

# Multiemployer Alert

Update on Issues Affecting Taft-Hartley Plans

SEPTEMBER 2020

## PBGC FY 2019 Projections Report

On September 14, 2020, the Pension Benefit Guaranty Corporation (PBGC) released its [2019 FY Projections Report](#), which forecasts the financial condition of the PBGC's multiemployer insurance program over the next 10 years.

### Near certain insolvency during FY 2027

The multiemployer insurance program has a "very high likelihood of insolvency during FY 2026" and "insolvency is a near certainty by the end of FY 2027." This is one year later than what was projected in the agency's report last year, but they noted that this delay may be less than 12 months.

The delay in projected insolvency is primarily driven by the financial assistance provided to the United Mine Workers of America 1974 Pension Plan (United Mine Workers Plan) through the passage of Bipartisan American Miners Act of 2019. This Act allows for direct transfers from the U.S. Treasury to keep the plan solvent, eliminating the need for financial assistance from the PBGC.

### Program deficit expected to grow to \$100.7 billion over the next 10 years

Without Congressional action, the report forecasts the multiemployer insurance program's deficit will continue to grow over the next 10 years, from \$65.2 billion as of September 30, 2019, to a mean deficit of \$100.7 billion as of September 30, 2029. The projected decline in the program's financial position is attributable to the combination of lower projected investment returns on the program's assets and lower discount rates used to value benefit obligations resulting in higher liabilities. The financial assistance provided to the United Mine Workers Plan is estimated to reduce the future deficit by about \$7 billion.

The report lists the following as significant areas of uncertainty in the PBGC multiemployer program: likelihood that additional plans will require financial assistance, when and how much financial assistance will be needed, and the number of plans that will be able to avoid insolvency (and therefore PBGC financial assistance) through the use of benefit suspensions, partitions, and facilitated mergers provided by the Multiemployer Pension Reform Act of 2014.

The projections do not take into account the current and potential effects of the COVID-19 pandemic, though the report says that the timing of the multiemployer insurance program's projected insolvency will not likely be materially affected.

Currently, 124 of the 1,400 multiemployer plans covered by the PBGC are in critical and declining status ("deep red zone") and projected to become insolvent over the next 20 years.

### PBGC financial assistance plummets upon program insolvency

Multiemployer defined benefit plans that become insolvent receive financial assistance from the PBGC to pay benefits up to the PBGC maximum guaranteed level, which is \$12,870 per year for a participant with 30 years of service. If the PBGC multiemployer program becomes insolvent, financial assistance to insolvent plans would be reduced to the level supported by premium income. Based on Figure 2 of the report, financial assistance could drop by 85% to 90%.

Please contact your Milliman consultant with any questions.

Multiemployer Alert: Update on Issues Affecting Taft-Hartley Plans is intended to provide information and analysis of a general nature. Application to specific circumstances should rely on separate professional guidance.