WHY INCREASE THE LEVEL OF GUARANTEED BENEFITS?

The PBGC insures that pension plan participants will receive their promised benefits, even if the employer(s) who sponsor the plan are unable to fund those benefits. However, this insurance only applies up to a statutory maximum benefit amount. Any participants who have earned pension benefits over this maximum will experience a reduction in their benefit when the PBGC assumes responsibility for the plan.

Under current law, the maximum benefit that the PBGC guarantees for a multiemployer plan participant is:

a) 100% of the accrual rate up to $11 per month, plus
b) 75% of the next $33 of accrual per month

For a participant with 30 years of service, this formula produces a maximum guaranteed benefit of $12,870 per year. The corresponding figure for a single-employer plan participant is $54,000 per year. The Multiemployer Pension Plans Coalition proposes that Congress prospectively increase the PBGC maximum multiemployer benefit by adding a third tier to the formula, as follows:

c) Plus 50% of the next $40 of accrual

This change would increase the maximum guaranteed benefit under a multiemployer plan to $20,700. Since this increase would be prospective, it would only affect multiemployer plans that begin receiving PBGC assistance in 2010 or later. Participants in plans to which the PBGC is already providing assistance would not be affected.

The increase in the maximum benefit level for multiemployer plans is necessary because benefits for multiemployer plans are not indexed for inflation and take Congressional action for any adjustment. This gap is unique to multiemployer pension plans because the maximum guaranteed benefit for single-employer plans is linked to wage inflation.

There has been an increasing disparity between the maximum guaranteed benefit and the average benefits paid for many years. In the late 1990s, this gap grew even more pronounced as a result of contradictory tax policies. While contributions to a qualified defined benefit plan are generally fully deductible, the maximum deductible provisions of the tax code prevented plans from accumulating assets in excess of the plans' full funding limits to protect against adverse markets. Contributions above that level, even though they were required pursuant to collective bargaining agreements, would have meant that they would not have been currently deductible expenses.

Due to the fact that the plan Trustees are often not the bargaining representatives, declaring a contribution holiday was not an option. The only option was to increase benefits thereby raising plan costs to make the contributions deductible. While the maximum deductible limit problem was addressed in the PPA, the result of the prior rules was an increase in the level of benefits above the guaranteed level. In fact, while benefits for multiemployer plan participants generally remain modest, a recent survey by the NCCMP showed that nearly half of all new benefit awards in 2008 exceeded the PBGC guarantee levels assuming 30 year years of service.

The PBGC began insuring multiemployer pension plan benefits in 1980, with a maximum guaranteed benefit of $5,850 per year. Last adjusted in December 2000, the current maximum of $12,870 represents an annual average rate of increase of 2.7% starting in 1980. During this same period, the consumer price index has grown by an annual average rate of increase of 3.6%, indicating that the maximum guaranteed benefit has lagged behind inflation by an average of over 100 basis points per year.

Multiemployer plans pay a premium to the PBGC that is tied to the number of participants in the plans. In 2010, this premium is $9 per participant. When the $5,850 maximum benefit amount became effective in 1980, the premium rate was $1.40 per participant. These figures indicate that the premium rate has grown by an annual average rate of increase of 6.4%, which significantly exceeds the growth in inflation, and is more than double the growth in the maximum benefit level.