Multiemployer Pension Plans

Multiemployer retirement plans are designed for workers in industries where it is common to move from employer to employer; unique features of this type of plan reflect the transient nature of the work.

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The nightly news often introduces viewers to little-known topics, such as scud missiles and junk bonds. When discussing labor issues in recent years, one obscure topic that garnered attention was multiemployer pension plans. In the 1997 labor dispute between the United Parcel Service and the Teamsters, the future of contributions to a multiemployer pension plan was a key issue. In addition, multiemployer pension plans were debated as part of the recent Teamsters' election.[1]

This article uses data from the Bureau of Labor Statistics' Employee Benefits Survey and other sources to provide a background on multiemployer pension plans. What are these plans? Whom do they cover? How did they develop and what regulations control them? What are the unique features of these plans and how do these features differ from other pension plans?

What is a multiemployer pension plan?

Multiemployer pension plans cover workers from more than one employer. This is in contrast to the traditional company pension plan, which covers workers from just one employer (single employer plans). Multiemployer pension plans have a specific definition under the Labor Management Relations Act of 1947, known as the Taft-Hartley Act. Under Taft-Hartley, a multiemployer pension plan is established by negotiating an employer contribution as part of a labor-management agreement and establishing a trust fund. Then, labor organizations bargain with additional employers to have workers covered by these plans. Employer contributions, determined by collective bargaining, fund the multiemployer pension plans.

A Taft-Hartley multiemployer pension plan is characterized by provisions allowing individual employees to gain credits toward pension benefits from work with multiple employers, as long as each employer has a collective bargaining agreement requiring plan contributions. Often, many employers in the same industry in a geographic area contribute toward the same multiemployer plan. Thus, individual workers moving from job to job continue to earn credits toward future pension benefits.

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Who is covered by multiemployer plans?

Multiemployer pension plans are found in private sector industries that are usually characterized by small employers and workers who switch employers frequently, generally, as in the case of construction, moving to where the work is. Among construction industry workers, the median tenure with an employer in February 1998 was 2.7 years, compared with 3.6 years for all workers.[2] In addition, about 83 percent of construction establishments employ fewer than 10 workers; less than 1 percent of construction establishments employ 100 workers or more.[3]

In addition to construction, other industries that tend to have workers covered by multiemployer pension plans are trucking, garment manufacturing, and grocery stores. Again, these industries tend to be characterized by small employers whose workers move from job to job. Among the largest multiemployer pension plans in the country are the Teamsters' National Master Freight Agreement for the Central States, Southeast, and Southwest areas; the United Food and Commercial Workers' pension plan; several construction trades' plans (such as carpenters, electricians, and plumbers); and the Union of Needletrades, Industrial and Textile Employees' plan.

Other multiple employer pension plan arrangements exist. For example, employees of all companies that were once part of Bell Telephone have an agreement whereby service in all companies is counted toward a single pension benefit.

There are some multiemployer pension plans that are not negotiated with a union. One of the largest of these plans (TIAA-CREF[4]) was established primarily for college teachers. In addition, some small employers have also banded together to provide pension benefits to their workers. Such arrangements are not Taft-Hartley multiemployer pension plans. They exist for ease of administration, not as part of collective bargaining.[5]

Multiemployer versus single employer plans: An overview

Most retirement plan participants are covered by single employer plans. The number of multiemployer plans is low, although some can cover large numbers of workers. According to tabulations compiled from forms filed by employers with the Internal Revenue Service, in 1994 multiemployer plans accounted for less than 3 percent of defined benefit pension plans, but covered 20 percent of the 40 million workers with defined benefit pension plans.[6]

Three out of five multiemployer plans are defined benefit pension plans, which legally obligate employers to pay retirees an annuity at retirement age, based on a formula specified in the plan. These plans cover about 80 percent of participants in multiemployer plans. Multiemployer retirement plans may be defined contribution retirement plans, either instead of or in addition to defined benefit pension plans. Defined contribution retirement plans usually specify the level of employer contributions to the plan but not the actual benefits that will be paid upon retirement.

In 1994, multiemployer defined contribution retirement plans covered over 2 million workers, primarily in the construction industry. Almost all were money purchase plans. These plans establish a fixed employer contribution to individual employee retirement accounts, usually based on a percent of employee's earnings. At retirement, the accumulated funds (contributions and investment earnings) are used to purchase an annuity or provide for some other form of retirement income. These multiemployer defined contribution plans differ substantially from the usual single employer defined contribution plans, which are generally savings and thrift plans. Under such plans, employees are given the opportunity to save some of their earnings prior to taxation, with the employer matching some part of that savings. Multiemployer plans rarely include an employee savings feature.[7]

History of multiemployer plans

The first union-sponsored benefit fund predates the passage of Taft-Hartley by 80 years. The Cigar Makers Union established the first fund in 1867. This and other funds that were established at the end of the 19th century were not the product of collective bargaining agreements. Solely administered by the unions, these funds served several functions that strengthened union power. The government did not heavily regulate these funds, so the union could readily access them in an emergency, such as a strike. They also helped to ensure allegiance to the union, since death benefits or pensions were restricted to members in "good standing." The availability of future benefits was often used as a strong argument to convince union members not to cross the picket line.[8]

Union pension plans grew in the first two decades of the 20th century, but were decimated by the Great Depression of the 1930s, when more immediate needs surpassed the desire to provide for future retirement income. The passage of the Social Security Act of 1935 temporarily addressed the need for old age assistance, but there was renewed interest in pension plans in the 1940s. The following Federal Government taxation policies and efforts to curb inflation, both during and after World War II, encouraged the formation of pension plans.

- Favorable tax regulations made pension plans less expensive for employers by allowing them to deduct, as a business expense, contributions made to pension plans when computing their tax returns.

- Wage stabilization efforts imposed a ceiling on wage increases to reduce inflationary pressures, but employee benefits, including pensions, were exempt.

- A 1948 National Labor Relations Board (NLRB) ruling required employers to bargain for pensions and other benefits.

- In the *Inland Steel* decision,[9] the NLRB held that pension and insurance benefits were mandatory subjects of collective bargaining.

The Bureau of Labor Statistics has done occasional studies of multiemployer pension plans, generally tracking their prevalence and reporting on plan features. Only a few multiemployer pension plans existed before the Taft-Hartley Act was passed. Plans grew in prominence during the 1950s and 1960s. Such plans covered about 1 million participants in 1950, 3.3 million in 1959, 7.5 million in 1973, and 10.4 million in 1989. Throughout the 1990s, the number of workers in such plans has been steady at just over 10 million.

Current regulations

Multiemployer pension plans are officially "jointly administered labor-management pension plans" or negotiated multiemployer pension plans. Multiemployer pension plans are established by first negotiating an employer contribution as part of a labor-management agreement and subsequently appointing labor-management trustees (the number of trustees representing labor and management must be equal) to adopt a trust agreement and establish and administer a trust fund.

A multiemployer plan must conform to section 302(c)(5) of the Taft-Hartley Act, which makes it illegal for employers to provide and union representatives to receive money or anything else of value. However, in the case of a multiemployer plan, a retirement trust fund is exempt from this section if: (1) Payments are held in trust; (2) the basis of payments is found in a written agreement; (3) labor and management have equal representation in administering the fund; (4) there is an annual audit; and (5) the fund is separate from other monies, and is used solely for providing pensions.

The relationship between employer contributions and plan benefits in a multiemployer defined benefit pension plan is different than that found in other plans. In general, labor and management will negotiate a contribution and a certain benefit level. Unlike a single employer plan, the contribution cannot be changed between contracts to accommodate deficits or surpluses; negotiated contributions must be sufficient to pay future benefits.

Plan features

The Bureau of Labor Statistics publishes annual data on the details of employee benefit plans. From the 1995-96 data for private sector establishments, separate tabulations were produced to compare single employer and multiemployer defined benefit pension plans. The results indicate some unique provisions in multiemployer plans, generally designed to accommodate the working arrangements of employees covered by these plans. The following tabulation shows the percent of private industry full-time employees covered by defined benefit pension plans with selected provisions during 1995-96.

When reviewing multiemployer plans, or comparing such plans to single employer plans, the most interesting provisions relate to time and service. Because individuals covered by a multiemployer plan by definition can receive credits toward the plan from more than one employer, there is much discussion of service in these plans. Defined benefit pension plans base benefits on length of service, rewarding those with long service. Such plans are usually not advantageous for employees in industries characterized by frequent job switching, such as construction. Under a single employer defined benefit plan, a worker would usually have to be with the employer at least 5 years to become vested, that is, to earn a guaranteed right to future benefits, regardless of future tenure. In addition, the timing of retirement and the amount of retirement benefits are both geared toward long service and not conducive to job switches.[10]

Multiemployer plans eliminate many of these issues by considering service with multiple employers under the same plan as if the individual had worked with one employer the entire time. For example, service sufficient to meet vesting requirements may be obtained by working under the plan with one or many employers.[11] Similarly, service required to be eligible to retire is dependent upon service under the plan, not service with any particular employer. Finally, benefit amounts are rarely based on earnings, thus avoiding the possibility of being penalized for moving from a high-paying to a lower-paying employer. In general, the key variable in pension calculations under a multiemployer defined benefit pension plan is overall service under the plan.

Furthermore, multiemployer plans tend to be less strict about initial eligibility for the plan than do single employer plans. About half the par-

Provision	*Percent of employees in single employer plans*	*Percent of employees in multiemployer plans*
Total with defined benefit plan	100	100
Benefits based on earnings	77	-
Benefits based on dollar amount formula	18	65
Benefits integrated with Social Security	56	4
Benefits subject to maximum	37	29
Early retirement benefits available	95	98
Disability retirement benefits available	69	91
Portability provisions	3	60
Lump-sum postretirement survivor benefits	6	16
Lump-sum pre-retirement survivor benefits	1	11
Full pension restored if spouse predeceases retiree	11	31
Survivor benefit for children	23	57

NOTE: Dash denotes less than 0.5 percent.

ticipants covered by multiemployer plans are not required to meet a minimum age or service period to be eligible to participate in the plan, compared with one-fourth of those under single employer plans.

Given the transitory nature of the employer-employee relationship of those participating in multiemployer plans, it is not surprising that their pension plans usually address the issue of interruptions in employment and its effect on vesting and benefits. For example, one plan states:

> There may be times in your work history when your employment under the plan is interrupted by a break in service…. If you experience a Break Year after 1975, you will incur a break in service. A Break Year means a Plan Year during which you are a participant in the plan and are credited with less than one-twelfth of a year of Pension Service and less than 500 hours of Vesting Service.

Several plan provisions spell out the specifics of the impact of such a break in service, differentiating between covered employees who are and are not already vested, as well as exceptions to these rules stemming from a disability or pregnancy.

A distinguishing characteristic of multiemployer plans is the prevalence of portability provisions. These provisions allow participants to transfer years of credited service or accumulated benefits from one plan to another. This feature goes beyond the basic premise of the multiemployer plan, whereby different employers provide contributions to the same plan. Portability provisions may be in the form of reciprocity arrangements with other plans or jurisdictions, pensions based on a pro-rata basis from several plans, or plans that call for contributions to be sent to a home fund. Portability agreements with other plans apply to 60 percent of those under multiemployer plans compared to 3 percent of those covered by single employer plans.

Unique time-based features also apply to the availability of retirement benefits. As shown below, multiemployer plans are more likely than single employer plans to provide normal (unreduced) retirement benefits for those retiring before age 65.

Virtually all the employees under both single employer and multiemployer defined benefit pension plans can retire before normal retirement age and receive an immediate, early retirement benefit. Such benefits are reduced from the amount that would be received at normal retirement because benefits begin at an earlier age, and the retiree is expected to receive payments over a longer period. Most plans permit early retirement at age 55; however, some provide for retirement before age 55 if a service requirement is met.

Approximately two-thirds of participants in multiemployer plans will receive a pension based on a formula that specifies a dollar amount to be paid for each year of service. For example, a plan might pay $20 monthly for each of an employee's 25 years of service, yielding a pension of $500 per month. Although the dollar amount in these formulas occasionally varies with an employee's earnings or service, usually the method calls for the multiplication of a uniform dollar amount by the number of years of service.

In contrast, an earnings-based formula is used to determine retirement payments for two-thirds of those covered by single employer plans. These formulas provide a flat percent of the employee's annual earnings per year of service, for example, 1.5 percent of earnings times 25 years of service, or 45 percent of earnings, or a percent that varies by service, earnings, or age. Because multiemployer plans are characterized by workers who may be forced to change jobs frequently, earnings-based formulas are more difficult to administer.

Defined benefit plans are required by law to provide a spouse with at least 50 percent of the retiree's payments after the retiree's death, unless both spouses decline such coverage. When this type of pension is paid, the employee will usually receive a smaller benefit payment during retirement to offset the increase in the length of time plan benefits are paid. For 31 percent of participants in multiemployer plans, such pension reductions are fully restored if the spouse predeceases the retiree, compared to 11 percent of those covered by single employer plans. For example, the following plan excerpt stipulates what happens if a spouse dies before the retiree:

> If your spouse dies before you do, your benefit will be increased back to the amount you would have received if you and your spouse had decided not to take the Joint and 50% Surviving Spouse Payment Option. The increase in your benefits will go into effect on the later of January 1, 1990 or the month following your spouse's death.

Multiemployer plans are more likely to provide lump-sum survivor benefits than single employer plans. Sixteen percent of those covered by multiemployer plans are provided with

Age requirement for normal retirement	*Percent of employees in single employer plans*	*Percent of employees in multiemployer plans*
No age requirement	6	4
At age 55-59	4	1
At age 60	7	10
At age 61	-	-
At age 62	23	39
At age 63-64	-	3
At age 65	52	33
Sum of age and service must equal a certain amount	8	10

NOTE: Dash denotes less than 0.5 percent.

lump-sum survivor benefits after retirement, and 11 percent have lump-sum pre-retirement survivor benefits. In contrast, single employer plans provide lump-sum survivor benefits to 6 percent and 1 percent, respectively. Over half of those covered by multiemployer plans provide survivor benefits for children compared to about one-fourth of those under single employer plans.

Summary

Multiemployer pension plans cover one-fifth of all workers with pension plans. They meet the needs of a set of workers who, because of the transitory nature of their employment relationship, might otherwise have a difficult time earning sufficient credits to gain any retirement income from a single employer pension plan. The vesting, time in service, portability provisions, and other features commonly found in multiemployer plans address the unusual work history of plan participants. ■

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[1] Howard Gleckman, "Issue No. 1 at UPS? Who Controls the Pension Money," *Business Week*, August 18, 1997, on the Internet at **http://www.businessweek.com/bwdaily/dnflash/august/nf70818b.htm** (visited Jan. 28, 1999).

[2] "Employee Tenure in 1998," News Release 98-387 (U.S. Department of Labor, September 23, 1998).

[3] *Employment and Wages Annual Averages, 1996*, Bulletin 2494 (Bureau of Labor Statistics, November 1997).

[4] Teachers Insurance & Annuity Association-College Retirement Equity Fund.

[5] Ann C. Foster, "Portability of Pension Benefits Among Jobs," *Monthly Labor Review*, July 1994, pp.45-50.

[6] *Private Pension Plan Bulletin: Abstract of 1994 Form 5500 Annual Reports* (U. S. Department of Labor, Washington, DC: Government Printing Office, Spring 1998).

[7] For information on defined contribution plans and how they work, see *Employee Benefits in Medium and Large Private Establishments, 1995*, Bulletin 2496 (Bureau of Labor Statistics, 1998).

[8] For a description of the history of multiemployer pension plans, see Teresa Ghilarducci, Garth Mangum, Jeffrey S. Petersen, and Peter Philips, "A Century of Union Pension Funds," in *Portable Pension Plans For Casual Labor Markets: Lessons from the Operating Engineers Central Pension Fund* (Westport, Connecticut: Quorum Books, 1995).

[9] Inland Steel Co., 77 NLRB1, enf. 170F. (2nd) 247 (1948), cert. denied 336 U.S. 960 (1949), 349.

[10] For detailed information on the characteristics of single employer defined benefit pension plans, see *Employee Benefits in Medium and Large Private Establishments, 1995.*

[11] For many years, vesting requirements under multiemployer plans were allowed by law to be longer (more years of service) than were similar requirements under single employer plans. This was changed in 1997; in general, all plans must provide full vesting after 5 years of service under the plan.