WHY 30 YEARS IS APPROPRIATE

The Multiemployer Pension Plans Coalition proposes that Congress allow multiemployer pension plans to elect one of the following options in 2010:

a) Reamortize the plan's unfunded liability over a period of 30 years; or

b) Isolate the asset losses associated with the 2008 stock market crash, and amortize those losses over 30 years

When Congress enacted ERISA in 1974, multiemployer plans were permitted to amortize their existing unfunded liabilities over a period of 40 years. This period was reduced by a series of legislation, culminating with PPA in 2006 which established a 15-year amortization period for unfunded liability from all sources.

Under current law, when a multiemployer plan experiences an asset loss, the sponsoring employers are required to replace the lost assets through additional contributions over a 15-year period. The proposed amortization extensions are similar to a homeowner who experiences a financial setback, and in response refinances a 15-year mortgage into a 30-year mortgage. Thirty year mortgages are the norm for individuals, recognizing the long-term nature of the investment. Unlike single employer plans, multiemployer plans are prevalent in industries characterized by mobile work forces. As employees move from job to job, the portability provisions of these plans enable them to continue to accrue benefits in the same plan from the time they enter their apprenticeship, until they retire. These relief provisions in no way permit employers to abandon their pension promises. Rather, they simply provide the employers with additional time in which to pay their long-term obligations.

Critics of these amortization extension provisions fear that the 30-year period is too long, which will allow the plan sponsors to irresponsibly fund the liabilities and will ultimately result in the transfer of the liabilities to the PBGC. However, neither the statutory structure of these plans, nor the history of multiemployer funding levels, supports these fears.

When a contributing employer to a multiemployer plan fails, the unfunded liabilities are first sought from that employer through the assessment of withdrawal liability; in essence, an exit fee to be paid by an employer who leaves a plan with unfunded liabilities. If that is unsuccessful, those liabilities are absorbed by the remaining employers. It is only when the entire pool of contributing employers fails that the PBGC assumes responsibility for the unfunded liabilities. Therefore, any relief that facilitates the continued viability of the contributing employers acts to reduce the exposure of the PBGC.

A recent NCCMP survey of nearly 400 multiemployer pension plans indicates that at the beginning of 2008, the average plan had assets sufficient to cover approximately 90% of the liabilities. Especially considering that these plans were still recovering from the market contraction earlier in the decade which prompted passage of the PPA, this represents a very strong funding position. These figures indicate that even prior to PPA, which was generally not effective until 2008, the sponsors of multiemployer plans were responsibly funding their obligations.

Another measure of how responsibly multiemployer plans have been funded historically is the amount of liabilities that have been transferred to the PBGC. The 2008 PBGC Data Book indicates that the corporation has paid approximately $400 million to participants affected by 57 multiemployer plan terminations. To put these figures in perspective, the same report indicates that the figures for single-employer plans are $34.9 billion from 3,850 plan terminations. Since multiemployer plans represent roughly 25% of the participants in defined benefit plans, this disparity is not due to a large difference between the number of plans in the two groups.

The multiemployer pension plan community's strong track record of responsibly funding their pension obligations and preventing the transfer of liabilities to the PBGC indicates that a temporary extension of the amortization period to 30 years will not place these plans at risk. On the contrary, by reducing the additional contributions required to meet their funding obligations over the short term, this extension will enable contributing employers to remain competitive when bidding for work against employers who provide no such benefits during these difficult times; work which produces the hours of contributions which fund the pension and other benefit programs and which also serve to reduce the PBGC's long-term exposure to plan terminations.