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Highlights

Highlights of GAO-11-79, a report to the Chairman, Committee on Education and Labor, House of Representatives

October 2010

PRIVATE PENSIONS

Changes Needed to Better Protect Multiemployer Pension Benefits

Why GAO Did This Study

Thirty years ago Congress enacted protections to ensure that participants in multiemployer pension plans received their promised benefits. These defined benefit plans are created by collective bargaining agreements covering more than one employer. Today, these plans provide pension coverage to over 10.4 million participants in approximately 1,500 multiemployer plans insured by the Pension Benefit Guaranty Corporation (PBGC).

In this report, GAO examines (1) the current status of nation's multiemployer plans; (2) steps PBGC takes to monitor the health of these plans; (3) the structure of multiemployer plans in other countries; and (4) statutory and regulatory changes that could help plans provide participants with the benefits they are due. To address these questions, GAO analyzed government and industry data and interviewed government officials, pension experts and plan practitioners in the United States, the Netherlands, Denmark, United Kingdom, and Canada.

What GAO Recommends

GAO is asking Congress to consider ways to eliminate duplicative reporting requirements and establish a shared database. GAO is also recommending that PBGC, IRS, and Labor work together to improve data collection and monitoring efforts. In commenting on a draft of this report, the agencies generally agreed to improve their coordination efforts.

View GAO-11-79 or key components.
For more information, contact Barbara D. Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

What GAO Found

Most multiemployer plans report large funding shortfalls and face an uncertain future. U.S. multiemployer plans have not been fully funded in aggregate since 2000 and the recent economic recession had a severely negative impact on the funded status of multiemployer plans. Annual data from the Internal Revenue Service (IRS) show that the proportion of multiemployer plans less than 80 percent funded rose from 23 percent of plans in 2008 to 68 percent of plans in 2009. While some plans may be able to improve their funded status as the economy improves, many plans will continue to face demographic challenges that threaten their long-term financial outlook—including an aging workforce and few opportunities to attract new employers and workers into plans.

PBGC monitors the health of multiemployer plans, but can provide little assistance to troubled plans until they become insolvent, at which point PBGC provides loans to allow insolvent plans to continue paying participant benefits at the guaranteed level (currently $12,870 per year for 30 years of employment). PBGC receives more current information on plan status, but uses older plan data to determine which plans are at the greatest risk of insolvency, because these data are audited, comprehensive, and PBGC's monitoring system was designed for them.

The private pension systems in the countries GAO studied face short-term and long-term challenges similar to those that U.S. multiemployer plans currently face, including plan funding deficiencies and an aging workforce. The plans in these countries are subject to a range of funding, reporting, and regulatory requirements that require plans to interact frequently with pension regulators. Multiemployer plans in these countries have a number of tools available to improve and maintain their funded status, such as increasing contributions and reducing the rate of benefit accruals.

The statutory and regulatory framework for multiemployer plans is not structured to assist plans on an ongoing basis and promotes little interaction among the federal agencies responsible for monitoring and assisting plans and safeguarding participant benefits. The lack of timely and accurate information and interagency collaboration hampers efforts to monitor and assist plans, and to enforce plan requirements. The recent economic downturn revealed that these plans, like most pension plans, are vulnerable to rapid changes in their funded status. Plans in the worst condition may find that the options of increasing employer contributions or reducing benefits are insufficient to address their underfunding and demographic challenges. For these plans, the effects of the economic downturn, declines in collective bargaining, the withdrawal of contributing employers, and an aging workforce will likely increase their risk of insolvency. Without additional options to address plan underfunding or to attract new employers to contribute to plans, plans may be more likely to require financial assistance from PBGC. Additional claims would further strain PBGC's insurance program that, already in deficit, it can ill afford.