Multiemployer Plan Funding
Issue Brief

Background. Multiemployer plans are benefit plans that are maintained by two or more employers and are collectively bargained. Most multiemployer plans are required to have an equal number of employer and union representatives on their Board of Trustees. All defined benefit plans, including multiemployer defined benefit plans, are required to meet the minimum funding standards of the Internal Revenue Code. Multiemployer plans, however, have more flexibility in the level and timing of funding and are not subject to the deficit reduction contribution rules. If a multiemployer plan does not meet the minimum funding standards, it may fall into funding deficiency status which triggers an excise tax and would likely result in an assessment by the plan against participating employers in the amount of the insufficiency. Employers in multiemployer plans are also subject to withdrawal liability which requires a withdrawing employer to pay its proportionate share of unfunded vested benefits determined as of the date of withdrawal. Even though it is a proportional liability, because it includes liabilities associated with previously participating employers who became insolvent, it is not a true measure of the liabilities accrued by the employees of only that employer.

Multiemployer plans are covered under a separate insurance program of the PBGC. Multiemployer plan premiums to the PBGC are significantly lower than for single employer plans and PBGC coverage of multiemployer plans is much more limited. The PBGC will cover a multiemployer plan only if the plan is insolvent. Thus, the PBGC covers single employer plans once there is significant underfunding, but multiemployer plans are not covered until there are no remaining assets in the plan.

While only 10% of defined benefit plans are multiemployer plans, these plans cover 25% of all participants in defined benefit plans.

The Issue. There are several challenges facing participating employers in multiemployer plans. Some large multiemployer plans are facing unprecedented shortfalls that are likely to result in funding deficiencies that will require substantial catch-up contributions by remaining employers and create excise tax liability. In addition, some of these same plans are experiencing shifting demographics in which retired participants outnumber active participants and life expectancy assumptions are proving to be inaccurate. The funding deficiency problems could result in significant financial outlays by remaining employers and, in extreme cases, could push an employer into bankruptcy.

Current Activity. Multiemployer plans received limited funding relief in the Pension Funding Equity Act of 2004. However, the relief provided in the Pension Funding Equity Act is only temporary and, for plans in crisis, does not do enough or offer a lasting solution. Therefore, permanent multiemployer funding reform is a significant issue for participating employers in these plans.