REPORT ON SPECIAL FINANCIAL ASSISTANCE

EMPLOYEE BENEFITS SECURITY ADMINISTRATION

UNITED STATES DEPARTMENT OF LABOR

Executive Summary

Changes in the economy and industry trends earlier this century coupled with declines in union membership and eroded plan assets following two financial crashes resulted in a multiemployer defined benefit (DB) pension plan insolvency crisis. That crisis threatened severe harm to millions of retirees, contagion risk to employers, and economic harm to the communities to which these retirees, workers, and employers belonged.

Many of these threatened harms were prevented or reversed through the passage of the Butch Lewis Emergency Pension Relief Act under President Biden's and Vice President Harris's American Rescue Plan (ARP) Act of 2021. Thanks to the Special Financial Assistance (SFA) program established under the ARP, approximately 200 financially distressed multiemployer DB pension plans covering approximately 2 million workers and retirees are expected to remain solvent and be able to pay the full benefits that workers have earned over the next several decades.

As of October 2024, over $69 billion of SFA was approved for 98 multiemployer plans covering over 1.2 million participants whose benefits would have been reduced by an average of 41 percent, absent SFA.

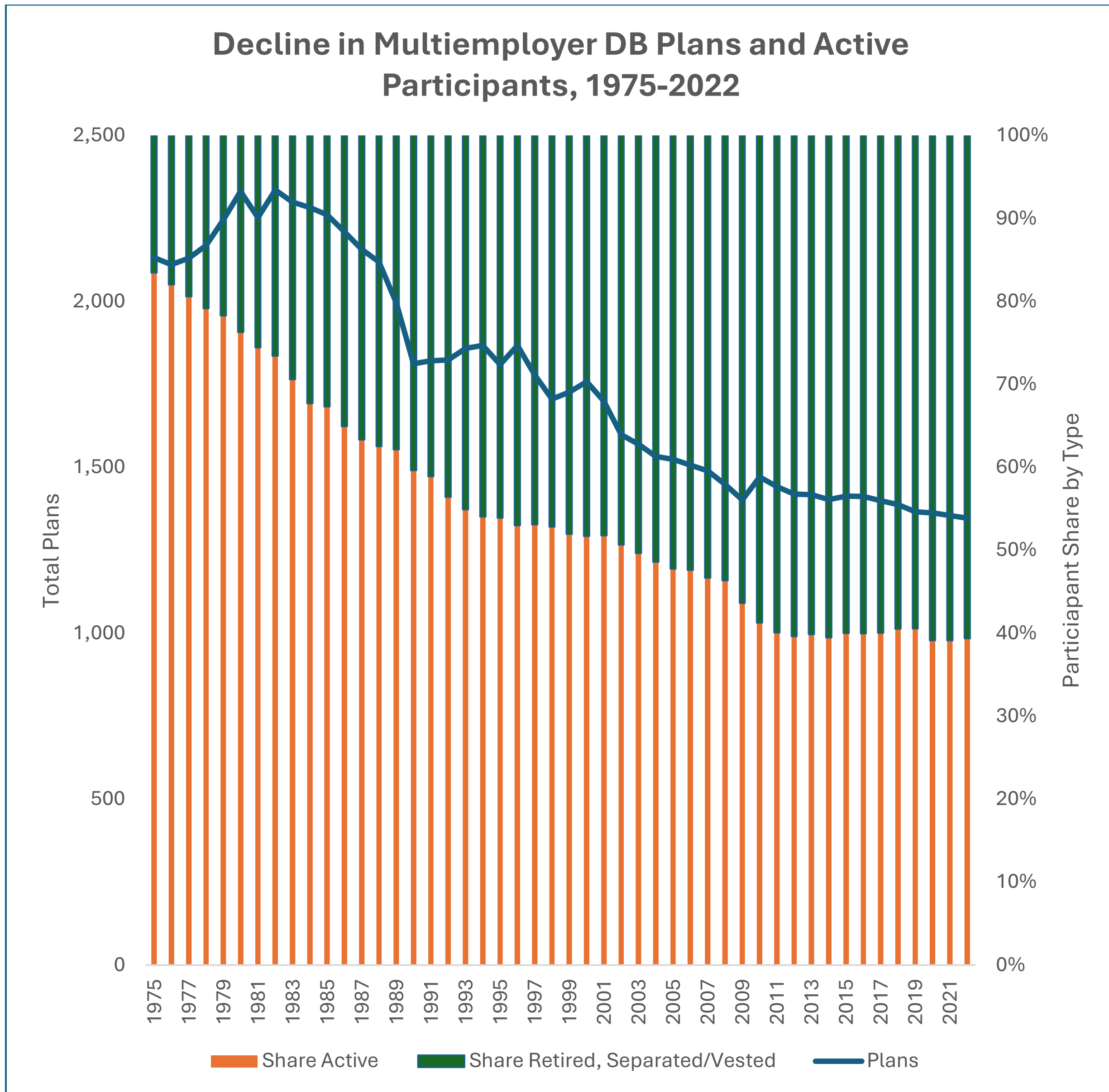
Over 121,000 retirees in pay status have already received in total over $1.6 billion in benefits that they would not have received, absent the ARP. This is an average of approximately $13,600 per participant, significantly impacting their ability to enjoy a secure retirement. Over $700 million of the $1.6 billion is retroactive payments made to reverse benefit reductions suffered by retirees prior to their pension benefits being restored by SFA in order to make them financially whole, with the remainder representing earned benefits that were protected from cuts that would have been imposed absent SFA.

Background on multiemployer plans and origins of the funding crisis

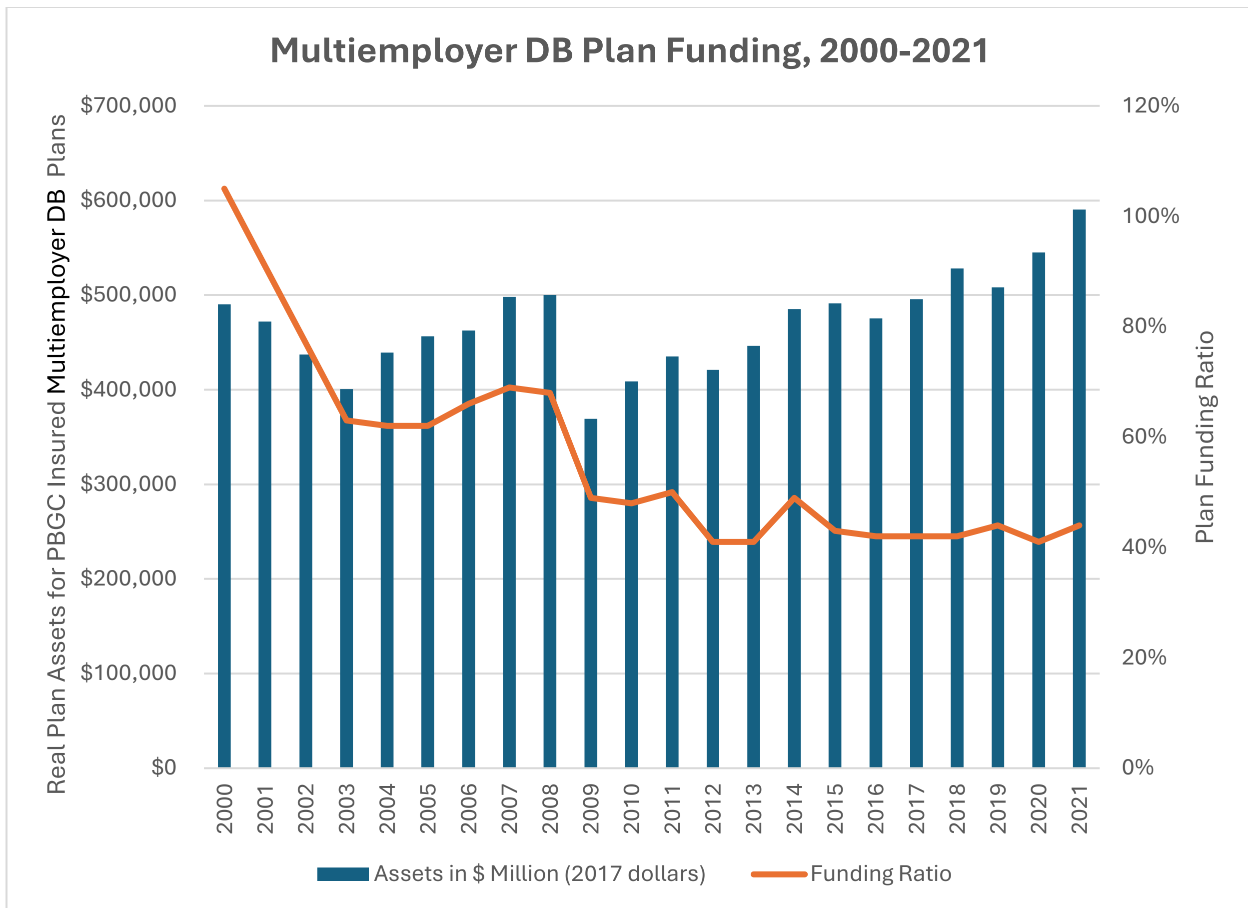
Multiemployer defined benefit (DB) pension plans are a type of retirement plan created through an agreement between two or more unrelated employers and one or more unions. These plans traditionally cover workers in the same industry. By design, these plans allow participants to accrue benefits while working for any employer participating in the plan under a collective bargaining agreement with a participating union. Multiemployer DB pension plans pool risk to protect the plan from the financial impact of the withdrawal from the plan by any of the participating employers by requiring withdrawing employers to pay for their share of unfunded benefits, known as withdrawal liability. The benefits under a multiemployer DB pension plan are partially protected by the Pension Benefit Guaranty Corporation, a federal agency that insures private-sector single employer and multiemployer defined benefit pensions up to a statutory maximum. There are approximately 1,350 multiemployer DB pension plans in the United States.

Although these plans were generally well funded as late as the 1990s, changes in the economy increased pressure on these arrangements, as industries that traditionally participated in multiemployer DB plans shrank and employers exited these plans (either voluntarily or through bankruptcy). These trends, coupled with declines in union membership and active participants, as well as the erosion in the value of plan assets (particularly stemming from the collapse of the late

1990s "dot-com bubble" and the 2007-2009 recession), resulted in underfunding and an insolvency crisis.[1]



[1] IMPAQ. "Multiemployer Plans: Their Current Circumstances in Historical Context," September 29, 2017. https://www.dol.gov/sites/dolgov/files/EBSA/researchers/analysis/retirement/multiemployer-pension-plans.pdf (last accessed 10.28.2024).



Although a significant number of financially healthy multiemployer DB plans remained, the size of some financially troubled multiemployer DB plans meant that the aggregate cost of their failure would in turn bankrupt PBGC's Multiemployer Program. The U.S. Chamber of Commerce, in its 2017 report, *The Multiemployer Pension Plan Crisis,* noted that:

> If the largest underfunded plans become insolvent, they will bankrupt the PBGC. The subsequent benefit cuts that follow will also have deep impacts on the communities where participants live. Retirees will see their standard of living reduced. In addition, the insolvencies could bankrupt employers, potentially leaving workers without income.
>
> Reduced spending by workers and retirees will be felt by businesses, and less money will be paid to local government in sales and other taxes. While tax revenue decreases, the demand for social programs will increase, because many retirees and workers could lose their homes and/or have difficulty paying for medical costs. This will cause many to

become reliant on social programs that have to be funded by taxpayers at a time when tax revenue will decline.[2]

In addition, the financial impact of failed multiemployer DB pension plans risked a contagion effect, whereby the failure of a plan or employer, particularly if large, could present systemic risk, as employers could have liabilities associated with multiple plans.

Prior efforts to address the crisis

Against this backdrop, the Multiemployer Pension Reform Act of 2014 (MPRA) was enacted to mitigate the risk of plan insolvency. It did so by allowing multiemployer DB plans in critical and declining status to cut accrued benefit payments to plan participants, including for those already retired and drawing benefits, in order to remain indefinitely solvent. These cuts were tempered in some ways – they were limited to 110 percent of PBGC's statutory benefit guarantee and excluded or limited benefit cuts for certain participants, including those over age 80[3] on the effective date of the reduction or receiving disability benefits under the plan. Some plans that used MPRA to address the plan's funding issues proposed reducing existing benefits to retirees by more than 50 percent.

Reductions in benefits are always challenging but, for retirees, the loss of earned benefits can be particularly detrimental. Even a seemingly small reduction – such as reducing the real value of benefits by eliminating cost-of-living (COLA) adjustments – can have significant impacts on a retiree's benefits over their lifetime. Simulations suggest that "eliminating a 2-percent compounded COLA reduces lifetime benefits by 15-17 percent. Eliminating a 3-percent COLA on the same initial benefit reduces lifetime benefits by 22-25 percent."[4]

While a 2-3 percent reduction in benefits for retirees is significant, the scale of benefit cuts under MPRA were potentially devastating. For the Central States, Southeast and Southwest Areas Pension Fund (Central States) plan, MPRA required that any "orphaned" beneficiary whose employer withdrew from the plan and failed to pay the full withdrawal liability be subject to the maximum benefit cut. This would have required "more than 19,000 orphan beneficiaries who worked more than 20 years in a job that contributed to Central States to have their Tier 1 employment pensions cut by more than 50 percent."[5]

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[2] U.S. Chamber of Commerce, "The Multiemployer Pension Plan Crisis: The History, Legislation, and What's Next?" December 2017. https://www.uschamber.com/assets/archived/images/multiemployer_report_-_chamber_-final.pdf (last accessed October 25, 2024).

[3] The age exclusion starts at age 75 phasing into a full exclusion for participants who were age on the effective date of the reduction. See ERISA section 305(e)(9)(D)(ii).

[4] Alicia H. Munnell, Jean-Pierre Aubry, and Mark Cafarelli. "COLA Cuts in State/Local Pensions," Center for Retirement Research Issue Brief, Number 38. May 2014. https://crr.bc.edu/wp-content/uploads/2014/05/slp_38.pdf. (last accessed 10/26/2024).

[5] Congressional Correspondence to Thomas Nyhan, Executive Director of Central States and Southwest Areas from Rep. Jim Renacci, Rep. Marcy Kaptur, Rep. Patrick Tiberi, Rep. Michael Turner and Rep. Richard M. Nolan (January 15, 2016).

One retiree facing cuts under MPRA testified that under the proposed cuts:

> I definitely would not be able to pay my bills each month, afford groceries or take care of necessary medical needs. I don't know what I would do. I know almost all of my former co-workers are in the same position…"[6]

Another testified before the Joint Select Committee on the Solvency of Multiemployer Pension Plans:

> I will never forget the day I received my letter from the Central States Pension Fund with the news that they were applying to the Treasury Department to reduce my monthly pension benefit by 55 percent. Life changed that day. You have no idea what it's like to be retired on a fixed income and suddenly be told your monthly check would be cut in half. I was devastated and so was my family.[7]

Not every financially troubled multiemployer defined benefit pension plan cut benefits under MPRA – for example, they may not have been able to cut benefits enough to project future solvency. In instances where plans failed despite MPRA, PBGC stepped in to pay benefits up to the guarantee level. However, as described above, PBGC's Multiemployer Program was itself facing insolvency due to the number and size of expected plan failures. In the absence of legislation to address PBGC's Multiemployer Program solvency crisis, after PBGC insolvency, the benefits of participants in insolvent multiemployer plans would have been reduced to the level supported by PBGC's future premium income. Such reductions could have resulted in some retirees receiving only a very small fraction of the benefits guaranteed by PBGC, which itself was less generous than what they had been promised under the terms of the pension plan.

Passage of Butch Lewis and impact of Special Financial Assistance

It was under this threat that the Biden-Harris Administration worked with its allies in Congress to pass the Butch Lewis Emergency Pension Relief Act under the American Rescue Plan (ARP) Act of 2021. This law created the Special Financial Assistance (SFA) program for multiemployer DB pension plans, which is expected to provide additional funding for approximately 200 financially distressed eligible multiemployer DB pension plans covering approximately 2 million workers and retirees. With these additional assets, those pension plans are expected to remain solvent and will be able to pay the full benefits that workers have earned over the next several decades. Moreover, SFA requires plans that reduced benefits under MPRA or due to plan insolvency to restore those cuts in full (including retroactive make-up payments for previously suspended benefits) for participants in pay status on the date plans receive special financial assistance.

[6] Testimony of James Morgan, former employee of Hostess. March 3, 2019. Cost of Inaction Multiemployer Pension Crisis House Education and the Workforce Committee. https://www.congress.gov/event/116th-congress/house-event/LC64183/text (last accessed on 10.26.2024).

[7] Testimony of Kenneth Stribling, retired Teamster. July 25, 2018. How the Multiemployer Pension System Affects Stakeholders, Joint Select Committee on Solvency of Multiemployer Pension Plans. https://www.congress.gov/event/115th-congress/joint-event/LC64836/text?s=1&r=1 (last accessed on 10.26.2024).

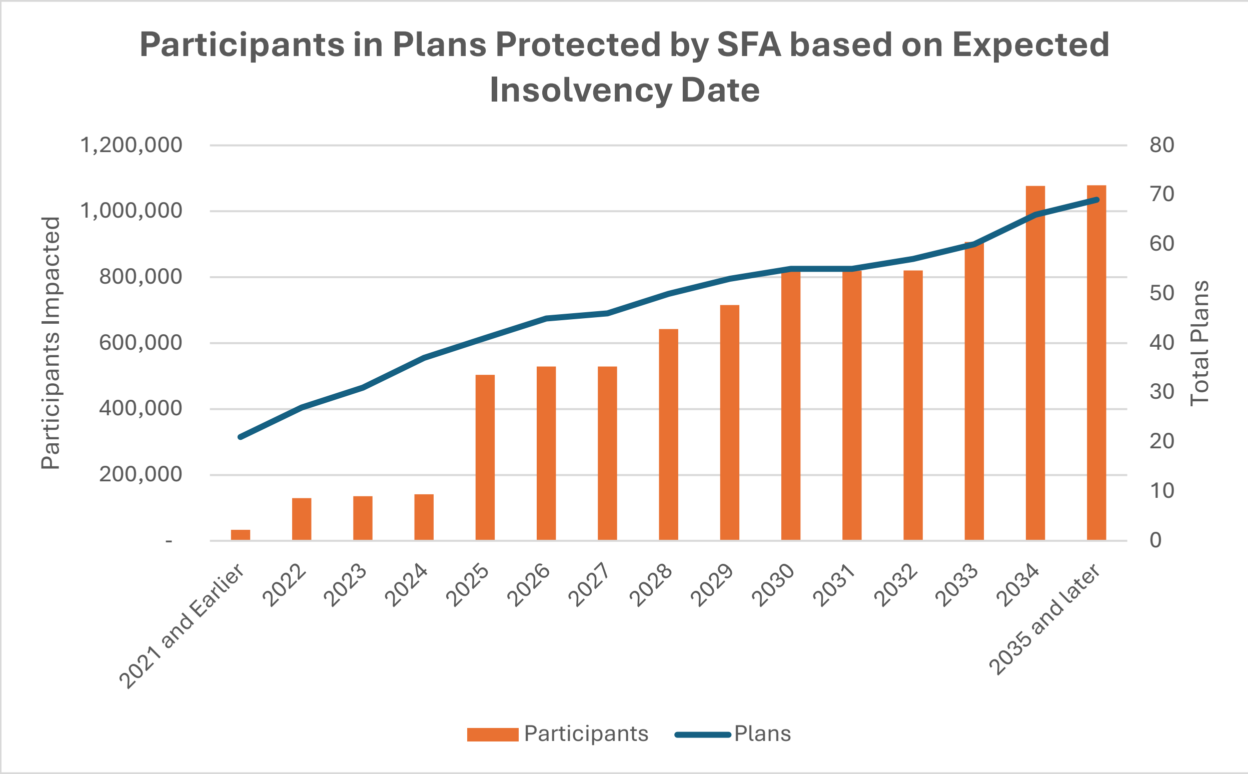
As of October 2024, over $69 billion of SFA was approved for 98 multiemployer plans covering over 1.2 million participants whose benefits would have been reduced by an average of 41 percent, absent SFA. These payments benefited plans covering workers and retirees from a wide range of industries. The plans that have received SFA provide benefits to almost 620,000 workers and retirees in Teamsters union pension plans, over 150,000 workers and retirees in United Food and Commercial Workers pension plans, over 89,000 workers and retirees in United Steelworkers pension plans, over 103,000 workers and retirees in Bakery and Confectionery Workers union plans, and over 50,000 workers and retirees in Communications Workers of America union plans. A breakdown of the participants, based on participant information provided by the largest plans, is included as an appendix for the top 20 states.

SFA Awards to Plans through October 2024, by Application Type

	Plans	Total Participants	SFA Approved Funds $M
MPRA	18	87,862	$ 3,987.61
Insolvent	21	33,125	$ 4,315.62
Critical and Declining	48	1,046,276	$ 60,478.73
Critical	11	47,310	$ 668.35
Total	98	1,214,573	$ 69,450.31

In particular, SFA provided $477 million to the 18 plans affecting 11 unions that under MPRA had reduced benefits an average of 22 percent for 60,620 retirees in pay status with some plans reducing benefits as much as 55 percent, in order to repay those lost benefits. These plans received an additional $3.5 billion in SFA to help ensure they remain solvent and able to pay all 87,862 participants in those plans their full retirement benefits through at least 2051.

To date, as illustrated by the chart on page 8, SFA also ensured that 21 plans that were already insolvent and 48 plans that were projected to become insolvent by 2041 are now able to provide full benefits to their roughly 1.1 million participants. Note that this chart does not include plans that previously cut benefits under MPRA and were projected to remain indefinitely solvent at lower benefit levels, or plans that were experiencing financial distress but not projected to become insolvent in the near-term.



As referenced in the table below, thanks to SFA, 121,140 retirees in pay status have already received in total over $1.6 billion in benefits that they would not have received, absent the administration's efforts. This is an average of approximately $13,600 per participant, significantly impacting their ability to enjoy a secure retirement. $714 million of the $1.6 billion is retroactive payments made to restore prior benefit reductions, with the remainder representing earned benefits that were protected from cuts that would have been imposed absent SFA.

Benefit Payments Already Made to Participants Resulting from SFA - Through October 2024

		Payments	Participants Affected
MPRA Payments	$	447,009,439	60,620
Insolvency Payments	$	266,935,769	15,945
In-Pay Status Payments	$	932,729,116	121,140
Total	$	1,646,674,325	121,140

The SFA provided to multiemployer DB plans benefits not only pensioners and their families, who no longer face financial insecurity due to devastating and unplanned losses in retirement, but also their communities. According to a 2023 National Institute on Retirement Security report, “each dollar paid out in pension benefits supported $2.13 in total economic output nationally” with food, health care, and retail trade being the most impacted sectors.[8]

Conclusion

The SFA program established by ARP is the most significant effort to protect the solvency of the multiemployer DB pension system in 50 years. Before ARP, workers and retirees participating in more than 200 multiemployer pension plans faced the prospect of not receiving the full benefits they earned and need to support them and their families in retirement. Prior to ARP, PBGC’s multiemployer pension insurance program was itself projected to become insolvent in 2026, with potentially significant consequences for the more than half a million workers and retirees who were projected to be relying on PBGC-insured benefits at that time, plus more than another million people covered by plans that were projected to rely on PBGC in the future. Thanks to ARP, once-struggling multiemployer DB pension plans are projected to be able to pay the full benefits earned by workers and retirees who participate in these plans through at least 2051.

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[8] Ilana Boivie and Dan Doonan. “Pensionomics 2023: Measuring the Economic Impact of DB Pension Expenditures,” National Institute on Retirement Security. January 2023. https://www.nirsonline.org/wp-content/uploads/2022/12/Pensionomics-2023-Main-Report-Compressed-1.4.pdf (last accessed on October 25, 2024).

Appendix

States with the Most Participants in Plans Receiving SFA Funds, by Retiree State of Residence (as of October 2024)

State	Participants
Michigan	More than 80,000
New York	More than 78,000
Illinois	More than 73,000
Pennsylvania	More than 65,000
Ohio	More than 63,000
California	More than 63,000
Florida	More than 42,000
Missouri	More than 38,000
Texas	More than 36,000
Massachusetts	More than 35,000
Indiana	More than 34,000
Wisconsin	More than 33,000
Maryland	More than 32,000
New Jersey	More than 31,000
Minnesota	More than 30,000
Tennessee	More than 25,000
Georgia	More than 24,000
North Carolina	More than 19,000
Virginia	More than 18,000
Kentucky	More than 17,000

Note: these figures are rounded down to the nearest thousand, and tabulate information provided by the largest plans with approved applications for SFA. Therefore, they should be considered a lower bound.