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BY THE COMPTROLLER GENERAL

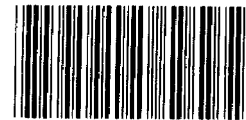
Report To The Congress

OF THE UNITED STATES

The 1980 Multiemployer Pension Plan Amendments Act: An Assessment Of Funding Requirement Changes

The government insures multiemployer pension plan benefits through the Pension Benefit Guaranty Corporation. The Multiemployer Pension Plan Amendments Act of 1980 changed funding provisions to improve plan financing because of concern that the plans could place large claims on the insurance program. GAO found that the provisions would generally have little effect on plan financial condition or employers contributing to the plans.

GAO found that 14 of 149 plans it examined were financially distressed and could pose risk to the government's insurance program amounting to billions of dollars. The act's provisions for improving the financial condition of such distressed plans, however, may not be adequate. Based on GAO's application of the provisions, 9 of the 14 distressed plans would have been allowed to reduce rather than increase their financial contributions because actual employer contributions exceeded requirements. Because of the potential risk distressed plans pose to the program, GAO asks the Congress to consider changing the provisions so that the plans will be required to at least maintain contributions more in line with what employers already contribute.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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This is one in a series of reports in response to the requirement in the Multiemployer Pension Plan Amendments Act of 1980 that GAO study the effect of the act on employers, participants, and others. It assesses the effect of the act's changes in multiemployer plan funding requirements.

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretaries of Labor and the Treasury; the Board of Directors and Executive Director of the Pension Benefit Guaranty Corporation; and other interested parties.

Charles A. Bowsher

Comptroller General
of the United States

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

THE 1980 MULTIEMPLOYER PENSION PLAN AMENDMENTS ACT: AN ASSESSMENT OF FUNDING REQUIREMENT CHANGES

DIGEST

The Employee Retirement Income Security Act of 1974 (ERISA) was the first comprehensive federal legislation passed to protect the rights of participants in private pension plans. To help achieve this objective, ERISA established funding standards for multiemployer defined benefit plans. Multiemployer plans are generally those established and maintained through collective bargaining agreements between one or more employee organizations and more than one employer. Defined benefit plans are those which provide specified benefits based on such factors as years of employment, retirement age, and compensation received.

ERISA's funding standards, administered by the Internal Revenue Service (IRS), are intended to better ensure that plans accumulate enough assets to pay pension benefits. Further, ERISA created an insurance program, administered by the Pension Benefit Guaranty Corporation (PBGC), to guarantee payment of certain benefits in the event of plan termination. (See pp. 1 and 3.)

CHANGES MADE TO MULTIEMPLOYER PLAN FUNDING STANDARDS

Because of concern about the adequacy of multiemployer plan funding and the sizable claims insolvent plans could place on the insurance program, the Congress delayed full insurance coverage for the plans. The Multiemployer Pension Plan Amendments Act of 1980 (MPPAA) was enacted to reduce the risk of claims against the insurance program and to strengthen multiemployer plan funding.

MPPAA (1) revised ERISA and Internal Revenue Code minimum funding provisions to require faster payment, through employer contributions, of increases in unfunded liabilities--pension obligations not covered by existing assets--and (2) added special provisions to identify and improve the condition of financially distressed plans--those representing the greatest risk to the insurance program. (See pp. 2 to 5.)

GAO REQUIRED TO STUDY EFFECTS OF MPPAA

MPPAA requires GAO to study and report by June 30, 1985, the effects of its provisions on participants, employers, employee organizations, and others. This report, which addresses the effects of funding changes, is one in a series of reports in response to that mandate. (See pp. 5 and 6.)

GAO based this study on data obtained from a randomly selected, stratified sample of 149 multiemployer plans administered in 14 states and the District of Columbia. These plans, with about 3.5 million participants, were selected from a universe of 1,924 plans with 8.3 million participants.

At the time of GAO's review, federal regulations had not been issued by IRS on the act's distressed plan provisions and not enough time had passed to permit an evaluation of the overall long-term effects of the funding changes. As of February 1985, federal regulations were still being developed. Therefore, to be responsive to MPPAA's reporting requirements, GAO generally assessed the potential rather than actual effects of the act's funding provisions based on circumstances of plans in the sample at the time of the review. GAO also considered the views of IRS and PBGC officials regarding the act's funding provisions to help ensure consistency in interpretation. (See pp. 6 to 10.)

MPPAA'S REQUIREMENT FOR FASTER PAYMENT OF UNFUNDED LIABILITY SHOULD HAVE FEW SIGNIFICANT EFFECTS ON PLANS AND EMPLOYERS

The regular funding provisions established by ERISA set out procedures for determining annual plan costs which include the amount to amortize (pay for) unfunded liabilities. Annual plan costs are required to be paid through employer contributions. Contribution surpluses, which result from previous contributions being greater than required, can be used to offset annual contribution requirements.

MPPAA increased the speed with which plans must pay for certain increases in unfunded liability, such as those resulting from plan benefit improvements. Faster payment was considered necessary to help maintain plan financial health and to keep financially weak plans from getting weaker. In essence, this would tend to increase annual plan costs. (See pp. 11, 12, and 15.)

GAO found that the liabilities that must be paid faster can be large, but they nevertheless result in relatively small increases in annual plan costs when compared to the total amount of unfunded liabilities and annual plan costs. GAO also found that employer contribution surpluses have generally been sufficient to cover initial cost increases. (See pp. 11 and 16.)

For example, 22 of GAO's sample plans had $863 million of new unfunded liabilities in plan year 1981 that had to be paid faster. However, the resulting incremental increases in annual plan costs totaled only $5.2 million, or an average of less than 1 percent of total annual plan costs of about $619 million. The incremental increase for individual plans ranged from 0.07 to 3.4 percent. (See pp. 12 and 13.)

As plans continue to incur increases in unfunded liabilities, the amounts subject to MPPAA's faster payment requirements could become more significant as newly arising liabilities must be amortized and added to those already being amortized. GAO estimates the new requirements could, over the long term, add about 5.5 percent to required employer contributions under plan circumstances at the time of its review. (See pp. 13 and 14.)

Because surpluses can be used to offset higher annual costs, increased employer contributions will not be required until plan cost increases exceed the sum of actual contributions and surpluses. All but 1 of the 149 sample plans had surpluses. Further, 21 of the 22 plans that had cost increases because of MPPAA's faster payment requirements had surpluses sufficient to cover the increases for 7 or more years. (See pp. 15 and 16.)

A FEW PLANS CAN PRESENT A SIGNIFICANT RISK TO THE INSURANCE PROGRAM

The possibility that financially distressed multiemployer plans could place significant liability on the insurance program was a major consideration that influenced MPPAA's plan funding changes. (See pp. 18 and 27.)

Although GAO found that most of the 149 plans were in adequate financial condition, 14 were distressed under criteria GAO developed. These plans could not, in GAO's opinion, withstand adverse events, such as declines in assets and the number of working participants (who generate plan contributions), for short periods without posing a substantial risk to the insurance program. (See pp. 18 to 22.)

The financially distressed plans had about 638,000 participants and $3.7 billion in unfunded vested benefits--benefits not covered by assets to which participants have a nonforfeitable right. These benefits were generally guaranteed by PBGC's insurance program, which had program assets of about $25 million in excess of claims at the end of fiscal year 1983. As a result, the $3.7 billion in unfunded benefits was about 149 times program assets available to pay new claims. (See pp. 25 and 26.)

The 135 plans that GAO believed to be in adequate financial condition had about 2.9 million participants and unfunded vested benefits of about $7 billion. Although most of the 135 plans showed signs of good financial condition, some were financially weak and could become distressed if their financial condition deteriorates. (See pp. 19, 23 to 25, and 27.)

REORGANIZATION PROVISIONS MAY NOT IMPROVE DISTRESSED PLANS

MPPAA established plan reorganization provisions to reduce the significant financial liability distressed plans could impose on the insurance program. The plan reorganization concept recognizes that financially distressed plans need to be identified and take action (generally increase employer contributions) to improve their financial condition. (See pp. 28 and 30.)

Reorganization provisions

In general, MPPAA considers a plan to be distressed when the annual cost under ERISA's regular funding provisions is not sufficient to pay for a plan's unfunded vested benefits at a special funding rate. The special rate is the amount needed to amortize the plan's unfunded vested benefits for retirees over 10 years and other participants (generally those working) over 25 years. When this occurs, employer contributions to the distressed plans are generally required, when feasible, to be sufficient to meet the special rate. The act, however, limits annual increases and provides other ways, such as authority for IRS to waive increases, to relieve employers from being subjected to a substantial business hardship. (See pp. 29 to 33.)

Reorganization provisions allow plans to reduce rather than increase financial contributions

When applied to the 149 sample plans, the MPPAA reorganization provisions would not have identified 5 of the 14 plans that GAO independently found to be distressed. Because four of these five plans were receiving employer contributions about 4 to 32 percent greater than annual plan cost under the regular funding provisions, they could reduce contributions. For eight of the nine plans identified by MPPAA, the provisions would have required contributions greater than annual plan cost under the regular provisions. Five of these eight plans, however, could have reduced employer contributions from between 8 and 34 percent because contributions were higher than required by the reorganization provisions. In other words, most of the distressed plans contributed more money than required by the law to reduce their unfunded benefits. (See pp. 34 to 40.)

In summary, the provisions would not have (1) identified 5 of the 14 distressed plans and (2) precluded 9 of them from reducing rather than increasing their financial contributions. Because of the potential adverse impact distressed plans could have on the insurance program, GAO questions whether these plans should be allowed to substantially reduce contributions. Therefore, GAO tested ways to change the existing reorganization provisions to help ensure that plans maintain contribution levels in

line with what they are receiving. (See pp. 28, 29, 45, and 46.)

Alternatives for enhancing reorganization provisions

GAO found that amortizing working participants' unfunded benefits over 15 rather than the 25 years as now required by MPPAA would increase the special contribution rate enough to (1) identify more distressed plans and (2) require more of them to either increase contributions or maintain a higher level of contributions than would be required under the current law.

A higher special rate could result in some financially adequate but weak plans being identified as distressed and required to increase contributions. Whether or not the plans identified are distressed, the contribution increase relief features of the reorganization provisions should help to prevent unduly burdensome increases on employers. (See pp. 40 to 45.)

GAO explored the option of reducing the amortization period for active participants' unfunded benefits further to 10 years, but found this would result in too many nondistressed plans being categorized as distressed and may result in appreciably higher contribution rates for distressed plans, which could seriously burden contributing employers. (See p. 45.)

MATTER FOR CONSIDERATION BY THE CONGRESS

The Congress may want to amend ERISA and the Internal Revenue Code to require the special contribution rate under the reorganization provisions to be calculated using 15 rather than 25 years for amortizing the unfunded vested benefits of working participants. (See p. 47.)

AGENCY COMMENTS

PBGC commented that effective funding standards are indispensable if the insurance programs administered by PBGC are to be financially viable and that GAO's analysis should be useful to members of Congress in ascertaining whether MPPAA is accomplishing its purpose of averting the insolvency of weakly funded plans. The Department of Labor and IRS advised GAO that they had no comments on the report. (See p. 48.)

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ILLUSTRATION

Sample plans in adequate and distressed financial condition and the participants and unfunded vested benefits in each category 19

ABBREVIATIONS

ERISA	Employee Retirement Income Security Act of 1974
GAO	General Accounting Office
IRS	Internal Revenue Service
MPPAA	Multiemployer Pension Plan Amendments Act of 1980
PBGC	Pension Benefit Guaranty Corporation

GLOSSARY

Term	Definition
Accumulated funding deficiency	The amount, including interest, by which a plan's prior years' contributions have been below the amounts required by minimum funding provisions.
Actuarial assumptions	A prediction of future conditions affecting pension cost; for example, mortality rate, employee turnover, compensation levels, investment earnings, etc.
Actuarial cost method	A procedure that uses actuarial assumptions to measure the present value of future pension benefits and pension fund administrative expense and which allocates the cost of such benefits and expenses to time periods.
Actuarial gain or loss	A measure of the difference between a plan's actual experience and that expected based on actuarial assumptions.
Actuarial liability	Pension cost attributable, under the actuarial cost method in use, to years before the date of a particular actuarial valuation. As of such date, the actuarial liability represents the excess of the present value of the future benefits and administrative expenses over the present value of future normal cost for all plan participants and beneficiaries. The excess of the actuarial liability over the value of the assets of a pension plan is the unfunded actuarial liability.
Actuarial valuation	The determination, as of the valuation date, of the normal cost, actuarial liability, value of assets, and related present values for a pension plan.
Annual plan cost	The cost that has to be paid by current year employer contributions or offset by funding surpluses.
Collective bargaining agreement	A contract negotiated between an employee organization (e.g., union) and employers to establish such things as wages, working hours, and pension contribution levels.
Credit balance	See funding surplus.

Past service liability — A term that is sometimes used to refer to the actuarial liability that exists when the pension plan in question is established. It may also be used to mean an increase in the actuarial liability due to an amendment increasing past service benefits or synonymously with actuarial liability at the actuarial valuation date.

Plan year — The 12-month period (fiscal year or calendar year) used by a plan for record keeping and reporting. A plan year is designated or named based on the calendar year in which it begins; for example, a plan year running from October 1, 1981, through September 30, 1982, would be designated as plan year 1981.

Present value (actuarially estimated value) — The current worth of an amount or series of amounts payable or receivable in the future. Present value is determined by discounting the future amount or amounts at a predetermined rate of interest. In pension plan valuations, actuaries often combine arithmetic factors representing probability (e.g., mortality, withdrawal, future compensation levels) with arithmetic factors representing discount (interest). Consequently, to actuaries, determining the present value of future pension benefits may mean applying factors of both types.

Reorganization — Under MPPAA, reorganization describes the legal status of a plan identified by the reorganization index as financially distressed and required to take prescribed measures intended to stabilize or improve the plan's condition.

Unfunded actuarial liability — The excess of the actuarial liability over the value of the assets of a pension plan. (See actuarial liability.)

Unfunded vested benefits — The excess of a plan's vested benefits over its assets.

Term	Definition
Defined benefit pension plan	A plan that generally provides definitely determinable benefits based on such factors as years of employment, retirement age, and compensation received.
Funding standard account	A special account that each plan must maintain from year to year to demonstrate the extent to which the plan is meeting, exceeding, or falling below minimum funding standards.
Funding surplus	The amount, including interest, by which a plan's prior years' contributions have been above the amounts required by minimum funding provisions.
Guaranteed benefits	The benefits eligible to be paid by the PBGC insurance program to participants of terminated plans.
Minimum contribution requirement	A special minimum funding standard intended to help plans identified as distressed by the reorganization provisions improve their financial condition without creating a substantial business hardship on contributing employers.
Minimum funding standards	ERISA and Internal Revenue Code provisions governing the minimum annual contributions a plan must receive and the specific elements of pension plan costs which must be covered by those contributions.
Net charge to the funding standard account	The contributions required to exactly meet the annual plan cost, ignoring any account surplus or funding deficiency.
Normal cost	The portion, as determined under an acceptable actuarial cost method, of the present value of future pension plan benefits and expenses which is attributed to the current plan year.
Past service benefits	Benefits attributable to service before the actuarial valuation date. These benefits include, but are not limited to, benefits for service before inception of the plan. This term may also be used to mean only the benefits credited for service before the inception of the plan.

Term	Definition
Vested (vesting)	A plan must provide that participants will, after meeting certain requirements, retain a right to the benefits they have earned, or some portion of them, even though their service with the employer terminates before retirement. A participant who has met such requirements is said to have a vested right.
Vested benefits	The present value of benefits to which plan participants have a nonforfeitable right. This term is synonymous with the term "vested liability" as defined in ERISA.
Vested benefits charge	An element of the reorganization index equal to the annual installments necessary to amortize a plan's unfunded vested benefits as prescribed by MPPAA.

CHAPTER 1

INTRODUCTION

The Employee Retirement Income Security Act of 1974 (ERISA), Public Law 93-406, was the first comprehensive federal legislation designed to promote and protect employee benefits under private pension plans. Two major features of ERISA were the establishment of (1) rules (called minimum funding standards) for determining minimum annual employer contributions to plans and (2) self-financing insurance programs to guarantee the payment of certain benefits to participants in defined benefit pension plans[1] that terminate without enough assets to pay the benefits.

The Multiemployer Pension Plan Amendments Act of 1980 (MPPAA), Public Law 96-364, was enacted on September 26, 1980. It made comprehensive modifications to ERISA and Internal Revenue Code provisions relating to multiemployer defined benefit pension plans (hereafter referred to as multiemployer plans).[2] Its purposes were to provide reasonable protection to participants and beneficiaries of financially troubled multiemployer plans, provide a financially self-sufficient insurance program, and encourage plan continuation.

MPPAA's changes to ERISA's minimum funding standards were intended to ensure sounder funding of plans in general, with special emphasis on improving the condition of financially troubled plans. MPPAA requires us to study its effects. This report deals with that part of our study related to changes MPPAA made to the minimum funding standards.

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[1]Defined benefit pension plans generally provide definitely determinable benefits based on such factors as years of employment, retirement age, and compensation received. A glossary of technical terms used in this report is presented after the table of contents.

[2]Separate termination insurance programs exist for single employer and multiemployer defined benefit pension plans. Single employer plans are generally those plans maintained by a single employer or employer organization. Multiemployer plans are generally those plans maintained pursuant to one or more collective bargaining agreements between one or more employee organizations and more than one employer. The matters discussed in this report involve only multiemployer plans.

MULTIEMPLOYER PLANS

Multiemployer plans are relatively few in number, but they cover a large number of participants. According to the Pension Benefit Guaranty Corporation (PBGC), about 2,500 multiemployer plans with about 8.7 million participants paid insurance premiums for plan year[3] 1982. Premiums paid to PBGC by ongoing plans help finance guaranteed benefits that cannot be paid by terminated or insolvent plans. Although multiemployer plans represent only about 2 percent of the 111,000 plans paying insurance program premiums, they cover about 23 percent of the 38 million total participants.

A joint board of trustees administers each multiemployer plan. Employers and employees generally have equal representation on the board. The trustees usually determine the types and amounts of plan benefits, as well as eligibility requirements. Employers' obligations to contribute to the plans and how employer contributions will be determined are established in collective bargaining agreements. Because benefit eligibility under multiemployer plans is usually based on employment with any employer contributing to that plan, workers accumulate pension credits even though they might change employment from one contributing employer to another.

Multiemployer plans usually cover employees working within an industry or craft in a specified geographical area. Plans are classified, however, according to the industry predominantly represented by their contributing employers. The major industries include construction; manufacturing; transportation, communication, and utilities; and wholesale and retail trades.

REASONS FOR ERISA'S MINIMUM FUNDING STANDARDS AND MPPAA'S CHANGES

Before ERISA, the Internal Revenue Code and implementing regulations required employer contributions sufficient to pay for a plan's normal cost and interest on any unfunded actuarial liability. The normal cost is that part of the present value[4]

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[3]A plan year is the 12-month fiscal period for which plan records are kept. A specific plan year's designation is based on the calendar year in which the plan year begins. For example, plan years beginning on any day from January 1, 1981, to December 31, 1981, would be designated as plan year 1981.

[4]The current worth of a future sum, discounted at a specific rate of interest using a mathematical formula (see glossary for an expanded definition).

of plan benefits and expenses attributed to a specific year. The actuarial liability is that part of the present value of plan benefits and expenses that is attributed to previous years. The unfunded actuarial liability is the excess of a plan's actuarial liability over its assets.

Congressional concern about the ability of plans to pay promised benefits resulted in ERISA's minimum funding standards, which are administered and enforced by the Department of the Treasury's Internal Revenue Service (IRS). These standards required that annual employer contributions to a plan be sufficient to pay for normal cost and interest on any unfunded actuarial liability and also systematically pay off (amortize) the unfunded liability over specified periods. To the extent that the funding standards would result in increased plan assets, the potential cost to the insurance program would be lessened.

Also before ERISA, multiemployer plans in financial difficulty could unilaterally reduce benefits or impose further restrictions on eligibility for benefits to achieve a better balance between plan funding and promised benefits. Under ERISA, however, the Secretary of the Treasury had to approve any benefit reductions. This limitation reduced the ability of multiemployer plans to deal with financial distress.

ERISA established PBGC to administer the insurance program provisions. Those provisions called for an appointed trustee, either PBGC or an independent party, to administer plans that terminated without enough assets and to pay certain levels of promised benefits. Asset insufficiencies of a plan were to be financed first by collections from the plan's contributing employers (employer liability). Such collections, however, were limited to 30 percent of an employer's net worth. The remaining asset insufficiencies were to be financed from insurance premiums paid to PBGC by ongoing plans.

ERISA initially gave PBGC discretionary authority to guarantee benefits for multiemployer plans, with mandatory coverage to begin after December 31, 1977. At that time, however, there was considerable public and congressional concern over the potentially large liability to the insurance program from terminating multiemployer plans. Public Law 95-214, passed December 19, 1977, extended the discretionary insurance coverage date. It also mandated that PBGC analyze the multiemployer plan insurance program and submit a report to the Congress by July 1, 1978.

PBGC's study showed that the combined effect of various ERISA provisions made termination attractive to employers contributing to some multiemployer plans. For example, PBGC

reported that the termination of some plans could be less expensive than plan continuation because each employer's liability at plan termination was limited to 30 percent of his net worth.

PBGC estimated in its report that plans experiencing financial difficulties could cost the insurance program billions of dollars. Further, the report stated that to cover that cost, multiemployer plans could have to pay an annual insurance premium of up to $80 per participant, as compared to the 50-cent premium per participant then authorized by ERISA. PBGC believed that such enormous costs would threaten the financial soundness of the insurance program and place an undue burden on continuing plans through excessively high premiums needed to maintain the self-sufficiency of the insurance fund. Accordingly, PBGC recommended changes to ERISA's provisions covering multiemployer plans.

The Congress subsequently enacted MPPAA, which incorporated many of PBGC's recommendations. MPPAA's amendments included changes to the Internal Revenue Code's minimum funding standards for multiemployer pension plans. MPPAA also changed maximum employer liability from 30 percent of net worth at plan termination to 100 percent of a proportionate share of the unfunded liability upon the employer's withdrawal from the plan. Under MPPAA, the PBGC insurance program helps plans pay benefits when plan assets are depleted (the plan becomes insolvent). Upon plan insolvency PBGC is to provide financial assistance in the form of a loan so the plan can pay its benefits. Plans must repay such loans on reasonable terms that are consistent with PBGC regulations.

MPPAA changed ERISA's minimum funding standards by (1) reducing the maximum number of years allowed under the regular funding provisions to pay off certain parts of a plan's unfunded actuarial liability (amortization requirements) and (2) establishing new provisions for identifying financially distressed plans and requiring them to meet special funding provisions (plan reorganization).

PBGC recommended the reduced amortization periods because the regular funding provisions allowed too much time--40 years in some cases--to fund benefit obligations. PBGC explained that inflation might impel employee representatives to press for improved benefits, even though employment of plan participants might decline markedly because of changes in consumer demand, technology, foreign competition, or shifts to workers not participating in the plans. PBGC concluded that these conditions could result in a plan not having enough assets to pay its benefits.

PBGC recommended the plan reorganization program because even reduced amortization periods may not adequately improve the financial condition of some plans.

DETERMINING AND ACCOUNTING FOR MINIMUM FUNDING REQUIREMENTS

ERISA requires pension plan actuaries to determine, through periodic valuations, minimum requirements under the regular funding provisions. Actuaries are persons trained to be expert in pension plan financing. ERISA set out general requirements for actuarial valuations of plan assets, liabilities, and contributions. In this regard it created an account, called the funding standard account, for keeping track of these amounts and for determining whether plans are meeting minimum funding requirements.

ERISA requires actuarial valuations at least every 3 years. Valuations involve actuarial assumptions about future conditions affecting pension cost, including investment earnings, mortality rates, compensation levels, and employee turnover. Actuaries must use ERISA-approved actuarial cost methods to compute minimum funding requirements.

The funding standard account shows whether a plan is meeting the regular funding requirements by providing a cumulative comparison of actual and required employer contributions. If actual contributions have exceeded the minimum required, the account will show a credit balance (funding surplus). If less, the account will show a funding deficiency. ERISA specifies the items to be charged and credited to the account to determine whether plans are meeting the regular funding requirements. The funding standard account and how it works are discussed in more detail in appendix I.

OBJECTIVES, SCOPE, AND METHODOLOGY

MPPAA requires us to (1) study the effects of its provisions on participants, beneficiaries, employers, employee organizations, and other parties to multiemployer plans and (2) report the results to the Congress by June 30, 1985.

Because of the work's magnitude and the complex issues involved, we separated the study into segments and are issuing a series of reports on multiemployer plans. This report, which addresses the effects of MPPAA's provisions designed to

strengthen plan funding, is one in a series of reports.[5] To address the funding provisions' effects, we focused our efforts on determining

--the effects of faster amortization on a plan's unfunded actuarial liability under the regular funding provisions,

--the reasonableness of the reorganization provisions for identifying financially distressed plans, and

--the provisions' effectiveness in stabilizing or improving distressed plans' financial condition.

We developed a single data base for all segments of our study to have a common frame of reference for all analyses and to minimize the impact of our study on multiemployer plans and associated parties. The data base covered a randomly selected, stratified sample of 149 multiemployer plans with 100 or more participants and included data collected from those plans.

To help conduct the mandated study, MPPAA gave us the right to examine any information in the possession or control of the plan administrator or sponsors that we believed pertinent to the study. MPPAA, however, prohibited us from publicly disclosing the identity of any individual in presenting the information obtained. Therefore, information is presented in this report in a manner designed to protect against disclosing the identity of any individual. We conducted our work in accordance with generally accepted government auditing standards.

Plans covered by review

The 149 stratified-sample plans had about 3.5 million participants and were selected from plans administered in 14 states and the District of Columbia. We chose those jurisdictions because the multiemployer plans administered in them covered over 70 percent of participants in all multiemployer plans and had diversity by industry, geography, and size--from large nationwide plans to small localized plans.

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[5] Multiemployer Pension Plan Data Are Inaccurate and Incomplete (GAO/HRD-83-7, Oct. 25, 1982), Assessment of Special Rules Exempting Employers Withdrawing From Multiemployer Pension Plans From Withdrawal Liability (GAO/HRD-84-1, May 14, 1984), and Incomplete Participant Data Affect Reliability of Values Placed by Actuaries on Multiemployer Pension Plans (GAO/HRD-84-38, Sept. 6, 1984).

PBGC's July 1981 file of insurance premium payers showed that, nationwide, 2,298 plans with about 8.4 million participants paid multiemployer premiums in plan year 1979. The 2,298 plans included 374 with fewer than 100 participants each. We excluded these smaller plans from our study because they accounted for an extremely small number (about 13,800) of multiemployer plan participants and, in all probability, a small number of contributing employers.

In plan year 1979, the 149 sample plans and their participants represented about

--7.7 percent of the 1,924 total multiemployer plans with 100 or more participants and about 42 percent of the 8.3 million participants reported by the 1,924 plans and

--11.7 percent of the 1,276 multiemployer plans with 100 or more participants being administered in the geographic areas covered by our review and about 56 percent of the 6.2 million participants reported by the 1,276 plans.

The 149 plans included the 16 plans with the largest number of participants and another 30 plans randomly selected from a universe stratum of plans that appeared to be experiencing financial trouble based on our preliminary analysis. We compared the 149 stratified-sample plans, stratified by size and primary industry, with the similarly stratified total of 1,276 plans with 100 or more participants administered in the geographic areas covered by the review. Based on this comparison, we believe that the 149 plans reasonably represent the population sizes and industries common to multiemployer plans listed in PBGC's files as being administered in the study geographic areas. However, our sample selection techniques, which were designed to provide adequate data for evaluating the effects of the different MPPAA provisions, may have somewhat biased our plan sample toward less well-funded plans. However, we believe that the findings in this report generally represent the types and significance of effects of MPPAA's changes to plan funding requirements.

The tables in appendix II provide more information on the sample, study geographic areas, and total plans by size and industry.

Review of plans

Our fieldwork was performed from March 1982 through February 1983. We obtained available plan financial, actuarial, and characteristic data for 5 plan years--1977 through 1981--from plan officials but did not verify the accuracy of those

data. However, where data items appeared inconsistent with other data, we attempted to resolve inconsistencies and made appropriate changes. Primary data sources were (1) Annual Return/Report of Employee Benefit Plan (Form 5500) with accompanying Actuarial Information (Schedule B), (2) periodic actuarial valuation reports, and (3) annual audit/financial reports.

We computerized much of the data obtained and used computer techniques to analyze the data. We performed a 100-percent verification of the computerized data to ensure that we recorded them accurately. We also tested our computer programs and procedures to ensure the reliability of our analyses.

We interviewed plan administrators, actuaries, and union and contributing employer representatives to obtain information on plan funding. We also reviewed applicable legislative provisions, related legislative history, and implementing regulations and discussed them with IRS and PBGC officials.

Evaluation of MPPAA's changes to plan funding standards

Our methodology for evaluating the effects of MPPAA's changes to multiemployer plan funding standards is summarized below. Additional information on the methodology is included in the other report chapters.

Faster amortization requirements

To assess the impact of MPPAA's shorter periods for amortizing unfunded actuarial liability amounts under the regular funding provisions, we analyzed funding standard account data obtained from the 149 sample plans. We identified plans subject to the new requirements and, where applicable, computed annual plan costs[6] using the new, shorter amortization periods for comparison with costs associated with the old periods and total annual contributions to assess the significance of the increase. We also developed overall data on the plans' financial condition and, with assistance from our actuaries, estimated the annual and long-term effect related to the new amortization requirements.

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[6]As used in this report, annual plan costs are those costs that have to be paid by current year employer contributions or offset by funding surpluses. Also see glossary.

Plan reorganization provisions

To determine the effects of the reorganization provisions, we (1) evaluated the financial condition of the 149 plans to identify those we believed to be financially distressed, (2) applied the provisions to the sample plans, and (3) compared the results of these two efforts to determine if the reorganization provisions will accomplish their objectives of identifying financially distressed plans and improving their financial condition.

We used a two-step approach to independently identify the distressed plans in our sample. The first step was to eliminate from further study plans that appeared not to be distressed based on their performance against four indicators of financial health (see pp. 21 and 22). In the second step, our actuaries made a detailed assessment of each remaining plan's financial condition. Chapter 3 includes more information on our screening procedures and detailed plan analyses.

MPPAA describes the reorganization provisions broadly and provides for the Secretary of the Treasury to prescribe more definitive regulations. An IRS official in the Office of Chief Counsel, responsible for developing regulations, told us in February 1985 that, although regulations addressing the reorganization provisions are being developed, they will not be issued until the middle of 1985 or later because of regulation workload and the learning, drafting, and processing time required for regulations on complex matters. The absence of implementing regulations required us to assert various criteria and evaluation techniques based on our interpretation of MPPAA's reorganization provisions and discussions with IRS and PBGC officials.

MPPAA delayed the effective date of the reorganization provisions for most plans, and only a small number of sample plans were legally required to meet the provisions at the time of our review. Therefore, our evaluation of the provisions is based on our application of them and plan information available at the time of our review as if the provisions were in effect for all 149 plans.

To determine which of the 149 plans would be identified as financially distressed by the reorganization provisions, we (1) developed a draft formula for applying the provisions using the types of actuarial data that plans report to IRS annually, (2) obtained IRS comments on the draft formula, and (3) compared the results of the formula's application with the application of the provisions by plan actuaries, where documented.

Based on our discussions with IRS, we refined the formula and the data used in applying it to obtain more precise results and to achieve consistency among the various elements comprising the formula. We believe that our formula yields the most accurate results reasonably obtainable for evaluating MPPAA's distressed plan identification provisions using readily available plan data.

A detailed explanation of the formula and its development is included in appendix III. Because the formula was developed in advance of IRS regulations for applying the reorganization provisions, it should not be used to determine the legal reorganization status of a plan under MPPAA.

To evaluate the effects of the funding requirements for distressed plans, we applied them to sample plans that were identified as distressed by the reorganization provisions and determined whether those plans would have to increase contributions and, if so, by how much. We made only general estimates of the provisions' effects beyond the first year because (1) a number of assumptions were required and (2) no actual plan calculations were available for comparison or analysis.

CHAPTER 2

MPPAA'S REQUIREMENT TO PAY PLAN UNFUNDED LIABILITY FASTER SHOULD HAVE FEW SIGNIFICANT EFFECTS ON PLANS AND EMPLOYERS

MPPAA reduced the number of years (amortization periods) over which certain changes in a plan's unfunded actuarial liability (pension costs allocated to prior years not covered by assets) can be paid under the regular funding provisions. This change was intended to help maintain the financial health of multiemployer plans generally and keep financially weak plans from getting weaker. Our review of a 149-multiemployer-plan sample showed that the shorter payment periods may eventually cause an increase in the annual required contributions for most plans. However, such increases should not significantly affect the plans' financial condition or employers contributing to the plans. More specifically, we found that

--the annual cost increases resulting from the shorter amortization periods generally should be small in relation to total annual plan costs (about 1 percent initially and 5.5 percent in the long term) and

--actual employer contributions have generally exceeded previous funding requirements to an extent adequate to cover, at least initially, increased amortization costs caused by the shorter payment periods.

ERISA AND MPPAA AMORTIZATION REQUIREMENTS

Two primary cost components--normal cost and payments on unfunded actuarial liability--are generally produced under ERISA-approved actuarial cost methods used to determine annual minimum required employer contributions (annual plan costs) under the regular funding provisions. Normal cost is that part of the present value of future plan benefits and expenses allocated by the cost method to the actuarial valuation year,[1] whereas actuarial liability is that part attributed to service in previous years. The unfunded actuarial liability is the excess of the actuarial liability over the value of plan assets.

[1]The year for which an actuary determines a plan's normal cost, actuarial liability, value of assets, and related present values.

To help ensure plan financial health, ERISA established maximum periods over which plans could amortize (pay for) various elements comprising an unfunded actuarial liability, as follows:

--40 years for unfunded past service liabilities. Such liabilities are common in defined benefit pension plans and can arise in several ways. For example, participants are frequently given credit, at plan inception, for years of earlier service. Similarly, benefit increases after plan establishment are often made retroactive for service before the amendment increasing benefits.

--30 years for changes in the unfunded actuarial liability resulting from actuarial assumption changes. Actuaries sometimes change assumptions to bring actuarial estimates more in line with actual plan experience or revised plan expectations.

--20 years for actuarial gains and losses. These are decreases or increases in the unfunded actuarial liability that occur when the actual experience of a plan differs from the expected experience.

PBGC considered the 40-year period too long for amortizing the past service liabilities because too much can happen in that time to produce plan asset insufficiencies. MPPAA reduced the period to 30 years for past service liability increases resulting from plan establishment or amendment after September 26, 1980. MPPAA also reduced the period for amortizing actuarial gains and losses recognized after that date from 20 to 15 years. Appendix I gives a more detailed explanation of how amortization requirements are applied in determining funding requirements under the regular funding provisions.

AMORTIZATION INCREASES USUALLY SMALL IN COMPARISON TO TOTAL ANNUAL PLAN COSTS

Our review of the 149 sample plans showed that almost all of the plans used cost methods that produced elements of unfunded liability that, if increased, would have to be paid faster under MPPAA's shorter amortization periods. Although we found that such increases in liability could be significant, the related increases in total annual plan cost due to faster amortization would be relatively small.

All approved cost methods produce a normal cost and an actuarial liability. Some methods do not produce an unfunded liability amount because their actuarial liability is set equal to plan assets. Under these methods, all plan costs in excess of

assets are paid through annual allocations to normal cost. Of the 149 sample plans, 4 used one of these cost methods to pay for plan costs and, therefore, would not be affected by MPPAA's shorter amortization periods.

The other 145 plans used cost methods that produce unfunded liability cost elements subject to the shorter amortization period, but only 22 plans had net unfunded liability increases in plan year 1981 that resulted in increased annual plan cost.[2] The unfunded liability increases for the 22 plans totaled over $863 million and ranged from about $139,000 to $300 million.

Although the unfunded liability increases were significant in some cases, they resulted in relatively small increases in annual plan costs for the 22 plans. The combined annual amortization cost increase for the 22 plans was about $5.2 million. This increase was less than 1 percent of their total annual plan costs of about $619 million. As a percentage of total annual plan cost, the increases ranged from 0.07 percent for one plan to about 3.4 percent for another.

As plans continue to incur increases in unfunded liabilities, the amounts subject to MPPAA's faster payment requirements could become significant. For example, the latest available information showed that the total unfunded liability to be amortized by our 145 sample plans was about $19 billion. Nevertheless, considering the size of the unfunded liability and the total annual cost of our sample plans, the annual increase to amortize such large amounts faster should be small.

In 1981, past service benefit increases accounted for about 97 percent of our sample plans' increases in unfunded actuarial liability. Using a 6-percent interest rate (the rate actuaries of our sample plans most frequently used to determine annual plan costs) and assuming that a plan's total unfunded liability resulted from past service benefit increases, the increase in annual amortization cost to pay for the liability in 30 rather than 40 years would be about 9 percent. This increase would be greater for interest rates below 6 percent and smaller for interest rates above 6 percent.

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[2]Of the 145 plans, 27 had net unfunded actuarial liability increases during plan year 1981 subject to MPPAA's faster amortization periods. Seven of the 27 plans also had actuarial gains. Actuarial gain amortization amounts are an offset (reduction or credit) to annual plan costs. The gain amortization amounts completely offset annual amortization cost increases for 5 of the 27 plans, leaving 22 plans with net annual cost increases resulting from the faster amortization periods.

The significance of the amortization cost increase is diminished when compared to total annual plan cost. The primary reason for this is that normal cost, a principal cost component, is not affected by the shorter amortization periods. For the 145 sample plans subject to the shorter amortization periods, the normal cost component averaged about 40 percent[3] of total annual plan costs. Adding to the above assumptions the assumption that normal cost makes up 40 percent of total annual plan costs, the 9-percent annual amortization cost increase is reduced to about 5.5 percent.

To illustrate, the following table shows the differences in plan cost between the 30- and 40-year amortization periods under the above conditions for a plan that has $10 million in unfunded liability, all of which is the result of past service benefit increases.

Difference Between 30- and 40-Year Amortization of Unfunded Liability

Amortization period	Normal cost	Amortization cost	Total funding requirement
	(thousands)		
30 years	$418	$685	$1,103
40 years	418	627	1,045
Increase	0	$ 58	$ 58
Percent increase	0	9.25	5.55

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We discussed the potential effect of the shorter amortization periods on plan funding with the actuaries of our sample plans. Of the 146 plan actuaries who expressed views, 145 said that the shorter periods would have no or a minor effect and one said the effect would be moderate.

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[3]This percentage ranged rather widely for our sample plans. About three-fourths (109) of the plans had normal costs between 31 and 75 percent of annual costs. For these plans, the eventual annual amortization cost increase would range between 2.3 and 6.2 percent.

EMPLOYER CONTRIBUTIONS GENERALLY ADEQUATE TO COVER INITIAL AMORTIZATION COST INCREASES

Employer contributions for a plan year that exceed annual plan costs create funding surpluses. These surpluses can be used in later years to offset higher annual plan costs. Therefore, plans that experience increases in annual costs because of MPPAA's shorter amortization periods do not have to raise employer contributions unless the increases cannot be absorbed by existing funding surpluses. We found that surpluses for the 145 sample plans examined are generally adequate to cover, at least initially, the higher annual plan costs resulting from faster amortization.

Almost all plans have a funding surplus

All but 1 of the 145 sample plans using actuarial cost methods that made them subject to MPPAA's shorter amortization periods had a funding surplus. The latest funding standard account information available to us for plan year 1981 or earlier showed that the account surpluses of the 144 plans covered from 0.2 to 745 percent of annual plan costs.

Eighty-eight percent of the plans had funding surpluses sufficient to cover at least 25 percent of plan costs based on plan year 1981 or earlier data available when we reviewed the plans. The surpluses of the 144 plans totaled about $2.4 billion, ranged from about $5,000 to over $800 million, and averaged $16.7 million. The following table shows the percentage of annual plan costs for the 145 plans covered by surpluses.

Percent of Annual Plan Costs
Covered by Account Surpluses

Percent of annual plan costs covered by surpluses[a]	Number of plans	Percent of plans
0	1	0.7
1 to 24	16	11.0
25 to 49	17	11.7
50 to 99	31	21.4
100 to 199	44	30.3
200 to 299	13	9.0
300 to 399	12	8.3
400 to 499	5	3.5
500 and over	6	4.1
Total	145	100.0

[a]Based on plan year 1981 or earlier data available when plans were reviewed.

Funding surpluses are adequate to cover cost increases

Considering funding surpluses, there was little initial effect on employer contributions required for the 22 plans that had annual plan cost increases during plan year 1981 because of the faster amortization periods. The increases ranged from about $2,000 to $1.7 million. Assuming no future benefit increases, the funding surpluses of 21 of the 22 plans were adequate to cover their individual plan year 1981 cost increases for at least 7 years.

Further, 17 of the 21 plans had surpluses sufficient to cover the annual cost increase until the total unfunded liability increase is paid. For example, one plan adopted a benefit improvement that increased its unfunded liability in plan year 1981 by about $27 million. This plan had a funding surplus of about $24 million, which was more than enough to cover its annual $156,000 amortization cost increase that would total about $4.7 million over the 30-year amortization period.

For the plan with no funding surplus, the $945,000 increase in annual plan cost caused by MPPAA was substantial when viewed alone. However, employer contributions necessary to pay for this increase were less than 1 percent of the plan's annual cost.

CONCLUSIONS

MPPAA reduced the number of years for amortizing certain changes in multiemployer plan unfunded actuarial liabilities to help maintain the financial health of plans generally and keep financially weak plans from getting weaker. The initial effect of these new requirements on the 149 sample plans has been negligible. Of the sample plans, 145 used actuarial cost methods that recognized cost elements subject to the faster payment periods. Nevertheless, the increases in annual plan cost due to the provisions were generally small in relation to total annual plan cost. Further, cost increases for most plans were covered, at least initially, by existing funding surpluses.

As time passes, a larger proportion of unfunded liability for individual plans may have to be paid faster. If so, the annual amortization cost increase due to the faster payment will be greater. However, when compared to the size of the unfunded liability being amortized and total annual plan costs, the increase should be relatively small.

In summary, although the shorter unfunded liability payment periods may raise most plans' annual costs, the relatively small increases should have little effect on employers initially because of existing funding surpluses.

CHAPTER 3

FINANCIALLY DISTRESSED MULTIEMPLOYER PENSION PLANS PRESENT A SIGNIFICANT RISK TO THE INSURANCE PROGRAM

The potentially large liability that even a few financially distressed multiemployer plans could place on ERISA's multiemployer insurance program was a major consideration in MPPAA's changes designed to reduce that risk. We found that the concern was valid. Our analysis of the financial condition of 149 multiemployer plans showed that most were not financially distressed at the time of our review. As shown by the illustration on the following page, however, some plans with a large number of participants and significant amounts of generally insurable unfunded vested benefits[1] were, in our judgment, financially distressed--that is, they could not withstand further financial deterioration without posing a substantial risk to the insurance program.

The $3.7 billion in unfunded vested benefits of the 14 distressed plans, which were generally covered by the insurance program, was about 149 times the insurance program's assets available at the end of fiscal year 1983 to guarantee additional claims. Further, some of the 135 plans that were judged to be in adequate financial condition were nevertheless weak and may become distressed if their financial conditions deteriorate further.

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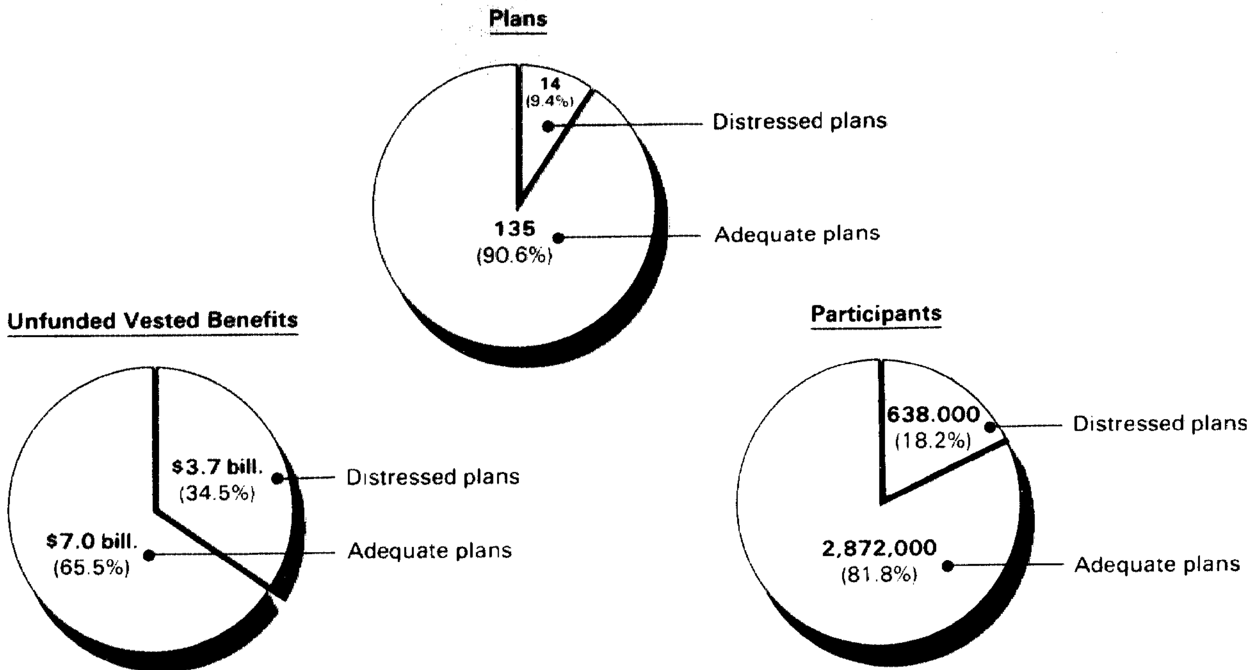
[1]A plan must provide that participants will, after meeting certain requirements, retain a right to the benefits earned, or some portion of them, even though their service with the employer stops before retirement. Participants who meet such requirements are said to have a vested (nonforfeitable) right to benefits. Vested benefits is synonymous with the term "vested liability" as defined in ERISA. Unfunded vested benefits are the excess of the present value of total vested benefits over plan assets.

Sample Plans in Adequate and Distressed Financial Condition and the Participants and Unfunded Vested Benefits in Each Category[a]



[a]Because our plan sample may have been somewhat biased towards less well-funded plans, the percent of sample plans we judged to be financially distressed, if applied to the universe of plans, may overstate the number of multiemployer plans that are distressed.

METHODOLOGY WE USED TO MEASURE PLAN FINANCIAL CONDITION

The financial condition of multiemployer plans is complex and difficult to measure. Although several measures can be used to identify plan financial strengths and weaknesses, pension experts have not agreed on uniform measures for determining plans' financial condition. Further, actuaries have emphasized that no single measure is appropriate for determining and comparing the financial condition of groups of plans--multiple measures are needed.

During the legislative development of MPPAA, financial distress was attributed to plan characteristics indicating that a plan may not be able to meet benefit payments in the long term (become insolvent). In describing its recommendations for revising ERISA's multiemployer provisions, PBGC pointed out that plans with large unfunded benefits relative to contributions as

a result of past benefit setting and funding practices, contribution base declines,[2] or poor investment experience may not avert cash-flow problems.

Plan characteristics indicating financial trouble include a high number of retirees relative to working participants, a low level of assets relative to annual benefit payments, and a low cash flow (income relative to expenses). PBGC expressed particular concern about the adverse impact of contribution base declines resulting from changes in consumer demand, technological advances, or foreign competition. Regardless of the reason, the effect is the same--a smaller base of working employees has to support an increasing number of retired workers. According to PBGC, plans facing this problem would have difficulty in increasing employer contributions to pay for unfunded benefits because large increases could pose an unreasonable hardship on employers and result in plan termination.

PBGC, in conducting its multiemployer plan insurance program study mandated by Public Law 95-214, used multiple measures of financial condition for identifying financially troubled plans and for estimating the risk that these plans presented to the insurance program. The PBGC criteria included three financial indicators with assigned minimum values. Plans that met any one of the three minimum values were not considered a potential risk to the insurance program. A plan was considered a potential risk (because it could terminate without enough assets to pay guaranteed benefits) under PBGC's criteria, if its

--total retired and separated vested participants[3] were more than 34 percent of total plan participants,

--assets were less than 5.6 times annual benefit payments, and

--assets were increasing by less than 2.6 percent annually as a result of income exceeding expenses.

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[2]To fund a multiemployer plan, participating employers are generally required, as specified in the collective bargaining agreement, to contribute a certain amount or percentage (contribution rate) for each unit of employee production (contribution unit). Contribution units are expressed in such terms as hours worked, tons produced, or wages earned. A plan's contribution base is the total of contribution units.

[3]Basically, separated vested participants are those participants who are not receiving or earning plan benefits but who have a vested right to future benefits based on previous plan participation.

Recognizing the difficulty of measuring plan financial condition, especially in identifying distressed plans, we used a two-step approach. In the first step, using a screening approach similar to the one PBGC used in its study, we eliminated plans that appeared not to be distressed. In the second step, our actuaries assessed in detail the remaining plans' financial conditions to determine which were distressed.

<u>Procedures used to screen plans not distressed from further study</u>

The screening procedure we developed and applied to all sample plans used four financial condition indicators with predetermined minimum values for each. Under this procedure, plans that did not meet at least three of the four minimum indicator values were considered possibly distressed.

Although we considered several indicators commonly used to assess the financial condition of pension plans, our actuaries selected the following indicators for the screening process:

--Assets to benefit payments because it measures the extent to which plan assets are available to pay benefits if contributions were to cease.

--Assets to vested benefits because it measures the extent to which benefits owed and guaranteed at certain levels by the insurance program are covered by assets.

--Income to expenses because it shows the current rate of asset growth or decline.

--The number of working participants to other participants (generally retirees) because it measures a plan's ability to generate employer contributions.

Other reasons for selecting these indicators include their relative insensitivity to varying actuarial methods, their stability over time, their usefulness in comparing different plans, and the availability of data needed for making the calculations.

To develop and ensure the reasonableness of our screening procedure, we considered various minimum indicator values, including those discussed in actuarial literature and used by PBGC in addressing the subject of pension plans' financial health. We also considered the sample plans that had indicator values falling below minimum values. Our actuaries set indicator minimum values at levels that, in the aggregate, they believed best indicated adequate financial condition if a plan met three or more of the values. The minimum value set for each of the indicators was

--assets at least six times annual benefit payments,

--assets at least 50 percent of vested benefits,

--total annual income at least 1.75 times total annual expenses, and

--working participants at least two times the number of other participants.

Because of the long-term nature of pension plan funding, our actuaries viewed plans with only one indicator below the minimum value as having adequate overall financial strength. As of the time of our review, we believe these plans did not pose a significant risk to the ERISA insurance program.

To compute the indicator values, we used data from each plan's latest valuation year. Plan data for a valuation year are more complete and reliable because a plan's actuary reviews actuarial estimates based on changing plan conditions and anticipated future experience. Using data available in nonvaluation years would result in using different years' data to compute the financial indicator values. We found that mixing such data could produce values which may not be indicative of a plan's financial condition in a particular year. Additional information on the financial indicators we used and the relative position of our 149 sample plans for each indicator is included in appendix IV.

Actuarial assessment of possibly distressed plans

Our actuaries made a detailed assessment of the financial condition of the sample plans that were not identified as in adequate financial condition by the screening procedure. Based on their assessment, they made a judgment about which plans were financially distressed in that they could not withstand further financial deterioration without posing a substantial risk to the insurance program.

The assessment included a review of financial information and actuarial valuations for all available plan years from 1977 to 1981. Our actuaries considered the four financial indicators used in the screening procedure, and their values over time; the plans' recent history of benefit increases and contribution levels; industry trends; and employer withdrawals from the plans. They also considered changes in the number of working and retired participants, assets and the extent to which they covered retirees' vested benefits, and the ratio of annual contributions to annual benefit payments. Information used in the assessment was drawn from plan financial and actuarial reports; plan reports filed with IRS; and interviews with plan actuaries, administrators, employers, and union representatives.

SCREENING PROCEDURE SHOWED MOST PLANS NOT FINANCIALLY DISTRESSED

Applying the screening procedure to the 149 sample multiemployer plans and analyzing the results showed that 120 plans with about 2.7 million participants and about $6.2 billion in unfunded vested benefits were in adequate financial condition at the time of our review. These plans, unless exposed to continuing adverse financial events--such as persistent or severe industry declines--should be able to meet benefit obligations in the long term. However, the screening procedure indicated that the remaining 29 of the 149 plans with about 773,000 participants and about $4.5 billion in unfunded vested benefits were possibly in financial distress. Our actuaries' detailed assessment of the 29 plans' financial condition is discussed later in this chapter.

Of the 120 sample plans that were in adequate financial condition, 84 exceeded all four minimum financial indicator values, 31 exceeded three of the four values, and 5 had purchased annuities from insurance companies to cover retiree benefits. Many of the 115 plans (84 plus 31) that met at least three of the minimum values appeared very strong financially. For example:

--95 (83 percent) of the plans had assets sufficient to cover, without further contributions, current levels of benefit payments for 10 or more years and

--64 (56 percent) of the plans had 80 percent or more of their vested benefits funded.

Of the 31 plans that met all but one of the minimum indicator values, 6 had less than 50 percent of their vested benefits funded, 3 had annual income less than 1.75 times expenses, and 22 had fewer than two working participants for every other participant. We found that reliable screening values could not be computed for the five plans that had purchased annuities to cover retiree benefits because the financial data reported by the plans did not reflect annuity values. Our analysis of the effects of the plans' annuity purchases showed the plans to be in good financial condition.

The table below summarizes the number and percentage of minimum indicator values met by the 149 plans and the unfunded vested benefits and number of participants for plans in adequate financial condition and those possibly distressed.

Number of Minimum Indicator Values
Met by the 149 Sample Plans

Financial category of plans	Number of minimum values met	Number of plans	Percent of plans	Unfunded vested benefits	Participants
				(billions)	(thousands)
Adequate condition	4	84	56	$ 3.395	2,168
	3	31	21	2.773	559
		5[a]	3	.057	10
		120	80	6.225	2,737
Possibly distressed	2	10	7	.680	100
	1	7	5	1.303	431
	0	12	8	2.546	242
		29	20	4.529	773
Total		149	100	$10.754	3,510

[a]Reliable minimum indicator values could not be computed for these plans because the financial data reported by them did not reflect the values of annuities purchased to cover retiree benefits. Our analysis of plan circumstances showed these plans to be in good financial condition.

The adequate financial condition of most of the sample plans is further demonstrated in the following table. The table shows that, for the 144 plans (115 plus 29) for which indicator values could be reliably computed, the median values of plans identified in adequate financial condition were more than twice as high as those identified as possibly distressed.

Median Indicator Values for 144 Sampled Plans Identified as in Adequate and Possibly Distressed Financial Condition

Financial indicator	Median value for: 29 possibly distressed plans	115 plans in adequate financial condition	Our minimum value
Assets to benefit payments	5.03	15.17	6.00
Assets to vested benefits	.39	.87	.50
Income to expenses	1.37	3.19	1.75
Working to other participants	1.57	3.38	2.00

ACTUARIAL ASSESSMENT OF POSSIBLY DISTRESSED PLANS SHOWED SOME FINANCIALLY DISTRESSED AND OTHERS WEAK

Based on their assessment of the 29 plans identified by the screening procedure as possibly distressed, our actuaries judged 14 plans to be financially distressed. These plans covered about 638,000 participants and had unfunded vested benefits of about $3.7 billion. Although the other 15 plans were judged to be in adequate financial condition, many of them were financially weak. The 15 plans covered about 136,000 participants and had unfunded vested benefits of about $819 million.

Financially distressed plans

The 14 plans our actuaries identified as financially distressed had characteristics and circumstances that, when considered in the aggregate for each plan, contributed to their poor financial condition and put them in the distressed category. Generally, the plans exhibited poor funding progress, negative or weak cash flow, and poor or modest contribution bases. More specifically:

--In the aggregate, the assets of the 14 plans covered only 22 percent of their vested benefits. Twelve of the plans were less than 50 percent funded, and 8 of the 12 had funded less than 32 percent of their vested benefits.

--10 of the 14 plans had about one or less working participant for every other participant, and the number of working participants was declining in 13 of the 14 plans. The other plan had no working participants.

--8 of the 14 plans had assets sufficient to cover, without further contributions, annual benefit payments for about 4 or fewer years. The assets of 7 of the 14 plans were declining at an annual rate ranging from about 2 to about 9 percent, and the assets for only 1 of the other 7 plans were growing at a rate greater than 6 percent.

--9 of the 14 plans had a poor annual cash flow ranging from less than $1 to $1.25 of income for each dollar of expense. The other five plans had weak cash flows ranging from $1.32 to $1.52 of income for every expense dollar.

Selected financial indicators are listed for each of the 14 plans in appendix V.

At the end of fiscal year 1983, PBGC reported assets of $24.97 million available in its fund for guaranteeing additional claims of insolvent multiemployer plans. The $3.7 billion in unfunded vested benefits of the 14 financially distressed plans was about 149 times greater than these assets. The significance of this liability and the effect it could have on the insurance fund emphasize the need to improve the financial condition of distressed plans.

Most other plans in adequate but weak financial condition

Our actuaries judged the other 15 plans to be in adequate financial condition at the time of our review. These plans were somewhat stronger financially than the 14 plans they judged to be financially distressed. For example, none of the 15 plans had a negative cash flow, only 1 had assets of less than four times annual benefit payments, all but 1 had funded over 30 percent of their vested benefits, and only 1 had fewer working participants than other participants.

Many of the 15 plans, however, had several weak financial areas. For example, the number of working participants was on the decline in most of the plans, assets were growing at a low rate or declining for about half of the plans, and over half of the plans had less than two working for every other participant. However, where plans had one or more weak financial areas, they had strengths in other areas that offset them.

For example, one plan had fewer working participants than other participants. This condition suggests that the plan could have difficulty generating contributions to pay for its vested benefits, which were only 52 percent funded. On the other hand, the plan had a rather high cash flow--$1.85 of income for every dollar of expense and an annual asset growth of 3.3 percent. Further, working participants were growing at an annual rate of about 8 percent; and the plan's assets, without further contributions, were adequate to cover almost 6 years of benefit payments.

Although our actuaries judged these plans to be in adequate financial condition, they believed that many could become distressed if their financial conditions deteriorate further.

CONCLUSIONS

Although 135 of the sample plans were in adequate financial condition, 14, with a large amount of unfunded vested benefits, were financially distressed and could pose a substantial risk to their plan participants and the multiemployer insurance program if their financial condition is not improved. Further, some of the plans that are in adequate financial condition show signs of financial weakness and could pose a risk to participants and the insurance program if their financial conditions deteriorate further and the deterioration is not checked. MPPAA's reorganization provisions were designed to reduce such risk, and our evaluation of those provisions is discussed in the next chapter.

CHAPTER 4

REORGANIZATION PROVISIONS WILL NOT REQUIRE MOST DISTRESSED PLANS TO INCREASE OR MAINTAIN EFFORTS TO IMPROVE FINANCIAL CONDITION

MPPAA established plan reorganization provisions to reduce the significant risk that financially distressed plans pose to ERISA's insurance program and the security of participants' benefits. The plan reorganization concept recognizes that financially distressed plans need to be identified and "take action" (generally increase employer contributions) to improve their financial condition unless such action places too great a hardship on employers financing the plans. Such a hardship could result in plan termination because of employers withdrawing from the plan.

Under the provisions, a plan is identified as financially distressed if annual plan cost under the regular funding provisions is not enough to pay for unfunded benefits, which are generally guaranteed by the insurance program, at a special funding rate. The special rate becomes the employer contribution goal for plans identified as distressed. The provisions contain built-in relief features to help prevent contribution increases from placing a financial hardship on employers, including authority for IRS to waive increases.

We found that, generally based on sample plan circumstances at the time of our review, the reorganization provisions would not have identified and required a higher contribution level than normally required to fund annual plan cost for 5 of the 14 plans we believe were distressed (see ch. 3). Four of these five plans were receiving contributions about 4 to 32 percent greater than the annual plan costs.

We also found that, for all but one of the nine plans identified, the provisions would have required contributions greater than the annual plan cost under the regular funding provisions. For five of these plans, however, the highest amount that would have been required was 8 to 34 percent lower than employers were contributing.

In summary, the provisions would not have identified some of the 14 distressed plans or precluded most of them from reducing rather than increasing financial contributions. Considering the significant adverse impact distressed plans can have on the insurance program, we question whether these plans should be allowed to substantially reduce contributions. Rather, we believe

that plans, as a minimum, should maintain contribution levels more in line with what they are receiving unless this presents an undue financial hardship on employers.

We identified a way that should result in the reorganization provisions identifying more distressed plans and requiring more plans identified to either increase contributions or maintain them at a level closer to what the employers were contributing. Changing the provisions, however, could result in some plans that are in adequate financial condition being identified as distressed and required to increase contributions. Whether or not the reorganization provisions are changed, the contribution increase relief features, such as IRS' authority to waive increases, should help to prevent unduly burdensome increases on employers.

THE REORGANIZATION PROVISIONS AND WHEN PLANS HAVE TO COMPLY

The concept of plan reorganization is one of several changes to ERISA that PBGC recommended in February 1979 based on the results of its congressionally mandated study of termination insurance for multiemployer plans. The concept recognizes that financially distressed plans need to "take action" to restore a sounder balance between promised benefits and plan funding to reduce the risk of plan insolvency and termination, which could adversely affect ERISA's multiemployer insurance program and participants' benefits. Apparently, the purpose of the provisions was to generally require plans to improve their financial condition by increasing contributions and/or reducing benefit increases.

The provisions set out criteria for identifying distressed plans. A plan is identified as distressed if its annual cost under the regular funding provisions is not adequate to pay for unfunded vested benefits, which are generally guaranteed by the insurance program, at a special funding rate called the vested benefits charge. The provisions also establish employer contribution requirements for distressed plans identified. The highest employer contribution amount that can be required by the provisions is generally the special funding rate. According to a PBGC official, the special rate was established based on PBGC's information on financially troubled plans.

The provisions provide for (1) reducing the special funding rate to help prevent an unreasonable increase in employer contributions which could result in plan termination if employers withdrew from the plans and (2) increasing the special rate to further ensure plan solvency.

The reorganization provisions, their purpose and effective date, and how the effective date affected our review are discussed below.

Purpose of the provisions

The purpose of the reorganization provisions was to require plans, at least generally, to take action to improve their financial condition by increasing contributions or reducing benefit increases. In May 1979, PBGC explained that its plan reorganization recommendations ". . . will require additional contributions, whenever the ordinary funding standards are inadequate to assure long-term solvency." The House Committee on Education and Labor explained, in House Report 96-869, Part I, dated April 2, 1980, that:

> "A plan in reorganization would be required to take action to restore a sounder balance between benefits and funding. This could be done by increasing contributions to meet a special funding standard to ensure plan solvency, or by reducing recent benefit increases."

Further, the joint explanation of the multiemployer plan amendments by the Senate Committees on Finance and on Labor and Human Resources (printed in the Congressional Record dated July 29, 1980) stated that

> ". . . the purpose of plan reorganization is to require a multiemployer plan facing financial difficulties to take corrective action to stabilize or improve its financial condition. Generally, reorganization would (1) prevent plans in financial distress from funding new past service liabilities over unreasonably long periods of time and (2) require plans with severe financial difficulties to raise contributions."

Provisions for identifying distressed plans

A plan is identified as distressed (in reorganization) if its vested benefits charge (the special funding rate) is more than its annual plan cost. For example, if a plan's vested benefits charge was $5.1 million and its annual plan cost was $5 million, the plan would be in reorganization. MPPAA refers to the difference between the two amounts as the "reorganization index."

The reorganization provisions define the vested benefits charge as the sum of the amounts needed to pay (amortize), in

equal annual installments, the plan's unfunded vested benefits (vested benefits less assets) over a period of (1) 10 years for the portion attributable to plan participants receiving benefit payments (retirees) and (2) 25 years for the portion attributable to all other (generally working or active) plan participants.

The provisions allow plans to determine the vested benefits charge using actuarial valuation data for a "base plan year" which generally may be (1) the last plan year ending before the start of the existing collective bargaining agreement or (2) the current plan year. In any event, the valuation data must be adjusted for subsequent plan changes that affect the charge amount. The purpose of these base plan year provisions is to enable plans to avoid going into reorganization unexpectedly during the term of a collective bargaining agreement.

The annual plan cost, which MPPAA calls the "net charge to the funding standard account," is the amount of annual employer contributions that would be required to meet the regular funding provisions if prior year funding surpluses or deficiencies were not taken into account. As shown in appendix I, funding surpluses decrease and funding deficiencies increase required annual contributions under the regular funding provisions.

A more detailed explanation of the distressed plan identification provisions and how we applied them is included in appendix III.

Special contribution requirement for distressed plans

Under the reorganization provisions, plans must meet a special employer contribution requirement (minimum contribution requirement) for each year they are in reorganization. This contribution requirement is the greater of the plan's vested benefits charge or cash flow (solvency) amount, adjusted to reflect certain conditions. The cash flow amount is the excess of annual plan benefit payments plus administrative expenses over plan assets. Because few plans are unable to pay benefits,[1] the adjusted vested benefits charge is generally the highest contribution requirement under the provisions.

The adjustment to the vested benefits charge and cash flow amounts, if any, can include (1) an increase to help pay for any

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[1]As of December 1983, PBGC was providing financial assistance to two multiemployer plans whose assets were not sufficient to pay benefits due.

added normal cost (cost attributable to current plan year) due to benefit improvements adopted by the plan while in reorganization and (2) a special decrease (overburden credit) available to plans with the burden of financing the benefits of more retirees than active participants.

In addition to the overburden credit, the provisions contain other relief features intended to prevent required contribution increases from posing a hardship on employers which could result in plan termination. The highest contribution requirement discussed above may be decreased by reducing plan participants' benefits that are not eligible for guarantee by the insurance program. However, benefits earned through plan provisions adopted before March 27, 1980, cannot be reduced.

Further, the provisions limit a plan's special contribution requirement in any single year to the greater of the current year's annual plan cost determined under the regular funding provisions or 107 percent of the prior year's annual plan cost (107 percent phase-in rule). The annual plan cost amounts are to be increased by certain amounts to help pay for added plan costs due to benefit improvements adopted by the plan while in reorganization. These provisions are to prevent significant contribution requirement increases while ensuring that contributions required are increased by 7 percent a year until the highest contribution requirement under the provisions is ultimately met or the plan is no longer in reorganization.

For example, assume that a plan is identified as distressed by the reorganization provisions and that its annual plan cost under the regular funding provisions for last year was $1,000 and for this year is $1,050. Also assume that the plan's highest or ultimate contribution requirement under the reorganization provisions is $1,300 and that no benefit increases are involved. Considering these circumstances, the plan's contribution requirement under the phase-in rule would initially be $1,070 ($1,000 + 7 percent) and would increase to $1,300 in 4 years.

Also, ERISA allows IRS to waive (defer) part or all of a distressed plan's contribution requirement if the requirement creates a substantial business hardship on 10 percent or more of the employers contributing to the plan and if the waiver would not be adverse to the interests of plan participants. According to ERISA, IRS, in granting such a waiver, shall consider whether

--the employers are operating at an economic loss,

--the businesses or industry concerned is experiencing substantial unemployment or underemployment, or

--the industry's sales and profits are depressed or declining.

An IRS official told us on December 4, 1984, that although IRS had received multiemployer plan requests for funding waivers in the past, no requests have been received under MPPAA's reorganization funding provisions. Furthermore, readily available information shows that IRS approves about 80 percent of requests for funding waivers.

Effective date of the provisions

MPPAA's reorganization provisions become effective for a plan in the first plan year beginning on or after the expiration of the collective bargaining agreement in effect when MPPAA was enacted but not later than the plan year beginning on or after September 26, 1983. As shown in the following table, most of the 149 plans covered by our review did not have to meet the provisions until plan year 1983 or 1984.

Plan Year in Which the 149 Sample Plans Had to Meet the Reorganization Provisions

Plan year	Number of plans	Percent of plans
1980 and 1981	26	17
1982	32	22
1983	39	26
1984	52	35
Total	149	100

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During the time our fieldwork was performed--March 1982 through February 1983--plan year 1981 information was the latest available. As shown above, 26 (17 percent) of the 149 sample plans were subject to the reorganization provisions during plan year 1981. According to plan officials, details on the application of the provisions were available for only 6 of the 26 plans.

Because of the (1) relatively small number of the 149 plans subject to the provisions in 1981, (2) limited information available on its application, and (3) probability of only a

small number of those subject to the provisions being financially distressed, we decided that it was too early to evaluate the effects of the provisions. Therefore, we based the evaluation on our application of the provisions and plan information available at the time of our review as if the provisions were in effect for all 149 plans.

FIVE OF 14 DISTRESSED SAMPLE PLANS WOULD NOT HAVE BEEN IDENTIFIED BY MPPAA REORGANIZATION PROVISIONS

Identification of financially distressed plans is the first step to ensuring that their financial condition is improved and the risk to the insurance program is reduced. We applied the distressed plan identification provisions to the 149 sample plans and identified 9 plans as distressed. All 9 plans (64 percent) were among the 14 sample plans we independently identified as distressed (see ch. 3), and they accounted for 96 percent of total participants and unfunded vested benefits for the 14 distressed plans. However, the provisions did not identify the other five distressed plans (36 percent) because their vested benefits charges, determined under the reorganization provisions, were not high enough to exceed their annual plan costs under the regular funding provisions--the condition necessary for a plan to be identified as financially distressed.

These five distressed plans had 24,000 participants, and their $137 million in unfunded vested benefits was about 5.5 times PBGC's assets available at the end of fiscal year 1983 to pay claims for benefits guaranteed by the multiemployer insurance program.

The following table shows the number of plans and participants and the amount of unfunded vested benefits of the 14 sample plans we believe are financially distressed that application of the reorganization provisions did and did not identify as distressed.

Financially Distressed Sample Plans That Would and Would Not Have Been Identified by the Reorganization Provisions

	Plans		Participants		Unfunded vested benefits	
	Number	Percent	Number	Percent	Amount	Percent
			(thousands)		(millions)	
Identified	9	64	614	96	$3,573.1	96
Not identified	5	36	24	4	137.4	4
Total	14	100	638	100	$3,710.5	100

The nine distressed plans identified by the MPPAA provisions had vested benefits charges that exceeded annual plan costs from 1 to 54 percent and an average of 18 percent. Conversely, the vested benefits charges of the five distressed plans not identified by the provisions averaged 21 percent less than annual plan costs and ranged from 3 to 38 percent less.

The following table shows the percentage that the vested benefits charges of the 14 distressed plans were more (in reorganization) or less (not in reorganization) than annual plan costs.

Percent MPPAA's Vested Benefits Charges for the 14 Plans We Identified as Financially Distressed Would Have Been More or Less Than Annual Plan Cost

Plan	Percent vested benefits charge	
	More than plan cost (in reorganization)	Less than plan cost (not in reorganization)
1	54	
2	38	
3	18	
4	17	
5	13	
6	11	
7	7	
8	5	
9	1	
10		3
11		12
12		18
13		36
14		38
Average	18	21

MOST DISTRESSED PLANS NOT IDENTIFIED COULD HAVE REDUCED CONTRIBUTIONS

Because 5 of the 14 distressed plans were not identified by the reorganization provisions, the regular funding provisions' contribution requirement applies. We found that employer contributions for four of the five exceeded those required to fund annual plan cost under the regular funding provisions.

These four plans, if funding surpluses were disregarded, could have reduced employer contributions from about 4 to 32 percent and still have met annual plan cost. The other plan would have had to increase contributions by about 9 percent to meet annual plan cost.

All five of the plans had funding surpluses which can be used to meet annual plan cost. These surpluses would have permitted the four plans that had contributions exceeding annual cost to reduce contributions below the level needed to meet annual cost. Further, the plan that had current contributions 9 percent less than annual cost had a funding surplus that exceeded the 9 percent.

REORGANIZATION PROVISIONS WOULD NOT HAVE REQUIRED MOST PLANS IDENTIFIED TO MAINTAIN EXISTING EMPLOYER CONTRIBUTIONS

We found that the provisions generally require higher contributions than the annual plan costs required to be funded under the regular funding provisions and that the increases can be substantial in some cases. However, five of the nine sample plans identified as distressed by the reorganization provisions would not have been required, under existing plan circumstances, to maintain existing contributions because actual contributions would have exceeded, usually by a large amount, the highest contribution that could be required by the provisions.

Reorganization provisions would have required higher contributions than regular funding provisions

Our analysis showed that the highest contribution that would have been required by the reorganization provisions was higher than the annual plan costs required to be funded under the regular funding provisions for eight of the nine plans identified as distressed. The reorganization provisions' requirement would have been higher for seven of the eight plans by an average of about 15 percent. The highest reorganization requirement for the other plan, which had extraordinary circumstances, would have exceeded its annual cost by 275 percent. This plan's highest contribution requirement was the result of a substantial cash flow requirement to meet benefit payments and administrative cost.

The highest reorganization contribution requirement for the ninth plan was 15 percent less than the annual plan cost because of a large overburden credit. The plan would have been considered overburdened under the provisions because it had more retired than working participants.

We also found that the initial reorganization contribution requirement, taking into consideration the increase limitation provisions (e.g., the 107-percent phase-in rule), would have been higher than the annual plan costs for six of the nine plans by an average of 13 percent. The initial reorganization requirement would have been the same as the annual costs for two of the other three plans and, because of an overburden credit, less for one plan.

The following table shows the extent that the initial and highest (ultimate) reorganization contribution requirement would have been more, the same, or less than the annual plan cost for

the nine plans identified as distressed by the reorganization provisions.

Percent Reorganization Provisions' Initial and Highest (Ultimate) Contribution Requirements Would Have Been More or Less Than Annual Plan Cost

Plan	Initial requirement	Highest requirement
	----------(percent)----------	
1	30	275[a]
2	6	38
3	15	18
4	5	17
5	12	13
6	11	11
7	-	7
8	(15)[b]	(15)[b]
9	-	1

[a]This plan's highest contribution requirement under the reorganization provisions is based on a cash flow amount that is substantially larger than the vested benefits charge.

[b]The reorganization provisions' contribution requirement was less than the annual plan cost because of a large overburden credit resulting from the plan having more retired than working participants.

Most plans' contributions would have already exceeded reorganization requirements

Five of the nine distressed plans identified by the reorganization provisions would not have been required to increase but could have reduced employer contributions by 8 to 34 percent and still met the provisions' highest requirement. The average reduction would have been about 21 percent. Because the $3.1 billion in unfunded vested benefits of the five plans could pose a significant risk to the insurance program if not paid, we believe that the distressed plans should be required to maintain (rather than allowed to reduce) contributions unless confronted by severe adverse circumstances.

The following table summarizes the extent that the five distressed plans could have reduced employer contributions and still have met the initial and highest reorganization requirements.

Extent That Five Distressed Plans Could Have Reduced Employer Contributions and Still Have Met the Initial and Highest Reorganization Requirements

Plan	Potential contribution decrease to meet	
	Initial requirement	Highest requirement
	(percent)	
2	43	26
4	22	13
5	9	8
8	34	34
9	23	23
Average	26	21

Existing contributions for the other four of the nine distressed plans identified would have had to be increased from 3 to 125 percent to meet the highest contribution requirement under the reorganization provisions. However, due to the single year increase limitation provisions, only two of the four plans would have had to initially increase contributions by about 8 percent. The other two plans would not have had to increase contributions initially because contributions already exceeded the minimum required under the limitation provisions. If plan circumstances stayed the same, however, the phase-in rule would have helped to ensure that all four plans increase their contributions until the highest requirement is met. If the highest requirement is too burdensome on employers contributing to a plan, IRS can waive all or part of the requirement.

The following table compares the extent that the four distressed plans would have had to increase or could have decreased employer contributions to meet the initial and highest reorganization requirements.

Extent That Four Distressed Plans Would Have Had to Increase or Decrease Employer Contributions to Meet the Initial and Highest Reorganization Requirements

Plan	Increase (decrease) needed to meet: Initial requirement	Highest requirement
	(percent)	
1	(22)	125[a]
3	8	10
6	8	8
7	(4)	3

[a]This plan's highest contribution requirement under the reorganization provisions is based on a cash flow amount that is substantially larger than the vested benefits charge.

A HIGHER VESTED BENEFITS CHARGE WOULD IDENTIFY MORE DISTRESSED PLANS AND REQUIRE THOSE IDENTIFIED TO INCREASE OR MAINTAIN A HIGHER LEVEL OF CONTRIBUTIONS

The complexity of measuring plan financial condition (see ch. 3) raises the question of whether procedures, such as provided by the reorganization provisions, can be perfected to identify all financially distressed plans and assure that they improve their financial condition without subjecting plans that are not distressed to the provisions. However, because the reorganization provisions did not provide a means to identify all of those sample plans which, in our opinion, were distressed or require most distressed plans identified to maintain existing employer contribution levels, we looked for a way to improve the provisions so as to achieve these objectives.

We found that increasing the charges for our sample plans by amortizing their unfunded vested benefits attributed to working participants over 15 rather than the 25 years now required would have

--identified 11 rather than 9 of the 14 plans we judged to be financially distressed and likely result in the other plans being identified sooner if their financial condition deteriorated further;

--required 7 of the 11 plans identified as distressed to increase existing contributions to meet the highest contribution requirement under the reorganization provisions; and

--required the other plans identified, but not required to increase contributions, to maintain a higher contribution level.

Further, increasing the vested benefits charge would have caused the provisions to identify a few sample plans that were financially weak but not distressed. However, none of the plans would have been required to increase contributions because their actual contributions exceeded the highest amount that would have been required under the reorganization provisions. In addition, a further increase in the vested benefits charge would have identified more plans that were not distressed and could have required unreasonable contribution levels for some distressed plans.[2]

A higher vested benefits charge would have identified more distressed plans

Under MPPAA, the vested benefits charge includes the amount needed to amortize a plan's unfunded vested benefits attributable to working participants over 25 years. We found that increasing the charge by substituting a 15-year amortization period would have identified 11 of the 14 sample plans we judged to be distressed rather than the 9 identified using MPPAA's 25-year period.

Although 3 of the 14 distressed plans would not have been identified by the higher vested benefits charge, they would likely be identified sooner if their financial condition deteriorated further. In this regard, the annual plan cost for one of the three plans would have exceeded the higher charge by only 1 percent. The percentage that the other two plans' annual plan costs would have exceeded the vested benefits charges was reduced from an average of 37 percent under the 25-year period to an average of 28 percent under the 15-year period.

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[2]We also tested the effects of reducing the period for amortizing working participants' unfunded benefits over 20 rather than 25 years. This test showed that a 5-year reduction in the period would have little effect on improving the effectiveness of the reorganization provisions.

The following table shows the percentage that the 14 distressed plans' vested benefits charges would have been more (in reorganization) or less (not in reorganization) than their annual plan costs using both the 15- and 25-year periods for amortizing working participants' unfunded vested benefits. In all cases, we continued to use MPPAA's 10-year period to amortize unfunded vested benefits attributed to retired participants (see pp. 30 and 31).

Extent Vested Benefits Charge Would Have Been More or Less Than Annual Plan Cost for 14 Plans We Identified as Distressed if Working Participants' Unfunded Benefits Were Amortized Over 15 Rather Than 25 Years[a]

Plan	Vested benefits charge more (less) than annual plan cost	
	10/25 year amortization	10/15 year amortization
	(percent)	
1	54	58
2	38	40
3	18	25
4	17	38
5	13	30
6	11	21
7	7	21
8	5	21
9	1	9
10	(3)	21
11	(12)	2
12[b]	(18)	(1)
13[b]	(36)	(27)
14[b]	(38)	(29)

[a]Plans with a vested benefits charge higher than their annual cost would be identified as financially distressed (in reorganization).

[b]These plans would not be identified as distressed by either of the sets of amortization periods.

A higher vested benefits charge would have required plans to maintain a higher level of contributions

The vested benefits charge is a key element in determining plan contribution requirements under the reorganization provisions. As previously pointed out, only four of the nine sample plans identified using the MPPAA provisions would have had to increase contributions to meet the highest reorganization requirement. We found, however, that amortizing working participants' unfunded vested benefits over 15 years would have required 7 of the 11 distressed sample plans identified to increase existing contributions to meet the highest amount required by the change. The increases would have ranged from 3 to 125 percent above their existing contributions and would have averaged about 13 percent if the plan with the extraordinary 125-percent increase was excluded. The plan with the 125-percent increase would have had the same increase, because of its vested benefits circumstances, whether the amortization period was 25 or 15 years.

As under the 10- and 25-year amortization periods, the provisions limiting single year contribution increases would have reduced the impact of increases required. Of the seven plans that could have ultimately been required to increase contributions under 10- and 15-year periods, only two would have had to initially increase contributions--one by 8 and the other by 17 percent. However, if the increases required would have been too burdensome on employers, an IRS waiver of part or all of the increases could be requested.

The following table compares the extent that the seven distressed plans would have had to increase or could have decreased employer contributions to meet the reorganization requirements based on a higher vested benefits charge.

Extent That Seven Distressed Plans Would Have Had to Increase or Decrease Employer Contributions to Meet the Reorganization Requirements Based on a Higher Vested Benefits Charge

Plan	Increase (decrease) needed to meet Initial requirement	Highest requirement
	(percent)	
1	(22)	125[a]
3	8	18
4	(22)	3
5	(9)	6
6	17	17
7	(4)	17
10	(4)	17

[a]This plan's highest contribution requirement under the reorganization provisions is based on a cash flow amount that is substantially larger than the vested benefits charge.

We also found that the 15-year amortization period would have required sample plans identified as distressed, but not required to increase contributions, to maintain a higher contribution level. For example, three distressed plans identified by both the 15- and 25-year periods would not have been required to increase contributions by either period. The average percentage by which they could have reduced contributions and still have met the highest amount required under the 25-year period was about 28 percent, whereas the average under the 15-year period was about 21 percent. Under the 15-year period, these three plans collectively would have been required to maintain a $17 million higher annual contribution level than under the 25-year period.

A higher vested benefits charge would have identified other plans as distressed that were not distressed

A higher vested benefits charge based on amortizing working participants' unfunded vested benefits over 15 rather than 25 years may identify financially nondistressed plans as being distressed. For example, it would have caused three sample plans that we believed were in adequate financial condition to be

identified as distressed. However, none of the three plans would have been required to increase its existing contributions because they already exceeded the highest amount that would have been required. Even if the provisions should call for such plans to increase contributions, they can seek an IRS waiver of the increases.

Although we did not classify the three plans as distressed, they had indications of financial weakness. One plan had assets sufficient to cover annual benefit payments for 3 years and had funded 20 percent of its vested benefits. Another plan's income was only 6 percent above its annual expenses, and its assets were declining at an average of 3 percent annually. The third plan had funded about 35 percent of its vested benefits and had 7 percent more working participants than retirees.

Further increasing the vested benefits charge would have identified more financially adequate plans as distressed and increased the contributions required of some of those identified to unreasonable levels. For example, we found that amortizing both retired and active plan participants' unfunded vested benefits over 10 rather than 10 and 15 years, respectively, would have identified, as a minimum, nine plans as distressed that we believe were not distressed.

Also, seven plans would have been identified as distressed and required to increase contributions by either amortization method. Based on the straight 10-year amortization, six of the seven plans would have had to increase contributions an average of 31 percent compared to 13 percent based on the 10- and 15-year amortization. One plan, previously discussed, was excluded because of its extraordinary circumstances. As a specific example, one plan would have been required to increase contributions by 17 percent under the 10- and 15-year amortization periods. Under straight 10-year amortization, however, the plan would have had to increase contributions by 46 percent.

CONCLUSIONS

MPPAA's reorganization provisions are intended to reduce the risk financially distressed plans pose to the PBGC insurance program and plan participants by improving their condition (generally by increasing employer contributions) without placing a substantial hardship on contributing employers.

The provisions established a special funding rate for paying participants' unfunded vested benefits that are generally guaranteed by the insurance program. If a plan's annual cost under the regular funding provision does not meet the special rate, the plan is identified as distressed. The special rate

can become the highest amount of annual employer contributions required by the reorganization provisions. However, the provisions limit annual increases and provide other ways, such as authority for IRS to waive increases, to help prevent placing too great a financial hardship on contributing employers.

The special annual unfunded benefit payment rate, called the vested benefits charge, is the sum of the amounts needed to pay (amortize) a plan's unfunded benefits attributable to retirees and other participants over 10 and 25 years, respectively.

The reorganization provisions would not have identified several of the sample plans we believe were distressed at the time of our review or precluded them from reducing existing contributions that exceeded annual plan cost under the regular funding provisions. The provisions would have generally required higher contribution levels than the annual plan cost determined under the regular funding requirements for most of the plans identified. However, most of these plans were already exceeding the required contribution levels. Distressed plans with contributions greater than required are not precluded from reducing contributions to the required levels.

Because of the potential impact on ERISA's insurance program, we question whether distressed plans should be allowed to substantially reduce contributions. Rather, we believe that distressed plans, as a minimum, should maintain contribution levels more in line with what they are already receiving unless this presents an undue financial hardship on employers.

Measuring plan financial health and determining contribution levels that employers can reasonably maintain are difficult. Therefore, we question whether MPPAA's existing reorganization provisions can be perfected to identify and require all distressed plans to maintain present contribution levels without adversely affecting some nondistressed plans or putting too great a burden on employers contributing to some distressed plans.

We found, however, that reducing the reorganization provisions' 25-year period for amortizing the unfunded benefits of working participants to 15 years would increase the special rate enough to (1) identify more distressed plans and (2) require more of them to either increase contributions or maintain current contribution levels.

We also found that increasing the special rate could result in some financially adequate but weak plans being identified as distressed and required to increase contributions. In this

regard, however, the few financially adequate sample plans identified were already meeting the highest contribution levels that could be required by the special funding rate. Further, our analysis showed that, whether or not the special rate is changed, the reorganization provisions' contribution increase relief provisions, such as IRS' authority to waive increases, should help prevent unduly burdensome increases on employers.

In summary, while it is too early to determine, using empirical evidence, the effectiveness of MPPAA's reorganization provisions, our analysis of sampled plan data shows that the provisions are not likely to identify some distressed plans or require most of them to take action other than what is already being done to improve their financial condition. Rather, most distressed plans will not be precluded from reducing existing levels of contributions. Because of the potential significant adverse impact distressed plans can have on the insurance program, the Congress may want to require distressed plans to take further action or maintain employer contributions closer to existing levels to help ensure that the plans' financial conditions are improved. We believe that changing the reorganization provisions to require that unfunded vested benefits for working participants be amortized over 15 years would help accomplish these objectives.

MATTER FOR CONSIDERATION BY THE CONGRESS

The Congress may want to amend ERISA and the Internal Revenue Code to require that the vested benefits charge under the reorganization provisions be calculated using a 15- rather than 25-year period for amortizing the unfunded vested benefits of plan participants that have not retired.

CHAPTER 5

AGENCY COMMENTS

Copies of this report were provided for review and comment to PBGC, IRS, and the Department of Labor--the three agencies primarily responsible for carrying out ERISA and MPPAA provisions.

By letter dated December 10, 1984 (see app. VII), PBGC stated that:

> "Effective minimum funding standards are indispensable if the insurance programs administered by the PBGC are to be financially viable. The GAO study serves a valuable purpose by identifying plans that pose potential risks to the multiemployer insurance program and analyzing the extent to which the current minimum funding standards require or fail to require sufficient future contributions to restore these plans to health. This analysis should be useful to Members of Congress who wish to ascertain whether the 1980 statute is accomplishing its purpose of averting the insolvency of weakly funded plans."

In a letter dated December 12, 1984 (see app. VIII), the Department of Labor advised us that it had no comment on the report at that time. In a letter dated December 14, 1984 (see app. IX), IRS stated that it did not have any specific comments on the recommendations contained in the report.

DESCRIPTION OF THE

FUNDING STANDARD ACCOUNT AND HOW IT WORKS

ERISA requires that multiemployer plans maintain a special account called the funding standard account to determine whether they are meeting the regular minimum funding provisions. The account helps accomplish this objective by providing a cumulative comparison of actual contributions to those required to pay for normal cost and the amortization of unfunded actuarial liabilities over certain periods. ERISA specifies the items to be charged and credited to the account and provides that regular funding provisions are met if actual contributions equal or exceed required contributions.

As shown in the example below, the funding standard account charges each plan year include any prior year's funding deficiency, the normal cost for that year, and an amount necessary to amortize the unfunded actuarial liability. The account credits include prior years' credit balances, employer contributions, and an amount to amortize certain decreases in the unfunded liability. The account also includes interest, as applicable, to the end of the year on both charges and credits.

Funding Standard Account

Charges		Credits	
(a) Prior year funding deficiency	$	(f) Prior year credit balance	$
(b) Normal cost		(g) Employer contributions	
(c) Amortization charges		(h) Amortization credits	
(d) Interest on items (a), (b), and (c)	______	(i) Interest on items (f), (g), and (h)	______
(e) Total charges	$ ______	(j) Total credits	$ ______
(m) Funding deficiency: if (e) is greater than (j)	$ ______	(k) Credit balance: if (j) is greater than (e)	$ ______

The funding regulations provide some funding flexibility by allowing contributions greater than required by the regular funding provisions. Excess contributions can be used to reduce the minimum contributions required in future years. For example, a plan with a credit balance (funding surplus) in its funding standard account could experience a decline in expected contributions during a year and not have a funding deficiency if the accumulated credit balance is sufficient to cover the decline.

Although there is generally no maximum limit on the amount that an employer may contribute to a pension plan over time, ERISA amended the Internal Revenue Code to provide that annual contributions that an employer can deduct for federal income tax purposes generally may not exceed the lesser of the amount required to (1) fund the plan's normal cost plus unfunded actuarial liabilities over 10 years or (2) bring the plan to the point where its assets equal or exceed its actuarial liability (fully funded). Any amounts contributed by an employer in excess of the amount deductible for a given year can usually be deducted in future tax years. On the other hand, if actual contributions do not meet contributions required by the funding provisions, the account will show a deficiency. Such a deficiency is subject to an excise tax of 5 percent, which escalates to 100 percent if not paid within 90 days after the Secretary of the Treasury mails the plan sponsors a notice of deficiency.

ILLUSTRATION OF FUNDING STANDARD ACCOUNT OPERATIONS

The following examples of pension plan activities illustrate the operation of a typical multiemployer plan's funding standard account for determining whether the plan is meeting regular funding provisions.

Year 1--Amortization of unfunded actuarial liability recognized at plan inception.

In January 1980, the ABC Union and employers of union members established a pension plan to provide retirement benefits for its members. Upon establishment, the plan has an unfunded actuarial liability of $1 million due to granting benefits to active employees for service before the effective date of the plan. Under ERISA, this unfunded liability (called the initial unfunded liability) has to be amortized over no more than 40 years. The normal cost for plan year 1980 is $70,000. The interest rate used for items in the funding standard account is 6 percent. At the beginning of the first year, the ABC Union

Plan receives employer contributions of $132,700. The plan's funding standard account for 1980 will be as follows:

Charges		Credits	
Prior year deficiency	$ -	Prior year credit balance	$ -
Normal cost (current service)	70,000	Contributions	132,700
Amortization of $1 million initial unfunded liability over 40 years at 6% interest	62,700	Interest	7,960
Interest	7,960		
Total charges	$140,660	Total credits	$140,660
Funding deficiency	$ -	Credit balance	$ -

Year 2--Amortization of changes in unfunded actuarial liability.

In January 1981, the ABC Union Plan amends the plan to improve benefits for past and future years of service. The amendments increase the plan's unfunded actuarial liability by $100,000. This increase, in accordance with MPPAA's shorter amortization periods, is to be amortized over 30 years starting with 1981. The plan's normal cost for benefits is now $75,500. Assume a decrease in the unfunded actuarial liability of $5,000 (an actuarial gain resulting from a higher investment return than expected when the 1980 plan estimates were prepared). Under MPPAA this decrease has to be amortized over 15 years. Also assume that the ABC Union Plan receives employer contributions of $166,000 in 1981. All amounts other than interest are charged and credited at the beginning of the year. The plan's funding standard account for 1981 will be as follows:

Charges		Credits	
Prior year deficiency	$ -	Prior year credit balance	$ -
Normal cost (current services)	75,500	Contributions	166,000
Amortization (initial unfunded liability)	62,700	Amortization of $5,000 actuarial gain over 15 years at 6% interest	490
Amortization of $100,000 increase in liability over 30 years at 6% interest	6,850	Interest	9,990
Interest	8,700		
Total charges	$153,750	Total credits	$176,480
Funding deficiency	$ -	Credit balance	$ 22,730

Year 3--Amortization of changes in unfunded actuarial liability and a decline in expected employer contributions.

In January 1982, the ABC Union Plan's normal cost is $76,200. There is an increase in unfunded actuarial liability of $10,000 (actuarial loss resulting from an investment loss), which is to be amortized over a 15-year period. Employer contributions in 1981 declined to $130,000 due to an employee strike. The plan's funding standard account for 1982 will be as follows:

Charges		Credits	
Prior year deficiency	$ -	Prior year credit balance	$ 22,730
Normal cost (current service)	76,200	Contributions	130,000
Amortization (initial unfunded liability)	62,700	Amortization (actuarial gain)	490
Amortization due to 1981 increase in liability	6,850	Interest	9,190
Amortization of $10,000 actuarial loss over 15 years at 6% interest	970		
Interest	8,800		
Total charges	$155,520	Total credits	$162,410
Funding deficiency	$ -	Credit balance	$ 6,890

The ABC Union Plan, as shown in the above examples, builds a credit balance in its funding standard account for plan year 1981 primarily because of higher actual contributions than required by the regular minimum funding provisions ($166,000 in actual contributions versus $153,750 total charges). This credit balance (funding surplus) was more than enough to avoid a funding deficiency in plan year 1982 even though contributions declined due to a strike. Thus, for each of its first 3 years of operation, the ABC Union Plan met or exceeded the funding requirement.

TABLES COMPARING, BY INDUSTRY AND PLAN PARTICIPANT SIZE, OUR MULTIEMPLOYER PLAN SAMPLE WITH TOTAL PLANS AND PLANS ADMINISTERED IN THE STUDY GEOGRAPHIC AREA COVERED BY THE SAMPLE

Table 1

Comparison by Plan Size of Our Multiemployer Pension Plan Sample to Total Plans and Plans Administered in the Study Geographic Area[a] Covered by the Sample with 100 or More Participants[b]

Plan size (based on number of participants)	Plans			Percent of sample plans to	
	Total	Study area	Sample	Total plans	Plans in study area
100 to 999[c]	1,048	665	41	3.9	6.2
1,000 to 9,999[c]	737	505	53	7.2	10.5
10,000 to 24,999	86	62	23	26.7	37.1
25,000 and over	53	44	32	60.4	72.7
Total	1,924	1,276	149	7.7	11.7

[a]The geographic area covered by the sample includes 14 states and the District of Columbia.

[b]Unless otherwise noted, information obtained from PBGC computer records of plans with 100 or more participants paying plan year 1979 insurance program premiums as of July 1981.

[c]One of the plans in this interval had not paid plan year 1979 premiums as of July 1981 but was included in IRS' records as filing a plan year 1979 ERISA annual report (Form 5500).

Table 2

Comparison by Plan Size of Participants Covered by Our Multiemployer Pension Plan Sample to Total Plans and Plans Administered in the Study Geographic Area[a] Covered by the Sample with 100 or More Participants[b]

Plan size (based on number of participants)	Participants in: Total plans	Participants in: Study area plans	Participants in: Sample plans	Ratio of sample participants to participants in: Total plans	Ratio of sample participants to participants in: Study area plans
	------(thousands)-----			---(percent)---	
100 to 999[c]	466	286	16	3.6	5.6
1,000 to 9,999[c]	2,249	1,590	196	8.7	12.3
10,000 to 24,999	1,331	991	387	29.1	39.1
25,000 and over	4,311	3,329	2,885	66.9	86.7
Total	8,337	6,196	3,484	41.8	56.2

[a]The geographic area covered by the sample includes 14 states and the District of Columbia.

[b]Unless otherwise noted, information obtained from PBGC computer records of plans with 100 or more participants paying plan year 1979 insurance program premiums as of July 1981.

[c]One of the plans in this interval had not paid plan year 1979 premiums as of July 1981 but was included in IRS' records as filing a plan year 1979 ERISA annual report (Form 5500).

Table 3

Industry Comparison of Our Multiemployer Pension Plan Sample to Total Plans and Plans Administered in the Study Geographic Area[a] Covered by the Sample with 100 or More Participants[b]

Industry	Plans: Total	Plans: Study area	Plans: Sample	Percent of sample plans to: Total plans	Percent of sample plans to: Plans in study area
Construction[c]	1,001	599	54	5.4	9.0
Manufacturing	267	209	41	15.3	19.6
Transportation, communication, and utilities	132	104	19	14.4	18.3
Wholesale and retail trades	270	199	18	6.7	9.0
Services	166	104	9	5.4	8.7
Other[d]	88	61	8	9.1	13.1
Total	1,924	1,276	149	7.7	11.7

[a]The geographic area covered by the sample includes 14 states and the District of Columbia.

[b]Unless otherwise noted, information obtained from PBGC computer records of plans with 100 or more participants paying plan year 1979 insurance program premiums as of July 1981.

[c]Two of the plans had not paid plan year 1979 premiums as of July 1981 but were included in IRS' records as filing a plan year 1979 ERISA annual report (Form 5500).

[d]Includes plans that could not be classified specifically and plans in the agriculture, fishing, and forestry; finance and insurance; and mining industries. Plans that could not be classified more specifically include those where (1) the employers contributing to the plan were not predominantly involved in one business activity or (2) adequate information was not available for determining specific industry classification.

Table 4

Industry Comparison of Participants Covered by Our Multi-employer Pension Plan Sample to Participants Covered by Total Plans and Plans Administered in the Study Geographic Area[a] Covered by the Sample with 100 or More Participants[b]

Industry	Participants in: Total plans	Participants in: Study area plans	Participants in: Sample plans	Ratio of sample participants to participants in: Total plans	Ratio of sample participants to participants in: Study area plans
	------(thousands)-----			---(percent)---	
Construction[c]	2,556	1,820	719	28.1	39.5
Manufacturing	1,674	1,539	1,137	67.9	73.9
Transportation, communication, and utilities	1,643	1,018	747	45.5	73.4
Wholesale and retail trades	1,309	923	269	20.6	29.1
Services	667	462	246	36.9	53.2
Other[d]	488	434	366	75.0	84.3
Total	8,337	6,196	3,484	41.8	56.2

[a]The geographic area covered by the sample includes 14 states and the District of Columbia.

[b]Unless otherwise noted, information obtained from PBGC computer records of plans with 100 or more participants paying plan year 1979 insurance program premiums as of July 1981.

[c]Two of the plans had not paid plan year 1979 premiums as of July 1981 but were included in IRS' records as filing a plan year 1979 ERISA annual report (Form 5500).

[d]Includes plans that could not be classified specifically and plans in the agriculture, fishing, and forestry; finance and insurance; and mining industries. Plans that could not be classified more specifically include those where (1) the employers contributing to the plan were not predominantly involved in one business activity or (2) adequate information was not available for determining specific industry classification.

FORMULA WE USED FOR APPLYING MPPAA'S REORGANIZATION PROVISIONS FOR IDENTIFYING FINANCIALLY DISTRESSED PLANS

The Multiemployer Pension Plan Amendments Act reorganization provisions became effective for all multiemployer plans by the first plan year beginning on or after September 26, 1983, depending on the collective bargaining cycle. The provisions include requirements for determining whether a plan is financially distressed. Each plan must apply the provisions annually after the reorganization provisions become effective. If application of the provisions shows a plan to be financially distressed (in reorganization), the plan becomes subject to special rules regarding funding and adjustments to accrued benefits.

A straightforward comparison of two basic elements determines whether a plan is in reorganization. A plan is in reorganization for any year that its vested benefits charge exceeds its net charge to the funding standard account. Determining the values of the two charges on a consistent and reasonable basis, however, is more complicated.

The vested benefits charge is the amount needed to amortize, in equal annual installments, the plan's unfunded vested benefits over a period of (1) 10 years for the portion attributable to persons receiving benefits and (2) 25 years for the portion attributable to other plan participants, such as those still working. The unfunded vested benefits are the value of plan participants' nonforfeitable benefits less the value of assets. The net charge to the funding standard account is the excess of funding standard account charges over credits, excluding any prior year funding deficiency or credit balance (funding surplus). In this report, the term "annual plan cost" means the same as net charge to the funding standard account. Appendix I provides a more detailed discussion of funding standard account charges, credits, surpluses, and deficiencies.

MPPAA requires the Secretary of the Treasury to prescribe regulations governing implementation of the reorganization provisions. Because the Secretary had not issued guidelines or regulations at the time of our review explaining how the distressed plan identification provisions should be applied, we (1) developed a draft formula based on MPPAA's provisions and

supporting legislative documents for applying the provisions,[1] (2) obtained an IRS official's comments on the draft formula, and (3) reviewed the results of plan actuaries' application of the provisions.

Based on these tests and our discussions with IRS, we refined the formula and data used in computing it to obtain more precise results and to achieve consistency among the various elements comprising the formula. IRS comments, the results of our comparisons, and data refinements are discussed later in this appendix.

We believe that, in the absence of implementing regulations, the following formula yields the most accurate results reasonably obtainable for evaluating MPPAA's distressed plan identification provisions using readily available plan data. It should be noted that the formula was developed in advance of IRS regulations for applying the provisions. Therefore, it should not be used to determine the legal reorganization status of a plan under MPPAA.

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[1]The types of data elements used in computing the formula were those required to be reported by plan actuaries on the Form 5500, Annual Return/Report of Employee Benefit Plan, including Schedule B. A copy of Schedule B is included in appendix VI.

Our Formula for Applying MPPAA's Financially Distressed Plan Identification Provisions

Step		Amount
1.	Present value of vested benefits of participants in pay status (retirees and beneficiaries) (line 6(d)(i), Schedule B).[a]	____
2.	Actuarial value of assets at beginning of the plan year (line 8(b), Schedule B).	____
3.	Excess of vested benefits in step 1 over assets in step 2 (enter amount only if greater than zero).	____
4.	Present value of vested benefits of participants not in pay status (other plan participants) (line 6(d)(ii), Schedule B).[a]	____
5.	Actuarial value of assets not used to offset vested benefits of participants in pay status (excess of step 2 over step 1, if any).	____
6.	Excess of vested benefits in step 4 over assets in step 5 (enter amount only if greater than zero).	____
7.	Vested Benefits Charge: 10-year annuity due payment for the step 3 amount, plus 25-year annuity due payment for step 6 amount (interest rate from line 12(c), col. B, Schedule B: ___%).	____
8.	Normal cost (line 9(b), Schedule B).[b]	____
9.	Amortization charges (line 9(c), Schedule B).[b]	____
10.	Interest charges (line 9(d), Schedule B).[b,c]	____
11.	Amortization credits (line 9(h), Schedule B).[b]	____
12.	Net Charge to the Funding Standard Account: Subtract product of step 11 amount times (1+(i/2)) from sum of steps 8, 9, and 10 amounts and divide the remainder by (1+i).[d,e]	____
13.	Reorganization Index: Step 7 amount less step 12 amount. (Plan is "in reorganization" if remainder is greater than zero.)[f]	____

[a]Amount adjusted, as necessary, to funding standard account interest rate basis.

[b]Schedule B amounts adjusted, as necessary, to remove effects of shortfall funding method.

[c]Schedule B amounts used as reported.

[d]Amortization credits adjusted to include one-half year's interest under the assumption that the credit was as of midyear.

[e]Division by (1+i) moves the value of "net charge to the funding standard account" to the beginning of the year.

[f]A refined calculation was made, as appropriate, for plans where step 13 showed the plan in or near reorganization.

IRS COMMENTS ON OUR REORGANIZATION COMPUTATION FORMULA

In April 1983, we asked IRS to comment on the draft formula we planned to use to evaluate the effectiveness of MPPAA's financially distressed plan identification provisions. In May 1983, the IRS Assistant Commissioner (Employee Plans and Exempt Organizations) commented that IRS realized the difficult task placed on us to identify plans in reorganization. He commented that the Schedule B (Form 5500) type information chosen by us to compute the formula is probably the best available data source and that our methodology is probably the best that could be devised at that time.

The Assistant Commissioner cautioned, however, that the conclusions drawn upon application of this methodology in any specific case may be inaccurate. He commented, however, that IRS did not have enough information to evaluate whether potential errors would significantly influence our study findings. In this regard, he pointed out that some data elements on the Schedule B may not represent data values (1) for the same year or at the same point in time within a year or (2) based on the same actuarial assumptions. He made some technical suggestions for helping to ensure the consistency and accuracy of our formula computation and emphasized that his comments were in advance of regulations and merely reflect tentative thinking.

We agree with IRS' comments on the need for data consistency. As reflected in the footnotes to the formula and discussions later in this appendix of adjustments made, we have made an effort, whenever feasible, to adjust the data for this purpose. Further, our final plan assessments were based on data generated from the plans' latest actuarial valuations available to us. The latest valuation year approach was used to help ensure that the most current and reliable data from the same year were used in computing the formula.

We also agree that our formula computation may not always have the same results as a plan actuary's application of provisions. We believe, however, that our formula's results, when applied to a large number of plans, are accurate enough in the aggregate to evaluate the overall effectiveness of the provisions in identifying financially distressed plans. In this regard, we were able to obtain details on the application of the provisions by actuaries of 14 of the 149 plans in our sample. These actuaries' calculations showed three plans to be "in reorganization" and 11 plans "not in reorganization." We compared our formula's calculation results for the 14 plans with the

actuaries' results. The comparison showed that, although the dollar values of the computations varied somewhat, the reorganization status under both the actuaries' and our calculations were the same.

ADJUSTMENTS MADE TO DATA ELEMENTS USED IN APPLYING THE FORMULA

Multiemployer plan Schedule B (Form 5500) line item amounts are often based on different interest rate assumptions and points in time. Because these differences can distort the results of applying the distressed plan identification provisions, our reorganization computation methodology calls for several adjustments to help assure consistent results. The following paragraphs provide more detail on the adjustments. The first four adjustments discussed were made, as necessary, in computing the formula for all plans covered by our review. The fifth adjustment was made, as appropriate, for those plans where the initial calculation showed the plan in or near reorganization.

1. Adjustments for interest rate differences (reference formula steps 1 and 4)

Where plans reported that different interest rates were used to value Schedule B vested benefits and funding standard account amounts, the vested benefit amounts were adjusted to put them on approximately the same interest rate as the funding standard account.

The factors used to make the adjustments are factors or derivatives of them used by PBGC to put plan vested benefit values on a comparable interest basis. Different factor values were used to adjust the vested liability amounts for retirees and other participants in each case where adjustments were necessary. For example, if a plan's vested benefit amounts were calculated using an 8-percent interest rate and its funding standard account amounts were calculated using a 7-percent interest rate, we increased the value of vested liability for retirees by 6.6 percent and other participants by 10.8 percent.

This adjustment technique and the factors used may not result in values of vested benefits as precise as actuarially determined amounts. However, we believe the adjustments reasonably approximate the effect of changing the interest rate.

2. Adjustments made when shortfall funding method used (reference formula step 12)[2]

The shortfall method is a funding method that adapts a plan's underlying funding method to account for plan contributions that vary because of differences between estimated and actual contribution units. Under this method, the charges to the funding standard account are adjusted by the total difference between actual and estimated contributions. When actual contributions are less than estimated for a year, the difference (shortfall loss) is deducted from funding standard account charges for the year. When actual contributions are more than estimated, the difference (shortfall gain) is added to the charges.

The recognition of the total shortfall gain or loss in a single year could put a plan in or keep it out of reorganization because of a temporary variance in contributions. Therefore, in those instances where a plan used the shortfall funding method in the year covered by the reorganization status computation, the charges to the funding standard account were adjusted to return them to the plan's underlying funding method amounts.

3. Computing interest on amortization credit amount (reference formula steps 8 through 11)

The interest credit amount included on line 9(i) of Schedule B was not used in calculating the formula because it included interest on amounts, such as the prior year funding standard account credit balance, which are not relevant to the calculation. Instead, a half year's interest was added to the amortization credit under the assumption that the credit was recognized at midyear. Although the midyear payment assumption introduced a small error for those plans making beginning- or end-of-year amortization payments, it simplified the initial reorganization index calculation.

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[2]Shortfall funding is a procedure plans can use whereby funding standard account charges reported on Schedule B are based on expected rather than actual contributions. Any difference represents a gain or loss which must be amortized in future years.

4. <u>Adjusting funding standard account amounts to beginning-of-year balance (reference formula step 12)</u>

The Schedule B vested benefit amounts are computed as of the beginning of the plan year, whereas the charges and credits to the funding standard account with interest are as of the end of the year. To place these latter amounts at the beginning of the year, they were discounted for a full year of interest. No provision was included to remove interest charges on prior year funding deficiencies because no plans covered by our review had reported such deficiencies.

5. <u>Refinement to initial reorganization index calculation (reference formula step 13)</u>

As noted above, we made certain general assumptions in initially calculating the formula for our review plans. These assumptions may not always represent individual plan circumstances. Therefore, to assure the most accurate calculation results with available information, we reviewed other plan information available to us, such as the plans' actuarial reports, for all plans shown to be in or near reorganization by the initial calculation to ensure that, to the best of our knowledge, the data we used represented plan circumstances.

Further, MPPAA's reorganization provisions allow the value of the vested benefits charge for a plan year to be determined using data from that year's actuarial valuation or data from one of several preceding years. If the charge is determined using data from a prior year valuation, the valuation data are to be adjusted for plan changes, such as amendments increasing vested benefits that may significantly affect the charge amount. The purpose of these "base plan year" provisions is to enable collective bargaining parties to determine plan reorganization status and funding requirements at the time a multiyear collective bargaining agreement is negotiated, rather than allow such a determination to disrupt the bargaining cycle.

Under the base plan year provision, a plan's reorganization index calculation can be based on adjusted data from years prior to the current plan year, depending on the collective bargaining cycle. As previously pointed out, we used data from the latest valuation year when we reviewed the plans to compute the reorganization index. Therefore, a plan's legal reorganization status may differ from our determination. We believe, however, that our use of the most current valuation year data provides the most reliable basis for evaluating the reorganization index provisions with readily available plan information.

EXPLANATION OF INDICATORS WE USED TO IDENTIFY PLANS NOT FINANCIALLY DISTRESSED AND THE RELATIVE RANKING OF THE SAMPLE PLANS FOR EACH INDICATOR

As discussed in chapter 3, we used a screening procedure consisting of four financial indicators with assigned minimum values to identify plans that were not financially distressed. We believe that the indicators when used together provide a reasonable indication of a plan's overall financial condition, but, as a general rule, no one indicator should be used to assess whether a plan is in good or bad financial condition. However, there are instances where a single indicator may show that a plan is in good financial condition. For example, a plan may be considered in good condition if its assets cover participants' vested benefits--100 percent funded.

The indicators used, reasons why we believe they are good measures of plan financial condition, minimum values used for each indicator, and the relative ranking of 144 of our 149 sample plans for each measure are discussed in the following sections. We excluded 5 of the 149 sample plans because they had purchased annuities to cover retirees' benefits, and their indicators could not be reliably computed.

ASSETS TO BENEFIT PAYMENTS

This indicator measures the extent that assets are available to continue making annual benefit payments at current levels if contributions were to cease or other contingencies arise. We used a minimum value of assets at least six times annual benefit payments for this measure in our screening procedure. To calculate the indicator, we used market value (current cash worth) of assets at the beginning of the latest actuarial valuation year and total annual benefit payments for that year.

Twenty-two of 144 sample plans (or about 15 percent) had assets less than six times annual benefit payments. However, about 41 percent of our sample plans had assets equal to or greater than 15 times annual benefit payments. This indicates a very strong asset reserve position for these plans. The following table shows the range of assets to benefit payments for the 144 sample plans.

Number of Times Assets Covered Benefit Payments[a]

Range	Number of plans	Percent of plans
Less than 3.00	3	2.1
3.00 to 5.99	19	13.2
6.00 to 9.99	25	17.4
10.00 to 14.99[b]	38	26.3
15.00 to 19.99	25	17.4
20.00 and over	34	23.6
Total	144	100.0

[a]Based on data from each plan's latest valuation.

[b]Median value is 12.73.

ASSETS TO VESTED BENEFITS

This indicator measures the extent to which assets cover participants' vested benefits (benefits to which an employee has a nonforfeitable right). This indicator shows a plan's attained funding level and, for a given plan at a given time, provides a reasonable measure of the potential risk to ERISA's insurance program which guarantees certain levels of participants' vested benefits. The higher this indicator, the lower any potential liability to ERISA's insurance program.

We used a minimum value of 50 percent of vested benefits covered by assets in our screening procedure for determining whether plans were in adequate financial condition. To calculate this indicator, we used vested benefits and actuarial value of plan assets based on interest rates used for minimum funding standard account transactions in each plan's latest valuation year.

Twenty-seven of 144 sample plans (or about 19 percent) had less than 50 percent of their vested benefits covered by assets. On the other hand, about 30 percent of the sample plans were over 100 percent funded. The following table shows, by selected percent ranges, the extent that plan assets of the 144 sample plans covered their vested benefits.

Percent That Assets
Covered Vested Benefits[a]

Percent	Number of plans	Percent of plans
Less than 25	5	3.4
25 to 49	22	15.3
50 to 74	43	29.9
75 to 99[b]	31	21.5
100 and over	43	29.9
Total	144	100.0

[a]Based on data from each plan's latest valuation.

[b]Median value is 77.

INCOME TO EXPENSES

This indicator measures a plan's annual cash flow. Plan asset growth is indicated when income exceeds expenses, and asset depletion is indicated when expenses exceed income. Income of 1.75 times expenses was the minimum value we used in our screening procedure. To calculate the indicator, we used annual income from contributions and investment earnings and benefits paid plus administrative expenses for each plan's latest valuation year.

Twenty-nine of 144 sample plans (or about 20 percent) were below the minimum value in their latest valuation year. However, the income of 43 plans was more than four times plan expenses, which indicates strong growth in assets. The income to expenses, by selected ranges, is shown for the 144 sample plans in the following table.

Number of Times Income Covered Expenses[a]

Range	Number of plans	Percent of plans
Less than 1.00	4	2.7
1.00 to 1.74	25	17.4
1.75 to 2.99[b]	51	35.4
3.00 to 3.99	21	14.6
4.00 to 5.99	25	17.4
6.00 and over	18	12.5
Total	144	100.0

[a]Based on data from each plan's latest valuation.

[b]Median value is 2.82.

WORKING TO OTHER PARTICIPANTS

This indicator measures a plan's ability to generate employer contributions sufficient to meet funding requirements. Most multiemployer plans rely upon contributions from or on behalf of the active (working) participants to fund not only their benefits, but also any retirees' unfunded benefits. A low value for this indicator is a sign that the plan may not have the ability to increase contributions, if necessary, to adequately fund the plan.

We used a minimum value of two working for every other participant in the screening procedure to identify plans with a working participant base that may be inadequate to support unfunded benefits for retirees.

Forty-three of 144 sample plans (or about 30 percent) had fewer than two working for every other participant in their latest valuation year. However, about 25 percent of our sample plans had five or more active participants for every other participant. The range of working to other plan participants for the 144 sample plans is summarized in the following table.

Number of Working to Other Participants[a]

Range	Number of plans	Percent of plans
Less than 1.00	10	6.9
1.00 to 1.99	33	22.9
2.00 to 2.99[b]	31	21.5
3.00 to 4.99	34	23.7
5.00 to 6.99	19	13.2
7.00 and over	17	11.8
Total	144	100.0

[a]Based on data from each plan's latest valuation.

[b]Median value is 2.89.

SELECTED FINANCIAL INDICATORS FOR 29 PLANS THAT OUR ACTUARIES ANALYZED IN DETAIL

Plan number	Assets/ benefit payments	Assets/ vested benefits	Income/ expenses	Working/ other partici- pants	Average annual[a] percent change in Assets	Actives
Plans judged financially distressed						
1	0.00	0.01	0.93	0.17	-9.4	-0.1
2	.81	.11	1.33	.00	b	b
3	1.20	.14	1.16	1.38	-2.9	-6.7
4	3.26	.31	.90	1.00	-6.0	-24.4
5	3.31	.28	.98	.66	-2.4	-9.9
6	3.93	.28	1.36	1.08	4.4	-4.0
7	4.35	.26	1.18	1.57	4.0	-2.5
8	2.25	.24	1.38	2.19	2.1	-2.1
9	4.04	.57	1.07	.75	-4.9	-10.4
10	5.03	.48	1.10	.69	-9.3	-11.1
11	5.69	.45	1.24	.69	2.4	-1.6
12	4.59	.38	1.52	1.38	1.4	-3.6
13	6.12	.64	1.25	.64	-5.0	-9.3
14	6.16	.43	1.32	1.05	6.7	-9.8
Plans judged not financially distressed						
15	3.01	.20	1.60	3.20	20.2	c
16	5.62	.53	1.06	2.09	-2.9	4.0
17	5.81	.35	1.56	1.07	-4.5	-2.3
18	5.81	.31	1.75	2.50	12.0	-4.5
19	4.14	.33	1.26	2.46	7.6	5.6
20	4.52	.47	1.35	1.79	4.2	-1.1
21	6.56	.39	1.47	1.75	16.4	-6.8
22	4.51	.32	1.75	2.11	10.1	-10.2
23	5.54	.52	1.85	.91	3.3	7.7
24	6.84	.62	1.66	1.69	11.6	-8.4
25	5.75	.45	1.64	3.38	6.8	2.6
26	5.59	.64	1.50	2.26	1.6	-2.5
27	7.89	.45	1.92	1.63	13.2	-2.8
28	7.46	.87	1.37	1.80	-3.3	2.4
29	10.15	1.02	1.69	1.99	5.4	-0.6

[a]Plan years 1976 through 1981, where available.

[b]Percent changes do not accurately measure plan conditions because of special plan circumstances.

[c]Inadequate plan information available to accurately measure this change.

SCHEDULE B (Form 5500)
Department of the Treasury
Internal Revenue Service
Department of Labor
Pension and Welfare Benefit Programs
Pension Benefit Guaranty Corporation

Actuarial Information

This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974, referred to as ERISA, and section 6059(a) of the Internal Revenue Code, referred to as the Code.

▶ **Attach to Forms 5500, 5500–C, 5500–K, or 5500–R if applicable.**

OMB No. 1210-0016

1981

This Form Is Open to Public Inspection

For calendar year 1981 or fiscal plan year beginning ____, 1981, and ending ____, 19 ___

▶ **Please complete every item on this form. If an item does not apply, enter "N/A."**
▶ **Round off amounts to nearest dollar.**

Name of plan sponsor as shown on line 1(a) of Form 5500, 5500–C, 5500–K, or 5500–R | **Employer identification number**

Name of plan | Enter three digit plan number ▶ | **Yes** | **No**

1 Has a waiver of a funding deficiency for this plan year been approved by the IRS? . . . . .
If "Yes," attach a copy of the IRS approval letter.
2 Is a waived funding deficiency of a prior plan year being amortized in this plan year? . . . . .
3 Have any of the periods of amortization for charges described in Code section 412(b)(2)(B) been extended by IRS? . . . . .
If "YES," attach a copy of the IRS approval letter.
4 (a) Was the shortfall funding method the basis for this plan year's funding standard account computations? . . .
(b) Is this plan a multiemployer plan which is for this plan year in reorganization as described in Code section 418 or ERISA section 4241? . . . . .
If "Yes," you are required to attach the information described in the instructions.
5 Has a change in funding method for this plan year been made? . . . . .
If "Yes," attach a copy of the information required to show IRS approval.
6 Operational information:
(a) Enter most recent actuarial valuation date ▶
(b) Enter date(s) and amount of contributions received this plan year for prior plan years and not previously reported:
Date(s) ▶ ____, Amount ▶
(c) Current value of the assets accumulated in the plan as of the beginning of the plan year . . . . .
(d) Present value of vested benefits as of the beginning of plan year:
(i) For retired participants and beneficiaries receiving payments . . . . .
(ii) For other participants . . . . .
(iii) Total . . . . .
(e) Present value of nonvested accrued benefits as of the beginning of the plan year . . . . .
(f) Number of persons covered (included in the most recent actuarial valuation):
(i) Active participants . . . . .
(ii) Terminated participants with vested benefits . . . . .
(iii) Retired participants and beneficiaries of deceased participants . . . . .

7 Contributions made to the plan for the plan year by employer(s) and employees:

(a) Month	Year	(b) Amount paid by employer	(c) Amount paid by employees	(a) Month	Year	(b) Amount paid by employer	(c) Amount paid by employees
				Total . . .			

Statement by Enrolled Actuary (see instructions before signing):

To the best of my knowledge, the information supplied in this schedule and on the accompanying statement, if any, is complete and accurate, and in my opinion the assumptions used in the aggregate (a) are reasonably related to the experience of the plan and to reasonable expectations, and (b) represent my best estimate of anticipated experience under the plan.

Signature of actuary — Date

Print or type name of actuary — Enrollment number

Address — Telephone number (including area code)

For Paperwork Reduction Act Notice, see the instructions for Form 5500

Schedule B (Form 5500) 1981 Page 2

8 Funding standard account and other information:

(a) Accrued liabilities as determined for funding standard account as of (enter date) ▶ ....

(b) Value of assets as determined for funding standard account as of (enter date) ▶ ....

(c) *(i)* Actuarial gains or (losses) for period ending ▶ ....

(ii) Shortfall gains or (losses) for period ending ▶ ....

(d) Amount of contribution certified by the actuary as necessary to reduce the funding deficiency to zero, from 9(m) or 10(g) (or the attachment for 4(b) if required) . . . . .

9 Funding standard account statement for this plan year ending ▶ ....

Charges to funding standard account:

(a) Prior year funding deficiency, if any . . . . .

(b) Employer's normal cost for plan year as of mo. .... day .... yr. ....

(c) Amortization charges (outstanding balance as of mo. .... day .... yr. .... ▶ $..........) .

(d) Interest as applicable to end of plan year on (a), (b) and (c) . . . . .

(e) Total charge (add (a) through (d)) . . . . .

Credits to funding standard account:

(f) Prior year credit balance, if any . . . . .

(g) *(i)* Employer contributions (total from column (b) of item 7) . . . . .

(ii) Employer contributions received this plan year for prior plan years and not previously reported . .

(h) Amortization credits (outstanding balance as of mo. .... day .... yr. .... ▶ $..........) .

(i) Interest as applicable to end of plan year on (f), (g) and (h) . . . . .

(j) Other (specify) ▶ ....

(k) Total credits (add (f) through (j)) . . . . .

Balance:

(l) Credit balance: if (k) is greater than (e), enter difference . . . . .

(m) Funding deficiency: if (e) is greater than (k), enter difference . . . . .

10 Alternative minimum funding standard account (omit if not used):

(a) Was the entry age normal cost method used to determine entries in item 9 above? . . . . . ☐ Yes ☐ No

If "No," do not complete (b) through (g).

(b) Normal cost . . . . .

(c) Excess, if any, of value of accrued benefits over market value of assets . . . . .

(d) Interest on (b) and (c) . . . . .

(e) Employer contributions (total from column (b) of item 7) . . . . .

(f) Interest on (e) . . . . .

(g) Funding deficiency: if the sum of (b) through (d) is greater than the sum of (e) and (f), enter difference .

11 Actuarial cost method used as the basis for this plan year's funding standard account computation:

(a) ☐ Attained age normal **(b)** ☐ Entry age normal **(c)** ☐ Accrued benefit (unit credit)

(d) ☐ Aggregate **(e)** ☐ Frozen initial liability **(f)** ☐ Individual level premium

(g) ☐ Other (specify) ▶

12 Checklist of certain actuarial assumptions:	**A** Used for item 6(d) and (e)—value of accrued benefits				**B** Used for item 8, 9 or 10—funding standard account			
	Pre-retirement		Post-retirement		Pre-retirement		Post-retirement	
(a) Rates specified in insurance or annuity contracts .	☐ Yes	☐ No	☐ Yes	☐ No	☐ Yes	☐ No	☐ Yes	☐ No
(b) Mortality table code:								
(i) Males								
(ii) Females								
(c) Interest rate	%		%		%		%	
(d) Retirement age								
(e) Expense loading	%		%		%		%	
(f) Annual withdrawal rate:	*Male*	*Female*			*Male*	*Female*		
(i) Age 25	%	%			%	%		
(ii) Age 40	%	%			%	%		
(iii) Age 55	%	%			%	%		
(g) Ratio of salary at normal retirement to salary at:								
(i) Age 25					%	%		
(ii) Age 40					%	%		
(iii) Age 55					%	%		

(h) Is a statement of actuarial assumptions, actuarial funding method, etc., attached? . . . . . ☐ Yes ☐ No

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Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006

DEC 10 1984

Richard L. Fogel, Director
Human Resources Division
General Accounting Office
Washington, D.C. 20548

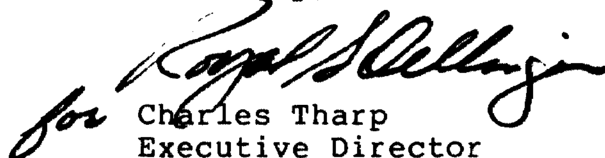
Dear Mr. Fogel:

Thank you for the opportunity to review a draft copy of GAO's report to Congress entitled "The 1980 Multiemployer Pension Plan Amendments Act: An Assessment of Effects of Plan Funding Requirement Changes."

Effective minimum funding standards are indispensable if the insurance programs administered by the PBGC are to be financially viable. The GAO study serves a valuable purpose by identifying plans that pose potential risks to the multi-employer insurance program and analyzing the extent to which the current minimum funding standards require or fail to require sufficient future contributions to restore these plans to health. This analysis should be useful to Members of Congress who wish to ascertain whether the 1980 statute is accomplishing its purpose of averting the insolvency of weakly funded plans.

If you have any questions concerning our comments, please call or write Thomas Veal, Director, Corporate Policy and Regulations Department (611), (202) 254-4833.

Sincerely,



for Charles Tharp
Executive Director

U.S. Department of Labor

Office of Pension and Welfare Benefit Programs
Washington, D.C. 20210

DEC 12 1984

Mr. Richard L. Fogel
Director
Human Resources Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Fogel:

As requested in your letter to Under Secretary Ford dated November 4, 1984, the Department has reviewed the draft report to Congress entitled, "The 1980 Multiemployer Pension Plan Amendments Act: An Assessment of Effects of Plan Funding Requirement Changes." The Department appreciates the opportunity to review this report. However, we have no comments at this time.

Sincerely,

Robert A.G. Monks
Administrator

COMMISSIONER OF INTERNAL REVENUE
Washington, DC 20224

DEC 14 1984

Mr. William J. Anderson
Director, General Government Division
United States General Accounting Office
Washington, DC 20548

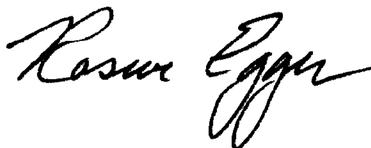
Dear Mr. Anderson:

I appreciate the opportunity to review your draft report entitled "The 1980 Multiemployer Pension Plan Amendments Act: An Assessment of Effects of Plan Funding Requirement Changes". The Internal Revenue Service does not have any specific comments on the recommendation contained in your report.

Thank you for giving us the opportunity to comment on your draft report.

With kind regards,

Sincerely,



Department of the Treasury Internal Revenue Service

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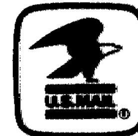

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