

Multiemployer Alert

Update on Issues Affecting Taft-Hartley Plans

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PBGC Releases FY 2019 Annual Report | [Noah Llanda](#), FSA, EA, MAAA

On November 18, 2019, the Pension Benefit Guaranty Corporation (PBGC) released its [annual report](#) for fiscal year (FY) 2019, which reviews the financial condition of the agency's Multiemployer Program and Single-Employer Program.

By law the two programs are separate: they maintain different levels of benefit guarantees, are supported by different levels of premium payments, and are maintained separately. This alert focuses on the PBGC annual report as it pertains to the PBGC Multiemployer Program.

The Multiemployer Program. The PBGC Multiemployer Program covers about 10.8 million participants across 1,400 defined benefit plans. Plans that become insolvent receive financial assistance from the PBGC to pay [guaranteed benefits](#). The maximum guaranteed benefit is \$12,870 per year for a participant with 30 years of service.

Key takeaways from the annual report are:

- **Multiemployer Program deficits increased.** As of September 30, 2019, the Multiemployer Program had liabilities of \$68.0 billion supported by assets of \$2.9 billion, a deficit of about \$65.2 billion. By contrast, the deficit was \$53.9 billion (\$56.2 billion in liabilities and \$2.3 billion in assets) as of September 30, 2018. The liabilities include the benefits for 85 insolvent plans, 65 terminated plans that are projected to become insolvent, and 41 ongoing plans that will eventually exhaust plan assets and require assistance within 10 years.

The majority of the deficit increase was due to an increase in pension liabilities as the underlying interest rates used to value future payouts were lower compared to the prior year. All else equal, lower interest rates result in higher pension liability.

- **89 plans received financial assistance.** In FY 2019, the Multiemployer Program received \$310 million in net premiums and paid out \$160 million in financial assistance to 89 insolvent multiemployer plans. The agency expects to continue providing financial assistance to 85 of these insolvent plans in FY 2020, covering about 66,900 retirees and another 27,300 who can start receiving benefits when they retire.
- **Insolvency likely in 2025.** The annual report referenced its [projections report](#) released in August, in which the PBGC estimated a 99 percent likelihood that the Multiemployer Program would become insolvent in FY 2025, increasing to 100 percent in FY 2026.
- **Guaranteed benefits will diminish upon insolvency.** Without action by Congress, once the Multiemployer Program goes insolvent, guaranteed benefits will be reduced to an amount supportable solely with premium income.

How could this impact you? The PBGC acts as a backstop for plans in duress and all defined benefit plans regardless of funded status pay PBGC premiums annually toward this safety net. As part of a solution to stabilize the Multiemployer Program, Congress may decide to raise premium income by either increasing the flat-rate premium and/or introducing a variable-rate premium similar to what the Single-Employer Program charges. The last substantial premium increase occurred in 2015 when the flat-rate premium increased from \$12 to \$26 per participant. Currently, the annual flat-rate premium paid by all multiemployer defined benefit plans is \$30 per participant for the 2020 plan year and increases annually thereafter based on the Social Security national average wage index.

Please contact your Milliman consultant with any questions.

Multiemployer Alert: Update on Issues Affecting Taft-Hartley Plans is intended to provide information and analysis of a general nature. Application to specific circumstances should rely on separate professional guidance.