CENTER for RETIREMENT RESEARCH at BOSTON COLLEGE

OCTOBER 2014, NUMBER 14-17

MULTIEMPLOYER PLANS – A PROPOSAL TO SPREAD THE PAIN

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Introduction

This *brief* – the fourth in a series on multiemployer pension plans – explores a contentious proposal to allow plans facing impending insolvency to cut accrued benefits of current workers and retirees to extend the life of the plan. Private sector multiemployer plans expanded benefits during the stock market boom in the 1990s and then lost substantial assets in the wake of two financial crises after the turn of the century. In addition, many plans are in industries, such as construction, hurt by the prolonged recession, and others face a shrinking pool of active workers. While the great majority of multiemployer plans have responded to these financial pressures by cutting future benefits for active workers and raising employer contribution rates, allowing them to navigate to relatively secure footing, a significant number of plans could run out of money in the next 20 years.[1] The Pension Benefit Guaranty Corporation (PBGC), which guarantees pension benefits for insolvent plans, does not have the resources to solve the problem. The question is whether giving distressed plans an additional tool – the ability to cut benefits of existing retirees – would do more good than harm.

The discussion proceeds as follows. The first section describes the Central States Teamsters (CST) plan to show how a plan can employ all its currently available options and still be facing insolvency. The second section presents the details of the proposal to allow seriously distressed plans the option to cut accrued benefits to avoid insolvency. The third section presents an analytical model – using the CST as the example – that measures "total utility" under two alternative scenarios: 1) allowing the plan to continue as is, becoming insolvent in the next 10-15 years; and 2) permitting a reduction in accrued benefits to restore the plan to solvency. The results show that a 30-percent benefit cut, on average, could allow the CST to remain solvent indefinitely and increase the aggregate welfare of plan participants. The fourth section presents some real world concerns raised by opponents of the proposal. The final section concludes that the proposal merits serious consideration but, if adopted, its application would have to be carefully circumscribed. Most important, the PBGC, the U.S. Department of Labor (DOL), or any agency overseeing the administration of such cuts should