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Highlights

Highlights of GAO-04-542T, a report to House Subcommittee on Employer-Employee Relations, Committee on Education and the Workforce, House of Representatives

March 18, 2004

PRIVATE PENSIONS

Multiemployer Pensions Fact Key Challenges to Their Long-Term Prospects

Why GAO Did This Study

Multiemployer defined benefit pension plans, which are created by collective bargaining agreements covering more than one employer and generally operated under the joint trusteeship of labor and management, provide coverage to over 9.7 million of the 44 million participants insured by the Pension Benefit Guaranty Corporation (PBGC). The recent termination of several large single-employer plans—plans sponsored by individual firms—has led to millions of dollars in benefit losses for thousands of workers and left PBGC, their public insurer, an $11.2 billion deficit as of September 30, 2003. The serious difficulties experienced by these single-employer plans have prompted questions about the health of multiemployer plans.

This testimony provides information on differences between single employer and multiemployer pension plans, recent trends in the funding of multiemployer pension plans and worker participation in those plans, and factors that may pose challenges to the future prospects of multiemployer plans. GAO will soon release a separate report on multiemployer pension issues.

www.gao.gov/cgi-bin/getrpt?GAO-04-542T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara Bovbjerg at (202)512-7215 or bovgjergb@gao.gov.

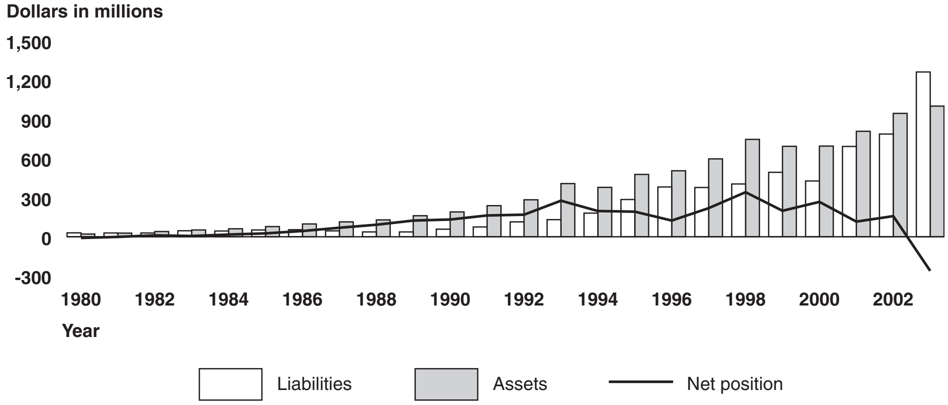
What GAO Found

The framework governing multiemployer plans generally places greater financial risk on employers and participants and less on PBGC than does PBGC's single-employer program. For example, in the event of employer bankruptcy, the remaining employers in the multiemployer plan assume additional funding responsibility. Further, PBGC's guaranteed participant benefit is much lower for multiemployer participants, and PBGC does not provide financial assistance until the multiemployer plan is insolvent.

Following two decades of relative financial stability, many multiemployer plans appear to have suffered recent funding losses, while long-term declines in participation and plan formation continue. At the close of the 1990s, the majority of multiemployer plans reported assets exceeding 90 percent of total liabilities. Since then, stock market declines, coupled with low interest rates and poor economic conditions, have reduced assets and increased liabilities for many plans. In its 2003 annual report, PBGC estimated that underfunded multiemployer plans now face an aggregate unfunded liability of $100 billion, up from $21 billion in 2000. PBGC also reported an accumulated net deficit of $261 million for its multiemployer program in 2003, the first since 1981. Meanwhile, since 1980, there has been a steady decline in the number of plans, from over 2,200 plans to fewer than 1,700, and a 1.4 million decline in the number of active workers in plans.

The long-term prospects of the multiemployer system face a number of challenges. Some are inherent in the multiemployer design and regulatory framework, such as the greater perceived financial risk and reduced flexibility for employers, compared with other plan types. The long-term decline of collective bargaining also results in fewer participants and employers available to expand or create new plans. Other factors that pose challenges include the growing trend among employers to choose defined contribution plans; the increasing life expectancy of workers, which raises the cost of defined benefit plans; and continuing increases in employer health insurance costs, which compete with pensions for employer funding.

PBGC Multiemployer Program Assets, Liabilities, and Net Position, 1980 – 2003



Source: GAO analysis of PBGC data