

Testimony of  
**Hon. Joshua Gotbaum, PBGC Director**  
before the  
**Health, Employment, Labor and Pensions Subcommittee**  
**House Committee on Education and the Workforce**

March 5, 2013

Thank you for holding this hearing to continue discussions on efforts to strengthen multiemployer plans.

On January 29, 2013, the three ERISA agencies sent Congress a report required by the Pension Protection Act of 2006, P.L. 109-280 (PPA). The report provides information and analysis on the actions taken by multiemployer plans under PPA to improve their funded status and the effects of those actions on the plans' financial health.

Also that day, PBGC sent to Congress two statutory reports on the agency's multiemployer insurance program, the Five-Year Multiemployer Report on premium levels and the FY 2012 Exposure Report on PBGC's potential exposure under the single-employer and multiemployer programs.

We hope these reports will be useful as this Committee evaluates the challenges that multiemployer plans face and the various options and proposals to address them.

As expanded upon below, the multiemployer system was designed more than a generation ago; the world has changed but the system has not. The challenges facing the multiemployer system are complex and somewhat different from those faced by single-employer defined benefit plans.

As with all pension plans, the last decade has seen many strains on pension funds and most multiemployer plans became underfunded. PPA and other legislation enacted since have provided much needed flexibility. Most of those plans have responded, taken advantage of self-help measures, and are on track to recover. This is, unfortunately, not true for all plans. Unless significant changes are made allowing them to take additional steps of self-help, a minority of multiemployer plans will fail.

However, there is no silver bullet. Different plans are in different circumstances, and they will need a diverse set of tools, options and solutions and the flexibility of when and how to apply them.

The PBGC, designed to be a safety net for failed plans, will also need changes if it is to fulfill its mission. Absent reforms, PBGC will continue to lack the tools to help plans improve and the resources to continue paying benefits for those that do fail.

With the PPA sunset at the end of 2014, the next two years provide an opportunity for multiemployer plans, their participants, businesses, unions, and professionals to work together with Congress and the Administration to develop approaches that are flexible and practical, and that facilitate self-help. As it did in 2006, Congress can provide the tools and authorities to help

more than a thousand plans, hundreds of thousands of small businesses, and millions of American workers achieve a more secure retirement.

### **Why Multiemployer Plans are Important**

Multiemployer defined benefit plans provide retirement security to more than 10 million participants and their families. Multiemployer plans help protect participants' retirement benefits. They provide pension portability, allowing participants to accumulate benefits earned for service with different employers throughout their careers. They pool longevity risk, which provides much lower-cost annuities than those available in the individual market, and they spread the risk of any individual employer's failure across many firms.

### ***Benefits to Employers***

Multiemployer plans have provided retirement annuities to millions of American workers for more than half a century. Among the advantages of this type of plan is that assets are pooled among employers in a single consolidated trust. Efficiencies of scale broaden and diversify investment opportunities and lessen the administrative and investment costs of operating a separate single-employer plan. Investment professionals manage the plans' assets, helping to reduce risks for contributing employers, employees, and retirees.

### ***Importance to Small Businesses***

Hundreds of thousands of small businesses – doing business in every state – participate in multiemployer plans. Multiemployer plans enable employers to provide retirement benefits to their employees without imposing administrative burdens on any individual employer. Employers generally need only to remit contributions set by collective bargaining and are relieved from the responsibilities of operating a plan, which are handled by an independent joint board of trustees, consisting of equal representatives of labor and management. Consequently, these plans have historically offered employers, especially small businesses, an affordable way to provide pensions to their employees, without the administrative burdens.

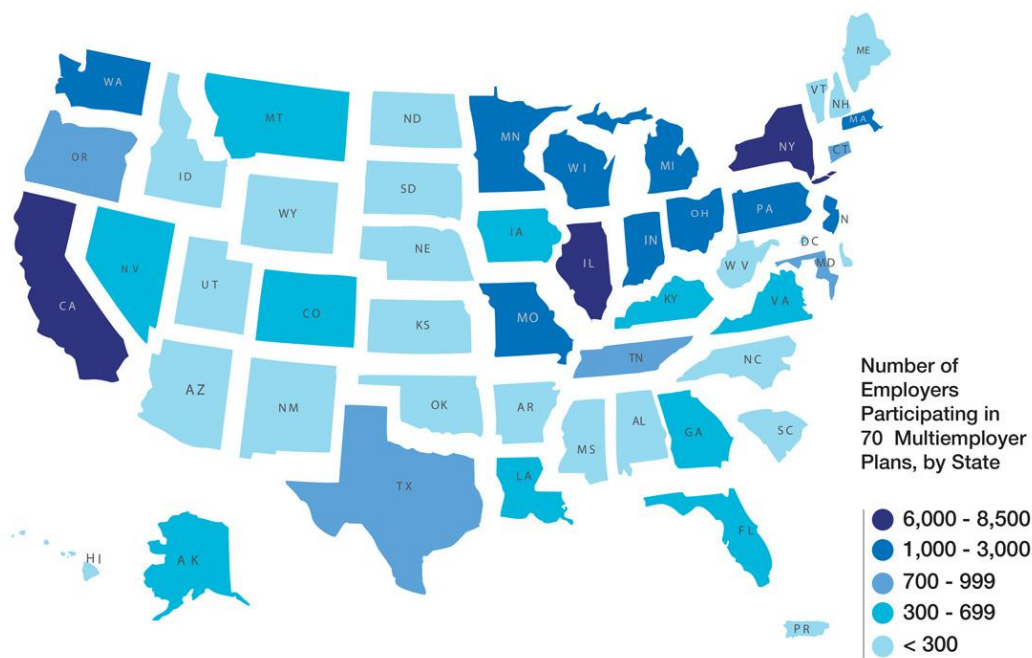
### **No Plan is “Typical”**

There is a wide variety of multiemployer plans, in a wide variety of places, in a wide variety of industries, and in a wide variety of conditions. Multiemployer plans help small and large businesses and employees in many industries, including construction, transportation, retail food, manufacturing and services. Multiemployer plans vary in size from small local plans covering a few hundred participants to large regional or national plans covering hundreds of thousands of participants. There are businesses who contribute to multiemployer plans and multiemployer plan participants in every state.<sup>1</sup>

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<sup>1</sup> The map below reflects the results of a survey by the National Coordinating Committee for Multiemployer Plans (NCCMP) of 70 plans that provided information on the zip codes of companies contributing to their plans in 2011. These 70 plans received contributions from approximately 53,000 companies.

## Businesses Throughout America Participate in Multiemployer Plans



### The Past Decade Has Been Difficult for All Plans

In recent years, faltering markets and a weak economy exacerbated the effects of underfunding. If a plan has a small employer base and large accrued liabilities associated with a mature participant population, it can be difficult to make up funding shortfalls. The cost of contribution increases is borne by employers (through reductions to profit margin) and employees (through reductions to current pay or benefits). Finally, a plan's underfunding increases the contingent liability of contributing employers should they withdraw from the plan, which can affect their creditworthiness and discourage new employers from joining the plan.

The funding levels and demographics of these plans have changed dramatically over the years. Before the decade of the 2000s, single-employer and multiemployer defined benefit plans enjoyed historically high rates of return, which kept these plans well-funded without requiring a large ongoing contribution commitment from employers. Moreover, high investment returns financed benefit improvements: plans increased benefit accrual rates and granted past service credits; they adopted or continued early retirement subsidies, disability pensions, death benefits for non-spouse beneficiaries, and five- and ten-year certain and life guarantees.<sup>2</sup> These new obligations compounded the plans' liabilities during the 1990s.

<sup>2</sup> Because of maximum deductible limits, some plans increased benefits during this period to avoid losing deductible treatment of employer contributions, which also contributed to longer-term costs. These limits were raised in the PPA.

Like single-employer plans, multiemployer plans suffered significant market losses during the 2000s, causing the value of plan assets to plummet. Multiemployer plans that had been nearly fully-funded often dropped to less than 50% funded. The average funded ratios of these plans (which the agency defines as the market value of assets divided by liabilities discounted using a standardized PBGC interest factor) exceeded 90% in the 1990s, hovered in the mid-60% range in the mid-2000s, and fell below 50% after the 2008 market crisis.<sup>3</sup>

This unexpected surge in underfunding put huge pressures on funding costs and contributions. Tightened PPA funding requirements had also taken effect, requiring plans for the first time to publicly certify their funding status. Employers and unions – which had come to depend on relatively stable contribution rates – were now asked to accept huge contribution rate increases, and plan trustees recommended benefit reductions.

Employer contributions to multiemployer plans are generally based on number of hours worked by actively employed participants. The 2000s decade saw a decline in active participants as a percentage of total participants. Thirty years ago, three-quarters of all participants were active and only one-quarter were retired or waiting to retire. Today, the situation is largely reversed: by 2010, 39% of participants were active and 61% were inactive.

Contributing factors also include the relative decline in unionized employment and competitive pressures in some industries from non-unionized businesses, resulting in some employers with multiemployer plans going out of business. Thus, the burden of the recent increase in underfunding is borne by a smaller pool of employers and employees supporting the liabilities of much larger inactive populations.

### **Plans Have Taken Advantage of PPA Funding Rules and Flexibility**

When Congress enacted PPA in 2006, it anticipated the need for different plans with differing situations to address underfunding and other emerging problems in differing ways. Under PPA, plans were required (i) to certify their funded status each year according to statutory classifications of “endangered” or “critical” status (or neither); (ii) to implement funding improvement or rehabilitation plans that include contribution and benefit schedules designed actuarially to improve the plan’s funded status; and (iii) to achieve objective funding targets within specified timeframes.<sup>4</sup>

For the first time, plans in critical status were allowed to reduce certain previously earned benefits (*e.g.*, early retirement benefits, retirement-type subsidies, optional forms of payment)

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<sup>3</sup> Many plans in certain industries, such as manufacturing and retail trade and services, barely exceeded 50%.

<sup>4</sup> Endangered status is triggered if a plan has a funded percentage of less than 80% or projects a funding deficiency within seven years (if both triggers are met, the plan is in seriously endangered status); the plan’s target is to reduce the underfunding percentage by 33% in a 10-year period and to avoid a funding deficiency during the funding improvement period. Critical status is triggered if a plan has a funded percentage equal to or less than 65% and projects a funding deficiency within five years or insolvency within seven years; or the plan projects insolvency within 5 years or a funding deficiency within 4 years; or normal cost and interest on unfunded liabilities exceeds contributions for the year, the present value of benefits for inactive participants exceeds that for active participants, and the plan projects a funding deficiency in 5 years. The plan’s target is to emerge from critical status using all reasonable measures in a 10-year period (if unfeasible, to emerge at a later time or forestall insolvency).

that would otherwise be protected from such cutbacks by ERISA and the Internal Revenue Code. Participants who started receiving benefits before the plan's notice of critical status are generally exempted from these "adjustable benefit" reductions.<sup>5</sup> Also, for the first time, plans in critical status were constrained by law from increasing benefits and from offering lump sum and similar benefit payments.

After the 2008 financial crisis, when plans suffered investment losses of 20 to 30%, nearly 1,000 plans, or two-thirds of all multiemployer plans, were certified to be in endangered or critical status. This loss in plan asset values caused a drop in the funded percentage of many plans, and shortened the projected insolvency dates of other plans. Possibly the most common trigger for endangered or critical status was higher minimum required contributions, which brought plans closer to a projected funding deficiency.

In December 2008, Congress enacted the Worker, Retiree, and Employer Recovery Act of 2008, P.L. 110-458 (WRERA), to give plans respite from the effect of losses experienced during the 2008 stock market decline. The majority of multiemployer plans elected WRERA funding relief in 2009 – freezing their prior year's funding status and deferring any actions under a funding improvement or rehabilitation plan for one year.

Nevertheless, more than 100 critical status plans in 2009 adhered to PPA strictures and reduced adjustable past benefits; plans reported reducing a total of nearly \$800 million in liabilities. In addition, almost 200 plans in all status classifications in 2009 reduced future benefits, such as future accrual rates (one-half of these plans were in critical status).

Congress then enacted the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010, P.L. 111-192 (PRA 2010), to provide further funding relief from the significant investment losses that occurred in and around 2008. Plans extensively relied on PRA 2010 funding relief, which enabled them to decrease minimum required contributions, increase credit balances, and improve funded certification statuses, alleviating pressures on contribution increases and benefit cuts.

Nevertheless, 149 critical status plans in 2010 applied PPA provisions and reduced adjustable past benefits – including nearly 40% of all critical status plans in that year; plans reported reducing more than \$2 billion in liabilities. In addition, more than 172 plans in all status classifications reported reducing future benefits (over 50% of these plans were in critical status).

Employer contributions have also increased as a consequence of the financial turmoil of the 2000s and PPA's tightened funding requirements. Contributions climbed from \$8 billion in 2000 and \$16 billion in 2005, to \$20 billion in 2009 and \$20.5 billion in 2010. Average annual contributions per active participant rose \$700 between 2008 and 2010 from \$4,300 to \$5,000.

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<sup>5</sup> Generally, reductions of adjustable benefits for active participants arise from collective bargaining. The plan trustees provide to the bargaining parties one or more schedules showing revised benefit and/or contribution structures determined to be reasonably necessary for the plan to emerge from critical status. One schedule must be a default schedule, which assumes that benefits will be reduced to the maximum extent permitted by law before contribution increases are required. Although the default schedule is common in some critical status plans, in other critical status plans very few bargaining parties adopt the default schedule, choosing instead the preferred schedule which emphasizes contribution increases with limited reductions in benefits.

Endangered status plans had the highest average contributions per active participant (\$7,500), while critical status plans had the lowest (\$4,000). It is important to note, however, that contributions vary significantly from plan to plan, even among plans in the same industry (*e.g.*, employers in one critical status plan reported contributions of \$17,000 per active participant).

Plans have also used the flexibility provided under PPA to relieve excessive pressure on employers and unions that could jeopardize their continued participation in the plan. For example, PPA eliminated the excise tax assessed on employers by the IRS when a critical plan incurs a funding deficiency.<sup>6</sup> The intent of the tax was to induce employers to contribute the required minimum to the plan.

The tax has now been replaced by a PPA funding regime that makes similar demands on the bargaining parties. Minimum required contributions spiked after the asset losses of 2008, causing 90 plans to report funding deficiencies in 2010 – more than four times the annual average over the decade prior to 2008. These plans avoided an excise tax on funding deficiencies totaling nearly \$2 billion in 2010.

A second example of flexibility granted to plans under PPA is amortization extensions. To ensure pre-funding and require the recognition of costs upfront, PPA shortened the amortization periods for all types of unfunded liabilities to 15 years. However, plans also needed a safety valve in the event of unforeseen costs that the bargaining parties could not immediately afford. PPA permitted a plan that met certain solvency requirements to automatically extend amortization periods by five years if it projected a funding deficiency in the next nine years.

This proved to be a popular form of relief: Whereas only six plans were operating under amortization extensions for the 2005 plan year – under strict statutory eligibility requirements requiring IRS approval – by 2009 there were 125 plans operating under automatic five-year extensions, and by 2010 nearly one-quarter of all critical and seriously endangered status plans were operating under amortization extensions (178 plans under automatic extensions and 12 plans under approved extensions).

### **Today the Financial Condition of Plans Varies Widely**

Most plans can recover from the market collapses of the past decade on their own but, without changes, some severely distressed plans will not.

#### ***Most Plans Are Recovering***

Most plans appear to be recovering from the 2008 financial crisis and subsequent recession. Aggregate assets for all multiemployer plans have increased, from \$327 billion at the beginning of the 2009 plan year to nearly \$400 billion at the end of the 2010 plan year (a level last seen in 2006). By 2011, 60% of all plans certified they were in non-distressed or “green” zone (*i.e.*,

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<sup>6</sup> Multiemployer plans must maintain a funding standard account to measure whether the funding requirements are met. If total charges to the funding standard account (normal cost, and amortization of net increase in unfunded past service liability, net experience loss or net loss from changes in actuarial assumptions) exceed employer contributions and total credits to the account (amortization of net decrease in unfunded past service liability, net experience gain or net gain from changes in actuarial assumptions), an accumulated funding deficiency results.

neither endangered nor critical status), an improvement from just 32% in 2009. Endangered status plans fell from 34% to 16% of all plans between 2009 and 2011.

But the financial condition of multiemployer plans today varies widely. Some have rebounded following the recovery in asset levels (and with the aid of funding relief). Many other plans remain substantially underfunded but are using the tools under PPA to gradually adjust income and expenses. As of the 2011 plan year, 40% of all multiemployer plans continued to be in endangered or critical status, thus subject to additional funding rules under PPA. An initial review of 2012 PPA certifications to IRS indicates a slight increase in the numbers of plans in endangered or critical status for the 2012 plan year. PBGC estimates that currently just over half of multiemployer participants are in endangered or critical status plans.

Overall, most multiemployer plans appear sustainable in the long-term, assuming they maintain a base of contributing employers able to support the plan's unfunded liabilities and benefit disbursements and avoid significant investment or other actuarial losses.

Challenges remain, however, in assessing the exact financial condition of many plans. Funding relief under PRA 2010 often results in plans overstating their financial health. Nearly 600 plans elected to recognize 2008 investment losses over a period of ten years (rather than the regular smoothing period of five years), but increasing a plan's actuarial value of assets and funded percentage can cause the plan to have a higher PPA funded status than is warranted.<sup>7</sup> More than 550 plans elected to use 29-year amortization to pay down 2008 investment losses. These steps reduce a plan's annual charges and minimum required contribution. This delays the date of a projected funding deficiency, which can favorably impact the plan's status under PPA. However, these steps do not reduce a plan's actual liabilities.

In addition, aggregate underfunding remains significant, exceeding \$350 billion in 2010 (based on PBGC measurements). Most of the increase in underfunding relates to asset declines. In addition, while some part of the increase in underfunding over the last decade is attributable to declines in the PBGC interest factor used to measure plan liabilities,<sup>8</sup> most of this increase relates to the doubling in liabilities since 1999 that is independent of the decline in interest rates.<sup>9</sup>

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<sup>7</sup> PPA defines a plan's funded percentage for purposes of the additional funding rules as the actuarial value of the plan's assets divided by the plan's accrued liability. Because each plan uses its own methods and assumptions for this purpose, rather than a market value of assets or a standardized interest rate for measuring plan liabilities, the funded percentage does not necessarily reflect the actual funded status of the plan and two plans with the same market value of assets and the same future benefit payments can appear to have different funded percentages (making an accurate comparison difficult). PRA 2010 increased the disparity between the actuarial and market value of assets, and lengthened certain amortization periods reducing required contributions.

<sup>8</sup> The agency adjusts plans' reported vested liabilities using a standardized interest factor that along with an assumed mortality table reflects the cost to purchase an annuity at the beginning of the year.

<sup>9</sup> Using a fixed PBGC interest factor of about 5.30%, liabilities were valued at about \$350 billion in 1999 and about \$700 billion in 2010.

### ***Minority of Multiemployer Plans are Severely Distressed***

While in the minority, a significant number of multiemployer plans today are severely distressed. These are plans in declining or highly competitive industries, often characterized by high rates of employer bankruptcies and high ratios of non-sponsored or “orphan” participants.<sup>10</sup>

Some large plans have lost thousands of contributing employers over the last two to three decades. These plans remain liable for the benefits of participants whose employers have withdrawn or gone out of business. In many cases, these orphan participants’ benefits were nearly fully funded in 1999 and 2000, but are now substantially underfunded due to market losses.

These plans generally have many more retirees than active participants – active participants may constitute only 10% to 15% of all participants, while 50% or more participants may be retirees drawing benefits. In contrast, in 2010, 39% of participants in all plans were active and 33% were retired. Because the distressed plans have a weak employer base (that is, few employers in relation to the plan’s total unfunded liabilities), it is difficult for them to make up funding shortfalls. For these plans, investment losses can be devastating.

Severely distressed plans also pay out a large portion of their asset base each year, which means that they have less time to recover. In some of those situations, negative cash flows (benefit payments in excess of contributions and investment income) erode a plan’s asset base year after year. Consequently, many of these plans project insolvency over a 10- to 15-year horizon.

Pinpointing the exact number of severely distressed plans remains elusive, though some multiemployer experts estimate they represent roughly 25% of plans in critical (or seriously endangered) status – if so, that would be about 80 to 85 plans in 2011. We are attempting to identify them, in part, through their self-reporting: PPA rehabilitation plans may reveal to us that, despite exhaustion of all “reasonable measures,” the plan cannot reasonably be expected to emerge from critical status within 10 years, and is taking all available reasonable measures steps to emerge at a later time or to forestall possible insolvency. Plans, however, are not required to make such disclosures to the government and some distressed plans are not explicit about their circumstances and future prospects.

### **What Can Government Do?**

Because multiemployer plans cover many industries and localities, and have been affected by different factors, *flexibility matters*. The challenges faced by these plans are often plan-specific issues that the employers and employees in each industry and each plan must tackle individually. They will need added flexibility to manage their finances and extend their solvency.

In PPA, Congress gave plans both tools and flexibility for improving their financial health. There were new requirements for fiscal discipline and funding targets, but plans were given

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<sup>10</sup> PPA required plans to begin reporting orphan participants in their annual report filings; plans reported a total of 1.3 million orphan participants in 2010. In 27 endangered or critical status plans each reporting 5,000 or more orphan participants, our research showed that orphan participants averaged between 31% and 45% of total plan participants.



discretion to develop their own strategies for solving their problems. And PPA provided new tools to help plans with rebalancing their costs and income and respond to market pressures.

As in PPA, discussions for further reforms should start with consideration of proposals now being developed jointly by multiemployer plans and their constituencies – including proposals to help distressed plans avoid or forestall insolvency. Many of these proposals emphasize additional flexibility in plan design, cost-sharing, as well as funding. The Administration has not taken a position on these proposals; it is too early to do that in advance of the specifics. However, as in PPA, government should allow plans the flexibility to solve their own problems.

This is not just an issue for the distressed multiemployer plans. Because many plans have common employers – particularly large employers – the failure of one plan and resulting imposition of withdrawal liability on its contributing employers can have a ripple effect on many other plans. Furthermore, the failure of plans in one industry can affect the participation of other employers in other industries. Thus a failure in one plan could be devastating for thousands of employers and participants in many plans.

Last, we can preserve PBGC's ability to help. PBGC is not just a potential (but underfunded) safety net; we also closely monitor plans and their health and can offer assistance. A broader range of tools and adequate funding would allow PBGC to both help preserve plans and provide the safety net that ERISA intended.

### **PBGC's Multiemployer Insurance Program Needs to be Re-examined**

PBGC's program and finances also should be re-examined. The multiemployer insurance program that was established under ERISA in 1974 was revamped in 1980. However, it has been more than 30 years since the fundamental structure of the program has been re-examined.

Unlike with single-employer plans, in most cases PBGC cannot step in until a multiemployer plan has collapsed and run out of money. When all contributing employers withdraw from a plan and the plan's assets are exhausted,<sup>11</sup> PBGC provides the plan financial assistance to pay participants a statutorily guaranteed benefit for the rest of their retirement lifetimes. (Unlike its insurance of single-employer plans, PBGC does not take over the plan, or its assets and liabilities; instead the agency funds the plan's guaranteed benefits and operating costs, and audits to ensure they are reasonable.)

While the guarantee – up to about \$13,000 per year for long-service retirees – often does not cover a participant's full benefits, without PBGC, participants would be left with nothing when a plan runs out of money.

We lend our expertise to multiemployer plans on many issues. Mergers between multiemployer plans, for example, can help plans increase their ratio of active to inactive participants and save on administrative and investment costs. We also provide flexibility in handling withdrawal liability, where appropriate, to plans that request alternative methods in order to retain and attract new employers.

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<sup>11</sup> In this context, exhaustion means the plan cannot pay guaranteed benefit levels for the plan year. PBGC also pays financial assistance to ongoing plans (in which contributing employers remain) that exhaust assets.

However, we do not have the financial resources to help distressed plans directly. For example, plans frequently request our financial help to facilitate the merger of a weaker plan into a stronger one. While PBGC has been able to assist in a few cases – where the weaker plan is near-insolvent and the financial assistance involved is generally small – PBGC has neither the authority nor the money to help plans achieve these goals more broadly. Some plans have proposed that they be partitioned so that active employers can support their own employees, rather than the employees of companies that withdrew or went out of business long ago. While we continue to explore use of this tool (under statutory requirements that are difficult to meet), we do not have the resources to assist plans and employers, even in circumstances where a plan could be preserved if released from the unfunded liabilities of non-sponsored participants.

PBGC is continuing to review its existing tools – which are limited – to consider whether additional authority could be useful to assist employers and plans in a variety of situations.

***Without changes, PBGC faces its own financial shortfall***

The agency paid \$95 million in financial assistance for benefits and plan expenses to participants in 49 insolvent multiemployer plans in FY 2012. This allowed these plans to continue paying guaranteed benefits to about 51,000 retirees; 21,000 additional participants will receive benefits from those plans when they retire. There are 61 more plans that have terminated and will run out of money in the next few years, and there are some 46 ongoing plans that are projected to become insolvent and apply for financial assistance over the next decade.

As of the end of FY 2012, the multiemployer insurance program had a \$5.2 billion deficit, with assets of \$1.8 billion and booked liabilities of \$7.0 billion (relating to the plans described above).

In FY 2012, PBGC collected \$92 million in premiums and paid \$95 million to support failed multiemployer plans. In that year, Congress raised PBGC premiums, but projected benefit payments will increase far more. The number of plans that are projected to become insolvent has more than doubled in the last decade. Financial assistance payments to these plans are projected to rise rapidly over the next ten years – as already terminated plans become insolvent and additional participants retire. PBGC projects that its financial assistance payments to plans booked as liabilities on PBGC's FY 2012 financial statements<sup>12</sup> will exceed \$500 million annually within a decade, even without adding any new obligations. Although the timing is highly uncertain and dependent on many factors not yet known, PBGC projects that current premiums ultimately will be inadequate to maintain current guarantee levels and the multiemployer insurance program is likely to become insolvent within the next 10-15 years, even before any new obligations are added.

Future additional obligations are likely. PBGC, in its audited financial statements, estimates that it is reasonably possible that other multiemployer plans will require approximately \$27 billion in future financial assistance. These “reasonably possible” liabilities are not recorded on the corporation's financial statements because they are not imminent liabilities.

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<sup>12</sup> This includes plans currently receiving financial assistance, terminated plans expected to require financial assistance, and ongoing plans expected to require financial assistance in the next ten years.

PBGC has a variety of methodologies for estimating future obligations. The most carefully-documented is PBGC's Multiemployer Pension Insurance Modeling System (ME-PIMS). Based on those projections, and assuming no changes either in multiemployer plans or in PBGC's multiemployer insurance program, there is about a 35% probability that the assets of the insurance program will be exhausted by 2022 and about a 90% probability of exhaustion by 2032. Like all projections these estimates are dependent on many assumptions about the future and on many factors, including investment returns and the actions of trustees, employers, and unions dealing with individual plans.

### ***Premiums and Guarantee Levels Need to be Re-Examined***

Of course, program insolvency can be avoided by changes in premiums and/or in guarantee levels. Since multiemployer guarantee levels are below those of single-employer guarantees, most observers analyze increased premiums, rather than changes to guarantee levels.

Although the timing is uncertain, PBGC projects that current premiums ultimately will be inadequate to maintain current guarantee levels. Multiemployer plans currently pay a flat rate premium of \$12 per participant per year (until 2006, the premium rate was only \$2.60 per participant). Thus, the multiemployer insurance fund has accumulated limited reserves.

Even substantial increases in premiums would amount to a negligible percentage of contributions or costs for most plans. PBGC multiemployer premiums (\$93 million total in FY 2010) represented about 0.5% of total plan contributions, and about 0.27% of total plan expenses (benefit payments and administrative expenses).

Higher premiums, by themselves, are unlikely to put plans or employers out of business. However, not all plans and all employers are alike. They are in different circumstances. Some are in such dire straits that they often cannot afford *any* increases in costs, either the small fraction represented by PBGC premiums or other administrative expenses, or the much larger portion represented by their benefit payments.

For multiemployer plans, even with the Moving Ahead for Progress in the 21st Century Act (MAP-21) increases, absent further changes, PBGC premiums will eventually be insufficient to support the guarantee and the multiemployer insurance program. Premium reforms are a necessary part of any solution to the funding challenges facing PBGC and should be analyzed as part of and in the context of the broader changes for multiemployer plans.

The Administration is not putting forth any new premium proposal now. As we noted in our most recent Five-Year Multiemployer Report to Congress under ERISA Section 4022A(f)(1), we can't yet determine what changes to PBGC premiums for multiemployer plans will be appropriate in the future and are not requesting Congressional action now. We think the best course is to raise and discuss the issues with the Congress and the affected constituencies and develop an approach that sustains PBGC as part of a broader review of multiemployer plans.

### **Next Steps**

We hope the information provided in the multiemployer reports to Congress can inform and assist a dialogue about critical multiemployer funding issues and PBGC's program and finances.

As it did seven years ago in the Pension Protection Act, Congress has an opportunity within the next two years to preserve and enhance the multiemployer plans on which so many small businesses and workers depend.

The next two years will require a thorough review of policy options (including those developed by multiemployer plans stakeholders and their constituencies) and, ultimately, action on practical steps that will bring long-term stability to the multiemployer system. With changes, multiemployer plans can and will continue to provide portable lifetime retirement benefits for millions.

PBGC and the other ERISA agencies look forward to working with Congress and the multiemployer community as this important dialogue evolves. We are grateful for the opportunity this Committee has provided on this important issue and look forward to hearing your views and answering any questions you may have.