Multiemployer Pension Plan Overview

What is a Multiemployer Pension Plan (" MEPP")?

They are collectively bargained, jointly administered pension plans, generally organized by industry and/or geographic region. They usually have many contributing employers and sometimes even several hundred or more. They have been in existence since the 1950' s and there are currently about 1,400 of them covering 10 million workers.

How does a MEPP work?

An employer and a union negotiate the amount of the contributions to be made for each covered employee to the MEPP. The MEPP takes these contributions from all the contributing employers and pools the money in a trust. The amount of a benefit that each employee earns is based on the amount of contributions his or her employer makes. The MEPP is run by a board of trustees made up of an equal number of union representatives and employer representatives.

How is a MEPP different from a single employer pension plan?

A MEPP has many contributing employers and a single employer pension plan has just one. The funding requirements differ as well – MEPPs are funded by the contributions set in collective bargaining and single employer plans are funded according to Internal Revenue Code requirements that seek to have the plan fully funded over a reasonable time frame. Importantly, if a contributing employer leaves the MEPP and goes bankrupt, the remaining employers share the liability for that employer's employees in the MEPP.

What laws govern MEPPs?

MEPPs are subject to the Employee Retirement Income Security Act of 1974. Additionally, the Multiemployer Pension Plan Amendments Act of 1980 dictates how an employer' s withdrawal liability is calculated if they leave a MEPP that is not fully funded. The 2006 Pension Protection Act put into place requirements for plans in endangered or critical status to meet to help them retain fiscal health. Finally, the Multiemployer Pension Reform Act of 2014 created a framework for plans headed to imminent insolvency to reduce accrued benefits to maintain financial health.

Why are some MEPPs in financial trouble today?

The number of union employees in the trucking industry has decreased since deregulation of the trucking industry in 1980 (60% of truckers were unionized in the 1970's and only 12% were in 2006). During this time, the number of retirees increased so many plans had more in outgoing payments than they do in contributions. Plans began selling assets to pay benefits and could not weather poor economic conditions like 2008-2009.

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The Central States Pension Fund's
Economic Impact on Michigan

NOTE: Not included in these figures below are 17,798 active participants who reside in other states but whose employers have offices or operations in Michigan

43,653

CENTRAL STATES FUND PARTICIPANTS IN THE STATE

Retired (22,944), active (6,571), and inactive (14,138) pension plan participants in the State of Michigan

These participants rely on the strength of their multiemployer pension plan for their future retirement security.

263

CENTRAL STATES EMPLOYERS WITH EMPLOYEES IN THE STATE

Number of companies who employ participants residing in Michigan

These employers provide the jobs that are the lifeline of local economies. Bipartisan pension legislation would provide relief to these employers from increasing liabilities that are putting jobs at risk.

$74,216,981

CONTRIBUTIONS MADE ON FUND PARTICIPANTS IN THE STATE

Plan contributions made by Michigan employers in 2017

These contributions help ensure that Central States participants, including Michigan constituents, will have adequate income in retirement.

$321,936,912

ANNUAL BENEFITS PAID

Total annual payments to pension beneficiaries in Michigan

Research shows that retirement benefits strengthen local businesses and economies by encouraging economic activity, leading to higher incomes for workers and more jobs created by local employers.

$27,239,004

ANNUAL IN-STATE TAXES PAID

Total annual federal tax payments made by retirees on their benefits

On average, each retiree pays $1,187 in federal tax revenue every year on their benefits.

$4,796,990,298

PENSIONS AT RISK

Current pensions at risk in Michigan

The loss of this retirement income to Michigan constituents may result in reduced economic activity, weakened local businesses, lower incomes for workers and fewer jobs.

Top Employers with Participants Residing in the State: USF HOLLAND INC SPARTANSTORES DISTRIBUTION LLC JACK COOPER TRANSPORT CO INC CASSENS TRANSPORT CO MARATHON PETROLEUM CO LP BIMBO BAKERIES USA INC YRC INC U S FOODS INC CROSS & PETERS CO ABF FREIGHT SYSTEM INC

Top Employers With All Active Participants Residing out of State: KELLOGG SALES CO ARAMARK REFRESHMENT SVCS LLC LAFARGE NORTH AMERICA INC RIETH RILEY CONST CO INC MICHIGAN MILK PRODUCERS ASSN

For additional information contact:
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The Crisis Facing Multiemployer Pension Plans

With a Macroeconomic Analysis of a Collapse of Central States Pension Fund

By Alex Brill

August 2018

Executive Summary

Millions of American workers' retirements are at risk as their defined benefit plans head toward insolvency and the government agency meant to insure them is on the verge of bankruptcy. These workers participate in multiemployer pension plans, which were created to make sure people in industries with frequent job changes (like construction, manufacturing, and transportation) could benefit from pensions. But after a few decades of growth and promise, a number of multiemployer pension plans are in crisis.

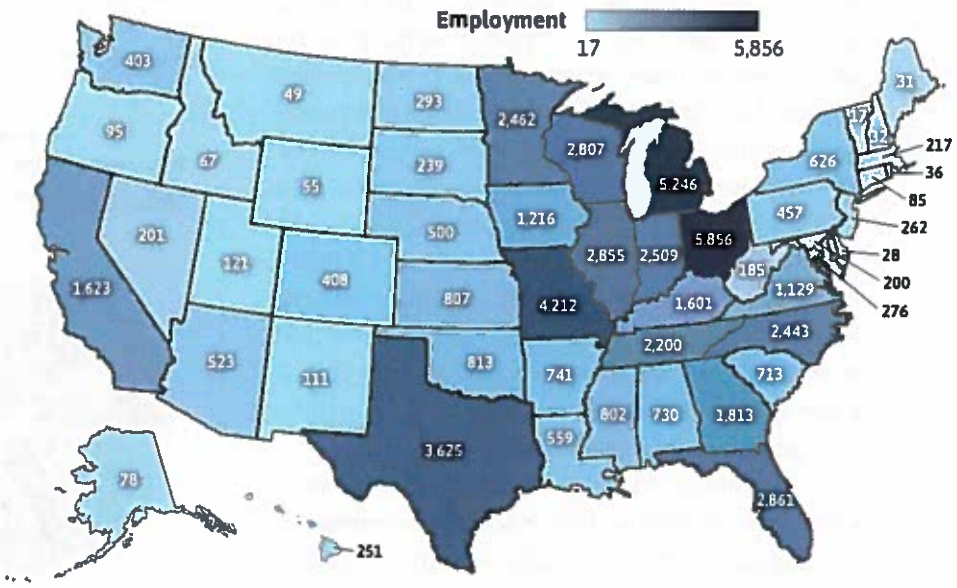
Six million retirees and four million workers in the U.S. rely on this type of plan. Even after legislative fixes to improve plans' financial status in 2006 and 2014, one-third of the 10 million participants are in plans that are headed toward either a funding deficiency or insolvency. More than 1 million people are in plans projected to be insolvent within 20 years. Not only that, but the arm of the Pension Benefit Guaranty Corporation, the federal backstop for these plans, will itself be insolvent in less than a decade.

This paper estimates the impact of the failure of the largest of the troubled plans – Central States Pension Fund – in 2025, the year it is expected to become insolvent. Central States is the fourth largest multiemployer plan by number of participants and the largest by benefit payments.

The loss of projected pension benefits to Central States pensioners would lead to the loss of more than 55,000 jobs across the United States in 2025. Labor income would drop by nearly $3 billion, and GDP by more than $5 billion. State and local tax revenue would decline by nearly $450 million, and federal revenue by $1.2 billion.

The accompanying map shows that the impact, while diffuse, is concentrated in the Midwest. Ohio, Michigan, and Missouri would be hardest hit, each facing job losses of more than 4,000. Eleven other states – Wisconsin, Illinois, Texas, Indiana, Minnesota, Florida, Tennessee, North Carolina, Georgia, Kentucky, and Iowa – would each lose more than 1,000 jobs.

Employment Loss from Collapse of Central States Pension Fund, 2025



MATRIX GLOBAL ADVISORS

Introduction

Six million U.S. retirees and four million U.S. workers rely on multiemployer pension plans, and these plans currently face a mounting crisis. One-third of the 10 million participants are in plans with critical funding status, with more than 1 million of these participants in plans that are projected to be insolvent within 20 years. The risks facing this type of pension plan are even greater than these facts imply. The arm of the Pension Benefit Guaranty Corporation (PBGC), the federal agency charged with backstopping these plans, is itself projected to be insolvent in less than a decade.

Policymakers contemplating reform proposals need a comprehensive understanding of the potential consequences of the multiemployer pension plan crisis. This paper provides an overview of the challenges these plans face and presents the results of a macroeconomic model estimating the economic impact of a collapse of Central States Pension Fund, one of the largest multiemployer pension plans and one that is expected to become insolvent in 2025.

Overview of Multiemployer Pension Plans

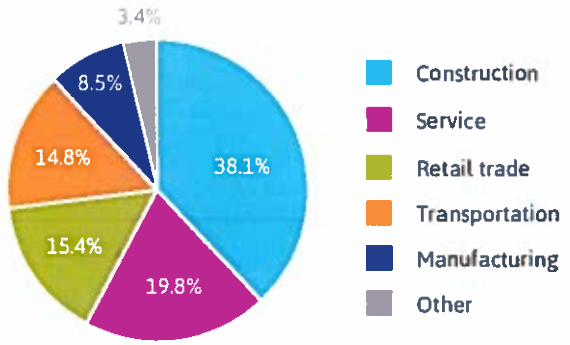
Multiemployer pension plans were formalized by the Labor-Management Relations Act of 1947 (commonly known as the Taft-Hartley Act). These plans cover employees of two or more companies as part of a collective bargaining agreement. The contributions and terms for each plan are negotiated by a labor union, or group of labor unions, typically working in the same or similar trades or industries, and the plans are governed by a Board of Trustees made up of an equal representation of employer and union representatives. The Employee Retirement Income Security Act of 1974 (ERISA) included multiemployer pension plans in the pension insurance program (the PBGC) that it established to backstop defined benefit (DB) plans, and the Multiemployer Pension Plan Amendments Act of 1980 further protected multiemployer pension plan participants by requiring employers who exit a plan to cover their portion of unfunded liabilities.

In 2014, nearly 69 percent of multiemployer pension plans were structured as DB plans, with multiemployer DB plan participants accounting for nearly one-quarter (23 percent) of all private-sector DB plan participants (Topoleski 2018a). For the sake of simplicity, multiemployer pension plans in this paper refer to DB plans.

The primary benefit to employees of multiemployer plans over single-employer plans is that participants can switch between employers within the same plan without losing credit for years of service. This is important in industries where workers may change employment frequently, including construction, retail, manufacturing, mining, transportation, health care, print media, and entertainment. Of current multiemployer pension plan participants, the largest share (38.1 percent) are in the construction industry, followed by service industries, retail, transportation, and manufacturing (see Figure 1).

FIGURE 1.

Multiemployer Pension Plan Participants by Industry (2015)



Source: Alicia H. Munnell, Jean-Pierre Aubry, and Caroline V. Crawford, *Multiemployer Pension Plans: Current Status and Future Trends*, Center for Retirement Research at Boston College, December 2017.

After the enactment of the Taft-Hartley Act, multiemployer pension plans experienced substantial growth. In 1950, 1 million people were covered by these plans; by 1959, that number had risen to 3.3 million workers. Participants totaled 7.5 million in 1973, rising to 10.4 million in 1989 (Weinstein and Wiatrowski 1999). In the ensuing years, as unionization rates dropped, key industries shrank, and retirement benefits trended toward defined contribution plans, the number of multiemployer pension plan participants plateaued and the number of plans declined significantly. As might be expected, as the number of participants remained relatively constant, the ratio of active-to-inactive participants shifted dramatically in the last few decades as workers retired. Between 1975 and 2014, inactive participants went from 17 percent of total participants to 61 percent (Munnell et al. 2017).

Multiemployer pension plan participants tend to concentrate in large plans. Of the roughly 1,400 multiemployer pension plans today, the vast majority (79.3 percent) of plan participants are covered by a large plan, defined as comprising 10,000 participants or more; 18.4 percent of plans have 1,000–9,999 participants, and just 2.3 percent have fewer than 1,000 participants (Munnell et al. 2017). The 20 biggest plans by number of participants each have more than 90,000 participants. The four largest of these are the Western Conference of Teamsters (with 585,000 participants); National Electrical Benefit Fund (523,000 participants); National Retirement Fund Plan (407,000 participants); and Central States (397,000 participants) (Topoleski 2018b). Collectively, these four plans cover nearly 20 percent of all multiemployer pension plan participants.

Funding Status of Multiemployer Pension Plans and the PBGC

For many years, multiemployer pension plans thrived financially, but in the last two decades, a substantial number of plans have begun to struggle. One of the ways to evaluate plans' financial health is by funding level (assets as a share of accrued benefit liabilities). The following information on plan funding status is based on 2015 data (latest available), as publicly reported by each multiemployer plan. See Figure 2 for a summary of these data.

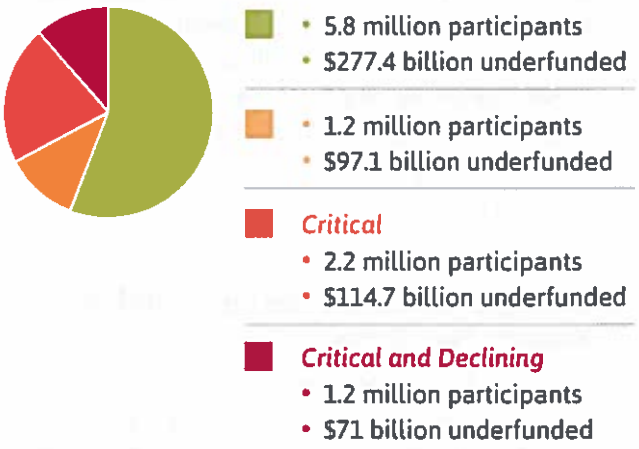
The majority (63.7 percent) of plans continue to be in what is called the green zone – that is, they have adequate and stable funding. These plans cover a majority (55.9 percent) of participants. But plans covering one-third of all participants are in the red zone, which means they have critical funding status (Topoleski 2018b). Critical status means that a plan is headed toward either a funding deficiency or insolvency.

Of the 298 plans in critical status, 83 plans (covering more than 1.1 million participants) are defined as critical and declining, meaning that they are projected to be insolvent within 20 years. Critical and declining plans have unfunded liabilities of $71 billion, while critical plans have unfunded liabilities of $114.7 billion, for a total of $185.7 billion (Topoleski 2018b).

Plans on firmer footing also have unfunded liabilities, but their condition is less dire. Plans in the yellow zone are designated endangered (having less than 80 percent funding or projected to have a funding deficiency within 7 years) or severely endangered (having less than 80 percent funding and projected to have a funding deficiency within 7 years). These plans have unfunded liabilities of $97.1 billion. Even plans in the green zone have unfunded liabilities of $277.4 billion.

FIGURE 2.

Multiemployer Pension Plan Zones, Weighted by Participants



Source: John J. Topoleski, "Data on Multiemployer Defined Benefit (DB) Pension Plans," Congressional Research Service Report R45187, May 1, 2018.

Further exacerbating the multiemployer pension plan crisis is the fact that the multiemployer program of the PBGC is itself projected to become insolvent in 2025, according to the Congressional Budget Office (CBO). The PBGC multiemployer program is funded by premiums paid by multiemployer pension plans. The program is currently underfunded – with only roughly $2 billion in assets – and anticipated claims are likely to far outweigh expected premiums (Kiska et al. 2017). The PBGC itself projects a "very high likelihood of insolvency during FY 2025 and near certainty of insolvency by the end of FY 2026" (2017).

Causes of Multiemployer Pension Plan Crisis

There are multiple factors contributing to the travails of multiemployer pension plans. During past economic booms, some plans became overfunded. Regulatory policies coupled with the collective bargaining process led these overfunded plans to react by increasing future benefits rather than adequately anticipating the possibility that the market can correct. For example, when the dot com bubble burst in the early 2000s, many plans took a huge hit, only to have their recovery interrupted by the market decline during the Great Recession in 2007–08.

In addition, many employers have exited multiemployer plans, leaving behind what are known as orphan participants. The exiting employers are assessed a withdrawal liability based on their share of the plan's net liabilities, but numerous exceptions, including insolvency, permit employers to contribute less than their full withdrawal liability. In such cases, an employer exit leaves the remaining employers open to financial liability for these orphan participants (American Academy of Actuaries 2017).

Attempts to Resolve the Multiemployer Pension Plan Crisis

Congress has made several attempts to stave off insolvency for multiemployer pension plans, most notably with the Pension Protection Act of 2006 (PPA) and the Kline-Miller Multiemployer Pension Reform Act of 2014 (MPRA).

Pension Protection Act of 2006

Under the PPA, companies with underfunded pension plans are required to pay higher premiums to the PBGC. The law also says that even companies that terminate their pension plans are required to pay higher premiums. However, if a plan's administrator certifies that the higher contributions would place undue hardship on employers and their employees, companies are exempt from making the minimum required contributions. Because of this exemption, some employers made contributions too low to pay benefits as they became due to plan participants (Kiska et al. 2017).

The PPA took important steps in helping ensure the longevity of multiemployer pension plans, but it did not stop the financial trouble for an increasing number of plans.

Kline-Miller Multiemployer Pension Reform Act of 2014

Congress again stepped in in 2014 with the MPRA, which created the critical and declining designation and allowed plans with this status to take the unprecedented step of applying to the Treasury Department to temporarily or permanently reduce pension benefits to retirees already collecting pensions. In order to be eligible for these cuts, plan trustees have to show that they have taken reasonable steps to get back on firm financial footing and that the proposed pension benefit reductions are necessary and would put the plan on a path to solvency.

Even if proposed benefit reductions are approved, the MPRA requires the plan to provide complete protection for some beneficiaries and partial protection for others (based on age and disability). Under the law, no benefits could be reduced below 110 percent of the maximum level insured by the PBGC, no matter the plan's status.

Under the MPRA, plans facing insolvency that have exhausted all other reasonable options are also able to receive assistance from the PBGC through a process called partitioning, whereby the plan is divided and the PBGC helps pay participants' benefits in one of the new plans. However, the PBGC was given no additional funding in the MPRA to meet these new obligations.

As of March 2018, 22 critical and declining plans have applied to the Treasury Department to cut benefits under the MPRA. Four applications are still in review; four have been approved, five denied, and nine withdrawn (Topoleski 2018a).

Congressional Budget Office Projections

CBO projected in 2016 that in 2017–2026, the PBGC multiemployer program would receive claims totaling $9 billion while collecting premiums of just $4 billion and earning interest of $1 billion, leaving a shortfall of $4 billion. Without new legislation and with expected interest and premium collection patterns, the PBGC multiemployer pension plan program will exhaust its previously accumulated assets and become insolvent for the first time in 2025. The result is that $3 billion in claims would not be paid to beneficiaries in 2025 and 2026.

In the following 10-year period (2027–2036), claims by insolvent plans to the PBGC are expected to be substantially higher, totaling $35 billion. The PBGC's multiemployer program only expects to receive $5 billion in premiums during this period, without earning any interest due to its assets being exhausted in the previous decade. Under current law, this means that only one-seventh of claims could be paid by the PBGC.

From a market perspective, the picture is even grimmer than the cash-based estimate implies. In CBO's fair-value estimate – that is, the amount a private insurer would have to be compensated to take over the PBGC's obligation – total claims (net of premiums) in 2017–2036 have a present value of $101 billion.

Risks to All Multiemployer Pension Plans

If (or when) the PBGC is unable to fulfill its insurance commitments, the federal government has no legal obligation to provide funds. Beneficiaries forced to rely on the PBGC would receive extreme cuts to their benefits because the program can only make payments from premiums collected. This means that the risks facing multiemployer pension plans are not limited to plans in the red zone. If the PBGC becomes insolvent, there will be no backstop for plans that run into financial trouble down the road.

In addition, participants in plans outside the red zone may face risk from multiemployer plans being interconnected. When employers contribute to multiple plans, the bankruptcy of an employer or the failure of a plan could have implications for other plans. For example, the three employers (ABF Freight System, Inc.; Jack Cooper Transport Company, Inc.; and YRC Inc.) that contribute more than 5 percent to Central States also contribute substantially to other plans, including other critical and declining plans. As Munnell et al. (2017) detail, some large contributors face higher than average bankruptcy risk; if these employers were to fail, other plans, both large and small, would be at risk for failure as well.

Macroeconomic Impact of a Collapse of Central States Pension Fund

To estimate the impact of the failure of a large troubled multiemployer pension plan, we simulated the macroeconomic consequences of the collapse of Central States in 2025, the year it is expected to become insolvent. As mentioned above, Central States is the fourth largest multiemployer pension plan by number of participants (397,000 in 2015). It is the single largest plan if measured by benefit payments ($2.9 billion in 2015). The plan is also the largest in critical and declining status (Topoleski 2018b).

In 2016, Central States applied to the Treasury Department to reduce benefits but was denied on the basis that Treasury did not see sufficient evidence that Central States' proposed plan would take the plan off the path to insolvency. The Central States board of trustees has publicly stated that the plan will run out of money in less than a decade (CSPF 2016).

Given that the PBGC multiemployer pension program will also become insolvent in 2025, we model the impact of all current Central States pensioners losing their benefits, an event that would have economic ripple effects all the way up to the federal level. The analysis here quantifies the jobs, output, labor income, state and local tax revenue,

and federal tax revenue that would be lost as a result of Central States' collapse.

This analysis relies on input-output models, unique to each of the 50 states, constructed by IMPLAN, whose macroeconomic models are used widely by federal government agencies, state and local governments, academics, and policy analysts. IMPLAN models account for the full economic cycle from production to intermediate and final consumption and are thus able to show the economic impact of a policy change or event – in this case, the loss of benefits paid to Central States retirees.

For this analysis, state-level data on current Central States pension payments were adjusted to reflect an estimate of the increased number of retirees scheduled to receive benefits in 2025. Given Census Bureau projections in the increase in the number of Americans aged 65 or older in the next decade, we assume aggregate pension payments increase by 4 percent per year through 2025, reaching a projected level of pension benefits of $3.4 billion. We also assume that the structure of the state economies and economic multipliers in the IMPLAN model, which uses 2016 data, would not substantially change between now and 2025.

TABLE 1.

Economic Impact of Collapse of Central States Pension Fund, 2025

	DIRECT	LABOR MARKET		STATE ECONOMY	FISCAL	
State	Pension Income	Employment	Labor Income	GDP	State & Local Taxes	Total Federal Revenues
OH	-$438,138,183	-5,856	-$261,666,632	-$503,276,605	-$42,297,225	-$156,853,261
MI	-$387,802,342	-5,246	-$237,192,734	-$433,909,882	-$36,819,503	-$107,974,749
MO	-$307,169,141	-4,212	-$186,071,390	-$340,701,415	-$25,925,109	-$102,973,901
WI	-$206,023,700	-2,807	-$125,114,525	-$229,076,239	-$20,433,050	-$57,285,178
IL	-$201,308,765	-2,855	-$157,873,886	-$281,005,863	-$26,845,751	-$74,400,411
TX	-$189,240,022	-3,625	-$211,741,090	-$363,590,508	-$25,443,369	-$79,019,736
IN	-$181,752,445	-2,509	-$117,166,896	-$208,202,557	-$15,901,620	-$53,103,944
MN	-$174,209,525	-2,462	-$124,498,733	-$206,718,128	-$20,890,815	-$83,949,101
FL	-$164,872,836	-2,861	-$146,393,997	-$269,247,187	-$21,367,503	-$68,725,684
TN	-$159,618,541	-2,200	-$112,579,065	-$192,764,502	-$13,185,577	-$52,750,860
NC	-$144,834,292	-2,443	-$117,298,953	-$218,275,306	-$16,590,573	-$47,995,504
GA	-$116,543,116	-1,813	-$90,729,560	-$169,299,253	-$12,095,694	-$39,034,659
KY	-$111,219,342	-1,601	-$70,507,809	-$127,322,988	-$11,193,145	-$31,080,019
IA	-$85,817,272	-1,216	-$51,668,879	-$91,253,227	-$7,539,505	-$20,103,702
MS	-$56,851,285	-802	-$30,985,887	-$58,947,314	-$6,126,703	-$11,173,526
All Others	-$465,673,913	-12,961	-$832,062,093	-$1,416,050,497	-$124,351,739	-$284,820,306
TOTAL US	-$3,391,074,721	-55,470	-$2,873,552,127	-$5,109,641,470	-$446,036,436	-$1,235,690,718

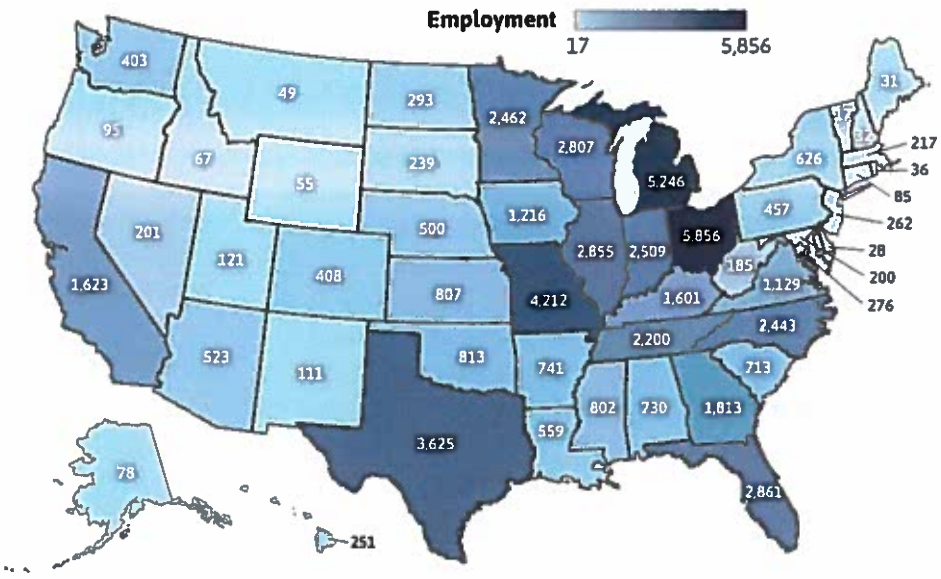
Results

The IMPLAN model shows that the loss of projected pension benefits to Central States pensioners would lead to the loss of more than 55,000 jobs across the United States in 2025. Labor income would drop by nearly $3 billion, and GDP by more than $5 billion. State and local tax revenue would decline by nearly $450 million, and federal revenue by $1.2 billion.

Table 1 shows the economic impact in the top 15 states, ranked by loss of pension income. The total impact across these 15 states would be more than 42,000 lost jobs and nearly $3.7 billion in lost output. Ohio, Michigan, and Missouri would be hardest hit, each facing job losses of more than 4,000. Ohio's GDP impact would exceed $500 million, followed by Michigan ($434 million) and Missouri ($341 million). Collectively, these three states would bear one-fourth of the total GDP impact, yet these states produce just 6 percent of the nation's aggregate GDP. Eleven other states – Wisconsin, Illinois, Texas, Indiana, Minnesota, Florida, Tennessee, North Carolina, Georgia, Kentucky, and Iowa – would each lose more than 1,000 jobs. Other states would be negatively affected as well. For example, California, despite having few Central States pensioners, would lose more than 1,600 jobs. Figure 3 shows the job loss that will occur in all 50 states, making clear the diffuse impact as well as the concentrated impact in the Midwest.

FIGURE 3.

Employment Loss from Collapse of Central States Pension Fund, 2025



Conclusion

Current and future retirees across the United States face a broad set of financial uncertainties with neither Social Security nor Medicare on fiscally sustainable paths. Many workers and retirees who rely on pension income from a multiemployer plan have the added risk of these plans becoming insolvent in the near future with no government backstop.

This study analyzed the macroeconomic consequences of the failure of the largest at-risk plan, Central States, estimating a job loss of more than 55,000 and a $5 billion decline in GDP resulting from the plan's collapse. Fifteen states will bear roughly three-fourths of the impact, with Ohio, Michigan, and Missouri hardest hit.

Worse, the pending collapse of Central States may not occur in isolation but may trigger other multiemployer plans to become insolvent. This would occur if the failure of Central States imposes burdens on employers that make them unable to meet their financial obligations to other plans. There is a significant degree of interconnectedness among multiemployer pension plan contributors. As a result, the case study impact analysis presented here could represent a lower-bound of the aggregate macroeconomic impact of the pending insolvency of Central States.

While identifying and analyzing policy options to prevent or mitigate the risk facing multiemployer pension plan participants is beyond the scope of this study, clearly there is a significant macroeconomic risk that warrants action by policymakers. Moreover, like the challenges posed by various public entitlement programs, waiting only makes the policy choices more difficult.

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