

# Multiemployer Review

Update on issues affecting multiemployer plans

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## Multiemployer pension crisis: Just the facts, please

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Any debate that impacts the financial security of over 10 million American families should be based on facts. When it comes to the multiemployer pension crisis, that is too often not the case. Statements made often come with convenient omissions and/or downright misrepresentations. Let's set the record straight on three important facts:

### 1. Pension funding rules in the '80s and '90s set defined benefit plans up to fail

Lawmakers throughout the 1980s and 1990s were more concerned about limiting tax benefits than they were about responsible pension funding. For most of this time, federal pension rules essentially prohibited contributions to multiemployer plans when funding was simply on track, not well ahead of schedule. This led to an inability of plans to build a meaningful funding cushion as they headed into the 2000s. As a result, despite coming off of two decades of strong returns, plans did not have enough surplus to cushion the blow of two massive market collapses in the first decade of the 2000s. Lawmakers ultimately recognized that these rules contributed to the multiemployer system's funding challenges, and changed them in 2006 to allow large funding surpluses, but the damage was already done.

### 2. Multiemployer funding is very different from single employer funding

Multiemployer pension plan funding is set through collective bargaining. This means virtually all plan contributions come out of the negotiated wage package that covers members who are actively working for participating employers. Because these employers need to remain competitive, there is a limit to how high the wage package can go. And because employees need to have enough money on their paychecks to live on, there is a limit to how much can be deducted off their wages for pension contributions. A multiemployer plan has no profits to divert, no ability to borrow funds or issue bonds, and no assets to sell to supplement bargained contributions. As a result, once a struggling plan has used all of the tools available under current law, if the total wage package of the covered population is not sufficient to fix a plan's underfunding, the resources to solve the problem simply don't exist. In that case, a plan is in danger of failing.

### 3. Single employer rules will not fix the multiemployer system

Largely because of the different funding mechanisms described above, the Pension Protection Act of 2006 (PPA) addressed multiemployer and single employer reforms in different ways. One of the biggest misrepresentations from some commentators is that the Pension Protection Act of 2006 (PPA) resulted in a much healthier single employer pension *system*, and therefore similar changes would "fix" the multiemployer system as well. For single employer plans, the PPA ratcheted up funding requirements and year-to-year funding volatility. With similar timing, accounting changes increased balance sheet volatility

and the insurance premiums paid to the Pension Benefit Guaranty Corporation (PBGC) were significantly increased. The combination of these events led to an inevitable, predictable, and continuing exodus from the single employer system. According to the PBGC's *2017 Pension Insurance Data Tables*, a system that once had over 112,000 plans had dwindled to about 23,000 plans in 2018, and about a third of those remaining are frozen to new entrants, new benefits, or both. While plans that remain may generally be better funded as a result of PPA's changes, the *system* remains in decline—providing lifelong retirement security to fewer and fewer American families. Application of similar changes to the multiemployer system would likely have similar results.

Retirement planning is a long-term undertaking, and the consequences of rules and actions may not be known until years, or even decades, after they are implemented. As lawmakers consider the multiemployer pension crisis, let's hope that they set aside political rhetoric and partisan gamesmanship, and base their discussions on an accurate understanding of the challenges that led to the current situation, and the unique characteristics of multiemployer pension plans. The retirement security of over 10 million American families depends on it.

## For more information

A more detailed white paper on this topic is available [here](#).



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