief is provided. Each exemption has applicable conditions that must be complied with. For assistance with compliance with an exemption described below, please contact the Office of Exemption Determinations at 202-693-8540.

- **Statutory exemption under section 408(b)(2) of ERISA:** This statutory exemption and the regulations thereunder allow a plan to contract or make reasonable arrangements with a party in interest for office space, legal, accounting or other services necessary for the establishment or operation of the plan. If the conditions
of the exemption are satisfied, this exemption would provide relief for the plan’s leasing of office space from a party in interest. This exemption does not provide relief for a party in interest to lease office space from the plan. Additionally, relief is provided only from section 406(a) of ERISA, so no relief is provided for any self-dealing or conflict of interest by a plan fiduciary, as prohibited by section 406(b)(1) and 406(b)(2) of ERISA.

- **Statutory exemption under section 408(b)(17) of ERISA:** This statutory exemption allows certain purchases, sales, leases, extensions of credit, and transfers of assets between a plan and a service provider, other than a fiduciary that has or exercises fiduciary functions regarding the assets involved in the transaction. Meeting the conditions of the exemption provides relief for a lease transaction between a multiemployer plan and a service provider, including a service provider that is another multiemployer plan. The exemption requires that the plan receive no less, nor pay no more, than adequate consideration, in connection with the transaction. Section 408(b)(17) of ERISA only provides relief from section 406(a)(1)(A), (B), and (D) of ERISA, so no relief is provided for any self-dealing or conflict of interest by a plan fiduciary, as prohibited by section 406(b)(1) and 406(b)(2) of ERISA.

- **Prohibited Transaction Exemption (PTE) 76-1** (41 FR 12740, March 26, 1976, as corrected by 41 FR 16620, April 20, 1976): This administrative class exemption allows a multiemployer plan to lease office space, provide administrative services, or sell or lease goods, to a participating employee organization (i.e., a union), a participating employer, a participating employer association, or another multiemployer plan which is a party in interest with respect to the plan. PTE 76-1 does not provide relief for a plan to lease office space from a party in interest. Additionally, relief is provided only from section 406(a) of ERISA, so no relief is provided for any self-dealing or conflicts of interest by a plan fiduciary, as prohibited by section 406(b)(1) and 406(b)(2) of ERISA.

- **Prohibited Transaction Exemption (PTE) 77-10** (42 FR 33918, July 1, 1977): This administrative class exemption allows a multiemployer plan to lease office space, provide administrative services, or sell or lease goods, to a participating employee organization (i.e., a union), a participating employer, a participating employer association, or another multiemployer plan which is a party in interest where the plan trustees may be acting on both sides of the transaction because of their positions with the union, employer, employer association or other plan. While PTE 77-10 provides relief from section 406(b)(2) of ERISA, it does not provide relief from the self-dealing restriction in section 406(b)(1) of ERISA.

It is important to understand that a prohibited transaction exemption does not grant relief from the general fiduciary duties of prudence and loyalty under section 404(a)(1) of ERISA.

**Q3:** What steps should plan fiduciaries take to avoid non-exempt prohibited transactions involving leases of office space between multiemployer plans and parties in interest?
Depending on the particular facts of each case, here are some ways fiduciaries can avoid non-exempt prohibited transactions involving leases between multiemployer plans and parties in interest. **EBSA’s Office of Exemption Determinations is available to help any fiduciary structure a lease arrangement to comply with the prohibited transaction rules.** Parties may call 202-693-8540 for assistance.

- **For leases of office space from a party in interest to a multiemployer plan, where there is no trustee conflict of interest (e.g., a lease from a service provider to a multiemployer plan):** Plan fiduciaries should comply with the statutory exemption in ERISA section 408(b)(2). If the party in interest is a service provider who is not a fiduciary with respect to the assets involved in the transaction, relief for leases between the party in interest and a multiemployer plan also is provided by ERISA section 408(b)(17).

- **For leases of office space from a multiemployer plan to a party in interest, where there is no trustee conflict of interest (e.g., a lease by a multiemployer plan to another multiemployer plan that is a party in interest by virtue of providing services to the first multiemployer plan, where there are no common trustees):** Plan fiduciaries should comply with the conditions of PTE 76-1, Part C. Alternatively, if the party in interest is a service provider to the multiemployer plan (and is not a fiduciary with respect to the assets involved in the transaction), plan fiduciaries may wish to comply with the statutory exemption in ERISA section 408(b)(17).

- **For leases of office space between a multiemployer plan and party in interest that also involve a trustee conflict of interest described in ERISA section 406(b)(2)(e.g., a lease between multiemployer plans with common trustees):** Plan fiduciaries should comply with any applicable exemption mentioned above, and additionally comply with PTE 77-10.

- **For leases of office space between a multiemployer plan and a party in interest that also involve a trustee conflict of interest prohibited by both ERISA section 406(b)(1) and 406(b)(2) (e.g., a lease between a multiemployer plan and a contributing employer, where an officer of the employer is a plan trustee):** Plan fiduciaries should comply with any applicable exemption and any trustee who faces the conflict of interest should either recuse himself or herself from any involvement in the decision-making process, or the parties should seek an individual prohibited transaction exemption from EBSA’s Office of Exemption Determinations.

**Q4: What are common prohibited transactions involving the leasing of classroom space by multiemployer apprenticeship plans?**

As discussed above in Q1, a lease between a plan and a party in interest violates sections 406(a)(1)(A) and 406(a)(1)(D) of ERISA, in the absence of an exemption. Parties in interest with respect to a plan include: employee organizations whose members are covered by the plan (i.e., a union), contributing employers, and service providers (including other employee benefit plans). Additionally, as also discussed above in Q1, trustee self-dealing and conflicts of interest may exist with respect to transactions involving multiemployer apprenticeship plan classroom leasing arrangements, if a trustee has other interests in the transaction that may affect his or her best judgment as a plan fiduciary.
For example, a prohibited transaction would occur where Multiemployer Plan X, an apprenticeship plan formed by a Union and five contributing employers to provide a program for training and continuing education of apprentices and journeymen, leases classroom space in a building owned by the Union.

Q5: What relief is provided in statutory or class prohibited transaction exemptions to permit classroom space leasing arrangements between multiemployer apprenticeship plans and parties in interest?

The statutory exemption in ERISA section 408(b)(17), exempts the leasing of classroom space from a party in interest service provider to a multiemployer apprenticeship plan. ERISA section 408(b)(2) (see Q2) would not apply, as it provides relief only for leases of office space, not classroom space. As noted above, section 408(b)(17) provides relief only from the prohibitions of section 406(a)(1)(A), (B) and (D) of ERISA, so no relief is provided for any self-dealing or conflict of interest by a plan fiduciary, as prohibited by section 406(b)(1) and 406(b)(2) of ERISA.

Prohibited Transaction Exemption (PTE) 78-6 (43 FR 23024, May 30, 1978, as corrected by 43 FR 25492 (June 13, 1978), allows a contributing employer, a wholly owned subsidiary of the contributing employer, or an employee organization (i.e., union), any of whose members’ work results in contributions to an apprenticeship plan, to lease real property, other than office space, to an apprenticeship or a training plan. PTE 78-6 does not provide relief for leases to the plan from a service provider. It also does not provide relief from the self-dealing and conflict of interest restrictions of section 406(b)(1) and 406(b)(2) of ERISA.

Q6: What steps should plan fiduciaries take to avoid non-exempt prohibited transactions involving leases of classroom space by multiemployer apprenticeship plans from parties in interest?

With respect to leases of classroom space by a multiemployer apprenticeship plan from a party in interest, where there is a trustee conflict of interest, plan fiduciaries should comply with the conditions of PTE 78-6 and any trustee who faces the conflict of interest should either recuse himself or herself from any involvement in the decision making process, or the parties should seek an individual exemption from EBSA’s Office of Exemption Determinations.

Q7: What are other common problems found by the Department in its examination of exemption requests involving multiemployer plan leasing arrangements with parties in interest?

The following issues have arisen in the course of the Department’s examination of exemption requests involving multiemployer plan leasing arrangements with parties in interest:

- Failure to meet the “reasonable compensation” requirements in the applicable exemptions. For example, the use of out-of-date appraisals to determine the fair market value of plan-owned office space that is leased to parties in interest is problematic. This could result in the underpayment of rent by parties in interest to the multiemployer plan, or the overpayment of rent, if the plan is the lessee.
• Failure to demonstrate that the terms of the lease were at least as favorable to the plan as an arm’s length transaction with an unrelated party, or are reasonable, as required by the relevant exemptions.

• The absence of a formal, written lease at the time the lease commences, even if the lease is subsequently formalized two years later. This makes it difficult for the plan trustees to establish that the lease was always in compliance with PTEs 76-1 and 77-10, and PTE 78-6, if applicable.

• Failure of trustees with conflicts of interest to recuse themselves from the decision making process. None of the applicable statutory or class exemptions provide relief from section 406(b)(1) of ERISA.

• Certain compensation arrangements between an apprenticeship plan and its trustees, which raise issues as to whether the trustees have received more than reasonable compensation, or questionable compensation to the trustees for serving as trainers of the plan participants.

Q8: What is a fiduciary’s liability if its involvement in a leasing or service provider arrangement is a prohibited transaction under section 406 of ERISA and does not qualify for a statutory or administrative exemption?

The consequences of violating ERISA section 406 can be significant. The transaction is subject to reversal. A fiduciary is personally liable for any losses to the plan. It is also required to turn over to the plan any resulting profits made and may be subject to other equitable and remedial relief.