



The Daily Dish

# Multi-Employer Pensions and the Taxpayer

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## *Eakinomics: Multi-Employer Pensions and the Taxpayer*

The debates on health care, tax reform, trade and immigration tend to drown out less-visible issues. As it turns out, that makes them no less important. Take, for example, multi-employer plans. As nicely [laid out](#) by AAF's Gordon Gray, the multi-employer plans that cover a significant number of Americans are facing insolvency, and are backed by the Pension Benefit Guaranty Corporation (PBGC) that is itself facing insolvency. They are therefore a threat to the average taxpayer. What is to be done?

Multi-employer plans must at a minimum cover two separate employers and two employees, and the management of a multi-employer plan has equal labor-management representation. These plans tend to represent smaller employers in the building trades, as well as retail trade and service industries, manufacturing, mining, trucking and transportation industries, and entertainment (film, television and theater). As of the most recent data in 2014, there were 1,403 multiemployer defined-benefit pension plans with 10.1 million participants. Of these participants, 4 million were active participants and 6.1 million were retired or separated participants either receiving or eligible to receive benefits.

The trouble begins with the fact that the liabilities of the multi-employer plans exceed \$1 trillion, while the assets total only \$420 billion. While underfunding is widespread, the PBGC recently estimated that 103 multiemployer plans, with over one million participants, are likely to face insolvency. An even smaller subset was deemed in "critical and declining status." In short, there is a problem and it is a large problem. An important source of this problem is so-called "orphan" liabilities. Firms may choose to leave a multi-employer plan. If they do so, they pay a one-time fee, but make no ongoing contributions. Their employees, however, continue to have a claim on benefits from the plan.

If a plan fails, it will be taken over by the PBGC, but as noted earlier the PBGC itself is projected to run short of assets to cover its guarantees. If so, the only plausible financial backstop is the taxpayer. However, even if the PBGC is able to take on the plan, it does not guarantee full benefits. For a variety of reasons, then, it may be in the combined interest of the plans, beneficiaries, and taxpayers to find a way to improve the net investment position of the multi-employer plans. Gordon Gray's [paper](#) provides a nice analysis of one possibility: low-interest financing from the Treasury to struggling plans as a way to buy time, improve the asset holdings, and avoid a draw on the PBGC—and on the taxpayer.