



**PENSION BENEFIT GUARANTY
CORPORATION**

Multiemployer Study

Required by

P.L. 95-214

-- July 1, 1978 --

MULTIEMPLOYER PROJECT STAFFING

Project Management

Matthew M. Lind
Executive Director

Dallas L. Salisbury
Project Director and
Assistant to the Executive Director

Project Staff

Gerald E. Cole, Jr.
Special Counsel

Vince Cicconi
Economist

Gail Sevin
Program Analyst

Renae Hubbard
Technical Writer

David Weingarten
Attorney Advisor

Linda Mizzi
Program Analyst

Jerry St. Clair
Operations Research
Analyst

Gene Kalwarski
Actuary

John Castner
Operations Research
Analyst

Roberta Rollins
Secretary

Micheline Kumjian
Secretary

Ann Dickerson
Secretary

Loma Redman
Secretary

Joyce Smith
Secretary

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	1
PART I -INTRODUCTION	
A. Background of the Report	19
B. Nature and History of Multi- employer Plans	20
C. Impact of ERISA	22
D. Summary of Considerations	24
PART II -MULTIEMPLOYER PLAN DEFINITION	
A. Introduction	26
B. Definition under Consideration	26
C. Multiple Employer Plans	32
PART III -MINIMUM FUNDING STANDARDS	
A. Introduction	33
B. Description of Current Minimum Funding Standards	34
C. Problems with Current Funding Standards	37
D. Alternatives	39
PART IV -DESIGN OF MULTIEMPLOYER INSURANCE	
A. Introduction	48
B. Plan Reorganization	61
C. Financial Assistance to Ongoing Reorganized Plans	69
D. Alternative Approaches to Restructuring the Insurance Program for Terminating Plans	72
E. Stricter Phase-In Rules	90
F. Allocation of Employer Liability on Plan Termination	91

TABLE OF CONTENTS - Cont.		<u>Page</u>
PART V -WITHDRAWAL BY AN EMPLOYER		
A.	Introduction	94
B.	Summary	97
C.	Alternatives	99
PART VI -MERGERS AND TRANSFERS OF ASSETS LIABILITIES		
A.	Introduction	115
B.	Present Law	115
C.	Rules Under Consideration	119
PART VII -MULTIEMPLOYER PROGRAM PREMIUM STRUCTURE		
A.	Introduction	122
B.	Multiemployer Plan Termination Insurance-Premium Structures under Consideration	124
C.	Analyses	128
PART VIII-COST ANALYSIS		
A.	Introduction	137
B.	Summary of Findings	138
C.	Methodology	144
D.	Analysis	149

TABLE OF CONTENTS - Cont.

APPENDIX I	Potential Multiemployer Plan Liabilities Under Title IV of ERISA
APPENDIX II	Size and Geographic Scope of Multiemployer Plans
APPENDIX III	Multiemployer Plan Definition--Alternative Consideration
APPENDIX IV	Implementation Rules--Minimum Funding Standards
APPENDIX V	Other Options for Minimum Funding Standards for Multiemployer Plans
APPENDIX VI	Administration of Reorganization
APPENDIX VII	Phase-in Alternatives
APPENDIX VIII	Collection of Termination Liability and Administration of Terminating Plans
APPENDIX IX	Discretionary Coverage
APPENDIX X	Employer Liability Upon Withdrawal--Discussion Paper
APPENDIX XI	Other Statutory Provisions Applicable to Withdrawals--Implementation Rules
APPENDIX XII	Limitation of Plan Liabilities through a Spin-off upon an Employer Withdrawal
APPENDIX XIII	Cost Analysis--Description
APPENDIX XIV	Cost Analysis--Results
APPENDIX XV	Multiemployer Terminations Guaranteed During the Discretionary Period

SUMMARY

This paper has been prepared pursuant to the mandate in Public Law 95-214 that the Pension Benefit Guaranty Corporation (PBGC) submit a report to the Congress by July 1, 1978, that comprehensively analyzes the multiemployer plan termination insurance program established by Title IV of the Employee Retirement Income Security Act of 1974 (ERISA). 1/

Multiemployer plans started in the 1940's and expanded greatly in the 1950's and 1960's. There are now about 2,000 defined benefit multiemployer plans covering about eight million participants. Although multiemployer plans cover approximately 20 percent of all participants in defined benefit pension plans, they account for less than three percent of all such plans. 2/ Because of their relative size, even a few multiemployer plan terminations during a given year could have a significant impact on the termination insurance program.

A PBGC study of multiemployer plans found that about 10 percent of the multiemployer plans, covering 15 percent of total multiemployer plan participants (1.3 million workers), are experiencing financial difficulties that could result in plan termination over the next 10 years. 3/

1/ Public Law 95-214, 91 Stat. 1501 (1977) which mandated this report also deferred the date of mandatory plan termination insurance for multiemployer plans to July 1, 1979. See also Sen. Rep. No. 95-570 and H.R. Rep. No. 95-706, 95th Cong., 1st. Sess. (1977). Until July 1, 1979, termination insurance for multiemployer plans is discretionary with PBGC. See Appendix IX for a discussion of discretionary coverage. To date the PBGC has exercised its discretion to guarantee benefits in two situations. These are summarized in Appendix XV.

2/ Based on data from PBGC-1 forms for the year ending September 1, 1976.

3/ See Part VIII and Appendices XIII and XIV of this report.

If all of these plans were to terminate, the cost under the current termination insurance program, after deduction of estimated employer liability, is approximately \$4.8 billion and would require an annual premium of approximately \$80 per participant. If only those plans that are projected to become insolvent within the next ten years are considered, the cost, net of employer liability, is approximately \$560 million and would require an annual premium of approximately \$9 per participant. ^{4/} The cost analysis will be discussed more fully in section G, below.

Multiemployer plans are established and maintained through collective bargaining. Employers agree to pay money into a pension trust fund that is administered by a joint board of trustees half of which are appointed by the union(s) and half of which are appointed by the employers. ^{5/} The joint board is usually responsible for determining the types and amount of benefits to be provided and the eligibility requirements for such benefits. ^{6/} The employers' obligations to contribute to the trust are usually established in the collective bargaining agreement at a specified rate (e.g., X cents per hour worked by or per unit of production of employees covered by the agreement). In most instances an individual employer's obligation to contribute to the plan and its involvement with the plan has been limited to making the contributions required under the collective-bargaining

4/ A 1977 study conducted by PBGC on the magnitude of potential liabilities from multiemployer plan terminations found similar results. The findings of this latter study are discussed in Potential Multiemployer Plan Liabilities under Title IV of ERISA, Pension Benefit Guaranty Corporation (September 29, 1977) (Appendix I).

5/ Labor-Management Relations Act §302(c), 29 U.S.C. §186 (1975).

6/ Multiemployer Pension Plans under Collective Bargaining, Spring 1960, Bureau of Labor Statistics, Bulletin No. 1326, 1962.

agreement regardless of whether those contributions prove sufficient to provide the benefits established by the joint board. ^{7/} In addition, an employer's obligation to fund benefits of its employees has typically ceased upon the employer's withdrawal from the plan. Employees of the withdrawn employer retain their benefit credits, and employers remaining in the plan and newly entering employers thus assume the burden of funding any unfunded liabilities of the withdrawn employer.

Under a multiemployer plan, a participant's benefit is based on service with all contributing employers for whom the participant works during his or her career. This arrangement enables a participant to receive a pension even though he or she changes employers, as long as total accumulated service with all participating employers is sufficient to satisfy the plan requirements for obtaining a vested benefit. Multiemployer plans thus provide considerable pension portability. This is important in mobile employment situations such as construction, water transportation, and the performing arts.

These two characteristics of multiemployer plans--pension portability and protection of an employee's benefits even though the employee's employer leaves the plan--provide participants with a much greater benefit security than single employer plans. These features, however, have resulted in some multiemployer plans having very high unfunded liabilities for benefits of participants whose employers have ceased contributing. Withdrawal of employers accompanied by a decline in the industry, trade, or craft covered by a plan can cause the "sharing of liability" feature of a multiemployer plan to weaken the plan by increasing the funding burden on remaining employers because there are no new entering employers (or too few) to take their place.

^{7/} Compare Connolly v. PBGC, 419 F. Supp. 731 (C.D. Cal. 1976) rev'd and rem'd, No. 76-2777 (9th Cir. May 4, 1978) with PBGC v. Defoe Shipbuilding Co., No. 77-10151 (E.D. Mich. Feb. 28, 1978); see also Wayne Jett, "Proper Federal Regulations of Multiemployer Pension Trusts" (April 19, 1978) (unpublished); "Comments of Mechanical Contractors Association of America, Inc., on Discussion Draft, Multiemployer Study, Basic Concepts Paper of the Pension Benefit Guaranty Corporation" (April 29, 1978) (unpublished).

The cost of providing benefits set in a multiemployer plan sometimes are higher than negotiated contributions can support. This can result, for example, from adverse actuarial experience.

Before passage of ERISA, terminations of multi-employer plans were extremely rare. The low incidence of such terminations was due primarily to two factors. First, participation in multiemployer plans and the industries covered by those plans generally continued to grow through the 1960's. Second, in those cases in which the industry declined and the plan contribution base shrank, causing financial difficulties, the plans were able to reduce benefits to avoid termination. ERISA restricts some of the actions that plans previously took to avert termination but does not provide effective substitutes. Because of these restrictions, changes in the economic outlook for some industries, and the availability of termination insurance, the incidence of termination and, therefore, the cost of terminations to the insurance program, participants, and employers are highly uncertain at this time. Although the PBGC has estimated the liabilities of plans that might terminate because of financial reasons, the number of terminations and consequently the cost to the insurance system cannot be projected with any great degree of certainty, since termination depends on a myriad of factors. Even less certain is the outlook for terminations and related claims of plans that are not currently in financial distress.

ERISA generally, and termination insurance in particular, may very well contribute to the uncertainty. For example, high guarantees, such as under the current statute, and limited employer liability may make termination an attractive alternative to continuation where the cost of maintaining the plan on an ongoing basis becomes too high. A higher incidence of terminations and claims could necessitate high premiums in order to keep the program self-financing. High premiums might make multiemployer plans less attractive to participants and employers than at present, by diverting money to premiums that otherwise could be used to provide benefits. Other ERISA rules also may be a factor contributing to plan termination. The current withdrawal rules may discourage large employers from entering multiemployer plans, thus weakening the contribution base. In addition, the restrictions on benefit reductions contained in ERISA limit the flexibility such plans previously had to avoid termination because of financial distress.

This report contains a discussion of proposals that PBGC has under consideration to strengthen multiemployer plans and to ensure that the PBGC insurance program provides substantial protection to workers at reasonable cost by

fostering plan continuation. The proposals are designed to reduce the incentive to terminate created by the present program and control and more equitably distribute the costs of plan termination.

The report discusses possible statutory changes in the following areas:

- (1) definition of multiemployer plan,
- (2) funding,
- (3) design of multiemployer plan insurance, including a system of plan reorganization and possibly the provision of PBGC financial assistance to ongoing plans to avert terminations,
- (4) employer withdrawals,
- (5) plan mergers and transfers, and
- (6) premiums.

A. DEFINITION OF MULTIEMPLOYER PLAN

The definition of a multiemployer plan under present law includes two special tests, the effect of which could be to move a plan into or out of multiemployer plan status without any real change in the plan or its financial condition. ^{8/} Thus, potential termination claims under Title IV could shift between the multiemployer fund and the non-multiemployer fund. Furthermore, a plan and the PBGC might not know of a change in the plan's classification until the end of a plan year. ^{9/}

The PBGC is considering a definition that would treat all collectively-bargained plans to which more than

^{8/} The tests are: (1) that no one employer contribute more than a specified percentage of contributions in any one plan year, and (2) that benefits be payable to each participant without regard to cessation of contributions by a participant's employer, except for benefits accrued prior to the employer's entering the plan. I.R.C. §§414(f)(1)(C) and (f)(1)(D); ERISA §§3(37)(A)(iii) and (iv).

^{9/} This is because the percentage contribution test is based on actual contributions rather than expected contributions and, therefore, cannot be determined until after the plan year ends.

one employer contributes the same by eliminating both special tests from the definition of "multiemployer plan". ^{10/} However, plans that would be multiemployer plans under the new definition, but which historically have intended not to share unfunded liabilities attributable to withdrawing employers, could be allowed to provide for an automatic spin-off of the assets and liabilities attributable to a withdrawing employer.

B. FUNDING

To assure that plan assets will be adequate to meet benefit payments, PBGC is considering changes in the minimum funding standards designed to strengthen the funding of multiemployer plans.

Current funding standards may not be adequate to assure sound funding of multiemployer plans because they permit past service costs to be amortized over a 40-year period, and because they allow unfunded liabilities to increase excessively when the contribution base is declining. ^{11/} To avoid an adverse impact on plan costs, the changes under consideration generally would not increase the contributions required for present benefit obligations, but would require a sounder relationship between funding and future benefit improvements. Furthermore, in view of the fact that some plans have experienced a substantial increase in required contributions due to ERISA, a delay in the effective date of the funding proposals is under consideration.

PBGC is considering three changes to the funding standards. The first change would require multiemployer plans to amortize unfunded past service liabilities created by future benefit increases over 30 years, rather than over 40 years as allowed by the current statute, and to amortize experience losses over 15 years, rather than 20 years as currently permitted. Some multiemployer plans have large unfunded liabilities including, in many cases, liabilities

^{10/} The substantive rule of §414(f)(1)(D) of the Internal Revenue Code, that allows a multiemployer plan to disregard "past service benefits", would be retained as an exception to the minimum vesting and accrual requirements of ERISA.

^{11/} The current minimum funding standard is set forth in ERISA §302 and I.R.C. §412.

of former employers no longer contributing to the plan. Although such plans can normally look to a large number of employers for funding these liabilities, the contribution base of a multiemployer plan is vulnerable to shifts in employment patterns because of geographic shifts, technology changes, or shifts in consumption patterns. In light of these facts, a 40-year amortization period is too long to ensure adequate funding.

The second major change in the minimum funding standards would require that contributions to a plan be sufficient to pay benefit obligations as they become due. This would be accomplished through a new minimum contribution requirement (MCR) which would require that total contributions, including both normal cost and past service cost, be adequate to meet a plan's benefit payment commitments. 12/

A third change relates to the shortfall funding method, which is an alternative funding method available to collectively-bargained plans. 13/ This funding method allows the parties to the plan to fix a contribution rate for the duration of a collective bargaining agreement by dividing the total contributions required under the minimum funding rules by the expected number of work units (e.g., total projected hours to be worked to derive a rate for each work unit). If the hours actually worked are less than the projected hours, a shortfall loss will result. If the contribution base is declining, the funding standard account will be charged with a series of shortfall losses. Under present law, shortfall losses are amortized over 15 years, 14/ and there is no limit to the number or amount of shortfall losses that can be funded on the 15-year amortization basis.

The PBGC is considering changes to ensure sounder funding whenever the accumulated shortfall losses would create, in the absence of the shortfall method, a large funding deficiency, i.e., a funding deficiency that exceeds

12/ The MCR would be based on a percentage of unfunded vested benefits. The percentage would vary, depending on a plan's interest rate assumptions, in order to assure that the impact does not vary as a result of a plan's actuarial assumptions.

13/ See Treas. Reg. §11.412(c)(1)-2, 42 Fed. Reg. 39382 (August 4, 1977).

14/ The start of the amortization period may be delayed five years.

a given percentage of the contribution required under the minimum funding standard account. One approach under consideration would prohibit benefit increases while an excessive funding deficiency exists. Another would permit benefit increases upon an actuarial certification that the excess funding deficiency would be corrected within a given number of years, e.g., five years.

C. DESIGN OF MULTIEMPLOYER PLAN INSURANCE

The basic underlying philosophy of the major proposals under consideration for restructuring the multi-employer insurance program is that plan continuation provides the greatest security against loss of pension benefits.

1. Plan Reorganization

One way to further plan continuation is through a process of plan reorganization under which plans would be encouraged to take action to correct financial problems.

Plan reorganization would be voluntary; no plan would be required to reorganize. However, under one option being considered, plans that reorganize but nevertheless deteriorate to the point that they are unable to pay benefits would be eligible for guarantees in the form of ongoing PBGC financial assistance if needed to meet benefit payments.

Under reorganization a financially troubled plan would be encouraged to take corrective action to avert near-term or long-term plan insolvency, and to establish a sound relationship between plan contributions and benefit outlays.

The reorganization program consists of two levels of plan reorganization, each level based on the severity of a plan's financial problems. The purpose of the two-tier program is to enable PBGC and plans to become aware of impending financial difficulties at the earliest possible time, so that moderate actions can avert insolvency, but to allow more flexibility than under the current statute when the threat of insolvency becomes imminent.

The two levels of plan reorganization are:

Level I Reorganization: Level I is essentially an early warning signal for the purpose of identifying plans which are facing long-term financial deterioration (e.g., they would exhaust their assets in 15 years based on projected benefit payments, the current contribution rate, and continuation of recent trends in the size of the contribution base). Plans which meet established threshold tests for Level I reorganization would be encouraged to take a variety of corrective measures,

such as increasing contributions or limiting future benefit increases if needed, but would not be permitted to reduce previously accrued benefits beyond the reductions permitted by ERISA.

Level II Reorganization: Level II applies to plans which are in imminent danger of plan insolvency (e.g., they would exhaust their assets in seven years based on projected benefit payments, the current contribution rate, and continuation of recent trends in the size of the contribution base). Plans which meet established threshold tests for Level II reorganization would be permitted to take a variety of corrective actions, including reducing benefits, if necessary to remove the imminent threat of insolvency. However, except for benefit reductions permitted by ERISA, plans would not be permitted to reduce previously accrued benefits (both vested and nonvested) below the guaranteeable accrual level, i.e., the benefit that would be guaranteed if all accruals were vested.

2. PBGC Financial Assistance to Ongoing Plans

One of the important alternatives PBGC is considering would shift the focus of the insurance program from providing benefits upon termination to providing financial assistance to ongoing plans. Financial assistance in the form of loans would be provided to plans in reorganization that face insolvency despite having taken corrective measures, such as reducing benefits to the guaranteed level and maintaining a specified rate of contributions.

The multiemployer insurance program could be designed with PBGC financial assistance to reorganized plans as the sole or primary insurance vehicle. Under this approach, there could be lower guarantees--or no guarantees--for plans that terminate, i.e., plans that do not attempt to reorganize or that do not take all required corrective measures in reorganization. Thus, PBGC program funds would be restricted to those plans most in need of help, that have complied with full reorganization requirements. Ideally, under this approach, the PBGC financial assistance to reorganized plans would be sufficient to protect substantially the same level of benefits as would be protected under existing Title IV provisions.

Since the guarantee would be provided on an ongoing plan basis, employer liability would, in effect, be replaced by the continuation of employer contributions to the plan at the rate established in the collective bargaining agreement. 15/

15/ Employer liability upon withdrawal is also satisfied by continued funding by the employer of its share of unfunded liabilities.

3. Guarantees and Employer Liability for Terminating Plans

A second way to redesign the multiemployer insurance program is to revise the guarantees and/or employer liability for terminated plans to make plan continuation more attractive than termination, than under the current program. Under this second approach, no PBGC financial assistance would be provided for ongoing plans. Plan reorganization, however, could still be included in such a program in order to enable financially weak plans to improve their financial condition and thereby avoid termination. In the event of termination, employers would remain liable to continue funding their share of termination liability without regard to net worth. 16/

PBGC is considering five different programs for controlling the incidence of termination and the level of program costs through various combinations of employer liability and benefit guarantees. 17/ They are:

Program 1: employer liability for full vested benefits and reduced benefit guarantees;

Program 2: employer liability for guaranteed benefits only, and reduced benefit guarantees;

Program 3: no employer liability and no benefit guarantees;

Program 4: employer liability for guaranteed benefits and reduced benefit guarantees if the plan imposes withdrawal liability; otherwise, no guarantees and no employer liability; and

16/ The current statutory limit on employer liability, *i.e.*, 30 percent of net worth, would be eliminated because the net worth limitation may create financial incentives to terminate a plan in cases in which the cost of providing benefits under an ongoing plan would be greater than the employer's termination liability, and because determining net worth poses major administrative and cost problems.

17/ Because of the fundamental restructuring of the current liability provisions of the basic termination insurance program, a separate contingent employer liability insurance (CELI) program to further alleviate employer liability would be superfluous. Although there are no distinct CELI provisions, various program proposals (e.g., reorganization) do incorporate CELI-type relief. Such relief could be most significant under the reorganization proposals in which employer liability could be substantially reduced for a plan which undergoes reorganization.

Program 5: employer liability only for the guaranteed benefits of retirees and those within five years of normal retirement, and benefit guarantees only for such participants. 18/

If termination insurance is the sole vehicle for guaranteeing benefits, reorganization without financial assistance could still be made available to help plans avoid termination. To provide incentive for reorganization, benefits accrued after a plan qualifies for reorganization could be guaranteed only if the plan takes all necessary reorganization measures but nevertheless terminates because of insolvency. Also, employer liability for a plan that reorganizes but nevertheless becomes insolvent and terminates could be reduced under the various termination insurance program options. Under Program 1, employers could be liable for unfunded termination guarantees rather than unfunded vested benefits. Under programs 2, 4, and 5, if a plan reorganizes but nevertheless becomes insolvent, employer liability could be based only on guaranteed benefits accrued to the date the plan first qualified for reorganization. Thus, employer liability would be computed in the same manner whether or not the plan reorganized. This would assure that the level of potential employer liability would not deter plans from reorganizing.

There are a number of ways that the level of benefits can be reduced if that is necessary to control program costs. They include:

- (1) a permanently reduced level of guarantees (e.g., 25 or 50 percent of the guaranteeable level for a reorganized plan),
- (2) guarantees only for post-ERISA benefit accruals (i.e., accruals in plan years beginning after December 31, 1977,
- (3) a phase-in of program guarantees at the rate of X percent per year (e.g., 10 percent for each year the program is in effect), or
- (4) guarantees only for benefits accrued while an employee was working in employment for which contributions to the plan were required.

18/ Except for Program 3, these programs are viable options irrespective of whether the reorganization concept is adopted. Program 3 cannot be effective unless PBGC assistance is available to reorganized plans.

In order to provide some measure of protection to retirees and older participants, their benefits would be given a high priority in the allocation of plan assets.

4. Phase-in of Guarantees of Benefit Increases

The final element of the changes under consideration in the design of termination insurance is stricter phase-in rules for the guarantee of benefit increases. Under the current statute, benefit increases become guaranteed very quickly. At present, the guaranteed increased benefits are phased-in at the annual rate of 20 percent of the monthly benefit increase or \$20 per month, whichever is greater. ^{19/} The phase-in rules under consideration, would eliminate the \$20 rule and retain the 20 percent phase-in rule for benefit increases, and perhaps delay the start of the present five-year phase-in for three years. They would be applicable to both financial assistance guarantees and termination guarantees. Other possibilities under consideration would make the rate at which a benefit increase becomes guaranteed contingent on the plan's funding status at the time of the increase.

D. EMPLOYER WITHDRAWALS

Under the current statute most employers can withdraw from a multiemployer plan that has unfunded liabilities and thereby terminate their obligation to continue contributions.

Although statutory sanctions currently are imposed upon large withdrawing employers, a plan is not reimbursed for the loss caused by withdrawal. Generally, the law requires only that a substantial employer (one that makes 10 percent or more of the total contributions to the plan) post a bond or place an amount in escrow to cover its contingent liability to the PBGC if the plan terminates within five years. ^{20/} Neither bond nor escrow is required when a nonsubstantial employer withdraws.

To prevent employers from being able to withdraw from a plan and leave the plan with unfunded liabilities, and to avoid the additional burdens on remaining employers created by withdrawals, this report considers statutory changes that would require any employer withdrawing from a multiemployer plan to complete funding its share of the plan's unfunded vested liabilities arising while the employer was in the plan. The proposed rules contain a method of

^{19/} ERISA §4022(b).

^{20/} ERISA §4063.

allocating liability to a withdrawn employer based on its relative contributions to the plan, thus reflecting the share of the funding burden the withdrawn employer was carrying.

Temporary employers who enter a plan with little or no past service credit for their employees, however, could be exempted from withdrawal liability if the plan so elects. Generally, their participation enriches the plan as it does not result in increased unfunded vested liabilities. 21/

Because the withdrawal rules being considered may not be appropriate for every plan, a plan would be allowed to adopt an alternative method of allocating liabilities to a withdrawing employer more suitable to its particular situation, subject only to disapproval by the PBGC. The alternative method could be in the statute or regulation so that the adoption of an alternative need not be reported to PBGC. A plan also could elect not to impose withdrawal liability, if PBGC agrees that withdrawal liability is not administratively feasible for that plan.

The withdrawal rules would reduce the funding burden on employers continuing to contribute to the ongoing plan. This is because the withdrawal rules would hold new employer entrants liable only for underfunding occurring after their entry, thus lessening the disincentive to plan entry posed by the present law under which new entrants may be liable upon plan termination for underfunding arising before they entered a plan.

The withdrawal rules would permit a plan to limit its liability upon an employer withdrawal through benefit reductions or transfers of assets and liabilities to another plan. Only those benefit reductions currently permitted by ERISA would be authorized. The withdrawal rules contain two options designed to prevent plans from transferring assets and liabilities upon an employer withdrawal in order to shift liabilities of weak employers onto the insurance system. Under the first option, a multiemployer plan would

21/ Temporary employers usually do not participate long enough for their employees to earn vested benefits solely by virtue of their covered services with the temporary employer, so that often the temporary employers' contributions can be used to fund benefits of other employees.

have a limited contingent liability for benefits transferred to another plan. Under the second option, the PBGC could disapprove transfers that are not in the best interests of the transferor and transferee plans, the transferring employer, affected participants, and the premium system.

E. PLAN MERGERS AND TRANSFERS

The PBGC is authorized to determine the extent to which the statutory rules governing mergers and transfers of assets apply to multiemployer plans. 22/ The present rules are unworkable for multiemployer plans. Therefore, rules under consideration for multiemployer plans would provide a "plan continuation" test and a "business purpose" test in lieu of the current statutory rules. 23/ A merger or transfer would be prohibited under the "plan continuation" test if the plan or plans would be placed in financial danger by the transaction, as measured by the reorganization threshold tests. The "business purpose" test would enable the PBGC to respond effectively to attempts to manipulate the insurance system.

F. PREMIUMS

The report contains three options for computing premiums in addition to the current uniform charge per plan participant. One is based on risk and exposure, the second on exposure only, and the third on a variation of the alternative premium permitted under current law. 24/

22/ ERISA §208; I.R.C. §§401(a)(12), 414(1). These statutory rules, as they apply to non-multiemployer plans, are interpreted by the Internal Revenue Service in Proposed Treas. Reg. §1.414(1), 42 Fed. Reg. 33770 (July 1, 1977).

23/ Present law provides for a benefit reduction test (i.e., a participant's accrued benefit may not be decreased) and a funding test (i.e., each participant must be entitled to a benefit immediately after the merger/transfer equal to or greater than the participant was entitled to receive immediately before the merger/transfer, determined as if the plan had terminated).

24/ See ERISA §4006(a)(5)(A).

Results of our analysis show that the three alternatives to the current method for computing premiums could produce a more equitable allocation of program financing by shifting the burden toward large, more poorly funded, high-benefit plans. But these poorer-funded plans would pay less, as a ratio of premium costs to total plan contributions, than sounder-funded plans. In addition, each of the three alternative premium options would produce a lower premium per participant than the corresponding flat premium per participant.

G. COST ANALYSIS

A study of the potential cost of the current termination insurance program for multiemployer plans as well as the alternatives discussed above was conducted. The study, which is based upon a sample of 279 multiemployer plans, provides estimates of the potential incidence of plan termination and of the potential range of costs to the insurance program over the next 10 years. A computer based model was used to identify plans that are potential terminations, by projecting plan characteristics indicative of potential plan termination because of financial hardship. These termination characteristics include a high ratio of retired and inactive vested participants to total participants, a low ratio of assets to annual benefit obligations, and a slightly increasing or a decreasing level of assets.

The purpose of this study was to identify plans that are potential candidates for termination because of financial hardship in order to determine the magnitude of potential exposure to the insurance system, and to compare the magnitude of the costs of the current program to alternative programs. The results of the study should not be viewed as precise projections of the incidence of termination or the anticipated costs to the insurance program because of the uncertainties involved in projecting plan characteristics into the future and the difficulty of predicting termination, which depends on a myriad of financial, social, and political factors. The results of the study, however, provide a basis for evaluating the magnitude of costs of the current and alternative programs.

The study shows that approximately 160 multiemployer plans, or about 10 percent of all such plans, have financial and participant characteristics that indicate the possibility of termination because of financial hardship over the next 10 years. These plans cover approximately 1.3 million participants, or approximately 15 percent of all multiemployer plan participants. Under the current program, if all of the plans classified as potential terminations were to terminate,

the estimated present value of the gross unfunded liability for guaranteed benefits would be 8.3 billion (\$3.8 billion if large, broad-based plans are excluded from the termination estimate on the basis that these plans would be better able to avoid termination than the other plans identified by the termination indicators). The estimated present value of net liability (gross unfunded liability less employer liability payments under the current statutory rules) to the PBGC insurance system for these plans would be \$4.8 billion (\$2.7 billion if terminations of large, broad-based plans are excluded). In order to finance these liabilities, an annual premium of \$80 per participant would be required (\$45 if large, broad-based plans are excluded). The \$45 and \$80 premium rates represent approximately 8 and 14 percent of annual plan contributions. Although it is not likely that all of these plans would terminate during the 10-year period, or even thereafter, the magnitude of the potential liabilities indicates that the premium required to maintain the current program on a self-financing basis may not be affordable by multiemployer plans.

The actual potential for termination within the group of plans classified as possible terminations varies significantly. Based upon the relative severity of plan financial condition and projections of industry employment trends over the 10-year period, the plans were classified into four groups with respect to their relative potential to terminate, ranging from highest (plans projected to become insolvent over the 10-year period) to lowest (plans with the least severe financial condition that cover industries where employment is not projected to decline, according to the Bureau of Labor Statistics). The nine plans with the highest potential to terminate represent less than one percent of all multiemployer plans and contain 1.4 percent of all participants. The estimated present value of net liability to PBGC under the current guarantee and employer liability rules for these plans is about \$560 million. The annual premium required to finance this liability would be approximately \$9 per participant, which is 3.6 times the single employer premium rate and represents 1.7 percent of annual plan contributions. The 51 plans with the second highest potential to terminate (generally, non-broad-based plans in industries projected to decline) represent three percent of all multiemployer plans and participants. The estimated present value of net termination liability for these plans, under the current guarantee and employer liability rules is about \$1.3 billion. An annual premium of \$22 (about four percent of annual plan contributions) would be required to finance this level of liability.

Revising the current program by modifying the current guarantees and employer liability limitations and by providing for plan reorganization assistance to ongoing plans reduces by varying degrees the potential PBGC termination costs for all plans classified as potential terminations. Thus, by modifying the current guarantees to require stricter rules for funding and to defer the phase-in of the guarantee of benefit increases and by removing the current net worth limit on employer liability, annual premiums if all plans terminate could be reduced to \$12-\$20 per participant (in contrast to the \$45-\$80 range under the current program).

Reducing the current guarantee level in conjunction with the modifications discussed above would further reduce the potential cost of the termination program, but at a high cost to participants in terms of benefit security. As shown in the table below, the premium rates for the various reduced guarantee options under current employer liability limitations range from a low of \$0.56-\$1.88 under a 50 percent guarantee option to a high of \$29-\$46 under a 10 percent per year program phase-in (assuming plans defer termination until the point of insolvency or until the

Summary of Premiums Required
Under Reduced Guarantee Options

Type of Reduced Guarantee	Annual Premium Rate (\$ Per Person)	
	Current Employer Liability Limitation (30% Net Worth Limit)	Alternative Employer Liability Limitation (No Net Worth Limit)
50% Guarantee	\$.56-\$ 1.88	\$.18-\$.25
10% Phase-In	11.83- 16.61	2.21- 2.21
10% Phase-In assuming Deferred Termination	29.25- 46.24	12.82- 17.44
Post-ERISA	2.34- 2.44	.10- .10
Retirees and Near Retirees Only	17.73- 38.33	4.37- 8.36

program is fully phased-in). It is estimated that removal of the net worth limit on employer liability would reduce premiums still further, to a range of \$0.10 to \$13-17. Under these reduced guarantee options, guaranteed benefits would range from 43 percent to 79 percent. These proportions are much lower than under the current program where participants in the same group of plans would be guaranteed approximately 94 percent of their vested benefits.

Changing the program from guaranteeing benefits at plan termination to providing financial assistance to ongoing, reorganized plans, or providing such assistance in combination with reduced termination guarantees would result in substantially lower costs than the current program. In addition, plan reorganization would provide participants in reorganized plans with virtually the same benefit security as under the current program. The level annual premium required to finance a program consisting only of assistance to reorganized plans is \$2.47 per participant (\$.69 if large broad-based plans are excluded). If reorganization assistance is provided in combination with reduced guarantees for plans that terminate without reorganizing, the level annual premium would range from a low of \$.69 to \$2.47 under the 50 percent and post-ERISA guarantee options, to a high of \$4.33 to \$6.90 under the 10 percent per year program phase-in guarantee with deferred termination, assuming elimination of the current net worth limitation on employer liability.

PART I - INTRODUCTION

A. BACKGROUND OF THE REPORT

A PBGC study submitted to Congress on September 29, 1977, 1/ indicates that the premium level needed to finance the claims against the multiemployer plan insurance system could be much greater than the current \$.50 per participant premium if a significant portion of those multiemployer plans experiencing financial difficulties were to terminate. Equally important, this 1977 study points out that there is extreme uncertainty about the number of multiemployer plan terminations that are likely to occur, as well as about the impact of termination insurance and the other provisions of ERISA on the incidence of plan terminations, plan creations, and expansion in plan coverage and benefits. Analysis conducted as a part of the present study supports these findings. 2/ Moreover, Title IV's current provisions may actually accelerate declines in a multiemployer plan's financial condition and encourage employer withdrawals from and termination of plans.

In response to these perceived problems, Congress extended discretionary coverage of multiemployer plan terminations and postponed mandatory coverage of such terminations until July 1, 1979. Congress also directed PBGC to study the financial problems relating to mandatory coverage of multiemployer plans and to report on action which might be taken to solve these problems. 3/ This paper sets forth specific problem areas and discusses possible solutions designed to strengthen the funding of multiemployer plans, to eliminate incentives to terminate multiemployer plans, and to protect the financial condition of the multiemployer plan insurance program, and sets forth a preliminary cost analysis of those solutions.

1/ See Appendix I.

2/ See Part VIII and Appendix XIV of this report.

3/ Public Law 95-214, 91 Stat. 1501 (1977)

B. NATURE AND HISTORY OF MULTIEMPLOYER PLANS

The expansion of private retirement plan coverage during the past three decades has been due in large part to the development and growth of negotiated multiemployer plans. 4/ In 1950, for example, negotiated multiemployer retirement plans covered about one million participants or just under one-tenth of all participants covered by all types of private retirement plans (10.2 million). 5/ By 1975, about one out of every four participants in private retirement plans were covered by negotiated multiemployer plans. 6/

There are now about 2,000 private defined benefit multiemployer plans, covering nearly eight million participants. 7/ These plans account for less than three percent of all plans covered by PBGC termination insurance, but contain over 20 percent of all participants in covered plans. Because of their relative size, even a few multiemployer plan terminations during a given year could have a significant impact on the guarantee program. 8/

Multiemployer plans, as the term is used herein, are plans which cover the employees of two or more unaffiliated

4/ Prior to 1947, only a few multiemployer plans existed -- only two percent of all negotiated multiemployer plans in existence in 1959, for example, were established prior to 1947. Multiemployer Pension Plans Under Collective Bargaining, Spring 1960, Bureau of Labor Statistics, Bulletin No. 1326, 1962, pp. 5, 6.

5/ Ibid., p. 1; "Employee-Benefit Plans, 1975", Social Security Bulletin, November 1977, p. 27.

6/ Based on data in "Employee-Benefit Plans, 1975", Ibid., and unpublished Department of Labor estimates.

7/ Based on data from PBGC-1 forms for the plan year ending on or before September 1, 1976.

8/ For a discussion of size and geographic scope of multi-employer plans, see Appendix II.

employers, and which are maintained under one or more collective bargaining agreements. 9/ These plans typically require all employers who are party to the plan to make specified contributions to a pooled central fund from which benefits are provided for eligible employees of all contributing employers. Eligibility for benefits under such plans is usually based on total employment with all contributing employers and not solely on employment with one employer. Thus, such plans provide workers with portability of credited service among contributing employers. This portability is essential in industries characterized by irregular employment (e.g., construction, water transportation, or entertainment) where few workers would ever remain with one employer long enough to qualify for a pension. 10/ Thousands of persons are receiving pensions or will receive them, because of these special characteristics of multiemployer plans. Sound public policy should provide for regulation which encourages the continuation and growth of multiemployer plans.

Multiemployer plans are characteristically administered by a joint board of trustees, with employers and unions having equal representation on the board. 11/

9/ This definition is broader than the ERISA definition of multiemployer plans; however, it is consistent with the manner in which multiemployer plans have historically been defined. See, for example, Multiemployer Pension Plans Under Collective Bargaining, Spring 1960, op. cit., supra, p.2. The ERISA definition of a multiemployer plan is discussed in Part II, infra.

10/ In addition to portability among contributing employers, inter-plan portability through formal or informal reciprocity arrangements is not uncommon in the multiemployer area. See, for example, Maurice E. McDonald, Reciprocity among Private Multiemployer Pension Plans (Pension Research Council: University of Pennsylvania, 1975).

11/ Section 302(c) of the Labor-Management Relations Act of 1947 prohibits employer payments to benefit funds sponsored by unions, unless "employees and employers are equally represented in the administration" of such funds. Excepted from this prohibition are union sponsored funds established prior to January 1, 1946 which may be administered solely by the unions and funds administered solely by employers. 29 U.S.C. §186 (1975)

The joint board of trustees in a multiemployer plan is usually responsible for determining the types of benefits to be provided, the eligibility requirements, and the level of benefits, although in some cases these are set in the collectively bargained agreement. 12/

Employers participating in multiemployer plans are generally required to contribute at a fixed rate, specified in the collective bargaining agreement (e.g., X cents per hour worked, or per unit of production). Traditionally, the multiemployer plan or the bargaining agreement have limited the employer's contractual obligation to contribute at the fixed rate, whether or not the contributions were sufficient to provide the benefits established by the joint board or the collectively bargained agreement. However, because of ERISA's contingent employer liability provisions, the employer's legal obligation now extends beyond the fixed contribution rate.

C. IMPACT OF ERISA

The impact of ERISA's mandatory termination insurance on multiemployer plans is highly uncertain at this time. 13/ While the PBGC has estimated the liabilities of plans in financial distress, 14/ the number of terminations (and consequently the cost to the insurance system) cannot be projected with any great degree of certainty. Even less certain is the outlook for terminations and related claims of plans that are in better financial condition. When the cost of maintaining the plan becomes high, plan termination insurance may become attractive in some cases because the relatively high guarantees and limited employer liability provide a way to shift the cost of providing benefits to the termination insurance system. 15/

12/ Multiemployer Pension Plans Under Collective Bargaining, Spring 1960, op. cit., supra, p.2.

13/ Coverage of multiemployer plans is at PBGC's discretion until July 1, 1979, at which time coverage becomes mandatory. ERISA §4082, as amended by Public Law 95-214, 91 Stat. 1501 (1977). See Appendix IX, infra, for a discussion of PBGC discretionary coverage.

14/ See Appendix I, "Potential Multiemployer Plan Liabilities under Title IV of ERISA"; Part VIII, "Cost Analysis"; and Appendix XIV, "Cost Analysis Results."

15/ Employer liability under ERISA is limited to 30 percent of net worth. See ERISA §§4062, 4064.

Under the current statutory provisions, mandatory termination insurance for multiemployer plans would protect virtually all vested benefits in multiemployer plans, since the maximum guaranteeable benefit of \$1,000 per month at age 65 is well above the average vested benefit level in multi-employer plans.

There is a statutory limit on the guarantee of benefit increases within the five years preceding plan termination. However, such increases become guaranteed at the rate of 20 percent or \$20 per month, per year, whichever is greater. Because of the \$20 minimum, even substantial benefit increases become fully guaranteed within a few years.

Since all, or nearly all, of the vested benefits of participants would be guaranteed upon termination under the current law, the cost of plan termination to participants would be greatly reduced. This does not necessarily mean that participants will have an incentive to bargain for plan termination merely to take advantage of the insurance program. ^{16/} However, the removal of the threat of benefit losses does make termination a viable option to active employees in situations in which a high proportion of pension contributions is being used for the benefits of retirees.

The principal deterrent to plan termination under the current program is employer liability, which imposes a direct cost upon employers for termination, and an indirect cost on active employees since less money will be available for other labor costs. However, to assure that termination liabilities do not cause undue business hardship and loss of jobs, employer liability is limited to 30 percent of net worth. Because of this net worth limitation, employer liability may very well be less than the cost of maintaining the plan in some situations. Since the insurance program would cover most, if not all, of participants' vested benefits, it may be to the mutual economic advantage of the employers, the union, and the active employees to terminate the plan.

^{16/} When a plan terminates solely to take advantage of guarantees, no benefit increases in the five years preceding termination are guaranteed. See ERISA §4022(b)(8).

Other ERISA rules also may weaken a plan and result in eventual termination. The withdrawal rules may discourage large employers from entering multiemployer plans. The restrictions on benefit reductions contained in ERISA may cause a financially troubled plan to terminate, even though the benefits that would be paid if the plan terminated would be less (because of the guarantee limitations) than the benefits that would be paid if the plan were permitted to reduce its obligations to avoid termination.

D. SUMMARY OF CONSIDERATIONS

Since the funds available for termination insurance are limited, the best protection for participants' benefits is plan continuation. Therefore, this study contains a discussion of the following major options to strengthen multiemployer plans, reduce the incentives to terminate created by the present program, and control and more equitably distribute the costs of plan termination:

(1) a revised minimum funding standard that would ensure contributions to a plan are adequate to make expected benefit payments;

(2) a requirement that a withdrawing employer, other than a temporary employer, complete the funding of its share of plan liabilities, but only its share, in order to:

(a) compensate the plan for the withdrawal
and

(b) diminish the incentive to withdraw from a plan experiencing financial difficulties;

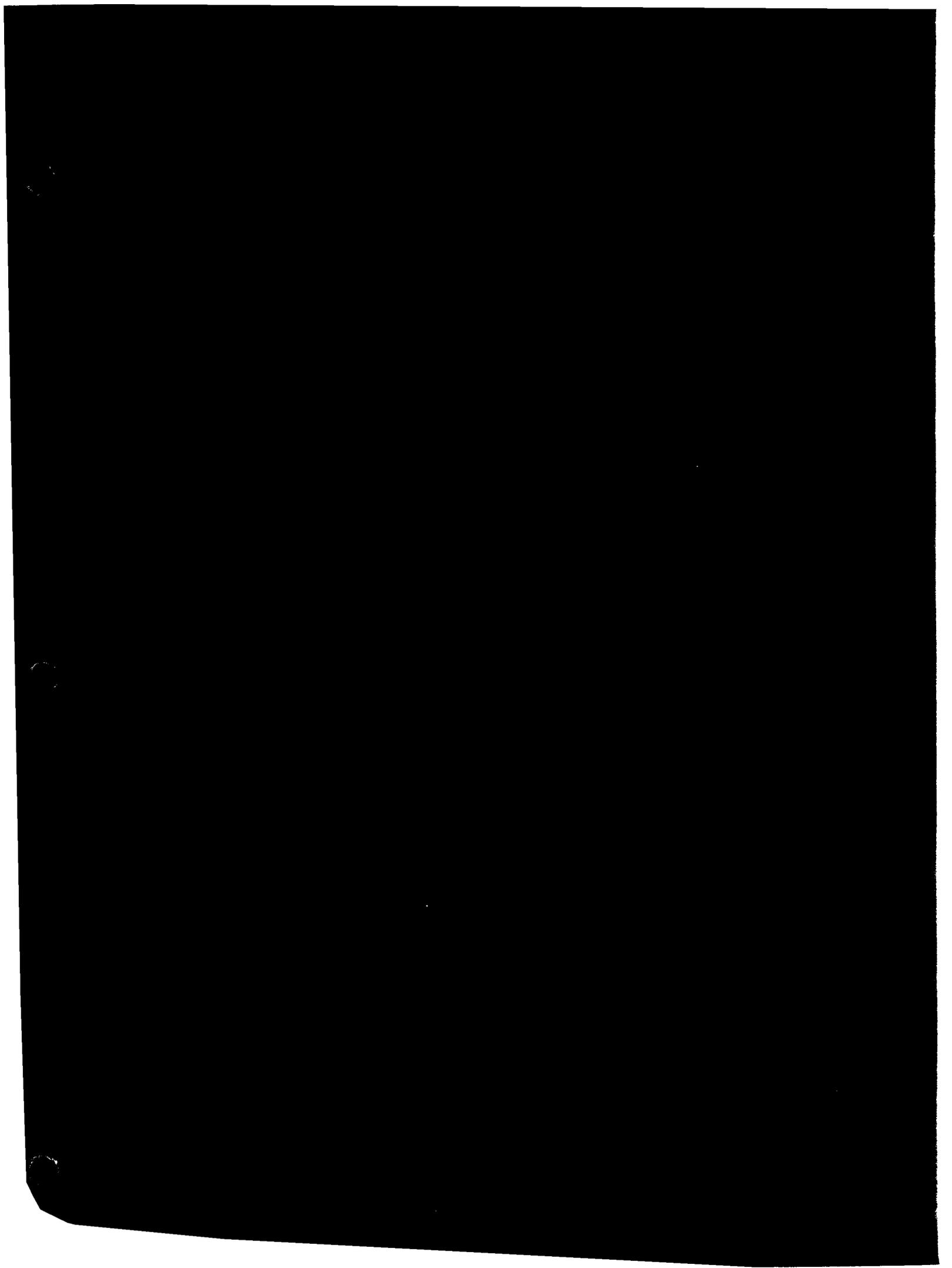
(3) reorganization of plans in financial difficulty, together with financial aid from the PBGC, to help restore sound funding and avoid plan terminations; and

(4) equitable premium alternatives that reflect individual plan exposure and risk of termination to the extent administratively possible.

The report first addresses possible statutory changes in the areas of the definition of multiemployer plans and minimum funding standards.

The report then discusses a proposed multiemployer insurance program designed to foster plan continuation, based on reorganization of plans headed for financial difficulty. Five options for insurance of those plans that nevertheless terminate are considered, and problems posed by employer withdrawal and merger or transfer of assets are discussed.

The report concludes with a discussion of premium alternatives and a cost analysis.



PART II - MULTIEMPLOYER PLAN DEFINITION

A. INTRODUCTION

The definition of multiemployer plan is of fundamental importance. It determines whether a plan may take advantage of special rules for multiemployer plans contained in Titles I and II of ERISA. It also determines whether a plan is eligible for mandatory termination insurance coverage under Title IV before July 1, 1979. Under the rules PBGC is considering, the definition would take on even greater significance.

B. DEFINITION UNDER CONSIDERATION

Before ERISA was enacted, negotiated plans to which more than one employer contributed were regarded as one class of plan, typically referred to as Taft-Hartley trusts. These plans are established and maintained through collective bargaining, are administered by a joint board of trustees consisting of union and management representatives, utilize a commingled fund, and provide portability among all contributing employers. 1/

1/ The Labor Department's Bureau of Labor Statistics, in a 1960 study, used the following definition of a multiemployer plan:

"A multiemployer pension plan under collective bargaining...is a pension plan negotiated by a union covering the employees of two or more financially unrelated employers. Plans established and maintained outside of a collective bargaining relationship (such as union-sponsored plans), which are wholly financed by the members and to which employers are not a party, are excluded."

Multiemployer Pension Plans Under Collective Bargaining, Spring 1960, Bureau of Labor Statistics, Bulletin No. 1326, 1962, p. 2. For a similar definition, see Securities and Exchange Commission, Institutional Investor Study Report, 1971, Vol. 3, p. 985 (92d Cong., 1st Sess., House Document No. 92-64, Part 3).

The common characteristics of these plans are often not present in non-negotiated plans to which more than one employer contributes. Such plans are normally administered solely by employers, or an employer trade association. They do not provide portability. Each employer in a non-negotiated plan has more "control" than an employer in a Taft-Hartley plan has. The decision to enter the plan or to withdraw rests solely with the employer. Often, the employer is given the option of deciding what benefit levels and contribution rate will be applicable to it.

ERISA's definition of multiemployer plan ^{2/} splits collectively bargained plans to which more than one employer contributes into two classes by requiring two tests in addition to the traditional characteristics. In order for a plan to be a multiemployer plan under ERISA:

(1) no employer can make 50 percent or more of the plan contributions for a plan year, ^{3/} and

^{2/} ERISA defines "multiemployer plan" as a plan, "(A) to which more than one employer is required to contribute, (B) which is maintained pursuant to a collective-bargaining agreement between employee representatives and more than one employer, (C) under which the amount of contributions made under the plan by each employer making such contributions is less than 50 percent of the aggregate amount of contributions made under the plan for that plan year by all employers making such contributions, (D) under which benefits are payable with respect to each participant without regard to the cessation of contributions by the employer who employed that participant except to the extent that such benefits accrued as a result of service with the employer before such employer was required to contribute to such plan, and (E) which satisfies such other requirements as the Secretary of Labor may by regulation prescribe." I.R.C. §414(f), ERISA §1015. See also ERISA §§3(37); 4001(a)(3).

^{3/} This percentage test becomes a 75 percent test once the plan qualifies as a multiemployer plan, but will revert to a 50 percent contribution test if any employer contributes 75 percent or more during a plan year. I.R.C. §414(f)(2)(A), ERISA §1015; ERISA §3(37)(B)(i).

(2) the plan must provide benefits to plan participants regardless of whether their employer ceases contributions to the plan, except that the plan may disregard benefits accrued as a result of service with the employer prior to the employer's entry into the plan. ^{4/} These will be referred to, respectively, as the "50-75 percent contribution test" and the "shared liability test".

The 50-75 percent contribution test and the shared liability test create two major problems. First, not all plans that share the same basic characteristics are considered multiemployer plans under ERISA. ^{5/} Second, plans could move in and out of multiemployer plan status from year to year. Thus, potential termination claims under Title IV might shift back and forth between the non-multiemployer plan fund and the multiemployer plan fund. This would occur, for example, when a plan satisfies all the requirements of the multiemployer plan definition except that it fails to meet the 50-75 percent contribution test in any plan year. Also, if a plan reduces benefits in excess of that permitted by the shared liability test, it might not be considered a multiemployer plan. These problems are significant because of the special rules that apply only to multiemployer plans and because of potential differences under Title IV between the multiemployer and non-multiemployer programs.

The PBGC is considering modification of the statutory definition of multiemployer plan by deletion of the shared liability test and the 50-75 percent contribution

^{4/} The ERISA minimum vesting and accrual standards require plans to which more than one employer contributes to honor participants' benefit entitlements, regardless of employer withdrawals. The provision for a limited disregard of accrued benefits by multiemployer plans is, in effect, an exception to ERISA's nonforfeitability rules.

^{5/} In fact, the 50-75 percent contribution test may result in two plans with identical plan provisions being treated dissimilarly.

test. 6/ The resulting definition would treat all collectively bargained plans to which more than one employer contributes as multiemployer plans. 7/

1. The Shared Liability Test

If the shared liability test were eliminated from the definition, a negotiated plan to which more than one employer contributes would not become part of the multi-employer or non-multiemployer program merely because withdrawal provisions differ.

2. The 50-75 Percent Contribution Test

A review of ERISA's legislative history reveals that the 50-75 percent contribution test was intended to exclude those plans whose existence might depend on the continuance or economic fortunes of one employer. 8/ The share of contributions attributable to one employer is only one factor in determining to what extent a plan's fortunes depend on the financial health of one employer, however. Other factors--such as the number of employers and the makeup of their work force--can have as much impact. Furthermore, the ability of some plans to continue may depend on the continued participation of an employer that contributes as little as 10 percent of total contributions.

Two options for resolving this problem are to reduce the 50-75 percent contribution test to one that truly excludes those plans whose existence may be tied to one employer or to eliminate any percentage contribution requirement.

6/ The substantive rule of §414(f)(1)(D) of the Internal Revenue Code, which allows a multiemployer plan to disregard "past service benefits", would be retained as an exception to the minimum vesting and accrual requirements of ERISA.

The PBGC is considering a special rule for certain multiemployer plans that would enable such plans to segregate assets and liabilities within the trust upon an employer withdrawal and to limit liabilities to the segregated fund. See Appendix XII, "Limitation of Plan Liabilities Through A Spin-off Upon An Employer Withdrawal."

7/ In addition, the Secretary of Labor would retain its authority to prescribe additional requirements that a multi-employer plan must satisfy.

8/ See, e.g., H. Rep. No. 93-533, 93d Cong., 1st Sess. 10 (1974); S. Rep. No. 93-127, 93d Cong., 1st Sess. 16 (1973).

This change in the definition of multiemployer plan would prevent shifting of potential termination claims between the non-multiemployer plan fund and the multiemployer plan fund. 9/ The plans in each program could be identified with more certainty. Thus, PBGC would be better able to estimate multiemployer program costs and to prescribe premium rates, and the parties would be better advised of their statutory rights and duties.

The PBGC is focusing its study on elimination of the percentage contribution requirement. 10/ If the percentage were reduced, the provisions of the multiemployer program still would be inapplicable to a number of plans that share characteristics common to all multiemployer plans. Furthermore, retaining a distinction based upon the percentage of contributions would unavoidably result in some plans moving in or out of coverage under the multiemployer plan program, since contributions invariably fluctuate. Thus, the administrative problems under the present law would still remain, as would the uncertainty in the application of other ERISA provisions giving different treatment to multiemployer plans, e.g., the funding rules, 11/ the

9/ We are assuming that a multiemployer plan could become a multiple employer plan (i.e., a plan to which more than one employer contributes but which does not meet the multiemployer plan tests) under the current statute if it adopted a provision not permitted by §414(f)(1)(D) of the Internal Revenue Code. Even though such an amendment might not comply with ERISA's vesting requirements, the plan could be covered under Title IV. See ERISA §§4021, 4022. At termination, benefits arguably would be subject to the guarantees that apply to non-multiemployer plans instead of the multiemployer program guarantees. This possibility could be avoided if the multiemployer plan definition were modified as discussed.

10/ See Appendix III, infra, for a discussion of considerations involved if a percentage contribution test is retained in the statute.

11/ I.R.C. §412, ERISA §1013(a); ERISA §302.

benefit cutback, 12/ and the rules regarding amendments reducing accrued benefits. 13/

The primary drawback to the elimination of the 50-75 percent contribution test would be that plans could still switch from the multiemployer to the non-multiemployer program. For example, an employer or union could bring an employer into a plan to contribute two percent of the plan contributions. What was previously a single employer plan would then be a multiemployer plan. This course of action might be attempted in cases where multiemployer plan status is more attractive; however, Department of Labor regulations requiring that a multiemployer plan be established for a substantial business purpose would presumably prevent such action. 14/ The factors demonstrating such a purpose include, among others, the number of employers participating in the plan and the extent of coverage of a trade, craft, or industry. If necessary, the Secretary of Labor could, under

12/ I.R.C. §414(f)(1)(D), ERISA §1015; ERISA §3(37)(A)(iv). If the plan fails to satisfy the percentage test for a plan year, the plan would fail to be a multiemployer plan for the entire plan year. If employer withdrawals occurred during the plan year and benefits were reduced in accordance with I.R.C. §414(f)(1)(D), the reductions would violate the minimum vesting standards, even though such reduction might have occurred at a time when the plan could not possibly know that it was not a multiemployer plan.

13/ I.R.C. §412(c)(8), ERISA §1013(c)(8); ERISA §302(c)(8).

14/ 29 C.F.R. §2510.3-37(1977). The requirement applies to plans established on or after September 2, 1974 and is applicable for Title IV purposes by reason of §414(f)(1)(E) of the Internal Revenue Code. See Proposed Treas. Reg. §1.414(f)-1, 40 Fed. Reg. 43034 (Sept. 18, 1975).

present law, prescribe additional requirements to control potential abuse and to implement Congressional intent. 15/

C. MULTIPLE EMPLOYER PLANS

Under the definition of a multiemployer plan considered above there still would be at least one group of plans classified as multiple employer plans. This category would include all non-collectively bargained plans to which more than one employer contributes. These plans would be governed by and covered under the non-multiemployer program.

Additional study must be given to the extent to which aspects of the multiemployer program should be applied to multiple employer plans and to what new statutory provisions might be necessary for multiple employer plans.

15/ "Additional requirements relating to multiemployer plans may be prescribed in Department of Labor regulations. The conferees intend that a plan not be classified as a multiemployer plan unless it is a collectively bargained plan to which a substantial number of unaffiliated employers are required to contribute. Also, a plan is not to be classified as a multiemployer plan where there is no substantial business purpose in having a multiemployer plan (except to obtain the advantages of multiemployer plan status under this bill)." H.Rep. No. 93-1280, 93d Cong., 2d Sess. 265 (1974).

PART III - MINIMUM FUNDING STANDARDS

A. INTRODUCTION

The new minimum funding standards of ERISA were intended to ensure that "plans will accumulate sufficient funds to pay their pension obligations when they fall due." ^{1/} It now appears that the minimum funding requirements may not provide adequate safeguards to ensure that multiemployer plans will be able to meet their pension obligations.

A major factor leading to declines in a plan's financial status is inflation, which has created pressure for plans to increase benefits for those at or near retirement by granting retroactive benefit increases so that adequate income would be provided during retirement. Such benefit increases result in significant increases in unfunded liabilities. Since the cost of retroactive benefit increases can be amortized over 40 years under the current statute, in many instances the benefits will be paid out before the amortization is completed. Thus, allowing benefit costs to be amortized over 40 years understates the inherently high cost of pensions in an inflationary environment. In many cases, that cost has not been fully perceived or has been perceived only after the plan begins experiencing financial difficulties.

Employers and unions need to take a more realistic view of potential pension costs in establishing benefit promises and funding obligations. Strengthening the minimum funding standards under ERISA can help accomplish this goal. Any change in the current standards, however, must find a "middle ground" so that healthy plans are not unduly burdened, marginally funded plans are still able to provide adequate pensions, and poorly funded plans have the chance to recover under carefully monitored conditions.

^{1/} 120 Cong. Rec. 29199 (1974) (Statement by the Hon. Al Ullman).

The following sections describe the current funding standards, problems with these standards, and possible changes in the standards applicable to multi-employer plans to deal with these problems.

B. DESCRIPTION OF CURRENT MINIMUM FUNDING STANDARDS

The minimum funding requirements apply to all private-sector defined benefit pension plans, whether or not tax qualified, with certain exceptions such as deferred compensation plans maintained for a select group of management or highly paid employees. 2/

Generally, the minimum funding standards require that the contributions to a plan each year be adequate to pay for benefits accrued in that year plus an amount sufficient to amortize unfunded liabilities over specified periods of time. 3/ The amortization periods for different types of liabilities are shown in Table 1.

TABLE 1
Amortization Periods under ERISA
Minimum Funding Standards

Sources of Unfunded Liabilities	Single Employer Plans	Multiemployer Plans
Initial unfunded liability		
Plans in existence on 1/1/74	40 years	40 years
Plans created after 1/1/74	30 years	40 years
Amendments	30 years	40 years
Actuarial gains or losses	15 years	20 years

Note: Extensions of the amortization period (not exceeding 10 years) may be granted by the Secretary of Labor.

2/ ERISA §302; I.R.C. §412. Plans funded solely through individual, level-premium insurance contracts are generally not subject to the minimum funding standards if (1) all benefits provided by the plan are provided by insurance contracts, (2) all premiums have been paid to date, and (3) there are no outstanding loans or obligations. ERISA §301.

3/ ERISA §302(b)(2); I.R.C. §412(b). The actuarial methods and assumptions used to determine minimum funding requirements must be reasonable in the aggregate and must reflect the actuary's best estimate of anticipated experience under the plan. Also, the value of plan assets must be determined on a basis which takes fair market value into account. ERISA §302(c); I.R.C. §412(c).

An excise tax may be imposed in any plan year in which there is a funding deficiency, i.e., the contributions to the plan, plus earnings, do not satisfy the minimum funding standards. 4/

The minimum funding standards also place a maximum limit on the amount of contributions that can be deducted from taxable income. This standard is the "full funding limitation". The maximum deductible contribution is the difference between the present value of benefits already accrued under the plan and assets valued at full fair market value. 5/

Under ERISA there are three general exceptions from the prescribed funding requirements: (1) an extension of the amortization period (not to exceed ten years) if that would "carry out the purposes" of ERISA, 6/ (2) a waiver of the funding standard for substantial business hardship, 7/ and (3) a special funding rule which applies only to collectively bargained plans. 8/ The first two are variances, which may be granted at the discretion of the Secretary of the Treasury or the Secretary of Labor. They apply to both non-multiemployer and multiemployer defined benefit plans. The variances are intended to provide relief in a situation where financial difficulties might force the abandonment of a plan if relief is not granted.

4/ The initial tax is five percent of the funding deficiency. If the deficiency is not corrected within 90 days after notice from the Internal Revenue Service, a further tax of 100 percent of the funding deficiency may be imposed. ERISA §1013(b), I.R.C. §4971.

5/ See ERISA §302(c)(7); I.R.C. §412(c)(7); and I.R.C. §404(a)(1).

6/ ERISA §304; I.R.C. §412(e).

7/ ERISA §303; I.R.C. §412(d). No more than five waivers may be granted to a plan within a consecutive 15-year period.

8/ ERISA §1013(d); Treas. Reg. §11.412(c), 42 Fed. Reg. 39382 (Aug. 4, 1977).

The special funding rule allows a collectively bargained plan to use the "shortfall" method of funding. Under this method, a plan may base its contributions on a rate for each unit of work (e.g., hour, ton of product) by an employer's employees. This is the traditional method by which most multiemployer plans are funded. The total contribution required under the minimum funding standard for a contract period is divided by the total expected work units to derive a required contribution rate for each unit of expected work. When the actual work units are fewer than the estimated units, a "shortfall loss" occurs for purposes of the funding standard account. When actual work units are greater than the estimated units, a "shortfall gain" occurs.

Because the contribution rate used for purposes of the funding standard account calculations may be less than the negotiated rate, it is possible for a plan to show a "shortfall loss" even though total contributions were in excess of the contribution required under the minimum funding standards. ^{9/} Conversely, if the difference between the negotiated rate and the required contribution rate (i.e., unit rate) would not offset the difference between actual and estimated contributions, there would be a funding deficiency if the shortfall method were not used. This funding

^{9/} Treas. Reg. §11.412(c)(1)-2(b), 42 Fed. Reg. 39382 (Aug. 4, 1977). For example, suppose that a multiemployer plan estimated one million hours of service for a plan year and estimated that its funding standard account would have to be charged with a minimum of \$1,000,000. The estimated unit rate would be \$1.00 (although the rate in the bargaining contract were different, e.g., \$1.60). Assume that actual hours of service during the year were 800,000. A shortfall would result, even though actual contributions exceed the minimum funding standard.

1.	ERISA minimum without regard to shortfall	\$1,000,000
2.	Estimated hours of service	1,000,000
3.	Estimated unit charge (1-2)	\$1.00
4.	Actual hours of service	800,000
5.	Charge to Funding Standard Account (3X4)	\$ 800,000
6.	Shortfall (1-5)	\$ 200,000
7.	Actual contributions (\$1.60 X 800,000)	\$1,280,000

deficiency could continue to increase, if the contribution base is declining, since shortfalls are aggregated and amortized over a 15-year period beginning not later than five years after the shortfall occurs. 10/

C. PROBLEMS WITH CURRENT FUNDING STANDARDS

The current funding standards are designed to ensure that plans are funded on a basis that will enable them to meet their benefit commitments. However, the current standards are not adequate to assure sound funding in many cases because of the length of amortization period, the effects of continued shortfall losses, and the lack of a contribution requirement related to the adequacy of a plan's current assets to meet emerging liabilities.

1. Length of Amortization Period

The current funding standards for multiemployer plans assume that, as long as unfunded liabilities created by granting benefits for service before the plan provision takes effect are being amortized over a period not exceeding 40 years, the plan is on a sound funding course. The period over which unfunded liabilities in a plan should be amortized in order to ensure funding soundness, however, varies from plan to plan depending upon (1) the age-benefit composition of the plan participants, (2) the proportion of unfunded liabilities being amortized to total plan liabilities, and (3) whether the plan contribution base is stable, growing, or declining.

Although there are many unknowns related to the selection of amortization periods, those allowed by the current minimum funding standards have serious drawbacks when applied to today's multiemployer plans for the following reasons:

10/ Treas. Reg. §11.412(c)(1)-2(g), 42 Fed. Reg. 39382 (Aug. 4, 1977). The five year delay allows the parties to delay, until the next round of collective bargaining, negotiation of the increases in contributions required to amortize a shortfall. In effect, the aggregate shortfall is treated the same as experience gains and losses. ERISA §302; H.R. Rep. No. 93-1280, 93d Cong., 2d Sess. 285 (1974).

(1) The decline in the contribution base experienced by certain multiemployer plans due either to industry decline or to employer withdrawals has left these plans with an unusually, and increasingly, high proportion of retirees. For some plans, 40-year, 30-year, or even 20-year funding costs are less than the contributions needed to meet annual benefit payments.

(2) The rate of inflation today and in the foreseeable future will continue the pressure for significant retroactive benefit improvements which will increase unfunded liabilities.

(3) Apparently healthy plans now funding past service liabilities over 40 years could face severe financial difficulties in the event of short-term economic declines that reduce the contribution base. A decline in covered employment generally results in lower contributions but does not reduce the plan's obligation to pay unfunded benefits created by prior retroactive increases.

2. Shortfall Method

Congress, when considering ERISA's funding rules, was aware that employers supporting pension plans pursuant to collective bargaining agreements have traditionally made contributions based upon contribution rates agreed to in collective bargaining and fixed for the duration of the collective bargaining agreement. 11/ If Congress had not allowed rules permitting multiemployer plans to continue using the shortfall funding method, the minimum funding requirements of ERISA would create difficulties for collective bargaining. Re-opening negotiations to cover a funding deficiency would be required or the substantial excise tax for not meeting minimum funding standards would be imposed. 12/

On the other hand, plan participants and the termination insurance program may be adversely affected if shortfall losses that are large enough to create what would

11/ Sen Rep. No. 93-383, 93d Cong., 1st Sess. 66, 67 (1973).

12/ See footnote 4, supra.

be a funding deficiency in the absence of the shortfall funding method occur much more frequently and in larger amounts than shortfall gains. ^{13/} For example, if an already poorly-funded plan, particularly one in a declining industry, experiences recurrent shortfall losses the plan may become insolvent. Another basic problem is that the shortfall funding method allows a plan to increase benefits even though the plan's funding deficiency continues to mount.

3. Minimum Contribution Requirement

The current funding standards do not prescribe a minimum contribution requirement that takes into account the rate at which a plan will pay out its liabilities.

For example, a plan which has a high proportion of retirees and a low level of plan funding, due to the 40-year amortization period, could have difficulty meeting its benefit commitments, yet at the same time it could still be meeting the minimum funding standards. ^{14/} The same is true where unfunded benefits will be paid out over a period that is shorter than the amortization period.

D. ALTERNATIVES

1. General

PBGC has considered three possible changes to ensure sound funding of multiemployer pension plans. ^{15/} They are:

^{13/} A major area of concern over use of the shortfall method is the difficulty of estimating production units in a manner that will avoid shortfalls. During periods of industry declines, plan trustees and actuaries have tended, at times because of the absence of better information, to assume that production and employment levels will remain constant.

^{14/} For example, assume that Plan A has one participant age 65, who is retired and receiving a monthly pension of \$500 the total present value of which is \$48,000, and that plan assets are currently \$6,000. The unfunded liability of \$42,000 can be amortized over 40 years at a level annual contribution of about \$2,300. Within two years this plan will be insolvent. It would have been required to pay \$12,000 over two years, but would only have \$8,300 (\$6,000 + \$2,300) available to make the required payments.

^{15/} Rules to implement the alternatives appear in Appendix IV.

(1) a reduction of the amortization period from 40 to 30 years for new multiemployer plans and benefit increases in existing plans,

(2) a limit on benefit increases when accumulated shortfalls create a large deficiency in the funding standard account, and

(3) a minimum required contribution to assure that a plan's cash flow is adequate to meet its benefit commitments.

PBGC is aware that, in some instances, ERISA has required substantial increases in contributions. Because of the inequities of imposing one burden on top of another, the PBGC is considering a delay in the effective date of any proposed change in the funding requirements. In addition, to avoid an adverse impact on current plan costs, the options under consideration would apply prospectively. Except in some extreme cases, they would not require increases to fund existing benefit levels, but would require sounder funding of future benefit increases.

Experience with multiemployer plan funding practices since ERISA is minimal and, hence, more radical changes in the funding standards could not be justified at this time. If future experience shows that the funding standards do not result generally in adequate funding for all plans, however, significantly stricter funding standards would be considered.

Those changes that are discussed herein were designed to achieve the following objectives:

(1) to prevent today's financially troubled plans from deteriorating further, without increasing their funding requirements unreasonably,

(2) to reduce the risk of any healthy or marginal plan becoming insolvent due to unrealistic funding standards, and

(3) to strengthen the funding standards without restricting future benefit improvements in sound plans.

2. Changes in the Minimum Funding Standards

a. Amortization Period

One change under consideration would be to apply to multiemployer plans the amortization period standards

applicable to non-multiemployer plans. 16/ This change would have no immediate effect on the amortization of benefits already accrued under existing plans, but instead would apply only to new plans, future benefit increases, and future gains and losses. The increase in contributions required by a shortening of the amortization periods would have no effect on plans until benefit increases are implemented creating new unfunded past service liabilities.

Assuming that plans, on the average, increase benefits at a rate similar to the consumer price index (CPI) increases, Table 2 below summarizes the impact of requiring 30-year funding, at minimum, of unfunded past service liabilities, for plans currently amortizing past service liabilities over 40 years.

TABLE 2
Impact of 30-year Funding of Unfunded Past Service Liabilities
for Plans Currently Using 40-year Amortization

Benefit Increase	Plans Failing Termination Screens	All Plans
1. Increase in total contributions after 1st benefit increase	2.77%	2.43%
2. Increase in total contributions after 2nd benefit increase	8.15%	7.16%
3. Increase in total contributions after 3rd benefit increase	13.5%	11.85%

Note: Plans failing the termination screens are those plans identified as possible terminations in the near future, i.e., within 10 years.

16/ The amortization periods are set out in Table 1, supra.

While beneficial over the long term, this change is not unreasonably expensive. The difference between a 30-year and a 40-year amortization payment results in approximately a ten percent increase in required contributions for future benefit increases. Table 3 below shows the relative cost for various amortization periods.

TABLE 3
Annual Cost to Amortize \$1000

Years Funding	Cost
40	\$ 56
30	62
20	76
15	92
10	123

based on an assumed interest rate of 5%

Because the increase in contributions required by the change in amortization period applies only to a portion of the total plan costs, the overall funding costs would not increase substantially unless a plan were to institute very large retroactive benefit improvements. Those plans that find the cost increase for benefits prohibitive would still have the option of requesting an extension of the amortization period from the Secretary of Labor.

b. Shortfall Method

A shortfall funding method is needed to avoid disruptive effects on collectively bargained plans. Therefore, any change in this area would seek to prevent plan insolvencies, not to eliminate the use of the shortfall method. PBGC is considering whether benefit improvements should be restricted or conditioned in some way when the plan would have a large funding deficiency if the shortfall

method were not permitted. A funding deficiency could be considered excessive, for example, whenever it exceeds ten percent of the total minimum contributions required in the preceding five years. 17/

There are several ways that benefit improvements could be restricted. One way is to prohibit future benefit improvements while a plan is experiencing an excessive funding deficiency. This approach is severe in that it requires plan participants to forego all benefit improvements until the funding deficiency test is no longer triggered. While it will achieve the desired objective of stabilizing or improving the plan's funding status, it penalizes active participants and may make the plan less attractive to employees of potential new entrants.

A more moderate approach is to permit benefit improvements, but to require more rapid funding of these improvements than otherwise would be required under the minimum funding requirements. By allowing a simultaneous adjustment of benefit improvements and contributions, this approach would give plans more flexibility to meet expectations of participants than the first approach. The second approach, because it would not necessarily stabilize or improve a plan's funding status may require a stricter funding deficiency test.

A third approach is to give plans full discretion to adjust benefit improvement and contributions as long as an actuary certifies, consistent with regulations, that the contribution rate will remove the excess funding deficiency over a short period of time, e.g., five years. This approach would avoid imposing restrictions on plans that trigger the funding deficiency test because of a

17/ Under this illustrative definition of excessive funding deficiency, a plan would not be required to restrict future benefit improvements as long as the plan is funding over a shorter period than required under the minimum funding standard or the estimates regarding the contribution base are reasonable and adequately reflect the prospects for business activity by plan sponsors. Even plans funding over the maximum period that experience significant short-term shortfalls that would create a large funding deficiency (up to 50 percent in one year) will be able to increase benefits, without restriction, as long as contributions in the other years immediately preceding the shortfall would not themselves have created large funding deficiencies.

temporary aberration. Like the second approach, it would allow plans flexibility in balancing benefit improvements and contribution requirements when the funding deficiency test is triggered. This approach, however, could result in better control of plan funding than the second approach.

c. Minimum Contribution Requirement (MCR)

Since even the 30-year period for amortizing unfunded benefits might be too long to ensure that some plans will be able to provide promised benefits, PBGC is considering the addition of a minimum funding standard under which the minimum contribution for a plan year (including normal cost) must be at least a specified percentage of unfunded vested benefits. 18/

This minimum contribution requirement (MCR) would (1) prevent plans which are already "overloaded" with past service costs from funding new past service liabilities over unreasonably long periods of time and (2) require some plans in severe financial difficulty to raise contributions. This in turn should help to prevent plans from experiencing future cash flow problems. The MCR would not limit increases in future service benefits. In fact, because the portion of contributions funding normal cost, as well as the portion funding past service liabilities, would be used to determine whether the MCR is met, one way of meeting the MCR would be to increase the accrual rate and thereby the funding for future service.

18/ The initial percentage of unfunded vested liabilities that a plan would be required to contribute would be based on the amount required to begin amortizing those liabilities over a 20-year period, at the plan's assumed valuation interest rate. A higher percentage, based on a 15-year amortization period would take effect three years later or after the next collective bargaining agreement, if later. The 15-year amortization period should minimize the probability of plans developing cash flow problems. Using the plan's assumed interest valuation rate for determining the minimum contribution requirement would avoid unfairly penalizing or rewarding plans based on their interest rate assumptions. Otherwise, a plan using more conservative interest assumptions with their correspondingly higher valuation of unfunded vested benefits would be penalized. The delay and the phase-in from 20-year amortization would alleviate the cost burden of the MCR.

An analysis of the effect of the minimum contribution requirement under study by PBGC shows the following impact on a sample of multiemployer plans.

(1) Initial Impact:

Of the sample plans, 5.5 percent would be affected. Of the affected plans over 81 percent are ones which fail the plan termination screens over the next ten years. ^{19/} This is based on the assumption of 40-year amortization of past service liabilities.

(2) Subsequent Impact:

An additional 7.5 percent of the sample plans would be affected within five years, but only because of an amendment increasing benefits. Over 75 percent of these plans failed the plan termination screens over the ten-year period.

The statistics of affected plans is shown in Table 4 below.

TABLE 4
Statistics of Multiemployer Plans Affected by
Minimum Contribution Requirement

1.	average contribution increase requirement (range .001% to 21%)	9%
2.	average ratio of assets to vested benefits (Benefit Security Ratio)	30%
3.	average ratio of inactive to total plan participants	41.2%
4.	average ratio of annual benefit payments to contributions	120%
5.	average ratio of normal cost to total plan contribution	24.4%

The minimum contribution requirement would work in tandem with the withdrawal and reorganization proposals, discussed later in the study, to improve plan funding. The relation between these proposals is indirect but complementary.

^{19/} These are plans identified as possible terminations in the near future, i.e., within 10 years. The termination screens are more fully discussed in Part VIII.

For example, the MCR may cause a plan to improve its funding and cash flow prospects to the extent that plan reorganization becomes unnecessary. On the other hand, a plan in reorganization or experiencing substantial employer withdrawals may have its contributions increased by the MCR, and thereby move back to a financially sound status.

Most plans that are not already subject to reorganization should not be affected initially by the proposed MCR. 20/ To result in a greater amount than required under the present minimum funding standard, a plan's vested liabilities would have to represent a high proportion of accrued liabilities, and normal costs would have to be low in relation to the 30-year amortization cost of initial past service liabilities. 21/ Thus, the only plans affected by the MCR would be those with large unfunded liabilities and a high proportion of retirees and nonretired participants near retirement age. Such plans, if not already experiencing cash flow problems, are headed for cash flow problems which will not be solved by 30-year amortization of unfunded accrued liabilities.

20/ The minimum contribution required under a 30-year amortization of increases in the total accrued past service liabilities should exceed the amount necessary to begin 20-year or 15-year amortization of unfunded vested liabilities. For example, in a plan with a five percent valuation interest rate, the proposed 30-year amortization of increases in past service liabilities would result in contributions equal to at least six percent of initial unfunded accrued (vested and nonvested) liabilities plus normal costs.

21/ For example, assuming five percent interest, even if normal costs represent only 20 percent of the minimum contribution required to amortize increases in total accrued past service liabilities over 30 years and, if present unfunded vested liabilities are less than 85 percent of initially unfunded accrued liabilities, the MCR will not increase plan costs.

For a plan whose MCR is initially greater than the minimum otherwise required, in the absence of any plan changes the resulting contributions required would decrease from year to year until the MCR gives way to the regular minimum funding standard. For plans not initially affected by the MCR, it is likely that the MCR would come into play only in the event of an amendment increasing benefits for past service. However, if such amendment provided for a gradual past service increase (e.g., if the increase in past service benefits for active participants occurred evenly over their future working periods), the MCR might not be triggered. 22/

The MCR would help prevent plans from reaching the point where further financial deterioration could result in imminent benefit losses by:

(1) increasing contributions well in advance of any potential cash flow problems so as to avoid or mitigate them,

(2) increasing plan assets so the plan will not be as vulnerable to short-term economic declines or to interruptions in contributions, e.g., because of strikes, and

(3) encouraging more funding discipline in granting benefit increases for past service, especially when a plan's contribution base is declining.

3. Other Options

In the event that multiemployer plans do not improve funding practices, major revisions to strengthen funding standards may need to be made. Other options identified during this study are set forth in Appendix V.

22/ Even if a plan that would not be affected initially by the MCR had a large group of nonvested participants who became vested, it is unlikely that the MCR would increase the plan's required contributions, since a large group of actives also will mean greater normal costs and the present value of vested accrued benefits ordinarily increases gradually.

PART IV - DESIGN OF MULTIEMPLOYER INSURANCE

A. INTRODUCTION

1. General

The growth and continuance of private pension plans and the security of workers' pension benefits are among the primary objectives of ERISA. The objectives of promoting the growth and continuance of plans, and benefit security, may appear to be similar objectives but can, in fact, be competing. Promotion of plan growth and continuance will generally result in benefit security since, as long as the plan continues, participants will normally be assured of receiving their benefits. 1/ On the other hand, other attempts to promote benefit security could be counter-productive by increasing costs to such an extent that plan formation, growth, or continuance is discouraged. 2/

Benefit security is achieved primarily through the minimum vesting standards, the minimum funding standards, and termination insurance. The minimum vesting requirements ensure that employees with substantial service have a nonforfeitable right to their pensions. The funding standards attempt to ensure that in an ongoing plan adequate funds are being set aside to meet benefit obligations as they fall due. However, since the funding standards do not require that a plan be fully funded, there may be insufficient funds to provide all promised benefits in the event of plan termination. The termination insurance system attempts to fill the gap by guaranteeing certain unfunded benefits. The

1/ ERISA permits multiemployer plans to reduce benefits upon withdrawal by an employer to the extent that benefits relate to service with the employer before it entered the plan. ERISA also permits plans to disregard up to three years of benefit accruals, subject to the approval of the Secretary of Labor, if a plan is experiencing financial hardship.

2/ Very strict funding standards, such as full or 10-year funding, for example, would greatly enhance benefit security but, because of the high cost, could make pension plan formation or continuance too expensive.

guarantee is funded with (1) employer liability assessments collected from the terminated plan's employer-sponsors and (2) insurance funds to the extent that employer liability is insufficient to pay all guaranteed benefits. 3/

Termination insurance, however, could have disruptive effects on plan growth and continuance and, thus, could ultimately jeopardize rather than enhance benefit security. Specifically, termination insurance with high guarantees can have the effect of reducing the cost to participants, the union, and possibly even employers of terminating a pension plan by protecting plan participants against large losses of accrued pension benefits. Without adequate controls, high guarantees could remove much of the disincentive to terminate a plan and may, in fact, make termination more economically attractive than plan continuance. With high guarantees, a high incidence of covered termination claims would require high insurance premiums. This also could make private pension plans less desirable to workers, unions, and employers because a higher proportion of pension contributions would be shifted from providing benefits to paying premiums.

The design to a multiemployer insurance program should, to the maximum extent possible, balance concern for individual benefit security with concern for plan growth and continuance. The design of the multiemployer termination insurance program under ERISA clearly meets the objective of providing workers with benefit security. It protects virtually all vested benefits in multiemployer plans, since the maximum guaranteeable benefit is well above the average vested

3/ Because the level of termination claims for multiemployer plans is highly uncertain and could exceed the level that could be provided by the current premiums, termination insurance for such plans was at the discretion of the PBGC until January 1, 1978 under ERISA §4082. Congress extended the discretionary period until July 1, 1979 and requested PBGC to study the impact of mandatory coverage on the program. ERISA §4082, as amended by Public Law 95-214, 91 Stat. 1501 (1977). See Appendix IX, infra, for a discussion of discretionary coverage.

benefit level in multiemployer plans, 4/ and the statutory limit on the guarantee of benefit increases made within the five years preceding plan termination guarantees such increases at the rate of 20 percent or \$20 per month, per year, whichever is greater. 5/ Because of the \$20 minimum, even substantial benefit increases become fully guaranteed within a few years. 6/

4/ The maximum guaranteeable amount is currently over \$1,000 per month at age 65. The average vested benefit and the average benefit in pay status in a sample of multiemployer plans analyzed by PBGC is about \$175 and \$200 per month, respectively. See ERISA §4022(b)(3) for the formula used to compute the maximum guaranteeable benefit.

5/ ERISA §4022(b)(8). The phase-in rules protect the insurance program from having to insure large benefit increases adopted shortly before plan termination, but provide workers with coverage for small benefit increases. They also help achieve parity between salaried and hourly plans, since in salaried plans benefit increases generally occur as a result of salary increases not as a result of amendments subject to phase-in.

6/ For example, assume a plan increases its monthly benefit rate from \$10 per year of service to \$13 effective January 1, 1978. As the following illustration shows, this increase would be 100 percent guaranteed after two years for a participant with 10 years of service as of the effective date of the increase. For a participant with 20 years of service as of the effective date of the increase, nearly all of the increase would be guaranteed after three years, and 100 percent would be guaranteed after four years.

Service as of Effective Date of Benefit Increase
January 1, 1978

<u>Year</u>	<u>10 Years</u>		<u>20 Years</u>	
	<u>Accrued Ben./</u>	<u>Guar. Benefit</u>	<u>Accrued Ben./</u>	<u>Guar. Benefit</u>
1/1/79	\$143	\$130	\$273	\$230
1/1/80	156	156	286	260
1/1/81	169	169	299	290
1/1/82	182	182	312	312

(Note that, as years of service increase, the benefit not subject to phase-in, i.e., \$10 x years of service, also increases.)

Since all, or nearly all, of the vested benefits of participants would be guaranteed upon termination under the law as currently written, the threat of benefit losses has been greatly reduced and termination becomes a viable option to active employees in situations in which a high proportion of pension contributions is being used for the benefits of retirees.

The principal deterrent to plan termination under the current program is employer liability. However, that liability is limited to 30 percent of the employer's net worth, and may not be an effective deterrent if the liability is less than the cost of maintaining the plan. When this occurs, the employers and the active employees may have an economic incentive to terminate the plan in order to shift the funding obligation onto the premium system. Retirees and other participants would be protected against losses in benefits; active employees may gain economically through higher wages or the establishment of an "actives only" plan providing the same or higher benefits at a lower cost. 7/

A basic premise of the current program was that few multiemployer plans would terminate. 8/ However, prior to ERISA, the incidence of multiemployer plan terminations was low since the parties to the plans would take extreme measures to avoid termination. Some of the measures that financially troubled plans took to reduce plan costs to an affordable level and thereby to avoid

7/ In the multiemployer plan terminations covered by the PBGC to date under its discretionary authority, four plans were terminated and employer liability covered only 15-20 percent of the amount of unfunded guaranteed benefits. In each case, the ongoing pension costs were high (14 percent to 22 percent of compensation). The net cost to the insurance system for those terminations is about \$22 million. Yet, the employers and the unions have established or intend to establish other plans covering most or all of the active employees in the terminated plans.

8/ Study of Pension Plans, 1974, Department of Treasury and Labor, May 1976. This premise was based on pre-ERISA data on multiemployer plan terminations, which showed a low historical incidence of such terminations.

termination were reducing the accrued benefits of all participants, reducing the accrued benefits of participants of withdrawn employers, or not providing for the vesting of pension benefits. 9/ These measures were less severe than plan termination for the participant group as a whole, since plan termination would not only reduce benefits to funded levels but would end the possibility of better funding of existing benefits and deprive participants of the opportunity to earn higher benefits or additional vesting.

9/ While there are no comprehensive data on the overall incidence of benefit reductions in multiemployer plans, case studies conducted by the Department of Labor in 1972 of multiemployer plans with funding problems found several instances in which benefit reductions were instituted to avoid plan termination. (An Analysis of Selected Multiemployer Pension Plans with Funding Problems, unpublished, January 1973.) For example, one plan, which was established in 1946 with a benefit of \$100 per month, reduced benefits to \$50 per month in 1953, and to \$30 per month in 1961. The plan also reduced death benefits to \$500 from its previous level of \$1,000. In 1963, a stereotyper's plan in Philadelphia reduced its monthly benefit from \$1.60 for each year of service to \$1.30.

Before enactment of ERISA, vesting of pension credits prior to a participant's retirement date was much less common in multiemployer plans than in single employer plans. According to a Bureau of Labor Statistics study, less than one-half of all participants in multiemployer plans in 1969 were in plans providing for vesting before retirement. In contrast in 1969, nearly 90 percent of all single employer plan participants were in plans providing for vesting. See Harry E. Davis, "The Growth of Benefits in a Cohort of Pension Plans," Monthly Labor Review, May 1971.

ERISA restricts some of the actions that plans previously used to control costs, but does not provide effective substitutes to promote plan continuance. 10/

Because of the removal by ERISA of the prospect of large benefit losses upon termination without the provision of compensating disincentives to terminate, and the limitations placed by ERISA on certain self-corrective actions that plans formerly utilized to avoid terminations, the current insurance program could very well significantly alter the incidence of multiemployer plan terminations, when mandatory coverage becomes effective. 11/

10/ For example, Section 203(a) of ERISA requires plans to provide for vesting in the benefits derived from employer contributions after a participant attains a specified level of service. In general, plans must provide that participants are at least 50 percent vested after 10 years of service, and 100 percent vested after 15 years of service. Section 302(c)(8) of ERISA prohibits multiemployer plans from reducing the benefits of participants below the level accrued three years before the reduction. Such reductions must be approved (or not disapproved) by the Secretary of Labor, whose decision is based on a determination that the reduction is necessary "because of substantial business hardship (as determined under Section 303(b))" and that a waiver of the minimum funding standards is unavailable or is inadequate. Similar provisions appear in I.R.C. §§411(a) and 412(c)(8).

11/ The lack of adequate deterrents to termination also makes it difficult to predict or control the cost of the multiemployer termination insurance program. Another reason that multiemployer program costs are uncertain is that multiemployer plans involve a number of different parties who may take action which may adversely impact on plan continuance (e.g., employers withdrawing from a plan because of cessation of operations at inefficient facilities; active workers voting to cease or reduce pension contributions in favor of higher wages or other fringe benefits; employees voting to decertify the union). The withdrawal rules discussed in Part V of this report would alleviate the impact of such actions on the financial stability of a plan.

This report presents approaches being considered by PBGC for revising the multiemployer insurance program to achieve a proper balance between encouragement of plan growth and continuance, and protection of the benefits of participants. The basic underlying philosophy of the revisions under consideration is that plan continuation provides participants with the greatest security against loss of pension benefits, and that the insurance program should be a vehicle for fostering plan continuance. 12/

2. Summary of Proposals

This study discusses two major ways of redesigning the multiemployer plan insurance that PBGC is considering. The first way is to shift the focus of the insurance from providing benefits upon termination to providing PBGC financial assistance to ongoing plans that are unable to meet benefit payments despite taking timely, positive action to establish a sound relationship between contributions and outlays. The second way is to provide guarantees only if a plan terminates, as under the current statute, but to redesign the guarantee and employer liability provisions so that termination is a less attractive option than under the current program.

The central feature of the PBGC financial assistance concept is "plan reorganization". Plan reorganization would be a process that identifies plans in various stages of financial difficulty and encourages those plans to take corrective action appropriate to their circumstances. Financial assistance would be provided to plans in reorganization that face insolvency despite having taken corrective measures, such as reducing benefits to the guaranteed level and maintaining a specified rate of contributions.

The multiemployer insurance program could be designed with PBGC financial assistance to reorganized plans as the sole or primary insurance vehicle. Under this approach, there could be lower guarantees--or no guarantees--for plans that terminate, i.e., plans

12/ The minimum funding standards and withdrawal rules discussed in Parts III and V of this paper would, in the long-run, decrease the likelihood and degree of multiemployer plan financial problems. However, even with these standards, a plan still may experience severe financial problems because of industry declines.

that do not attempt to reorganize or that do not take the necessary corrective measures in reorganization. Thus, PBGC program funds would be restricted to those plans most in need of help that have complied with reorganization. Ideally, the PBGC financial assistance to reorganized plans under this approach would be sufficient to protect substantially the same level of benefits as would be protected under existing Title IV provisions.

A second major way to redesign the multiemployer insurance program is to revise the guarantees and/or employer liability for terminated plans to make plan continuation more attractive than it is under the current program. Under this second approach no PBGC financial assistance would be provided for ongoing plans. Plan reorganization however, could still be included in such a program in order to enable financially weak plans to improve their financial condition and thereby avoid termination.

There are three key elements underlying the major proposals that the PBGC is considering to redesign the multiemployer insurance program. They are plan reorganization, financial assistance to financially distressed reorganized plans, and revised termination insurance. Each of these elements is summarized below.

a. Plan Reorganization

Plan reorganization would be a voluntary way for financially troubled plans to avert termination because of insolvency by adjusting plan contributions, benefit outlays, or both. The reorganization program would consist of different levels of plan reorganization based on the severity of a plan's financial problems.

-- Level I Reorganization: Level I is essentially an early warning signal designed to identify plans that are facing long-term financial deterioration. A plan in Level I could, on a voluntary basis, take moderate action to stabilize its financial condition. Plans which meet established threshold tests for Level I reorganization would be encouraged to take a variety of corrective measures, such as increasing contributions or limiting future benefit increases if needed, but would not be permitted to reduce previously accrued benefits beyond the reductions permitted by ERISA.

--Level II Reorganization: Level II applies to plans that are in imminent danger of insolvency. More severe action would be required to restore a sound relationship between outlays (benefits and administrative expense) and contributions in these plans. Plans which meet established threshold tests for Level II reorganization would be permitted to take a variety of corrective actions, including reducing benefits, if necessary to remove the imminent threat of insolvency. However, except for benefit reductions permitted by ERISA, plans would not be permitted to reduce previously accrued benefits (both vested and nonvested below the guaranteeable accrual level, i.e., the benefit that would be guaranteed if all accruals were vested. 13/

b. Guarantees and Financial Assistance for Ongoing Reorganized Plans

The multiemployer insurance program could be designed so that premium funds are used solely or primarily to enable financially distressed plans that have reorganized to pay guaranteed benefits. 14/ That is, financial assistance would be provided only if a plan is unable to pay guaranteed benefits, despite having taken corrective measures, including reducing previously accrued benefits to the guaranteeable level. Ideally, the guarantees provided to ongoing plans would be the guarantees under the current law, but with a more gradual phase-in of the guarantee of benefit increases. Whether this is feasible depends on further study as to what the costs of such a program would be and what is an affordable and reasonable cost for the insurance program.

13/ The guaranteeable accrual level depends on the option selected for guarantees. If the program includes financial assistance to ongoing plans, benefits could not be reduced below the level guaranteeable for plans that qualify for such assistance. If the program does not include financial assistance to ongoing plans, but instead includes higher termination guarantees for plans that become insolvent despite taking all necessary reorganization measures, benefits could not be reduced below the level of termination guarantees for such plans.

14/ The level of reorganization are, in effect, sequential steps that plans would undertake to correct financial problems. With certain exceptions, a plan that did not undergo a Level 1 reorganization when it was first notified by PBGC that plan ... (Cont.)

Under this arrangement, there would be no employer liability per se, but there would be an obligation to continue funding the plan at the rate established in collective bargaining. As a control on potential abuse, this rate would be required to be at least the same percent of the monetary wage package as that negotiated before the plan qualified for reorganization. 15/

c. Guarantees and Employer Liability for Terminated Plans

The significant variables in restructuring termination insurance are employer liability and the amount of guaranteed benefits. These are the two variables that PBGC can utilize to control the incidence of termination (encourage plan continuance) and program costs for those plans that do not terminate. Employer liability represents the cost to the employer, and to a

14/ (Cont.)

reorganization appeared necessary would not be eligible for PBGC ongoing financial assistance, and if it terminated it would be subject to the guarantee and employer liability provisions discussed in Section D, below. The two exceptions are:

(1) Plans that are already at Level II at the time the program is enacted. On the basis of preliminary PBGC data, the number of plans that would immediately qualify for Level II reorganization is relatively small and only a few plans would immediately qualify for financial assistance.

(2) Plans which do not qualify for Level I reorganization but which, during a short period (one or two plan years), experience sharp declines in the contribution base or in the level of plan assets large enough to qualify the plan for Level II reorganization.

15/ The PBGC is studying whether additional controls may be necessary to assure that contributions are at a reasonable level relative to benefit levels promised by the plan. Possible ways to restrict the use of premium funds to the most deserving plans would be to limit further the conditions under which PBGC assistance is provided or to restrict the amount of assistance unless the PBGC makes an individual finding of need.

certain extent to participants, of plan termination, while the level of guarantees represents the cost to participants of plan termination. High guarantees and low employer liability, for example, may result in a high incentive for termination and high program costs, because of the low cost of termination to all parties to the plan. Conversely, low guarantees and high employer liability should result in a low incidence of termination and modest program costs, at least initially, because of the high cost of plan termination on all parties. The latter, however, could have adverse long-run consequences on the growth and continuance of multiemployer plans and the insurance program, because multiemployer plans could be less attractive to employers and participants than other types of benefit arrangements, thus resulting in a loss of current and potential contributors.

Section D of this part of the report presents five alternative approaches to termination guarantees and employer liability which PBGC is considering to control the incidence of terminations and program costs. They are:

(1) employer liability for full vested benefits and reduced benefit guarantees,

(2) employer liability for guaranteed benefits only and reduced benefit guarantees,

(3) no employer liability and no benefit guarantees, 16/

(4) employer liability for guaranteed benefits only and reduced benefit guarantees if the plan imposes withdrawal liability on withdrawing employers, otherwise no benefit guarantees and no employer liability, and

(5) employer liability only for the guaranteed benefits of retirees and those within five years of normal retirement, and benefit guarantees only for such participants.

Under these approaches, with the exception of Program 3, employer liability would not be limited to 30 percent of net worth, i.e., the present statutory limit, 17/ but instead employers would continue to fund their share of the unfunded termination liability. This approach mitigates the major administrative and cost problems posed by a determination of net worth as well as the possible incentive for termination in the event that termination were more

16/ In order to assure that benefits are protected under this option, reorganization and PBGC financial assistance for insolvent reorganized plans would be necessary.

17/ See ERISA §4062(b).

financially attractive than plan continuation.

As noted above, these approaches could be used in combination with financial assistance to reorganized plans, in which case termination insurance would play a minor role since reorganization would provide the same or higher guarantees than termination. If, on the other hand, termination insurance is the sole vehicle for providing insurance funds, reorganization without financial assistance could still be made available to help plans avoid termination.

Under the current termination insurance program, phase-in of the guarantee of benefit increases continues until the date of plan termination. Under a termination insurance program that includes reorganization, phase-in of the guarantee of benefit increases would stop as of the date a plan is first notified that it qualifies for reorganization. However, the phased-in portion of benefits accrued during reorganization would be guaranteed on termination 18/ if the plan takes all the required reorganization measures but nevertheless becomes insolvent. Furthermore, no benefits accrued after the plan is notified that it qualifies for reorganization would be guaranteed on termination if the program is designed with assistance to ongoing plans, even if the plan attempts reorganization before it terminates.

d. Revised Phase-in Rules

Under the proposal for PBGC financial assistance to ongoing plans and the four approaches which provide benefit guarantees in the event of termination, the guarantee of benefit increases resulting from plan adoption or plan amendment would not be immediate but would become effective gradually under various proposed "phase-in" rules. 19/ The phase-in rules are discussed in Section E, below.

18/ The particular termination insurance option will determine whether such benefits would be guaranteed.

19/ In general, the suggested phase-in rules are stricter than the \$20/20 percent rule in the current statute. The suggested rules would allow more time for a benefit increase to be funded before it is guaranteeable. These rules also would apply to the guaranteed level for plans in reorganization.

COMPARISON OF ALTERNATIVE APPROACHES
FOR DESIGN OF MULTIEMPLOYER PLAN INSURANCE

<u>Program Features</u>	Alternative Approaches for Insurance Design				
	1	2	3	4	5
Employer Liability					
For Vested Benefits	X			X ^{1/}	
For Guaranteed Benefits		X			X
No Employer Liability			X		
Termination Guarantees					
Reduced	X	X		X ^{1/}	
For Retirees only					X
No Termination Guarantees			X		
Stricter Phase-in Rules for Guaranteeing Benefit Increases	X	X	X	X	X
Financial Assistance for Reorganized Plans to Support Current Guaranteed Benefits, Adjusted by Stricter Phase- in Rules	0 ^{2/}	0 ^{2/}	X	0 ^{2/}	0 ^{2/}
Liability to the Plan for all Withdrawing Employers	X ^{3/}	X ^{3/}	X ^{4/}	X ^{4/}	X ^{4/}

1/ Guarantees and employer liability apply only if the plan imposes withdrawal liability.

2/ Optional. The program could be designed with or without reorganization and financial assistance for reorganized plans.

3/ Whether withdrawal liability would be an essential or optional feature of the insurance program depends on the particular guarantee option. Mandatory withdrawal liability would not be needed in options providing for permanently low guarantees but would be needed in options providing for high initial guarantees or phased-in guarantees.

4/ Withdrawal liability would not be an essential feature of the insurance program under this approach. Plans may impose liability on withdrawing employers.

B. PLAN REORGANIZATION

1. General

Plan reorganization is being considered by the PBGC as a central element of the multiemployer insurance program. The purpose of plan reorganization is to encourage plans facing financial difficulties to take corrective action to stabilize or improve their financial condition. Plans which take such corrective actions generally would be able to avoid termination.

If the insurance program is designed to provide PBGC financial assistance to financially distressed plans, plans that reorganize but, nevertheless, continue to deteriorate financially to the point that they cannot meet benefit payments would be eligible for PBGC loans.

Ideally, PBGC assistance to ongoing reorganized plans would support the level of benefits that would be guaranteed under the current law subject to changes in the rules for phasing in the guarantee of benefit increases. Termination guarantees under such a program would depend on the particular termination insurance option selected, but regardless of the option no benefits accrued while the plan qualifies for reorganization would be guaranteed. These limitations on the guarantee would (1) protect the insurance program against undue exposure and (2) create incentives for financially weak plans to reorganize.

If the insurance program is designed without provision for PBGC assistance to ongoing plans, there would be no further phase-in of guarantees while a plan qualifies for reorganization. Plans that take all required reorganization measures, but nevertheless terminate because they cannot afford to pay guaranteed benefits, would have higher termination guarantees than plans which terminate without taking all required measures, because no benefits accrued while a plan qualifies for but does not undergo reorganization would be guaranteed.

The reorganization rules being considered by PBGC provide for a two-tier program designed (1) to alert PBGC and the plan to impending financial difficulties

as soon as possible so that corrective action can be taken by the plan to avert further plan deterioration and (2) to assure that the corrective action taken is appropriate for the plan's financial condition and prospects, i.e., that the corrective measures are neither inadequate nor excessive for the particular situation. The levels of plan reorganization are based on measures of financial soundness (threshold levels), primarily cash flow, which are indicative of the plan's expected life. 20/ The two levels of reorganization are:

Level I Reorganization: This is an early warning signal for the purpose of identifying plans which are facing long-term financial insolvency (e.g., the plan would be unable to pay benefits in 15 years). At this level, moderate action, such as increased contributions or limits on future benefit increases, might be sufficient to stabilize the plan's financial condition.

Level II Reorganization: This level would apply to plans in imminent danger of insolvency (e.g., the plan would be unable to pay benefits in seven years or less). At this level, plans may have to take more severe action to stabilize their financial condition (e.g., elimination of unreduced early retirement benefits, elimination of lump-sum benefit distributions, reductions in future accruals and possibly even reductions in accrued benefits).

2. Maintenance of Contributions during Reorganization

Once a plan entered reorganization, in order to be eligible for PBGC assistance to the ongoing reorganized plan or for higher termination guarantees under a program that does not provide assistance to ongoing plans, the parties would be required to maintain contributions at a level which is at least equal to the percent that the pension contribution rate was to the total negotiated monetary compensation package (i.e., wages and other monetary fringes) in effect at the time the plan was first notified that it qualified for reorganization. 21/ For example, if at the time of notification,

20/ See Appendix VI for a detailed discussion of the development and administration of the reorganization threshold tests.

21/ Of course, plans in reorganization also would be required to meet the minimum funding standards.

the pension contribution rate was 20 cents per hour and the total monetary compensation rate was \$5 per hour, the contribution rate during reorganization would have to be at least four percent of the total monetary package. Thus, if the monetary package were to increase to \$6 per hour, the pension contribution rate would have to increase to 24 cents per hour.

This contribution requirement serves to ensure that both employers and participants continue to support the plan while it is in reorganization. Without this requirement, participants in financially troubled plans may be induced to bargain for a shift of funds in the compensation package away from pensions to wages or other fringes.

3. Withdrawal Liability

In order to qualify for PBGC assistance, or higher termination guarantees, a plan in reorganization would be required to have rules imposing liability on withdrawing employers. 22/ At a minimum these rules must be in effect when the plan enters reorganization. 23/

Withdrawal liability in the form of payments to the plan for the withdrawn employer's share of unfunded liabilities is a necessary component of reorganization since it:

(1) protects financially troubled plans against future erosion of the contribution base because of employer withdrawals and

(2) protects remaining employers against having to bear increasing pension costs because of withdrawals.

22/ See Part V for discussion of withdrawal liability rules.

23/ PBGC is considering whether it would be necessary for a plan to have withdrawal liability rules in effect before entering reorganization. The advantage of having such a requirement is that it would partially protect the plan against erosion of the contribution base because of withdrawals, thus possibly avoiding reorganization. In addition, withdrawal liability may restrain withdrawals from a plan heading for reorganization.

4. Guarantees For Successor Plans

When funding costs become high, for reasons such as increases in unfunded liabilities resulting from declines in a plan's contribution base, establishment of a successor plan with lower funding costs becomes financially attractive to both employees and employers. For example, a successor plan can be adopted to provide active workers with higher benefits than contributions to a predecessor plan can support. The reorganization rules should protect the insurance program against claims resulting from shifting of employer contributions from the reorganized plan to a successor plan.

5. Identification and Monitoring of Plans Eligible for Reorganization

Plans subject to reorganization would be identified annually, primarily by a cash flow test. Identification of plans would be accomplished by a two-stage process. First, PBGC would pre-screen plans based on data from the Form 5500 that plans are required to file annually. ^{24/} Plans identified in the pre-screening would either (1) certify that, based on their own projections of benefit payments and PBGC's assumptions for projecting contributions (the current contribution rate and extrapolation of contribution base trend), they do not qualify for reorganization or (2) submit projected data from which PBGC would determine, based on established criteria, whether the plan is eligible for Level I or II reorganization. ^{25/} The PBGC would then notify plans that qualify for reorganization. Plans identified as eligible for reorganization based on PBGC tests, using projected data provided by the plan, should be permitted to contest PBGC findings through an appeal procedure.

^{24/} Form 5500 is the combined IRS/DOL/PBGC Annual Return/Report that is filed for pension benefit plans with 100 or more participants.

^{25/} Plans which are not identified in the pre-screen but which demonstrate to the PBGC that they nevertheless qualify for reorganization would be identified as eligible to reorganize.

Plans that adopt a Level I reorganization plan would be checked through the above pre-screening device using data from the Form 5500 or projected data provided by the plan for this purpose. More detailed monitoring would be required for plans in Level II reorganization to determine whether appropriate and adequate corrective measures have been taken 26/ and to assess potential insurance claims. This should not involve a major administrative effort because few plans are expected to qualify for Level II reorganization. 27/

6. Corrective Action in Level I Reorganization

An acceptable Level I plan of reorganization would involve the plan's taking action to stabilize or improve its financial condition. Assume that the Level I threshold is a projected plan life of 15 years, and that the Level II threshold is a projected life of 7 years. An acceptable plan of reorganization for a plan that first trips the Level I test when it has a 12-year projected life is one that maintains the projected life at 12 years or increases it. If the projected life were to increase beyond 15 years the plan would no longer be in reorganization.

The measures that a plan may use, singly or in combination, in a Level I reorganization are:

- (1) increasing contributions, 28/
- (2) eliminating unreduced benefits payable before normal retirement age,

26/ If the insurance program includes assistance to ongoing plans, such assistance would be contingent on a plan's taking appropriate reorganization measures.

27/ Appendix VI discusses in more detail the development and administration of reorganization threshold tests.

28/ It would not be necessary for plans to increase the contribution level above the percent of the monetary compensation package in effect at the time the plan first tripped the Level I reorganization threshold test unless higher contributions are required to satisfy the minimum funding standards.

(3) increasing the number of hours required for future benefit accruals,

(4) permanently or temporarily reducing future accruals, to the guaranteed benefit accrual rate, 29/

(5) adopting an amendment fixing a more rapid amortization schedule for the funding of past service liabilities which also provides that, if contributions for a year are not sufficient to meet this amortization schedule, the benefits accrued in that year would be reduced accordingly,

(6) reducing benefits to the extent permitted by Section 302(c)(8) of ERISA (i.e., the last three years of accruals), subject to disapproval by the Secretary of Labor, and

(7) not adopting increases in benefits if this would re-create or exacerbate the plan's financial difficulties.

The range of alternatives for corrective action in Level I would give a plan considerable flexibility to improve its financial condition. For some plans, higher contributions may eliminate the need to take further action.

In addition to the above actions available to stabilize the plan's financial condition, a plan in Level I reorganization would be required as a condition of an acceptable Level I reorganization, to cease lump-sum distributions, except for death benefits and return of employee contributions. While plans may voluntarily freeze benefits or drastically reduce future benefits, they would not be required, as a condition for an acceptable plan for reorganization, to freeze benefits or to reduce future benefit accruals below the phased-in accrual rate.

A Level I reorganization plan would have to be adopted immediately after adoption of the first collective

29/ This is the benefit accrual rate that would be guaranteed for a reorganized plan under either a program that provides financial assistance or one that provides higher termination guarantees for reorganized plans. The reduction would be accomplished by successive disregard of past benefit increases, which is discussed under Corrective Actions in Level II reorganization, below.

bargaining agreement(s) negotiated, but no later than three years after the plan is identified as eligible for reorganization. This would allow plans to negotiate a Level I reorganization plan or authorize the Board of Trustees to develop it. Plan administrators would not be required to report to the PBGC the plan of reorganization adopted. However, they would be required to provide an actuary's certification as to the impact of the measures on the plan's projected life. 30/

7. Corrective Action in Level II Reorganization

An acceptable Level II reorganization plan would maintain the plan at or bring it up to the Level II threshold, e.g., a projected life of seven years. Reductions in previously accrued benefits, item 4 below, would not be permitted unless the plan took the first three actions and they were not sufficient to bring the plan to the Level II threshold. Corrective actions for Level II include:

- (1) elimination of unreduced early retirement benefits,
- (2) reduction of future accruals to the guaranteed accrual level,
- (3) reduction of previously accrued benefits to the extent permitted by Section 302(c)(8),
- (4) reduction of previously accrued benefits to the guaranteed level, and
- (5) cessation of lump-sum distributions, except for death benefits and return of employee mandatory contributions.

The reductions in accrued benefits to the guaranteed level could be accomplished by successive disregard of past benefit increases, beginning with the most recent increase. In this way, plans

30/ Actuarial assumptions used for the impact statement would be required to be consistent with those used to identify the plan as eligible for reorganization. This both helps assure the appropriate degree of corrective measures and avoids exposing the plan actuary to possible pressures in developing the required projections.

Would not have to take discretionary action that could disadvantage any particular class of participants, e.g., retirees. 31/ Reducing benefits in this manner would also result in a more responsible relationship between future funding and benefit promises, since the most recent increases are likely to be largely unfunded.

The following example illustrates the successive disregard of past benefit increases for purposes of reducing previously accrued benefits in Level II reorganization under a program in which guarantees are based on current program guarantees.

Example

A participant has 20 years of service and is accruing benefits of \$10 per month per year of service when the plan enters Level II reorganization. The monthly benefit accrual rate includes \$5 that is fully phased-in, \$3 that is 20 percent phased-in and \$2 that is not phased-in. The table below shows the breakdown of the participant's monthly benefit between phased-in and nonphased-in amounts.

Monthly benefit per year of service credited under the plan	Monthly benefit as of Date of Level II Threshold (20 years of service)	
	Accrued	Phased-in
Original Plan... \$5: 100% phased-in	\$100	\$100
1st increase ... \$3: 20% phased-in (\$.60)	60	12
2nd increase ... \$2: 0% phased-in	<u>40</u>	<u>-0-</u>
Total	\$200	\$112

The Level II reorganization measures for this participant would be as follows:

Disregard the nonphased-in portion of the most recent benefit increase for determining

31/ Depending on the plan's financial condition and, therefore, the extent of reductions required, the accrued benefits of many retirees could be protected under this approach. These participants may, however, lose cost-of-living increases granted after their retirement. Permitting active participants to advance on the vesting schedule and to accrue future benefits at the guaranteed accrual rate while their plan is in Level II reorganization is an inducement for actives to support continuation of the plan.

Example - Cont'd

accrued benefits.* For the participant in this example, such disregard would eliminate credit under the \$2 per month per year of service increase. As shown in the table above, this would reduce the participant's benefit to \$160 per month.

If a further reduction were required, this participant's benefit would be reduced by disregard of the nonphased-in portion of the \$3 per month per year of service benefit increase. As the table above shows, the benefit could be reduced to \$112 per month. No further reduction of this participant's benefit would be permitted.

* If only part of the nonphased-in portion of a benefit increase would need to be disregarded to bring the plan to the Level II threshold, then only that part could be disregarded.

A plan eligible for Level II reorganization would be required, as a condition of an acceptable Level II reorganization, to adopt an appropriate plan or reorganization within a short period of time, e.g., 60 days, after it is identified as eligible for Level II reorganization. The plan administrator would be required to report to the PBGC the measure(s) taken, the effective date of the measures, and their expected impact on the plan's cash flow and the projected life of the plan. Certification of the projected life of the plan by the plan actuary would be required as under Level I.

C. FINANCIAL ASSISTANCE TO ONGOING REORGANIZED PLANS

1. General

One way to provide benefit protection to multiemployer plans is for the PBGC to provide financial assistance in the form of loans to plans that, despite reorganization, cannot meet their current benefit payment

commitments from plan assets and contributions. In this way, the PBGC could protect guaranteed benefits in a reorganized plan that cannot provide those benefits even on a pay-as-you-go basis. 32/

Financial assistance would be conditioned upon a plan's becoming "insolvent" and unable to pay guaranteed benefits as they come due, despite having taken all required corrective measures, including reducing previously accrued benefits to the guaranteed level and maintaining contributions at the same percentage of the monetary wage package as before the plan qualified for reorganization. 33/ Plan insolvency for purposes of this PBGC financial assistance proposal means that:

Plan assets, plus expected contributions would become insufficient to meet benefit payments within the next three years, or, if longer, the remaining life of the collective bargaining agreement(s) pertaining to the plan, but not more than five years.

The amount of PBGC assistance would be the amount in excess of plan assets and contributions (including withdrawal liability payments from previously withdrawn employers) that is needed to pay guaranteed benefits currently due. If the contribution base stabilizes or improves, the amount of PBGC assistance would be reduced since the purpose of the assistance is solely to help a plan avoid termination. Sufficient improvement in plan contributions would enable repayment of the PBGC loans and restoration of reduced benefits.

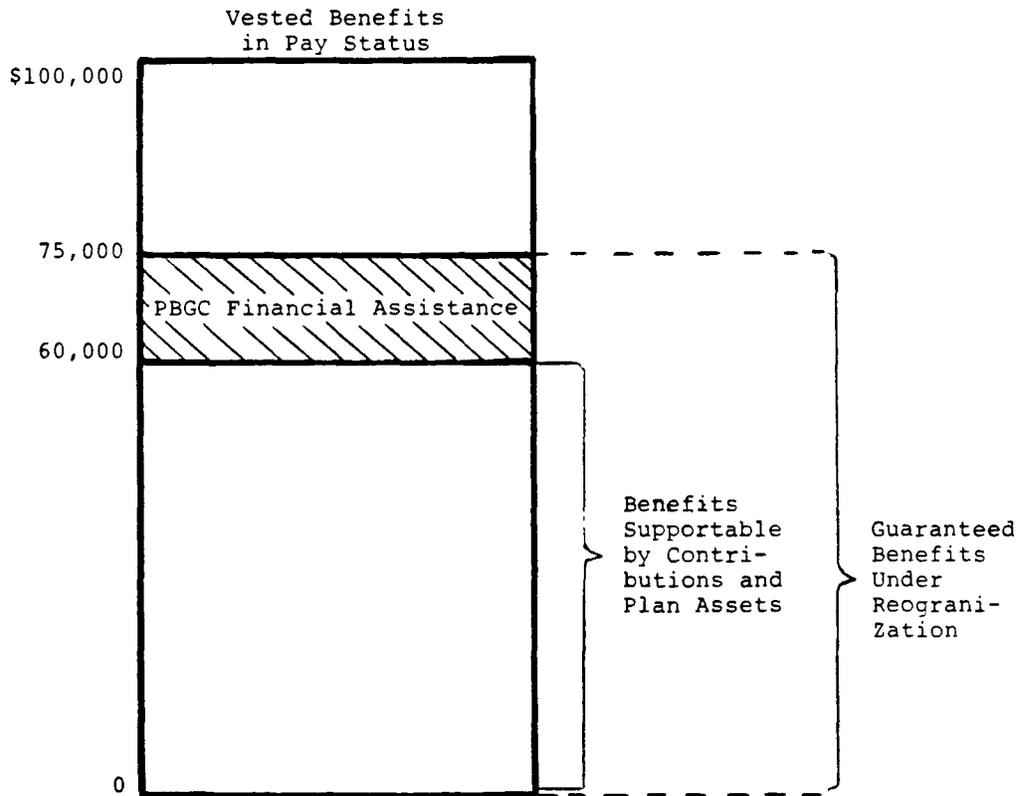
32/ The operation of the minimum funding standards for plans receiving PBGC financial assistance needs to be explored further. It is possible that contributions to a plan at the rate required for a valid Level II reorganization may not satisfy the minimum funding standards, either by themselves, or together with PBGC financial assistance to the plan.

33/ These reorganization requirements are discussed in Section B, above.

The PBGC may determine that the contribution base of a plan receiving PBGC assistance is not likely to stabilize or improve. In this case, repayment of PBGC financial loans might be unlikely, and the PBGC would be authorized to prohibit further accruals, and possibly vesting, as a condition for further financial assistance. 34/

Diagram 1 illustrates guaranteed benefits and PBGC financial assistance in reorganization.

Diagram 1. Guaranteed Benefits and PBGC Financial Assistance in Reorganization



The plan would provide \$60,000 of the \$75,000 necessary to pay guaranteed benefits, and PBGC would provide the remaining \$15,000.

34/ It may be necessary to establish an appeals procedure especially if there would be no guarantees or very low guarantees for a plan that terminates.

PBGC is currently studying whether it would be financially feasible to provide guarantees to plans receiving PBGC financial assistance similar to those they would receive under the current program if it were mandatory. This would be desirable, in part because plans that reduce their benefit obligations and maintain a specified rate of contributions but nevertheless become insolvent should be the most deserving plans in terms of financial need and demonstrated discipline in benefits and funding. However, the PBGC is studying whether additional controls are necessary to assure that the suggested level of contributions for an acceptable reorganization involves a reasonable level of contributions relative to the level of benefits under the plan. If the suggested contribution level is not reasonable relative to the level of plan benefits, it would be more difficult to justify a high level of guarantees if they would unduly increase program costs.

One possible way to restrict the use of premium funds to the most deserving plans would be to limit further the conditions under which PBGC assistance is provided. For example, the contribution requirement for reorganized plans could be increased. Another way to restrict the use of premium funds would be to limit the amount of assistance provided unless the PBGC makes an individual finding of need. The PBGC might provide only X percent of the benefit amount that the required contributions could not provide unless the PBGC determines individual need based, for example, on documentation of industry decline. These controls could create strong incentives for employers and employees to bargain for the contribution increases necessary to support the plan in order to avoid plan termination.

D. ALTERNATIVE APPROACHES TO RESTRUCTURING THE INSURANCE PROGRAM FOR TERMINATING PLANS

Termination insurance would play a role under both major proposals that the PBGC is considering for providing guaranteed benefits to participants in multiemployer plans. Under the first proposal--which focuses on financial assistance to ongoing reorganized plans as the primary means of guaranteeing benefits--benefits accruing during the time

that a plan qualifies for reorganization would not be guaranteeable if the plan terminates. This differential in guarantees creates an incentive for plans to reorganize.

Under the second major insurance proposal--which uses termination insurance as the only means of guaranteeing benefits--the guarantee depends on whether or not the program is designed to include reorganization without financial assistance to ongoing plans. If reorganization is included, benefits accrued while a plan qualifies for reorganization would not be guaranteeable unless the plan takes all required reorganization measures and still becomes "insolvent." Also, phase-in of the guarantees of benefit increases would be suspended while any plan qualifies for reorganization. If reorganization is not included, however, the guarantees would be determined solely by the particular termination insurance guarantee structure.

The guarantees would, in most instances, determine the amount of employer liability, which would not be limited to 30 percent of net worth as under the present law.

Five approaches to restructuring termination insurance are discussed below. They are:

(1) employer liability for full vested benefits and reduced benefit guarantees,

(2) employer liability for guaranteed benefits only and reduced benefit guarantees,

(3) no employer liability and no benefit guarantees, 35/

(4) employer liability for guaranteed benefits only and reduced benefit guarantees only if the plan imposes withdrawal liability on withdrawing employers, otherwise, no benefit guarantees and no employer liability, and

(5) employer liability only for the guaranteed benefits of retirees and those within five years of normal retirement, with benefit guarantees only for such participants.

35/ In order to assure that benefits are protected under this option, reorganization, and PBGC financial assistance for insolvent reorganized plans, would be necessary under this termination program option.

1. Employer Liability for Vested Benefits; Reduced Guarantees

This approach attempts to encourage plan continuance and to control program costs by placing a high cost of termination on employers. Under this approach, employers would be liable for the full vested benefits in the event of plan termination. ^{36/} The deterrent to termination, however, would vary with the ability of the employer to pay employer liability.

The basic components of this approach are:

- (1) employer liability for full vested benefits,
- (2) guarantees below that provided by the current program, at least initially,
- (3) priority allocation of assets to retirees and participants within five years of normal retirement age, and
- (4) optional withdrawal liability.

a. Employer Liability

In the event of plan termination, employers would be liable for the full amount of unfunded vested benefits, even though the level of PBGC guarantees may be substantially lower than vested benefits. ^{37/} The basic reasons for imposing employer liability for full vested benefits are that employers would be encouraged to seek sound funding practices and both employers and the union would attempt to prevent termination because high liability could jeopardize the ability of participating employers to continue in business or to compete with nonparticipating

^{36/} If reorganization were included in this option, employer liability for a reorganized plan that terminated because of insolvency could be limited to the guaranteed benefits. This would be a further inducement for employers and employees to seek plan reorganization.

^{37/} The liability for plans that attempted to reorganize and reduced benefits during reorganization, but terminated instead of taking all required reorganization measures, would be the amount of vested liabilities that would have been in the plan had benefits not been reduced.

employers. The cost of termination to the insurance program should be modest because of a low incidence of termination and a shouldering of the cost of termination by employers.

b. Guarantees 38/

There are a number of options for restructuring termination guarantees under this approach. All of these options provide for initial guarantees below the current level, with several of the options providing for a gradual phase-in of guarantees up to the current level. The options vary in terms of the security provided to plan participants and the cost to the insurance program.

Another type of reduced guarantee option that has been suggested would make a basic level of benefits available to all plans and full coverage available to those plans that meet strict underwriting standards and elect to pay an additional premium for full coverage. That alternative, however, has not yet been fully analyzed.

(1) Permanently Reduced Guarantees: One guarantee option would be to provide a permanently reduced level of termination guarantees (e.g., 25 percent or 50 percent of the current level, as modified by revised phase-in rules). The advantage of this option is that it would control program costs and encourage reorganization because of the low level of termination guarantees. The principal disadvantage is that it provides participants with low benefit security in the event the plan is poorly funded and the employers are unable to pay employer liability.

38/ Guarantees are subject to the benefit increase phase-in rules, discussed below and the limitations on guaranteed benefit accruals applicable if the program includes reorganization.

(2) Guarantee of Post-ERISA Accruals Only:

A second termination guarantee option would be to guarantee only benefit accruals in plan years beginning after December 31, 1977 ^{39/} ("post-ERISA accruals"). ^{40/} This option would provide for low initial guarantees. The guarantee level, however, would increase each year as post-ERISA accruals become a larger proportion of total accruals. The advantages of this termination guarantee option are:

(1) program costs would be low initially, thus providing an opportunity to revise the program based on later experience,

(2) insurance protection would be provided only for benefits accrued while the program was in effect,

(3) plans may be encouraged to take self-corrective action in order to avoid termination in the early years of the program, thus decreasing the likelihood of eventual termination with large claims and allowing the program to accumulate a premium reserve to fund future claims,

(4) delaying implementation of full coverage would give PBGC and the Congress an opportunity to develop a greater knowledge of multiemployer plans without exposing the insurance system to catastrophic claims, and

^{39/} December 31, 1977 is the date originally set under ERISA for the end of the discretionary coverage of multi-employer plan terminations. Alternative dates that could be considered for the start of "post-ERISA" accruals are September 2, 1974 (the date of enactment) or the effective date under ERISA of minimum vesting and funding standards with respect to each plan.

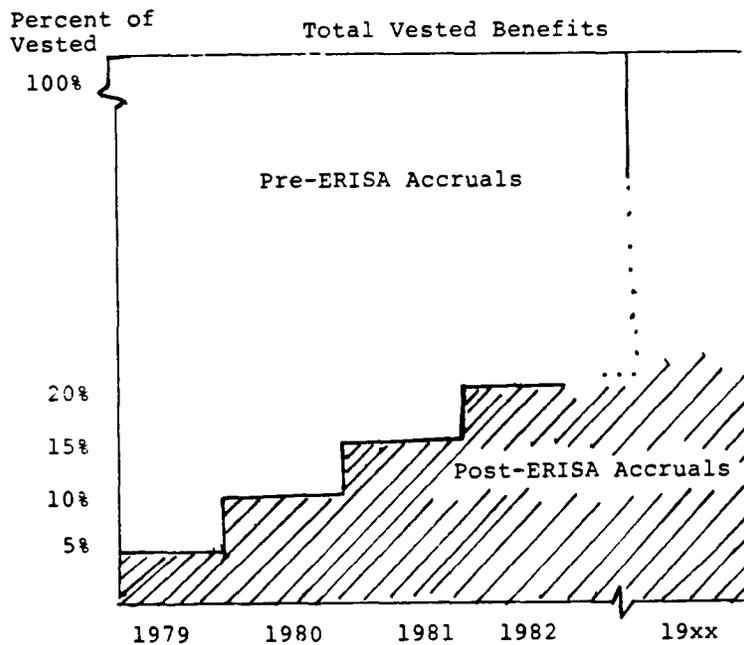
^{40/} Under this option the guaranteed benefit for a participant would be equal to the participant's accrued benefit on the date of termination minus the accrued pre-ERISA benefit. For example, if a participant has a \$150 benefit on date of termination, \$100 of which was accrued in the pre-ERISA period, the guarantee would be \$50 (\$150-\$100). All of a participant's service would be counted for purposes of determining vested benefits under this option. Pre-ERISA service would be disregarded for purposes of computing guaranteed benefits, except with respect to post-ERISA increases in benefits that apply to pre-ERISA service.

(5) the multiemployer and non-multiemployer insurance program will eventually provide similar guarantees.

The principal disadvantage to this option is that it would provide low benefit security to current retirees and older active participants, whose benefits consist largely, if not exclusively, of pre-ERISA accruals.

The diagram below illustrates the guarantee under this option in relation to accrued vested benefits.

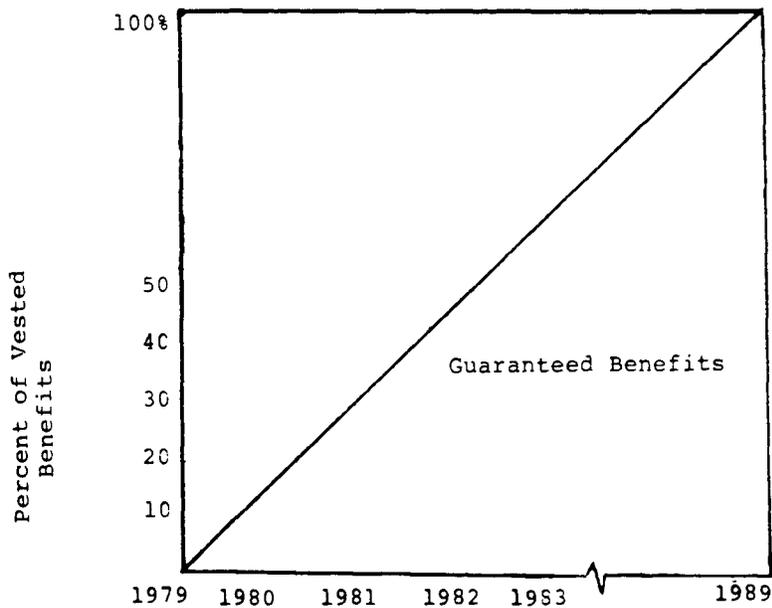
Diagram 2.



(3) Graduated Phase-In of Full Guarantees:

This guarantee option is similar to the previous option in that guarantees would be low initially but would increase over time. Under this option, the guarantee would be phased in at the rate of X percent per year. For example, if the guarantee were phased in at the rate of 10 percent for each year the program is in effect, at the end of five years, the guarantee for a terminated plan would be 50 percent of the guaranteed level for a reorganized plan; after ten years, the guarantee would be 100 percent. The following diagram illustrates the way this guarantee option would work.

Diagram 3.



This guarantee option has the same advantages as the guarantee of post-ERISA accruals. In addition, it has the advantages of making the multiemployer guarantee similar to the current guarantee much earlier and providing a higher level of benefit security to retirees and older

participants. The principal disadvantage of this guarantee option is that it may merely delay a termination until the guarantee is higher. 41/

(4) Guarantee Limited to Benefits Accrued During Employment For Which Plan Contributions are Required: The final guarantee

option under the first approach would be to guarantee only benefits accrued with an employer while the employer was contributing to the plan. Benefits accrued as a result of service with an employer before that employer's participation in the plan would not be guaranteed. Such prior service benefits are cancelable upon an employer withdrawal under the current statute. 42/ Thus, this option would prevent a plan from shifting the funding burden for cancelable benefits to the insurance system just as the current statute allows plans to prevent withdrawing employers from shifting the burden to the plan.

The principal advantage of this guarantee option is that it would provide high benefit security to retirees, particularly in the early years of the program. The primary disadvantage of the option is that it may result in high program costs. The disregard of prior service benefits will not have a major impact on the guarantee in plans which are most likely to terminate, i.e., those plans having few new employers. In such plans, prior service is likely to be a small proportion of the total vested benefits.

c. Allocation of Plan Assets Upon Termination

The various guarantee options provide for lower guarantees than the current program, at least initially. Because of these reduced guarantees, retirees and other participants, the group most in need of benefit security, could suffer large losses in benefits in the event of plan termination. In order to provide some measure of protection to retirees and older participants, their benefits would be given a high priority in the allocation of plan assets. The schedule for allocating plan assets, which is similar to that under ERISA, would be as follows:

41/ High employer liability could, however, be a restraint on termination. In addition, if the phase-in period is sufficiently long, the operation of the funding standards should make termination unlikely.

42/ I.R.C. §414(f)(1)(D), ERISA §1015. The Secretary of the Treasury has not yet adopted final regulations determining the extent of benefit forfeitures permitted by §414(f)(1)(D).

First, to the voluntary contributions of plan participants,

Second, to the mandatory contributions of plan participants,

Third, to the accrued benefits of all retirees and participants within five years of reaching normal retirement age,

Fourth, to guaranteed benefits not covered under categories 1-3,

Fifth, to vested benefits not covered under categories 1-4,

Sixth, to all other accrued benefits.

This allocation scheme assures that retirees will be no worse off than if the plan had terminated prior to ERISA, since the typical pre-ERISA method of allocating assets was to give retirees the highest priority. In addition, the allocation rules, in conjunction with the reduced guarantees, operate to shift the cost of termination to active participants, thereby possibly discouraging this group from seeking or acquiescing in a plan termination.

d. Withdrawal Liability

Whether withdrawal liability ^{43/} is a mandatory component of this approach will depend on the particular guarantee option. Mandatory withdrawal liability would not be needed in an option providing for low guarantees--the permanently reduced guarantees--since the cost to the insurance program of plans not having withdrawal liability would be relatively small. Mandatory withdrawal

^{43/} Withdrawal liability is discussed in Part V of this paper.

liability would be needed, however, in options providing for high initial guarantees or phased-in guarantees. 44/

e. Impact of Program 1 Options

Program 1 attempts to control the incidence of termination and program costs through strong deterrents on both employers and participants. This approach should limit the exposure of the insurance system in the short-run, since both employers and the union may be reluctant to terminate plans because of the high employer liability and the reduced guarantees. This program does have a number of disadvantages, the most important of which is the potential adverse long-run consequences on multiemployer plan growth and continuance. High employer liability and low guarantees, at least initially, may make multiemployer plans less attractive for current and potential contributing employers and participants. This could result in withdrawal of current employers and the inability of plans to maintain the contribution base as employers withdraw or go out of business. To the extent that declines in the contribution base occur, plans would be more susceptible to financial pressures to terminate.

Other disadvantages of this approach are:

(1) It relies too heavily on the deterrent effect of employer liability to control the incidence of termination. In multiemployer plans, termination is not a unilateral decision, thus high employer liability may not be a significant deterrent if active employees put pressure on the union and employers to terminate the plan.

44/ It would be possible to make withdrawal liability optional in the post-ERISA and graduated phase-in options, by freezing the guarantee at a low level unless the plans adopted withdrawal liability rules. For example, under the graduated phase-in option, the guarantee could be frozen at 40 percent or 50 percent of the maximum guarantees, with additional phase-in dependent on the adoption of withdrawal liability rules. This approach would give parties the opportunity to make their own decision as to whether withdrawal liability is in the best interest of participants and the plan.

(2) It presents significant problems in determining benefits and in administering terminated plans, since a significant portion of the benefits would not be guaranteed by the insurance system but would be dependent on employer liability payments.

2. Employer Liability for Guaranteed Benefits; Reduced Guarantees

This approach attempts to encourage plan continuance and to control program costs by reducing guarantees. Employer liability under this approach, would be for the amount of guaranteed benefits only. 45/

The basic components of this approach are:

- (1) employer liability for guaranteed benefits,
- (2) guarantees below that provided by the current program, at least initially,
- (3) priority allocation of assets to all retirees and participants within five years of normal retirement age, and
- (4) optional withdrawal liability.

a. Employer Liability

Employers would be liable for the full amount of unfunded guaranteed benefits in the event of plan termination. 46/ Because this liability may be less than

45/ This would not preclude the union from negotiating with employers for contractual liability for vested benefits.

46/ If this option were designed with higher guarantees for reorganized plans that terminate because of insolvency, it might be advisable to set employer liability for such plans at the lower level of benefits guaranteed for terminated solvent reorganized plans, in order to assure that reorganization is sufficiently attractive to both employers and employees.

under the current program due to reduced guarantees, some of the potentially adverse impact of employer liability under the current program would be mitigated.

Since employers would not immediately be faced with the prospect of such high employer liability, they might look more favorably on possible entry into a multi-employer plan, or may be encouraged to attempt to seek adjustments in plan practices regarding contributions and benefit determination. Also, this option would give those parties that considered their plans to be defined contribution plans an opportunity, at minimum cost to employers and the premium system, to revise the plan to clarify its status.

b. Guarantees 47/

This approach could contain any of the four guarantee options contained in the first approach, i.e., permanently reduced guarantees, guarantees limited to post-ERISA accruals, graduated phase-in, and guarantees limited to benefits accrued during employment for which contributions are required. Of the four guarantee options, the first three would provide the greatest relief from employer liability since guarantees would be low initially. These options, however, would place participants--especially retirees--at risk, since they could lose a substantial amount of accrued benefits in the event of plan termination. Under the fourth guarantee option (i.e., the guarantee of benefits accrued during employment for which contributions are required), guarantees would be much higher initially. Consequently employer liability would be high. While this would protect participants, it could have a negative effect on plan growth and continuance because of the immediate prospect of large liability in the event of plan termination. In addition, this last option could result in significant costs to the insurance program.

47/ As under the first approach, guarantees would be subject to the benefit increase phase-in rules, discussed below, and the restrictions on guarantees of benefit accruals applicable to plans that trigger the reorganization thresholds.

c. Allocation of Plan Assets Upon Termination

Low employer liability, particularly in the early years of the program, may make plan termination economically attractive to both employers and active employees, where a high proportion of plan cost is due to the benefits of retirees. In order to protect retirees against large losses in benefits, and to provide a deterrent to termination of a plan when guarantees are low, 48/ priority treatment in the allocation of assets would be accorded to all retirees and those within five years of normal retirement age. Thus, plan assets would be allocated in the same manner as under the first program approach, which is similar to the allocation under ERISA:

First, to the voluntary contributions of plan participants,

Second, to the mandatory contributions of plan participants,

Third, to the accrued benefits of all retirees and participants within five years of reaching normal retirement age,

Fourth, to guaranteed benefits not covered under categories 1-3,

Fifth, to vested benefits not covered under categories 1-4,

Sixth, to all other accrued benefits.

d. Withdrawal Liability

As in the first approach, withdrawal liability could be optional under the second approach. Whether it would be optional or mandatory will be a function of the guarantee option selected.

48/ If priority allocation of assets is given to guaranteed benefits, the parties may find termination economically attractive because, when guarantees are low, plans assets may be sufficient to cover all guaranteed benefits.

e. Impact of Approach

This approach alleviates some of the potentially disruptive effects of a mandatory termination insurance program on plans, employers, and participants by giving the parties to plans an opportunity to adjust plan structural and operational characteristics in light of ERISA, without facing the immediate prospect of high employer liability and without subjecting the insurance program to large claims. The principal disadvantages of this approach are that it could result in a high incidence of terminations in the early years of the program, and it could result in substantial benefit losses to retirees in poorly funded terminating plans.

3. No Employer Liability; No Guaranteed Benefits

This approach attempts to encourage plan continuance and to control program costs by eliminating the potentially disruptive effects of employer liability and termination guarantees on plan growth and continuance, flexibility of plan design, and the collective bargaining process. There would be no statutory employer liability upon termination or withdrawal. Employers and unions could, however, establish termination and withdrawal liability rules through the collective bargaining process if they so desired. PBGC would not guarantee any benefits in terminated plans under this approach. Therefore, in order to assure that benefits can be protected by PBGC guarantees, this approach should be considered only for a program that includes PBGC assistance to ongoing plans. Under this approach, plans would be required to pay premiums to PBGC to support the financial assistance program, thus ensuring the availability of reorganization and financial assistance in lieu of termination guarantees.

The basic components of this approach are:

- (1) no termination liability,
- (2) no guarantees for terminated plans,
- (3) priority allocation of plan assets to retirees and participants within five years of normal retirement age, and
- (4) optional withdrawal liability.

a. Employer Liability and Guarantees

The elimination of employer liability and guarantees in the event of plan termination places reliance on the collective bargaining process to ensure plan continuance. While the absence of employer liability would appear on the surface to lead to a high incidence of plan termination, it should, in fact, have the opposite effect. The absence of employer liability would remove some of the impediment to plan entry and the incentives to withdraw created by the current termination insurance program, thus, fostering plan growth and continuance. In addition, the elimination of employer liability would not, by itself, lead to a high incidence of termination, even in situations in which employers would stand to gain economically by terminating the plan. Employers cannot unilaterally terminate a multiemployer plan. Termination of such a plan is subject to a joint labor-management decision, either through the joint board of trustees or the collective bargaining agreement. Because of the severe consequences of termination to participants under this approach, union trustees or negotiators would be extremely reluctant, just as in the pre-ERISA period, to agree to termination of a plan unless it were to the economic advantage of participants (e.g., higher wages, increased job security). Thus, employers may very well have little to gain from terminating a plan since any savings may have to be passed on to active employees.

Where a high proportion of plan costs are being used to fund the benefits of retirees, active employees may seek to terminate the plan as a last resort, in order to reduce the burden of funding retirees' benefits. However, current actives are not likely to establish a precedent of abandoning retirees since the ultimate receipt of their own benefits will be in the hands of future generations of actives. ^{49/} Retirees and older participants would be provided a measure of protection against benefit losses in such terminations through the method of allocating assets, as discussed below.

^{49/} The incidence of termination because of pressure by active employees to cease funding the benefits of retirees would appear not to be a significant problem. If actives are upset about the benefits of retirees, the first step would be to resist any attempts to increase the benefits of retirees. Termination would probably still be a last resort.

b. Allocation of Plan Assets upon Termination

Under this approach, the benefits of retirees and other older participants would receive a high priority in the allocation of assets in order to protect these benefits and to increase costs of termination on active employees. Assets would be allocated as follows:

First, to the voluntary contribution of plan participants,

Second, to the mandatory contributions of plan participants,

Third, to the benefits not included in categories 1 and 2 of retirees and participants within five years of reaching normal retirement age,

Fourth, to all other nonforfeitable benefits, and

Fifth, to all other accrued benefits.

The high priority accorded to retirees and other older participants in noncovered terminations will protect such participants from large benefit losses because of plan termination in most cases. In fact, where the termination is not due to plan financial problems, these older participants may suffer little or no benefit losses. ^{50/} Thus, the losses will be borne by active participants. However, even such participants may not suffer economic losses in the long run if the plan termination results in greater job security, higher wages, or other monetary fringe benefits.

c. Withdrawal Liability

Withdrawal liability would not be required under this approach. A plan would be free to decide whether or not withdrawal liability is necessary or desirable based upon its particular circumstances. While withdrawal liability would not be mandatory, plans would be required to adopt withdrawal liability rules in order to meet the conditions of an acceptable plan of reorganization and to be eligible for PBGC financial assistance.

^{50/} A 1977 PBGC study of multiemployer plans found that, on the average, the assets in multiemployer plans were 23 times the size of annual benefit payments. A ratio of this magnitude normally means that the plan is more than fully funded for current retirees. (See Appendix I, "Potential Multiemployer Plan Liabilities Under Title IV of ERISA.")

d. Impact of Approach

This approach minimizes the potentially disruptive effects of a mandated insurance program on multi-employer plans by restoring, to the maximum extent possible, the situation that existed prior to ERISA. It places great reliance on the ability of the collective bargaining process to ensure plan continuance and benefit security. If plans do face severe financial problems because of industry economic declines, PBGC guarantees would be available if the plan chooses reorganization. Thus, unlike the pre-ERISA period, where the plan had to rely solely upon its own resources to provide benefits, it would now have the security of knowing that financial assistance could be available if necessary to meet benefit commitments.

The principal disadvantage to this approach is that retirees could lose substantial benefits in poorly funded plans that terminate.

4. Employer Liability for Guaranteed Benefits; Reduced Guarantees, If the Plan Imposes Withdrawal Liability--Otherwise No Guarantees and No Employer Liability

This approach, like the second approach, attempts to encourage plan continuance and to control program costs through reduced guarantees. It differs from the second approach in that benefits would be guaranteed and employer liability assessed only in plans that impose withdrawal liability on withdrawing employers. ^{51/} The allocation of assets would be the same as under the second approach, i.e., priority would be given to the benefits of retirees and those near retirement before allocation to other employer provided benefits.

^{51/} As under Program 2, if this option were designed with higher guarantees for reorganized plans that terminate because of insolvency, it might be advisable to set employer liability for such plans at the lower level of benefits guaranteed for terminated solvent reorganized plans, in order to assure that reorganization is sufficiently attractive to both employers and employees.

This approach would allow the parties in plans that meet requirements for electing not to have withdrawal liability rules to determine whether or not they want to participate in the insurance program. Since withdrawal liability would be required before a plan would qualify for financial assistance or termination guarantees, there might be incentives for all but the strongest plans to elect to have withdrawal liability.

5. Employer Liability for Retirees Benefits;
Guarantees Limited to Retiree Benefits

The final approach is a modification of the third approach, and is designed to provide maximum protection to the benefits of retirees and participants within five years of normal retirement age so that this group would not suffer from a decision by active employees to allow the plan to terminate for their own advantage. Under this option, employers would be liable for the guaranteed benefits of retirees and participants within five years of retirement age. There would be no guarantees or employer liability for any other participants.

The guarantees for retirees and participants near retirement would be the same as the guarantees under the current law, except for stricter rules phasing in the guarantee of benefit increases. If the approach is designed to include higher termination guarantees for participants in a reorganized plan that becomes insolvent despite taking all required reorganization measures, benefits accrued while a plan qualifies for reorganization would be guaranteed only in such plans.

The basic components of this approach are identical to the third approach, except with respect to allocation of assets. Under this approach, the allocation of assets would give high priority--after employee contributions--to guaranteed benefits, with the nonguaranteed benefits of retirees and those within five years of retirement receiving the next priority, before assets are allocated to the benefits of other participants. This allocation scheme protects the benefits of retirees and helps to control program costs.

This approach has essentially the same advantage as the third approach. In addition, it has the advantage of providing maximum benefit security to those participants most in need of retirement income protection.

The principal disadvantage of this approach is that it would be more costly than the third approach, especially in poorly funded plans with little collectible employer liability. Another disadvantage is that it could result in a higher incidence of termination than the third approach by eliminating the threat of benefit losses to retirees. The prospect of abandoning retirees would not be available as a restraint on terminations.

E. STRICTER PHASE-IN RULES

Adoption of a plan or amendment of a plan to provide new or increased benefits for past and future service can result in substantial increases in normal costs and unfunded liabilities which a plan must fund over ensuing years. The phase-in rules under the existing statute guarantee many benefit increases before they are significantly funded. This undercuts the effectiveness of the phase-in rules as an incentive to better funding and a deterrent to plan termination.

The current statute guarantees an increase in monthly benefits at the rate of 20 percent or \$20 per year in effect, whichever is greater. As noted in the introduction to this Part IV, the \$20 phase-in rule fully guarantees many benefits increases in multiemployer plans after one year. The cost of a \$20 per month increase in a single life annuity for a 65 year old participant or beneficiary is approximately \$2,400, which the plan can amortize over 30 years; but the insurance system would be responsible for the increase in cost after only one year.

A revised phase-in rule for guaranteeing benefit increases would reduce the exposure of the insurance system below that which exists under the current statute. This may be necessary to control program costs.

One way to revise the phase-in rules would be to delay the start of the present five-year phase-in for three years after the benefit increase, and then to phase in the guarantee at 20 percent per year over the five-year period (the "3-5 phase-in rule"). This would allow a longer time to fund the benefit increase before it is fully guaranteed. Extending the period before the benefit increase is insured and eliminating the \$20 rule also would reduce the incentive

to increase benefits prior to termination in order to gain higher guarantees where termination is imminent. A disadvantage of the 3-5 phase-in rule is that it would phase in the guarantee of all benefit increases without regard to the additional risk of termination and exposure for PBGC created by the benefit increase.

Appendix VII introduces two phase-in approaches that would make the guarantee of a benefit increase contingent on plan funding status. These approaches would place participants at risk for a longer period when benefits are increased in a less well-funded plan than when benefits are increased in a better-funded plan.

F. ALLOCATION OF EMPLOYER LIABILITY ON PLAN TERMINATION

Assessment of employer liability in the event of a multiemployer plan termination requires both a determination of the total amount to be assessed employers and an allocation of that amount among liable employers. The total amount to be assessed depends upon the particular program option. The method for allocating the total termination liability among employers would be based on the proposed rules for assessing withdrawal liability.

ERISA allocates termination liability among all employers contributing to the plan on or within five years of the date of plan termination. ^{52/} This rule is intended to deter withdrawals from a plan in anticipation of plan termination and to ease the burden of termination liability on the last employers in the plan. This deterrent to withdrawals is necessary under ERISA because ERISA imposes withdrawal liability only on withdrawing substantial employers. The ERISA rules are not appropriate under the rules that the PBGC is considering mainly because the rules under consideration would impose liability on all withdrawing employers. Also, the proposed rules would allocate termination liability more equitably than the present rules.

^{52/} ERISA §4064(a). Section 4064(b) of ERISA provides that the total amount of assessable employer liability be apportioned among employers contributing to the plan in the five years preceding plan termination based on their pro rata share of total required contributions to the plan during that five-year period or, alternatively, that the PBGC may determine by regulation a different equitable allocation among those employers.

Under the rules PBGC is considering, employer liabilities would be allocated to individual employers in the plan on the date of plan termination, as if the employers were withdrawing from the plan. Three alternative provisions for allocating employer liability among withdrawing employers are under consideration. These alternatives are: First, the statutory withdrawal rules, which equitably assess accumulated unfunded liabilities against all withdrawing employers, except temporary employers. Second, the computing and allocating of liability in accordance with the rules adopted by a plan in lieu of the statutory allocation rules. Third, no withdrawal liability for plans for which assessment of withdrawal liability would be infeasible.

The statutory withdrawal rules, which would contain a method of allocating liability to a withdrawing employer based on its proportionate contributions to the plan, or alternative withdrawal rules adopted by a plan, would be used to allocate total unfunded vested liabilities among employers. 53/ The individual liability computed would then be adjusted, if necessary, to reflect the difference, if any, between total unfunded vested liability on the date of termination and the total termination liability under the particular program option. Under this approach, withdrawal liability would be the same as, or higher than, termination liability. Therefore, employers would have an incentive to remain in the plan. 54/

For plans that do not impose withdrawal liability, termination liability would be allocated to all employers that contributed to the plan in the five-year period preceding the date of plan termination. The statutory withdrawal

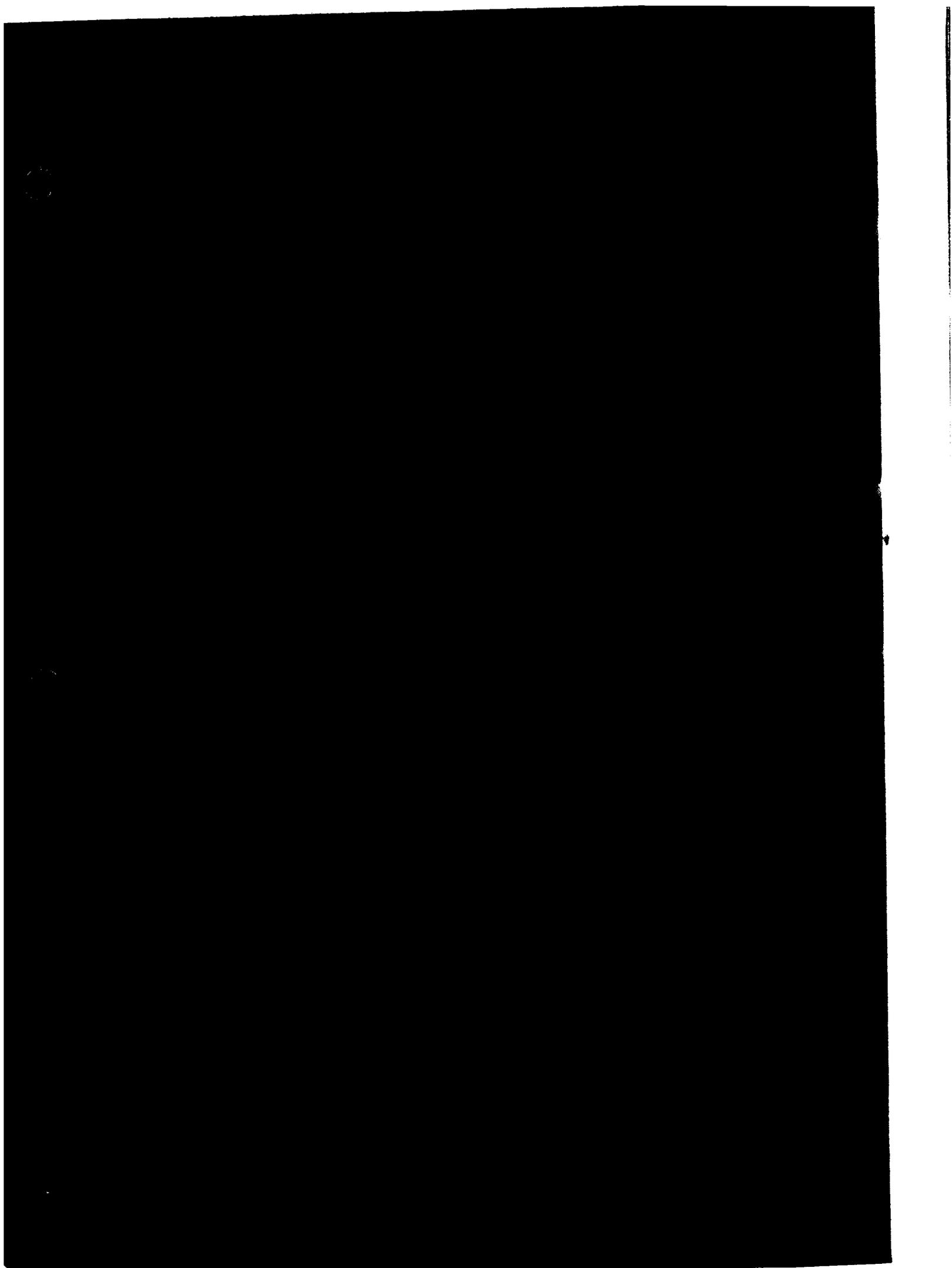
53/ The withdrawal rules under consideration by the PBGC would require any employer, except a temporary employer, that withdraws from a multiemployer plan to complete funding its share of the unfunded vested liabilities in the plan. Plans would be permitted, subject to PBGC disapproval, to adopt alternative rules for computing and allocating liability in lieu of the statutory allocation rules.

54/ Termination liability could be assessed against temporary employers even if the plan's withdrawal rules do not assess withdrawal liability against such employers. The unfunded liability attributable to each such employer should be small since a temporary employer, as defined in the withdrawal section of this report (Part V), brings little or no past service into the plan.

rules under consideration would be modified and used for this purpose. Extending termination liability to employers that withdrew within the five years before plan termination would help somewhat to ease the burden of termination costs on the last employers remaining in the plan. Nevertheless, even this group of employers might be quite small. Assessing the full amount of termination liability against a small group of employers would place them at a competitive disadvantage and may even drive them out of business, thus resulting in a loss of jobs for covered workers. In order to alleviate this problem, the parties to the collective bargaining agreement(s) under which the terminated plan was operated could be permitted to attach the liability to succeeding collective bargaining agreements.

Under this arrangement, employer liability payments due from employers that are signatory to the agreement would be paid to the PBGC based on a negotiated contribution rate. Under the statute, PBGC would directly assess its liability claim against any employer that is liable at termination and does not sign the agreement providing for payments to PBGC.

Appendix VIII discusses collection of employer liability. It also discusses administration of terminating plans in which employers are assessed liability for unfunded vested benefits. In these plans PBGC would have to determine nonguaranteed benefits payable from recoverable employer liability.



PART V - WITHDRAWAL BY AN EMPLOYER

A. INTRODUCTION

The cessation of contributions by an employer to a multiemployer plan can seriously weaken the plan. Remaining employers must assume the burden for funding vested benefit liabilities left by the withdrawing employer and the withdrawal may reduce the employment base to which the plan can look for contributions. Employer withdrawals thus increase the burden of the minimum funding standards, and unrestricted withdrawals from a plan in reorganization 1/ decrease the effectiveness of reorganization as a means of averting plan insolvency. To prevent a withdrawing employer from leaving the plan with unfunded liability attributable to its participation in the plan, this section considers alternative rules for imposing withdrawal liability.

Before ERISA was enacted a plan could deal with a withdrawal in a number of ways such as:

- (1) reducing the benefits of employees of the withdrawn employer to the level that could be supported by the assets attributable to the withdrawn employer,
- (2) segregating the plan assets attributable to the withdrawn employer within the trust and providing that the withdrawn employer's employees could look only to those assets for payment of their benefits,
- (3) transferring assets and liabilities attributable to the withdrawn employer to another plan,
- (4) seeking to absorb the additional funding burden by enrolling new employers in the plan,
- (5) increasing the contribution rate,
- (6) reducing the benefits of all employees, or
- (7) requiring withdrawal liability in the form of a performance bond.

The current statutory rules restrict the traditional withdrawal remedies. The ERISA vesting rules limit the ability of a plan to reduce accrued benefits or to segregate assets within the trust, and the spectre of employer liability on withdrawal or termination makes it more difficult for a plan to attract large contributing employers.

1/ Reorganization of plans is discussed in Part IV, supra.

Statutory withdrawal rules should protect the plan from the adverse financial impact of withdrawal while not deterring employers from entering the plan. The current ERISA Title IV withdrawal rules, however, do not do this. In fact, the withdrawal rules may make it more difficult for a plan to attract large contributing employers, while not providing corresponding protection to the plan for withdrawals.

The current withdrawal rules apply only to a substantial employer. 2/ If such an employer withdraws, it is required to post a bond or put an amount in escrow to cover its contingent liability to PBGC. 3/ If the plan does not terminate within five years after the withdrawal, the liability is abated and the escrow amount is returned to the employer or the bond cancelled. 4/

This procedure results in the imposition on plans, withdrawing employers, and PBGC of costly and often unnecessary administrative burdens associated with data collection and the determination of unfunded guaranteed benefits and employer net worth. 5/ Moreover, since a

2/ Basically, a substantial employer is one who makes 10 percent or more of the total contributions to the plan. ERISA §4001(a)(2).

There are situations in which the withdrawal of one or more nonsubstantial employers or the partial withdrawal of certain substantial employers may have a greater adverse effect on a plan than the complete withdrawal of a substantial employer. For example, the withdrawal of an entire association of small contributing employers may, in the aggregate, result in a more significant reduction in contributions than the withdrawal of a substantial employer contributing 11 percent of the total plan contributions. Similarly, a 50 percent reduction in contributions by an employer contributing 40 percent of plan contributions is more significant than a complete cessation of contributions by a substantial employer making 11 percent of the total plan contributions.

3/ ERISA §4063(c)(1).

4/ ERISA §4063(c)(2).

5/ Calculating the withdrawn employer's liability is usually costly and complex. Expensive actuarial calculations must be performed even though these calculations are not necessary for any other purpose for an ongoing plan, and the calculations may require expensive and time-consuming collection of data on credited service for computing past service benefits.

nonsubstantial employer is not subject to any liability on withdrawal, a substantial employer has an incentive to scale down its covered operations in order to become a nonsubstantial employer.

The statute contains two alternatives to the bond or escrow that the PBGC may use in its discretion -- partitioning of a plan or reliance on an indemnity agreement -- but neither alternative adequately deals with the adverse impact of withdrawals on plans. Under the first alternative, the PBGC may partition a plan if withdrawal of any employer or employers results in a significant reduction in contributions to the plan. 6/ The part of the partitioned plan covering employees of the withdrawn employer or employers is then terminated. Although partitioning may relieve the plan of the additional burdens created by the withdrawal, it also could increase both the number of terminations and the potential losses to the termination program, as well as reduce the benefits of participants in the terminated portion.

As a second alternative, the bond or escrow may be waived by the PBGC if it determines that there is an indemnity agreement among the employers that ensures payment of all plan liabilities, or of full termination liability. 7/ The indemnity agreement ordinarily does not directly benefit the plan or the remaining employers, however, but merely protects PBGC.

The current withdrawal rules also work at cross-purposes with the termination liability rules. Since each employer who contributed to the plan during the five years before termination is liable for a proportionate share of the unfunded guaranteed benefits upon termination, a non-substantial employer has a strong incentive to withdraw from a plan as soon as it believes the plan is headed for termination. If the plan continues for five years following the employer's withdrawal, the employer will have escaped liability completely.

The basic problem with the withdrawal rules is that they are designed primarily to protect PBGC. They do not provide an efficient mechanism for reducing the burden of withdrawal on the plan and remaining employers. They may even encourage withdrawals in some instances (e.g., where termination may be imminent). Changes in the withdrawal

6/ ERISA §4063(d).

7/ ERISA §4063(e).

rules should be considered:

- (1) to provide relief to plans without increasing the burden on the insurance system,
- (2) to provide a disincentive to voluntary employer withdrawals,
- (3) to reduce or remove disincentives to plan entry, and
- (4) to work with, instead of against, the termination liability provisions.

B. SUMMARY

The PBGC is considering rules under which an employer who withdraws from a multiemployer plan would be required to complete funding its share of the unfunded vested liabilities of the plan. ^{8/} Such rules would prevent a withdrawing employer from leaving a plan with unfunded liability attributable to its participation. The rules would contain a method of allocating liability to a withdrawn employer based on the change in the plan's unfunded liabilities that occurred while the employer was contributing to the plan and, for employers contributing to the plan in the 1977 and 1978 plan years, a share of the unfunded liability of the plan as of the beginning of the 1978 plan year. The plan would be responsible for collection of withdrawal liability. ^{9/}

Revising the current statutory provisions to provide for continuation of funding by a withdrawn employer, instead of posting a bond or putting money in escrow, would provide direct and immediate relief to a plan in the event of a withdrawal. The remaining employers would not be responsible for funding the benefits attributable to

^{8/} Such rules, however, would statutorily exempt from liability "temporary employers" who enter a plan with little or no past service credit for their employees.

^{9/} Because collection of withdrawal liability is likely to be costly, the PBGC needs to develop ways to minimize plans' collection costs. For a discussion of enforcement methods being considered by the PBGC, see Appendix XI.

the withdrawn employer and also would not be faced with the prospect of employer liability for those liabilities in the event of a subsequent plan termination.

Because the withdrawal rules under consideration may not be equitable in all cases, they would be combined with provisions to allow a plan to elect another method of allocating liability to a withdrawing employer more suitable to its particular situation, subject only to PBGC disapproval. A plan also could elect not to have withdrawal liability at all if PBGC agreed that withdrawal liability was not administratively feasible for that plan.

The rules would permit a plan to limit its liability upon an employer withdrawal through benefit reductions or transfers of assets and liabilities to another plan. Only those benefit reductions currently permitted by ERISA would be authorized. These withdrawal rules contain two options designed to prevent plans from using transfers to shift liabilities of weak employers onto the insurance system. Under the first option, a multiemployer plan would have a limited contingent secondary liability for five years for benefits transferred to another plan. Under the second option, the PBGC could approve transfers in the best interests of the transferor and transferee plans, the transferring employer, affected participants, and itself.

The remainder of this section addresses the following areas that are essential to the development of withdrawal rules:

- (1) events for which liability is assessed,
- (2) employers liable upon withdrawal,
- (3) computation and allocation of withdrawal liability,
- (4) alternatives to the basic statutory rules,
- (5) benefit reduction provisions, and
- (6) transfers of assets and liabilities upon withdrawal. 10/

10/ These areas are discussed in more detail in Appendix X.

C ALTERNATIVES

1. Events for which Liability is Assessed

The statutory rules under consideration provide that withdrawal liability would be imposed upon a complete cessation of contributions for all or a group of employees by an employer as a result of (1) an employer no longer being obligated by the terms of a contract to contribute to the plan, (2) a cessation of covered operations at a facility, or (3) the removal of a bargaining unit from covered employment under the plan. 11/

There are a number of situations other than the discontinuance of contributions for a bargaining unit or a facility in which a reduction in contributions may impair the ability of the plan to continue. Nevertheless, these rules would cover only those two situations in which there is a partial reduction in contributions, because of the difficulty involved in identifying and defining additional events that would weaken the plan and therefore warrant imposition of liability. 12/

As long as an employer remained signatory to a collective bargaining agreement requiring contributions to the plan, a withdrawal would not occur unless the employer had ceased operations at a facility or removed a bargaining unit from coverage. For example, in the construction industry, a national contractor may be a signatory to a number of different national agreements with many different craft unions. Such agreements provide that, when the national contractor is working in the jurisdiction of a union, the national contractor will abide by the local agreement's wage provisions. If the local agreement's wage provisions require contributions to a multiemployer plan for covered employment the national contractor will make its required contributions.

11/ For miscellaneous statutory rules applicable to withdrawals, see Appendix XI.

12/ In terms of the impact on a plan's ability to continue, there may be little or no difference between a large reduction in contributions by an employer and a similar reduction as a result of a complete withdrawal. Both situations may leave the plan with unfunded vested liabilities for participants who are no longer employed in covered employment. Each situation may erode the funding base of the plan.

Accordingly, if a national contractor enters an area and makes contributions to a multiemployer plan during the course of a project because it is a signatory to a national agreement requiring such contributions, upon completion of the project no liability would be assessed on the national contractor as long as it remains a signatory to a collective bargaining agreement that requires contributions for covered employment.

Likewise, if a general contractor who is not a national contractor is a signatory to its local area agreement requiring contributions to a multiemployer plan for covered employment by certain crafts, even if the general contractor performs no work requiring contributions to that plan during a plan year no liability will be assessed against the general contractor as long as it remains a signatory to the local agreement.

A "facility" would be defined as a single physical site that is relatively permanent at which the employer's business is conducted. All operations related to the primary business activity at that site or unified by common management at that site would be considered as part of the facility.

A temporary facility closing, e.g., for retooling or vacation, would not be a cessation of operations. A sale or a relocation of a facility would not be a cessation of operations (1) if substantially all of the employees at the facility continue to be employed at the new facility, and (2) if, in the case of a sale, the purchaser is obligated to make contributions on their behalf to the plan. 13/

To deter employers from attempting to circumvent the statutory withdrawal rules by drastically reducing the number of covered employees at a facility while continuing contributions for a few employees, the withdrawal of a facility would occur when the primary economic activity at the facility ceased. Thus, a withdrawal of a facility would

13/ An outstanding issue is whether withdrawal liability should be assessed when an employer is no longer obligated to contribute to a plan because of the sale of all its covered operations, but the purchaser is a "successor employer" who is obligated to contribute to the plan.

occur if an employer ceased to contribute for all production workers, but continued to contribute for custodial or maintenance workers. While the likelihood of an employer operating or maintaining a facility solely for the purposes of avoiding withdrawal liability might seem remote, given the cost involved, there are situations in which it may be in the employer's best interests to do so. 14/

Liability would be assessed when a withdrawal occurs irrespective of the reason for the withdrawal, and irrespective of whether the union, the employer, or both initiate the withdrawal. Liability would be assessed, for example, when employees vote to decertify 15/ their bargaining representative or when the employer bargains out of a plan. 16/

De minimis rules would be permitted, so that plans could avoid the necessity of imposing withdrawal liability in the event of a very small reduction in plan contributions

14/ Assessing withdrawal liability upon a cessation of operations at a facility works to the advantage of an employer doing business at one large central facility rather than an employer operating at a number of facilities. Therefore, the PBGC is considering expanding the rules for imposing liability upon the withdrawal of a facility to cover reductions in total plan contributions as a result of the cessation of a substantial economic activity at a facility, e.g., a product line.

15/ Decertification involves a change in the bargaining representative of a group of employees. This may result in no union representation or the election of a different bargaining representative.

16/ Bargaining out of a plan does not involve a change in union certification. The collective bargaining agreement simply no longer provides for contributions to the multi-employer plan. Instead, it might provide for contributions to a single employer plan, another multiemployer plan, or another type of plan.

or an insignificant amount of withdrawal liability. For example, a plan may decide not to impose withdrawal liability if an employer operating 50 facilities, each employing 100 employees, all of whom are covered by the plan, closes five facilities resulting in a cessation of contributions for only 10 percent of his covered employees. Or, a plan may decide not to impose withdrawal liability if a very small contributing employer (e.g., an employer contributing less than one half of one percent of total plan contributions) ceases contributions to the plan for all its covered employees. The PBGC would propose, in regulations, acceptable de minimis rules.

2. Employers Liable upon Withdrawal

Under the proposal being considered, an employer would be liable to the plan, upon withdrawal, for its allocable share of the plan's unfunded vested liability. However, to avoid creating needless disincentives to plan entry, employers who brought little or no past service liability 17/ with them when they entered the plan and who had not been legally obligated to contribute for at least four of the five plan years preceding withdrawal would be statutorily exempt from withdrawal liability. But plans would be authorized to waive the statutory exemption. 18/ The potential imposition of withdrawal liability on such "temporary employers" would be counter-productive, since such employers' participation and withdrawal from the plan typically pose no threat to plan continuance and may, in fact, enrich the plan. 19/

17/ "Past service liability" is the amount, determined actuarially, that would be required to provide pensions based on services rendered before the adoption of a pension plan.

18/ Under the proposal, an employer could not qualify as a temporary employer if it contributed in any four out of five consecutive plan years, unless such "permanent status" was followed by its withdrawal as a result of a complete cessation of contributions and a later reentry into the plan.

19/ For a fuller discussion, see Appendix X.

The definition of withdrawal and the temporary employer exemption, when read together, would result in no liability being imposed on an employer who temporarily ceases to contribute because it has no work covered by the plan as long as the employer remains a signatory to a collective bargaining agreement that requires contributions for covered employment. The practical effect of these rules and the withdrawal liability rule requiring the employer to continue funding even after withdrawal is that employers in certain industries, e.g., construction, would be able to estimate the cost involved in participating in the plan. 20/

3. Computation and Allocation of Withdrawal Liability

The method used to determine withdrawal liability is crucial if the withdrawal rules are to achieve the desired balance between compensating a plan for the extra burden created by withdrawal while not discouraging prospective contributors from joining the plan. To avoid discouraging prospective contributors, the rules under consideration would limit the liability of new entrants to liabilities created during their participation in the plan.

Under the statutory rules being considered, a withdrawing employer's liability would not be limited to 30 percent of the employer's net worth, 21/ but would be based upon the sum of two components. First, the employer would be charged (or credited) with a proportionate share 22/ of the increase (or decrease) in the unfunded vested liability

20/ This is critical in certain industries such as construction, where an employer may participate in a number of plans at the same time.

21/ The current statutory limit on employer liability, i.e., 30 percent of net worth, would be eliminated because the net worth limitation may create financial incentives for an employer to withdraw from a plan, and because determining net worth poses major administrative and cost problems.

22/ This would be the employer's proportion of the total contributions made to the plan during the period it participated in the plan.

of the plan during its participation in the plan ^{23/} and, if the employer contributed during the 1977 and 1978 plan years, it would also be liable for a proportionate share of the total unfunded vested liability existing in the plan on the first day of the plan year beginning in 1978. ^{24/} The second component is the ratio of a given withdrawing employer's total contributions to the plan during the prior five plan years to the total contributions for the prior five plan years of all other employers still in the plan during the 1978 plan year. Thus contributions of previously withdrawn employers would be netted out of the denominator to assure that 100 percent of the plan liability existing in the plan

^{23/} Participation would be counted from the later of (1) the first day of the plan year beginning on or after January 1, 1978 or (2) the first day of the plan year in which the employer joined the plan, to the end of the plan year in which the employer withdrew from the plan.

An outstanding issue is whether withdrawing employers should be liable for any portion of uncollectible withdrawal liability of previously withdrawn employers. If not, the withdrawal liabilities of previously withdrawn employers could be treated as a plan asset for purposes of determining the change in underfunding.

^{24/} There are three reasons for determining the amount of withdrawal liability based on a plan's unfunded vested liability rather than its unfunded guaranteed liability. First, the remaining contributing employers must fund the vested liability created by the withdrawing employer. Second, unfunded vested liability will likely be easier to compute. Third, the disincentive to withdraw should be as great or greater than the disincentive to terminate, i.e., employer liability on termination. Because withdrawal liability is a continuation of plan funding, vested liabilities would be computed using the plan's, not PBGC's, actuarial assumptions.

on the first day of the plan year beginning in 1978 is allocated. 25/

The statutory method for computing and allocating withdrawal liability would not require a computation of each employer's withdrawal liability each year. An employer's withdrawal liability would be computed only upon a withdrawal.

The statutory rules would, in effect, create two groups of employers--employers participating in the plan on or before the first plan year beginning in 1978, and employers joining the plan during or after the first plan year beginning in 1978. Each group would have different interests and incentives as a result of the computation of their share of liability and the amount of relief upon withdrawal for liabilities created before its employer members joined the plan.

An employer contributing to a plan during the 1977 and 1978 plan years would be responsible for a share of the "inherited liability" in the plan as of the beginning of the 1978 plan year. 26/ Thus, such employers would have little incentive to withdraw from the plan. If old liabilities were not assessed against such employers until a later date, those employers would have an incentive to leave the plan in

25/ A withdrawing employer also would be liable for any contribution it still owed to the plan at the time of withdrawal.

Because of the impact of delinquent contributions on the funding status of a plan, and because of the difficulties plan trustees confront in attempting to collect delinquent contributions, the PBGC is considering a proposal under which an employer's failure to make its required contributions (for a specified period of time) would violate the minimum funding standards, and would result in the imposition of an excise tax in accordance with I.R.C. §4971. The potential imposition of an excise tax should help to ensure prompt and full payment of employer contributions.

26/ To mitigate the burden of paying this inherited liability, it may be appropriate to allow these employers to fund the withdrawal liability over a longer period of time than employers entering the plan during or after the 1978 plan year.

order to avoid the liability. A rush to leave a plan before the effective date of the new withdrawal rules could weaken a plan more than the continuance of the existing withdrawal rules. 27/

The statutory rules also would encourage new entrants by restricting the withdrawal liability of employers joining the plan during and after the end of the plan year beginning in 1978 to unfunded benefits created while these employers were in the plan. No part of the "inherited liability" created prior to the 1978 plan year (or plan entry, if later) would be imposed on this group.

4. Alternatives to Basic Statutory Rules

Because no one set of rules is appropriate in all cases, a multiemployer plan would be permitted to modify the statutory rules in one of two ways. First, a plan could elect, subject to PBGC approval, not to have withdrawal liability. 28/ PBGC would approve such an election only if

27/ Selecting the first plan year beginning in 1978 as the initialization date for the new withdrawal rules might result in liability being attributed to an employer who withdraws before the date the statute is changed. Attempting to collect such a liability could pose serious legal problems.

28/ The PBGC has considered and rejected permitting the parties to bargain over whether withdrawal liability should be assessed pursuant to Title IV. The PBGC, not the parties, must determine whether the plan may not impose withdrawal liability because the cost can be expected to increase in the absence of withdrawal liability, and ultimately must be borne by the termination insurance system. Thus, in most cases, withdrawal liability is essential to ensure plan continuation and to enhance the effectiveness of the funding and reorganization rules. The PBGC must be charged with responsibility for assuring that exceptions are in the best interest of the plan termination insurance system.

In addition, allowing the parties to bargain over whether the plan should assess withdrawal liability may not be workable or practical, especially in situations in which the plan is maintained pursuant to a number of collective bargaining agreements. Moreover, if the parties were able to bargain about withdrawal liability, once having decided not to assess withdrawal liability, the plan might be unable, as a practical matter, to reverse that decision.

it determines that withdrawal liability is not administratively feasible for that plan. 29/

Second, a plan could adopt an alternative provision for computing and allocating withdrawal liability. 30/ The PBGC would have discretion to disapprove such provisions.

A plan would not be permitted to adopt withdrawal rules that impose withdrawal liability on some classes of employers, e.g., substantial employers, 31/ but not on others. 32/

29/ Under Program 3 of the insurance alternatives under consideration, plans would be authorized to elect not to impose withdrawal liability without obtaining PBGC approval. See Part IV D, supra.

30/ However, a plan would be required to give the PBGC notice of its alternative computation and allocation provision at least 90 days before its effective date.

Further consideration needs to be given to whether the plan trustees should be required by statute to consider and recommend, if appropriate, alternatives to the basic statutory withdrawal rules.

31/ The PBGC has rejected an approach under which a plan would be able to change the statutory rule that all withdrawing employers are liable, but would have to impose liability upon the withdrawal of a "substantial employer." For this purpose, a "substantial employer" would be defined as an employer whose total plan contributions for the preceding five plan years equaled or exceeded five percent of the total plan contributions for the preceding five plan years.

32/ The PBGC is considering an exception to this rule for those plans that cover employers in more than one industry. Under the exception, liability could be imposed for withdrawals by employers in one industry, but not be imposed for withdrawals by employers in another industry covered by the plan.

A plan must use the statutory definition of withdrawal, subject to its own de minimis rules.

To assist plans in developing an acceptable alternative method for computing and allocating withdrawal liability, the PBGC would establish, in regulations, a number of alternative methods, any one of which could be adopted by a plan in lieu of the statutory method. ^{33/} The PBGC would not disapprove the adoption of any such alternative provision. ^{34/} With this flexibility to modify the statutory rules, plans would be able to allocate withdrawal liability in such a way as to protect against the cost increases caused by withdrawals.

^{33/} The PBGC has under consideration three basic methods. First, a method based on the maintenance of separate withdrawal accounts for each employer. These accounts, once initially calculated, would be adjusted annually to allocate the increase in unfunded vested benefits occurring during a plan year based on an employer's proportionate share of contributions. Second, a method based on an employer's proportionate share of the plan's unfunded liability for vested benefits. Third, a method based on plan liabilities directly attributable to the employer. See Appendix X, infra, for a more detailed discussion of these basic methods.

These three alternative methods could be included in the statute instead of in PBGC regulations. However, a transitional period might be needed to allow plans to elect a method for computing and allocating withdrawal liability, unless the statute provides that one method is applicable in the absence of an election of an alternative method.

^{34/} A plan that proposes to adopt a provision not approved in the PBGC regulations would be required to show that: (1) the adoption of the statutory allocation rule or any one of the PBGC proposed alternatives would be inequitable or impractical as applied to the plan, and (2) the adoption of the plan's proposed allocation provision would not increase the potential burden on the termination system, i.e., does not allocate liabilities in such a way as to inflate the liabilities of employers who will not be able to satisfy them.

5. Limitation of Plan Liabilities

a. Benefit Reduction Provisions

Before ERISA, a multiemployer plan had a number of ways in which it could limit its liability upon an employer withdrawal. Two such methods were (1) segregating within the trust the assets attributable to the withdrawing employer and limiting payment of the benefits of the withdrawing employer's employees to the segregated assets (which in some instances resulted in a reduction in those participant's benefits) and (2) reducing the benefits of the withdrawing employer's employees.

Under ERISA, if a multiemployer plan segregates the assets attributable to a withdrawing employer and limits the plan's liability for benefits of the participants who worked for that employer to the segregated portion of the plan, such action may be a violation of the Internal Revenue Code's accrual or vesting requirements. ^{35/} The same analysis would apply if the plan directly reduced benefits. However, when an employer ceases to contribute to a multiemployer plan, the plan may disregard benefits payable to the employees and former employees of that employer that accrued as a result of service with the employer before that employer was required to contribute to the plan. ^{36/} In addition, if a plan so provides, an employee's credited service for vesting purposes may be reduced, upon the employer's withdrawal "[t]o the extent that rights are not required to be nonforfeitable to satisfy the minimum vesting standards, or the nondiscrimination requirements of section 401(a)(4) [of the Internal Revenue Code]...." ^{37/}

^{35/} I.R.C. §411, ERISA §1012(a). Some multiemployer plan representatives have suggested that multiemployer plans should be able to segregate assets and liabilities attributable to a withdrawing employer within the trust and that PBGC should insure the benefits in the segregated portion without any contingent liability on the multiemployer plan. The PBGC has considered and rejected this proposal; however, the PBGC is considering granting some relief to certain plans. See Appendix XII entitled "Limitation of Plan Liabilities Through A Spin-off Upon an Employer Withdrawal."

^{36/} I.R.C. §414(f)(1)(D), ERISA §1015.

^{37/} Treas. Reg. §411(a)-4, 42 Fed. Reg. 42318 (Aug. 22, 1977).

The PBGC believes that additional authority to reduce benefits should not be granted in the context of an employer withdrawal. Multiemployer plans, generally, should not face significant adverse consequences when an employer withdraws because of the proposed withdrawal liability rules. Multiemployer plans confronting imminent cash flow problems would be able to avert plan insolvency under the proposed reorganization rules.

Accordingly, the PBGC has considered and rejected a suggestion that multiemployer plans be permitted to design and adopt additional benefit reduction provisions, other than those implemented in connection with reorganization. ^{38/} Participants, whose benefits are already subject to potentially significant reduction, should not be asked to bear the full burden of cost increases that might result from their employer's withdrawal.

b. Transfer of Benefit Liabilities and Assets Upon Withdrawal

Because some withdrawing employers may wish to continue separate pension coverage for their employees, multiemployer plans would be authorized to provide for the transfer of assets and liabilities attributable to the withdrawing employer to an ongoing plan sponsored by that employer. Such a transfer would be an optional alternative to the assessment of withdrawal liability for the benefit obligations the multiemployer plan otherwise would retain.

Two options are under study for regulating transfers in order to prevent manipulation of the termination insurance program. First, a multiemployer plan would have a limited contingent secondary liability for five years for benefits transferred to another plan. Second, each transfer would be subject to PBGC approval, based on PBGC's judgment of the best interests of the transferor and transferee plan, the transferring employer, affected participants, and the insurance system.

^{38/} The proposals that the PBGC considered and rejected are discussed under the heading "Benefit increase cutback provisions" in Appendix X.

(1) Basic rules.

Several basic preliminary principles would govern all transfers of liabilities or assets involving a multiemployer plan:

(a) A multiemployer plan that permits transfers of plan liabilities to other plans would be required to adopt a provision acceptable under PBGC regulations, specifying a formula to govern the amount of assets and liabilities that could be transferred.

(b) To assure responsible continuation of a transferred plan, a multiemployer liability transfer could occur only with the express consent of the withdrawing employer.

(c) The multiemployer plan could refuse a transfer request where the result might jeopardize the plan's own financial health.

(d) The transfer could not result in a reduction in the accrued benefits of the affected participants beyond what would be permitted if the plan had retained liability for their benefits and imposed withdrawal liability on the withdrawing employer.

(e) Within the limitations outlined above, if a multiemployer plan provides for transfers upon an employer's withdrawal, the rules governing such transfers would have to be applied uniformly unless PBGC approved a variance in a specific case. Those rules, would be required to address at least the following items:

(i) what liabilities may be transferred (e.g., only accrued/vested liabilities for all active plan participants employed by the withdrawing employer, active and retired "attributable" participants' vested/accrued benefits, liabilities assigned to the withdrawing employer based on the multiemployer plan's withdrawal rules);

(ii) a method for valuing the transferred liabilities and determining the assets that must accompany them;

(iii) criteria for the multiemployer plan's determination whether to permit a proposed transfer; and

(iv) the effect of the transfer on the employer's withdrawal liability. 39/

(2) Contingent liability approach.

(a) Guaranteed Benefits. For purposes of PBGC's guarantee, the benefits transferred to a non-multiemployer plan would, initially, be divisible into two parts. The difference between the benefit that would have been guaranteeable if the multiemployer plan had terminated on the date of the transfer and the benefit that ordinarily would be guaranteed under the non-multiemployer program as of the date the transferee plan terminates would be treated as a new benefit created on the date of the transfer. PBGC's guarantee for that "new benefit" would be phased in at the rate of 20 percent for each full year following the transfer. If the transferee plan did not terminate within five years after the transfer, its benefits would be fully guaranteeable under the non-multiemployer program rules. 40/

39/ If the net liabilities transferred were less than the employer's withdrawal liability, the employer would owe the original plan the difference. The original plan would be required to treat this amount for all purposes, including arrangement of repayment terms and the funding standard account, as withdrawal liability.

40/ For example, assume that a transfer to a single employer plan occurs on January 1, 1980, and that the transferee plan terminates exactly three years later, with no benefit increases in the interim. In addition, assume that the guaranteeable benefits of the plan's two participants computed as if the original multiemployer plan had terminated on January 1, 1980, are \$100 and \$200 per month, respectively, and benefits that would ordinarily be guaranteeable under the single employer program rules when the transferee plan terminated are \$200 and \$400, respectively. The 20 percent phase-in rule is applied to the \$100 and \$200 single employer increments. Adding that phase-in increment to the initially guaranteed portion, the participants' total guaranteed benefits are \$160 and \$320 per month.

(b) Contingent Secondary Liability. If the Title IV guarantees for benefits under non-multiemployer plans are higher than the multiemployer program guarantees, and if the sponsoring employers' termination liability is more limited under the non-multiemployer program, multi-employer plans may be tempted to agree to liability transfers to enable the affected participants to receive higher guarantees at little or no extra cost to their employer.

PBGC is studying rules to discourage liability transfers to non-multiemployer plans that are likely to terminate soon after the transfer. Under this approach, if the transferee non-multiemployer plan terminated within five years of the transfer date without sufficient assets to satisfy all guaranteed benefits, the sponsoring employer would be liable to PBGC for the insufficiency. If PBGC were unable to recover the full amount of the insufficiency from the employer, the original multiemployer plan would be liable to PBGC for the shortfall. However, this contingent secondary liability could not exceed the value as of the transfer date of the unfunded vested liabilities transferred to the transferee plan.

Thus, the multiemployer plan's contingent exposure would be a function of the amount of assets transferred to the non-multiemployer plan, as well as the strength of the employer sponsoring the transferee plan. This liability would be payable on terms adapted to the multiemployer plan's funding schedule. As an alternative, subject to appropriate safeguards, the original multiemployer plan could retain a contingent commitment to resume some or all of the benefit liabilities that had been transferred upon withdrawal, giving due credit for the participants' continued covered service.

(3) Approval of Proposed Transfers by PBGC

To avoid serious pressures on plans and employers, the PBGC rather than the plan would be required to approve each transfer. Since the statute would allow PBGC to approve only those transfers that are in the best interests of the plan, the transferring employer, affected participants, and the insurance system, the contingent liability provisions would not be needed to control abuse.

Objective and easily administered tests for assessing both the transferring employer's willingness and ability to maintain the plan and the financial impact on the multiemployer plan need to be developed. 41/

41/ Some possible measures and tests are:

- (1) a cash flow or profits measure for the transferring employer,
- (2) the net worth of transferring employer is at least n times the value of unfunded vested liabilities transferred, or
- (3) assets transferred would be at least x percent of liabilities transferred or would not exceed y percent of assets remaining in the multiemployer plan.

PART VI - MERGERS AND TRANSFERS OF ASSETS AND LIABILITIES

A. INTRODUCTION

Under Section 208 of ERISA and Sections 401(a)(12) and 414(1) of the Internal Revenue Code, 1/ the PBGC is authorized to determine the extent to which the statutory rules governing mergers and transfers of assets and liabilities apply to multiemployer plans. These statutory rules are administratively difficult for non-multiemployer plans to implement and would be completely unworkable for multiemployer plans. 2/ Accordingly, workable rules to protect participants of multiemployer plans when a merger or transfer occurs are needed. In addition, the rules should prevent unnecessary transfers that would create unnecessary liability for the insurance system. Unlike the current statute, the rules under consideration would protect both participants and PBGC premium payers.

B. PRESENT LAW

1. Statute

ERISA §208 and Code §§401(a)(12) and 414(1) provide that a plan may not merge with, or transfer its assets and liabilities to, any other plan, unless each participant in the plan would (if the plan then terminated) receive a benefit immediately after the merger or transfer which is equal to or greater than the benefit the participant would have been entitled to receive immediately before the merger or transfer (if the plan had then terminated).

The legislative history of ERISA indicates that the merger/transfer rule has two purposes: first, to prevent a reduction of a participant's accrued benefit (the "benefit-reduction test") and, second, to protect the funding of each participant's accrued benefit against possible dilution (the "funding test"). 3/

1/ All succeeding Code references are to the Internal Revenue Code of 1954, as amended.

2/ Proposed Treas. Reg. §1.414(1)-1, 42 Fed. Reg. 33770 (July 1, 1977).

3/ H.R. Rep. No. 93-779, 93d Cong., 2d Sess. 66 (1974); H.R. Rep. 93-1280, 93d Cong., 2d Sess. 385 (1974).

The "benefit reduction test" does not pose a serious administrative burden on plans contemplating a merger or transfer of assets and liabilities. If the benefit structures of the plans are different, one of the plans could be amended to preserve the amount, form, and commencement date of accrued benefits of the affected participants. Also, the benefit reduction test may not be needed for a merger/transfer rule in light of the other ERISA rules against reductions in accrued benefits. 4/

The "funding test" imposes a great administrative burden on plans that merge or transfer assets and liabilities. It requires: (1) a separate determination of the actuarial value of the accrued benefit of each participant of each plan at the time of the merger or transfer, (2) an allocation of the assets of each plan to its participants' benefits according to ERISA §4044 to determine the funding of each participant's accrued benefit immediately before the merger or transfer, and (3) an allocation of the assets of the merged plan, or transferee plan, to each participant's benefits according to ERISA §4044 to determine the funding of each participant's accrued benefit immediately after the merger or transfer. The portion of a participant's accrued benefit that is funded will be referred to as the "funded benefit".

2. Regulation

A literal reading of the current statutory merger/transfer rule would prevent mergers and transfers between all plans except plans which were fully funded or completely unfunded. The chances of two partially funded plans providing the same funded benefit to each participant immediately before and after a merger or transfer are virtually nonexistent. Assuming that Congress did not want to bar

4/ ERISA §204(g) and I.R.C. §411(d)(6) state that the accrued benefit of a participant may not be decreased by an amendment of the plan, other than an amendment described in ERISA §302(c)(8) and I.R.C. §412(c)(8). A merger or transfer of assets and liabilities should be considered an amendment for the purposes of ERISA §204(g) and I.R.C. §411(d)(6).

substantially all mergers or transfers between plans, the Internal Revenue Service (IRS) developed the concept of a "special schedule" to permit mergers of, and transfers between, partially funded plans. 5/

Essentially, the proposed special schedule would be a modification of the asset allocation priorities contained in ERISA §4044 to protect the funded benefits of participants from the better funded plan. The special schedule would be effective for a period of five years after the merger or transfer. 6/ If the merged plan terminates after five years, each participant's funded benefit is determined in the usual manner under ERISA §4044.

Construction of the special schedule, however, still requires determining the funded benefit of each participant. Therefore, to reduce the administrative burden that the creation of a "special schedule" would impose upon plans, the proposed IRS regulation provides that the "special schedule" need not be created at the time of the merger, if data sufficient to create the schedule (as of the date of the merger) is maintained for a period of five years after the merger. Depending upon the benefit structure of the plans involved, this data would include each participant's age, years of service, compensation, etc., as of the date of the merger.

The data maintenance alternative only applies to mergers. In transfers of assets and liabilities, the proposed regulation generally requires a determination of the funded benefit of each transferring participant. The funded benefits of the transferring participants constitute a "spun-off" portion which is either merged with an existing plan or becomes a new plan. If the "spun-off" portion merges with an existing plan, a special schedule must be created or the data maintenance alternative must be followed.

5/ Proposed Treas. Reg. §1.414(1)-1, 42 Fed. Reg. 33770 (July 1, 1977).

6/ The use of the special schedule will not preserve each participant's funded benefit if the merged plan or transferee plan does not maintain a positive cash flow, or if the value of the assets of the merged plan or transferee plan declines sharply. Each participant is at risk when the financial condition of the plan deteriorates regardless of whether there is a merger or transfer.

3. Applicability of Regulation to Multiemployer Plans

The last sentence of ERISA §208, and Code §§414(1) and 401(a)(12), states that the statutory rules "shall apply in the case of a multiemployer plan only to the extent determined by the [PBGC]." 7/ PBGC believes the rules in the proposed IRS regulation are unsuitable for multiemployer plans. Many multiemployer plans have not maintained accurate or complete data for each covered participant, especially with respect to service prior to establishment of the plan. 8/ Given the lack of participant data, multiemployer plans cannot create a special schedule or comply with the data maintenance alternative when a merger is contemplated. Moreover, the data maintenance alternative does not apply to transfers of assets and liabilities and the frequency of transfers is generally greater for multiemployer plans than for non-multiemployer plans. In addition, this alternative provides relief from the administrative costs of allocating assets only if the merged plan does not transfer assets and liabilities within five years of the merger, because the subsequent transfer would require an allocation of assets using the special schedule to determine the funded benefits of transferring participants.

However, even if the participant data necessary to compute each participant's funded benefit were readily available, the application of rules in the proposed IRS regulation would still impose a tremendous administrative burden upon multiemployer plans.

7/ The Conference Report on ERISA states: "In the case of multiemployer plans [the] rules are to apply only to the extent that the [PBGC] determines that these rules are necessary for the participant's protection." H.R. Rep. No. 93-1280, 93d Cong., 2d Sess. 385 (1974)

8/ J. Melone, Collectively Bargained Multiemployer Pension Plans, 42-45, 85-87 (1963). Ralph M. Wynberg, Communicating with Plan Participants: Problems and Possible Solutions, 18 Proceedings of the 1976 Annual Educational Conference of the International Foundation of Employee Benefit Plans, 101-105 (1976).

C. RULES UNDER CONSIDERATION

The following rules being considered by the PBGC would not alter the current jurisdictional allocation of responsibilities among the PBGC, the Internal Revenue Service, and the Department of Labor for mergers and transfers. 9/

The rules would substitute a plan continuation test and a business purpose test for the current statutory rules, i.e., the benefit reduction test 10/ and the funding test. If the contemplated merger or transfer failed either test, the PBGC would so inform the plan administrators of the involved plans. The plan administrators would be prohibited from executing the merger or transfer, until the PBGC was satisfied that the contemplated merger or transfer passed both tests. 11/

1. Plan Continuation Test

The PBGC is considering replacement of the merger/transfer rule with a "plan continuation" test. A merger (transfer) would be prohibited, if the merged plan (transferor and transferee plan) would be in danger of terminating as measured by the reorganization threshold tests. 12/ Generally, the reorganization threshold tests are used to identify those plans that could be or are in financial difficulty.

9/ See Proposed Treas. Reg. 1.414(1)-1(c)(2), 42 Fed. Reg. 33770 (July 1, 1977), and PBGC News Release 76-12, Oct. 29, 1975.

10/ The benefit reduction test may be unnecessary in the context of a merger or a transfer because of ERISA §204(g) and I.R.C. §411(d)(6). See discussion of benefit reductions and transfer rules in Part V of this paper, supra. Moreover, the plan continuation test should lessen the need for benefit reductions, since the viability of the merged plan (transferor and transferee plan) must not be jeopardized by the merger (transfer).

11/ The PBGC is considering a 90-day period within which PBGC could approve or fail to disapprove a contemplated merger or transfer by applying the plan continuation test and the business purpose test.

12/ See Part IV, supra.

If none of the plans involved in the merger is a candidate for reorganization, a merger would be permitted regardless of the relative funding status of the plans. On the other hand, if one multiemployer plan is a Level I reorganization candidate, and the other is not a reorganization candidate, the merger would be prohibited unless the resulting plan would not be a reorganization candidate. Similarly, if one plan were a Level I reorganization candidate and another a Level I or Level II reorganization candidate, the merger would be prohibited unless the resulting plan would be in the same level of reorganization as the better-financed of the two predecessor plans.

There are several reasons for the proposed change. First, the current statute and regulations are administratively unworkable for multiemployer plans. Second, the plan continuation test substantially reduces the risk that any participant would be adversely affected by the merger or transfer. Accordingly, where the benefits in the plans involved in the merger or transfer are less than the PBGC's limitation on guaranteed benefits, no participant of either plan would be adversely affected by the merger or transfer because the PBGC "funds" guaranteed benefits. If the benefits in the involved plans exceed the PBGC limitations on guaranteed benefits, each participant would be at risk only to the extent his funded benefit exceeds his guaranteed benefit as of the date of the merger or transfer.

If the funding level of the merged plan (transferor plan and transferee plan) improves through subsequent contributions, the risk that a participant would lose benefits equal to the difference between his funded benefit immediately before the merger (transfer) and his guaranteed benefit immediately after the merger (transfer) diminishes. The extent to which this risk is diminished is a function of several factors: (1) the rate at which unfunded liabilities are being amortized, (2) the phase-in of PBGC guaranteed benefits, and (3) whether new unfunded accrued liability is created on behalf of the participants involved in the merger (transfer), or a new group of participants. However, in general, the risk to the participants affected by the merger (transfer) would disappear with the passage of time and with the application of the minimum funding standards.

Compliance with the plan continuation test would not relieve the fiduciaries of each plan involved in the merger or transfer of their fiduciary duty to act solely in the interest of plan participants and beneficiaries. Thus, the fiduciary duties imposed by ERISA should also restrain mergers or transfer which may adversely affect a group of participants or beneficiaries.

2. Business Purpose Test

The PBGC also is considering adding a business purpose test to the plan continuation test. The business purpose test would enable the PBGC to respond effectively to unanticipated future schemes to manipulate the insurance system.

3. Other Considerations

Reciprocity arrangements protect a worker against loss of benefits when transferring from one plan to another. Certain types of reciprocity arrangements may have an impact on plan liabilities and, depending on the type of reciprocity arrangements, may make it difficult to determine vested liabilities. For example, an employee may leave a plan before vesting in his or her accrued benefits but may vest later as a result of service under a related plan. This type of situation would complicate administration of merger and transfer rules and requires further study as to whether plan records or other available sources could be utilized to identify affected participants.

PART VII - MULTIEMPLOYER PROGRAM PREMIUM STRUCTURE

A. INTRODUCTION

The PBGC guarantee program creates a risk pool to finance the cost of providing benefits when a plan and the immediate parties to the plan are financially unable to do so. The "risk pool" is funded by charging all covered plans an annual premium. One of the issues that should be resolved is the method for allocating program costs among plans.

On the one extreme these costs could be allocated so that each plan over time pays an amount equal to the expected claims against the program for that plan. Under this approach, each year the amount of coverage (i.e., unfunded guaranteed benefits) would be multiplied by the probability that program funds would be needed to determine the plan's premium amount. The premium would vary significantly from plan to plan depending upon each plan's risk assignment and the value of unfunded liabilities net of any collectable employer liability.

Although this method would create the most equitable allocation of the guarantee program's cost, it is undesirable from a policy standpoint and the probability of funds being needed is impossible to estimate with measured accuracy. The effect of charging plans their expected cost is to charge the weakest plans the most, which would reduce the funds available to provide benefits for those plans and might very well lead to plan termination. Administrative difficulties would also arise in assessing the exact amount of unfunded liabilities net of the amount collectible from the employers. The probability of termination depends on a myriad of factors, including:

- (1) the economic prospects of individual employers,
- (2) the economic prospects of the industry or industries,
- (3) technological changes,
- (4) the effects of future government programs (e.g., trade laws or labor legislation), and
- (5) the extent and outcome of union organizational efforts.

It would be impossible to make this assessment accurately for plans, particularly for those in what now are very strong industries.

On the other extreme, the costs could be allocated so that each plan's share of total program costs would be based on its ability to pay. Under this approach the better a plan was funded the larger the percentage of assets or contributions it would pay in premiums. This approach also is undesirable from a policy standpoint and it could be perceived as grossly unfair. The most poorly funded plans would be rewarded with very low premium costs, and those plans that improved their funding would be penalized with higher premiums. Such an approach would give no incentive to improve funding and it possibly could even discourage employees and employers from attempting to improve a plan's funding.

Ideally, a premium structure for multiemployer plans should include the following:

(1) The premium should be simple for the plan administrator to determine and for the PBGC to verify.

(2) Premiums should take into account, to the extent possible, the risk of termination, and the exposure to PBGC for each plan ("the individual equity principle").

(3) Premiums should not impose an excessive burden on those least able to afford it, i.e., they should not be so high as to induce plan termination ("the social adequacy requirement").

(4) The premium calculation approach selected should help encourage sounder funding.

Simplicity is important in order to assure that the cost of determining and collecting premiums will not represent a sizeable portion of total premium collections.

Social adequacy results to some degree in the subsidization of the more poorly funded plans, since the insurance system would pay benefits even though the premium charged to a plan did not reflect the anticipated benefits to be paid to that plan. Individual equity requires that a plan's premium be reasonably related to the potential claim for that plan.

Using the premium structure to advance social objectives is a component of many types of casualty insurance programs, particularly workmen's compensation, medical insurance, and dental insurance. If the multiemployer insurance program were to involve moderately higher premiums for poorly funded plans, for example, such a premium structure could further the objective of sound plan funding by encouraging plans to adopt a better relationship between funding and benefit promises, or at least not discouraging plans from improving their funding.

Not all of the above objectives are consistent with one another. Any refinements made to ensure equity and achievement of social goals, for example, would be at the expense of simplicity and of social adequacy.

The options discussed below, including the current statutory approach, seek to achieve a balance among the desired objectives. The relative effectiveness of the current premium formula, and of the proposals that follow, in meeting stated objectives will be explored.

B. MULTIEMPLOYER PLAN TERMINATION INSURANCE - PREMIUM STRUCTURES UNDER CONSIDERATION

1. Option 1 - Continuation of existing per capita premium

Initially, Congress set the premium at \$.50 per participant for the multiemployer program. This uniform per capita premium, or "head tax", has a number of distinct advantages. For example, the plan administrator usually can determine the premium quickly and easily since it is only necessary to know the number of participants. By the same token, the PBGC can fairly accurately project its premium income. The uniform per capita premium, at the present rate, also does not impose too great a burden on those plans least able to afford it (i.e., the "poorer risks").

The impact of the present premium structure can be graphically presented:

	<u>Plan A</u>	<u>Plan B</u>	<u>Plan C</u>	<u>Plan D</u>	<u>Plan E</u>
Participants	100	100	50	100	200
Guaranteed liabilities	\$100	\$100	\$50	\$50	\$ 50
Assets	\$ 90	\$ 10	\$ 0	\$25	\$ 50
Unfunded guaranteed benefits <u>1/</u>	\$ 10	\$ 90	\$50	\$25	\$ 0
Premium	\$ 50	\$ 50	\$25	\$50	\$100

1/ Of course, depending on the financial strength of the contributing employers, PBGC would recover some or all of these amounts through employer liability.

Plans A, B, and D pay the same total premium because they have the same number of participants, although PBGC's exposure varies from \$10 to \$90. Plans C, D, and E all pay different premiums although the liabilities are the same for each plan; Plan C, however, has no assets, Plan D is 50 percent funded, and Plan E fully funded. Plan E would receive no PBGC funds in the event of termination even though it has a significant premium burden.

In terms of the ideal objectives for premium structure discussed earlier, this option is consistent with the requirements of simplicity and social adequacy. It does not, however, introduce any degree of individual equity beyond the fact that one plan would pay a higher premium than another only if that plan had more participants. Finally, this option does not discriminate between poorly and soundly funded plans.

In the final analysis, if the total premium can be kept low enough, administrative simplicity argues very strongly for retaining this method.

2. Option 2 - Development of Risk and Exposure Premium

In addition to basing the premium charge on some simplified measure of risk and exposure this option also would include a minimum per capita premium for all plans, sufficient to meet the PBGC's administrative costs and to provide a low level of risk-sharing among all plans. The premium for an individual plan would depend on its size, total vested liabilities, and plan assets according to the following formula:

Premium per Participant =

$$K + \frac{(UFR)(UVL)(c)}{(TP)}$$

where:

K: is the portion of the premium collected through a "head tax" (risk-sharing rate) and therefore determines the extent to which program costs are socialized;

UFR: is the ratio of unfunded vested liabilities to total vested liabilities (but not less than 0) and is the risk element used to determine the probability of termination;

UVL/TP: the ratio of unfunded vested liabilities to total plan participants is the average exposure per participant in the plan; and

c: is the individual equity rate, i.e., the premium rate necessary to provide coverage above administrative costs and the risk-sharing level and below the maximum coverage provided by the PBGC.

The measure used here to indicate the relative probability of termination, UFR, is one of several possible choices. The probability of plan termination may depend on several additional factors (e.g., trends in a plan's funding status, trends in the contribution base, or strength of the industry), but the simplicity and ease of calculation of this approach argue for it.

The measure of average exposure used in the formula, UVL/TP, is an approximation of the more theoretically correct measure of exposure, i.e., the total value of the plan's unfunded guaranteed benefits less collectible employer liability, which is the amount of the potential claim against the PBGC that would result if an individual plan should terminate.

This option has the advantage of allowing the PBGC to create an optimum balance between individual equity and social adequacy. Social adequacy (i.e., the spreading of risk) can be increased by raising the value of K and decreasing the value of c proportionately. Individual equity increases through an opposite process. The objective of simplicity depends upon the ready availability of the data necessary to determine the value of vested benefits. For purposes of sound planning and participant awareness it is important that plans have data on vested liabilities. However, the determination of vested liabilities may be costly initially for those plans that have not calculated this amount in the past due to inadequate records or other reasons. Once this value is determined, however, subsequent calculations would be much less difficult and costly.

In terms of simplicity for PBGC administration, this option is dependent upon the requirement that the value of vested liabilities be reported each year in the plan's annual report, IRS/DOL/PBGC Form 5500, Schedule B.

Finally, this option more than any other under consideration promotes sound funding.

3. Option 3 - Exposure Related Premium

This option is identical to Option 2, except that the risk element measure is assumed to be equal for all plans and therefore can be eliminated from the formula:

$$\text{Premium per participant} = K + \frac{(\text{UVL})(c)}{(\overline{\text{TP}})}$$

The terms are defined as in Option 2, although \overline{K} and \overline{c} may differ in magnitude from what they would be in Option 2. Note that when this formula is applied to a plan, the total premium becomes:

$$\text{Premium} = K \text{ multiplied by number of participants} + c \text{ multiplied by the unfunded vested liability.}$$

The risk element was eliminated for the following reasons: (1) it is difficult to measure accurately and (2) it may levy an excessive assessment against those least able to afford it. The final result could be a plan termination, just the opposite of the desired result -- improved funding. Introduction of exposure into the premium rate formula may give adequate recognition to individual equity so that further recognition may not be required through a separate risk element. Also, any measure of risk that could be devised at this time would be highly subjective. The public might be reluctant to accept premiums based on subjective measures. Employers in particular may object to a premium formula if it assigns them a high likelihood of terminating their pension plans.

This option has the same characteristics as Option 2 in terms of meeting the four objectives set out for the premium calculation. The only difference between Options 2 and 3 is that Option 3 does not penalize more poorly funded plans as much as Option 2, nor does this option reward sounder funding of plans to the same degree as Option 2.

4. Option 4 - Variation of Alternate Statutory Premium

This option is a variation of the alternate premium structure set forth in the current law. ^{2/} It is similar to Option 3 but adds an additional charge for the value of a

^{2/} See ERISA §4006(a)(5)(A).

plan's total vested liabilities. The formula would be:

$$\text{Premium per participant} = K + \frac{(\text{UVL})(c)}{(\text{TP})} + \frac{(\text{VL})(d)}{(\text{TP})}$$

where new symbols defined are:

VL: the value of a plan's total vested liabilities;
and

d: the rate charged to plans for total vested liabilities.

The value assigned to \underline{d} should be lower than the value of \underline{c} to avoid the situation of plans' paying lower premiums for poorer funding and higher premiums for sounder funding.

The result of this formula is that, for every dollar of vested liability created, a plan must pay a tax at the rate of \underline{d} and an additional tax for the amount of that vested liability left unfunded at a rate higher than \underline{d} .

In essence the formula imposes a tax on the value of plan assets. This tax assessment is justified on the theory that plan assets could become depleted and, therefore, plan liabilities currently covered by plan assets could become a claim on the insurance program. However, the probability that funded liabilities will result in program claims is not as great as the probability for unfunded liabilities and, therefore, the rate charged against plan assets, \underline{d} , should be significantly lower.

In terms of meeting the four objectives for the premium structure, this option is similar to Options 2 and 3, with a slightly higher degree of socializing program costs and a slighter lower degree of promoting sounder funding.

C. ANALYSES

1. Introduction

The balance of this discussion of premium options will focus on the results of a comprehensive analysis of each option. These results are divided into two sections:

(1) a comparative analysis of each premium option as it operates on different types of plans with varying levels of per capita premiums, or "head tax", as a component of the formula and (2) the impact of each premium option on the current multiemployer universe.

For discussion purposes, the analysis is based upon the assumption that \$15 million will be the total annual premium necessary to support the insurance program. For other aggregate premium levels, the results of the analyses would merely have to be adjusted proportionately.

Premium Options Summary List (per participants)

Option 1K

Option 2K(y%) + $\left[\frac{(\text{UFR})(\text{UVL})(b)}{(\overline{\text{TP}})} \right] (1-y\%)$

Option 3K(y%) + $\left[\frac{(\text{UVL})(c)}{(\overline{\text{TP}})} \right] (1-y\%)$

Option 4K(y%) + $\left[\frac{(\text{UVL})(3d)}{(\overline{\text{TP}})} + \frac{(\text{VL})(d)}{(\overline{\text{TP}})} \right] (1-y\%)$

where:

y%: denotes the percent of the total premium collected through a flat charge per participant;

UFR: is the ratio of unfunded vested liabilities to total vested liabilities;

UVL/TP: is the ratio of unfunded vested liabilities to total plan participants;

VL/TP: is the ratio of the total value of vested liabilities to total plan participants; and

K,b,c, or d: is the unit charge within the appropriate premium formula. 3/

2. Comparative Analysis

a. By Plan Type

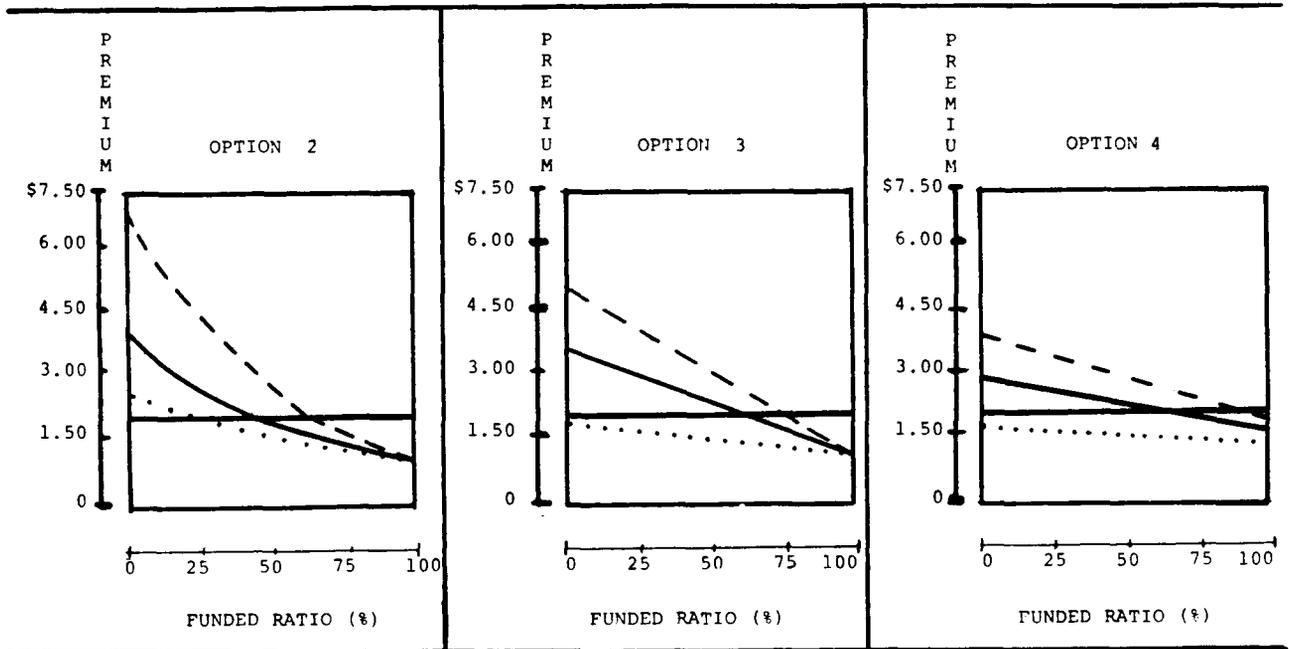
Chart I reflects the annual premium per participant that would be charged to various plans depending

3/ The actual values used in these analyses are:
y%=50; K=\$1.95; b=\$.00051; c=\$.000388; d=\$.00008726.

upon the level of funding within those plans. All graphs are relative to a flat premium of \$1.95 per participant. ^{4/}

The three plan types vary by the average vested benefit for all participants within the plans.

CHART I



Assumptions

- . 50% head tax
- . Flat Premium (Option 1) \$1.95 (horizontal line in graphs)

Legend

- \$250
 - \$150
 - \$ 50
- } Average Vested Benefit

Key Findings:

- (1) Option 2 produces the greatest variance in premiums by plan benefit level; Option 4 the lowest.
- (2) Under Options 3 and 4, a plan with an average vested benefit of \$50 would always pay less than the corresponding flat premium (Option 1).

^{4/} This flat premium of \$1.95 resulted from the figurative \$15 million, which was selected purely for discussion purposes. Under Options 2, 3, and 4, 50 percent of the premium or \$.975, would be based on the flat "head tax".

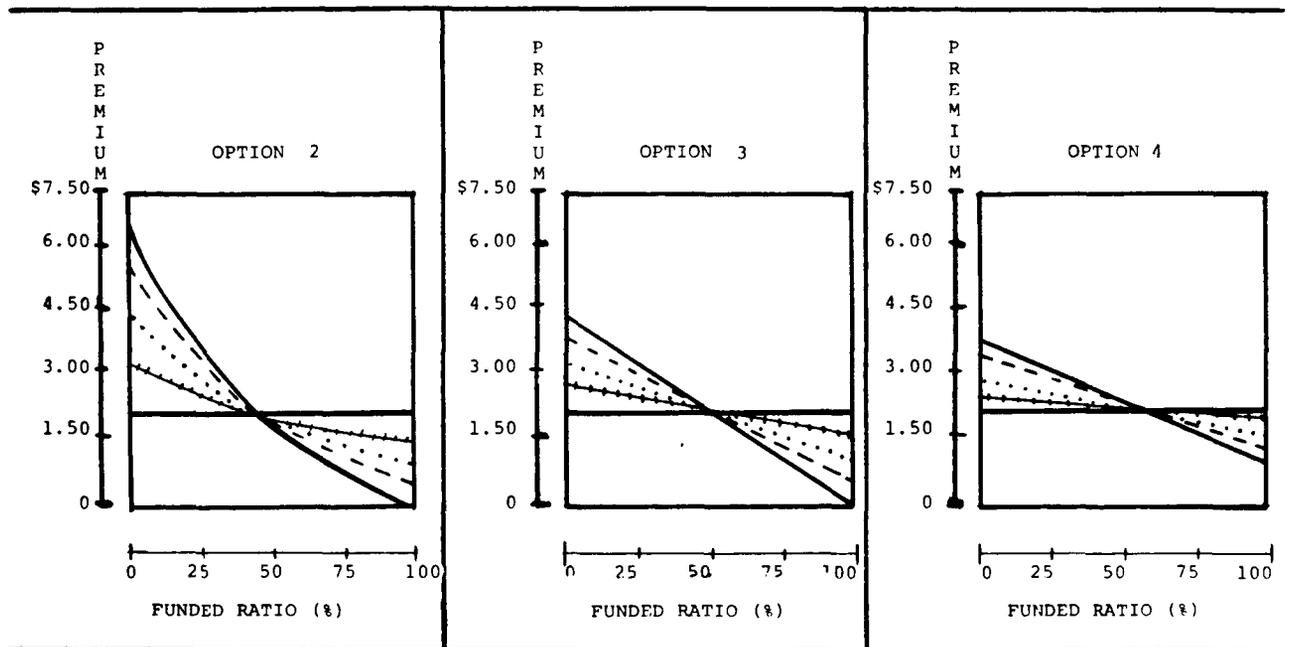
Option 2 has similar results, except that plans funded at less than 30 percent would pay a slightly higher charge per participant.

(3) For Options 2, 3, and 4, the sensitivity of the premium level to plan funding increases as the average plan benefit increases.

b. By Percentage of "Head Tax" Incorporated into the Formula

Chart II indicates the annual premium per plan participant that would be charged to a plan, depending upon the level of funding. These three graphs are all based upon a plan with an average vested benefit of \$150 and, within each graph, a varying percentage of the premium is derived from the flat "head tax".

CHART II



Assumptions:

- Average Vested Benefit \$150
- Flat Premium (Option 1) \$1.95 (horizontal line in graphs)

Legend

- 0% head tax
- - - - 25% head tax
- 50% head tax
- + + + + + 75% head tax

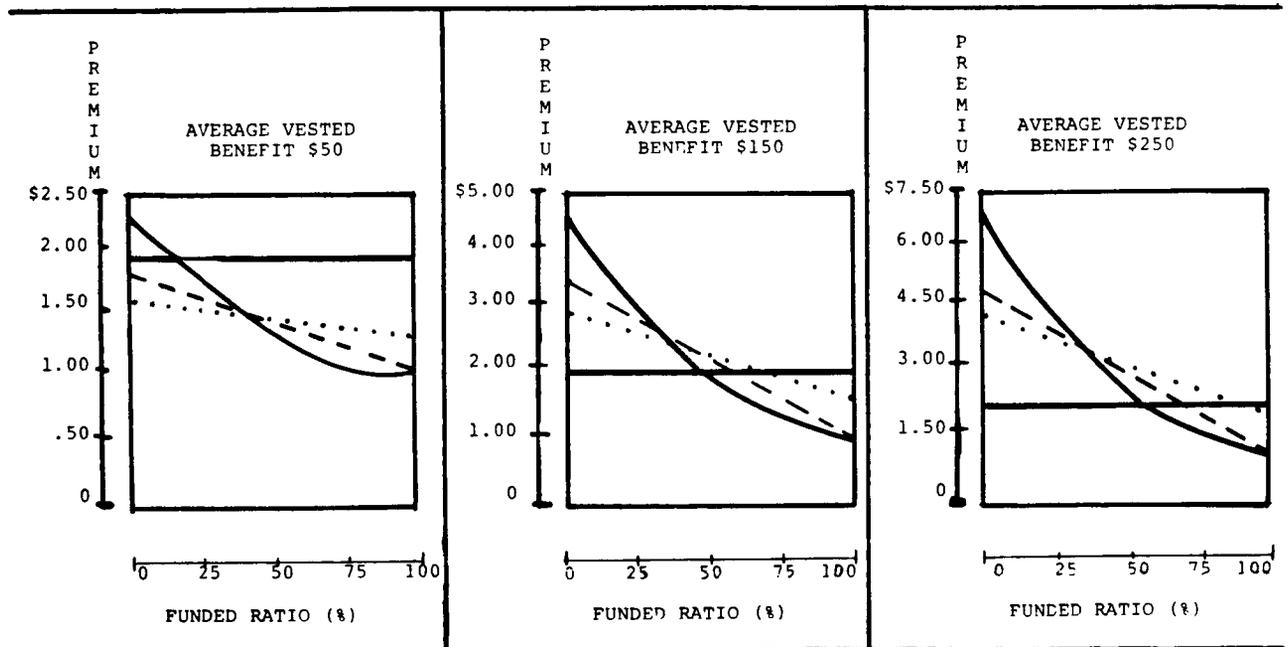
Key Findings:

- (1) Option 2 is most sensitive to different levels of a flat "head tax"; Option 4 the least sensitive.
- (2) For Options 2, 3, and 4, poorer-funded plans pay more as the percentage of "head tax" included in the formula decreases while, for sounder-funded plans, premiums are lower as the "head tax" percentage decreases.
- (3) At a zero percent "head tax", Option 4 is the only formula producing a premium greater than zero for fully funded plans.

c. By Premium Option:

Chart III reflects the four premium options together, depending upon the funding level in a plan. The comparisons are based on a 50 percent "head tax" inclusion and are shown for plans with three different benefit levels.

CHART III



Assumptions

- . 50% head tax
- . Flat Premium (Option 1) = \$1.95 (horizontal line in graphs)

Legend

- 2
 - - - 3
 - 4
- } Option

Key Findings:

- (1) Option 2 is most sensitive to plan funding regardless of benefit level.
- (2) Next to Option 1 (flat premium), Option 4 is least sensitive to plan funding.
- (3) Option 2 is most favorable to sounder-funded plans; Option 3 is second. Option 1 is least favorable to sounder-funded plans; Option 4 is second.

d. Conclusions of Comparative Analysis.

- (1) A program financed under premium Option 1 favors high-benefit plans and poorer-funded plans.
- (2) A program financed under premium Option 2 favors low-benefit plans, and sounder-funded plans regardless of benefit level.
- (3) A program financed under Options 3 or 4 are similar and favor the lower-benefit plans regardless of funding level, and all sounder-funded plans although to a lesser degree than Option 2. The difference between Options 3 and 4 is that Option 4 is closer to the flat premium option (Option 1) by being slightly more favorable than Option 3 to poorer-funded plans and slightly less favorable than Option 3 to better-funded plans.
- (4) Ranking the options by the degree to which they favor the four premium objectives of simplicity, individual equity, social adequacy, and promoting sound funding would have the following result:

<u>Simplicity</u>	<u>Individual Equity</u>	<u>Social Adequacy</u>	<u>Promoting Sound Funding</u>
1	2	1	2
2,3,4	3	4	3
	4	2	4
	1	3	1

3. Analysis of Impact on Multiemployer Plan Universe

The following tables compare each of the premium options on the basis of the results of distributions of all multiemployer plans by (1) actual premium charge (Table 1) and (2) percentage of premium to total plan contribution (Table 2). A 50 percent "head tax" is assumed for Options 2, 3, and 4.

TABLE 1
Distribution of Plans by Premium Under
Selected Premium Options With A Flat
Premium (Option 1) at \$1.95

Distribution	Option 2	Option 3	Option 4
Average premium for all plans	\$1.54	\$1.62	\$1.67
Maximum premium	6.94	6.59	6.17
Total	100%	100%	100%
less than \$1.30	58.8%	50.2%	41.9%
\$1.30 less than \$1.95	24.4%	30.1%	36.9%
\$1.95 less than \$2.60	7.9%	9.3%	10.1%
\$2.60 less than \$3.25	3.2%	3.2%	3.9%
\$3.25 less than \$5.00	4.3%	6.1%	6.1%
\$5.00 less than \$7.00	1.4%	1.1%	1.1%

Note: \$1.95 per capita premium charge is figurative.

TABLE 2
Distribution of Plans by Ratio
of Premium to Total Contribution

Distribution	Option 1	Option 2	Option 3	Option 4
Average	1.17%	0.68%	0.70%	0.73%
Total	100%	100%	100%	100%
less than 0.5%	34.4%	56.6%	53.0%	50.5%
0.5 less than 1%	31.2%	29.8%	33.0%	34.1%
1% less than 2%	22.2%	10.4%	10.8%	11.5%
2% less than 5%	10.4%	2.5%	2.5%	3.2%
greater than 5	1.8%	0.7%	0.7%	0.7%

Key results:

- (1) Under Options 2, 3, and 4 over three-fourths of all plans would pay a lower premium than under a corresponding flat "head tax" (Option 1).
- (2) Under Options 2, 3, and 4 approximately 85 percent of all plans would pay a total premium which would be less than one percent of the plan's contribution payment. Under Option 1, this percentage would be only 65 percent.

It is apparent from these results that most plans would benefit from a change in the current premium structure by paying a lower premium in terms of actual amount per participant as well as a lower percentage of total contributions. There would be a group of plans, however, that would find their premium charge increased to a level that would offset the corresponding decrease in premiums for most plans.

Table 3 illustrates the characteristics of those plans paying a higher premium under Options 2, 3, and 4 than under the current per capita premium structure. 5/

TABLE 3
Distribution of Plans by Characteristics
Related to Premiums Options

Characteristics	Plans paying higher premium under all three options	Plans paying lower premium under one or more options
1. Percent of all plans	16.1%	83.9%
2. Average size of plan	34,900	18,000
3. Average inactive to active participants	23.8%	16.3%
4. Average funded ratio	27.5%	59.3%
5. Average retiree benefit	\$267.16	\$116.84
6. Average plan premium/plan contribution ratio	0.27%	0.79%

5/ Results are based upon a PBGC sample of 279 plans used in the Multiemployer Project Model. See Appendix XIII.

Table 3 illustrates the point that premium Options 2, 3, and 4 would shift the burden of program financing towards large, more poorly funded, high-benefit plans. A key result is that the ratio of total premium charge to total plan contributions for plans paying a lower premium under Options 2, 3, and 4 would be nearly three times greater than that same ratio for plans paying a higher premium under Options 2, 3, and 4.

In summary, the results of the impact analysis show:

- (1) Premium Options 2, 3 and 4 produce a more equitable allocation of program financing costs.
- (2) When comparing premiums as a percent of plan contributions, poorer-funded plans pay less than sounder-funded plans under premium Options 2, 3, and 4.

PART VIII - COST ANALYSIS

A. INTRODUCTION

This section presents the results of a study of the potential cost of the current termination insurance program for multiemployer plans as well as alternatives to the current program. The study, which is based upon a sample of 279 multiemployer plans, provides estimates of the potential incidence of plan termination and of the potential range of costs to the insurance program over the next 10 years.^{1/} A computer based model was used to project current plan characteristics, such as the number of active and retired participants, annual contributions, benefit payments, and asset levels, over a 10-year period for this sample of plans. This permitted the identification of plans that meet certain financial and participant characteristics that are indicative of potential plan termination because of financial hardship. These termination characteristics include: a high ratio of retired and inactive vested participants to total participants, a low ratio of assets to annual benefit obligations, and a decreasing or only slightly increasing level of assets.

This study is limited to an analysis of potential terminations due to plan financial hardship. The extent to which these plans identified as potential terminations will actually terminate depends upon a number of factors including future economic developments in each industry, characteristics of the termination insurance program, merger possibilities, union organizing efforts, and future legislative developments relating to multiemployer plans. The study did not attempt to estimate the incidence of termination and the effect on program costs of plans terminating for reasons other than financial hardship because of the difficulty and uncertainty involved in making such estimates and the limited historical data on multiemployer plan terminations. However, the fact that the study did not attempt to estimate potential terminations due to factors other than financial hardship does not mean that such terminations may be infrequent. Furthermore, the incidence of such terminations and the resulting cost to the insurance program could very well be a function of the level of PBGC termination guarantees

^{1/} The cost estimates presented in this section only address the potential range of costs for guaranteed benefits. Administrative costs incurred by the PBGC are not included in these estimates.

and employer liability requirements. High termination guarantees and low employer liability, such as under the current insurance program, may make plan termination economically attractive to active employees and employers. Conversely, low termination guarantees and high employer liability would make plan termination a less attractive alternative than plan continuance.

The primary purpose of this analysis is to identify plans that are potential candidates for termination because of financial hardship in order to estimate their exposure to the insurance system, and to compare the potential costs of the current program with alternative programs. The estimates presented herein show the ranges of exposure and costs for the various programs under consideration by PBGC. The estimates should not be viewed as precise projections of the incidence of termination and the anticipated costs to the insurance system of the current and alternative programs. This is due to the uncertainties involved in projecting plan characteristics into the future and the difficulty in predicting terminations, which depend upon a myriad of financial, social and political factors. However, the estimates do provide a basis for evaluating the magnitude of costs of the current program and of alternative programs.

B. SUMMARY OF FINDINGS

The major findings of this analysis are that:

- Approximately 160 multiemployer plans, or about 10 percent of all such plans, have financial and participant characteristics that indicate the potential for termination because of financial hardship over the next 10 years.^{2/} These plans cover approximately 1.3 million participants, or approximately 15 percent of all multiemployer plan participants.

^{2/} Because this estimate is based upon a sample of plans, it is possible for sampling errors to arise. An estimate of the potential sampling error indicates that, at the 95 percent confidence level, the number of plans assumed to terminate could vary by up to + 64 plans. However, because this potential error arises only among small plans in the sample, it is estimated that the corresponding error in unfunded liabilities would be only about + 12 percent.

- Under the current program, if all of the plans classified as potential terminations were to terminate, the estimated present value of gross unfunded liability for guaranteed benefits would be \$8.3 billion (\$3.8 billion if it is assumed that large, broad-based plans would not terminate because these plans would be better able to avoid termination than the other plans identified by the termination indicators).^{3/} The estimated present value of the net liability (gross unfunded liability less employer liability payments under the current statutory rules) to the PBGC insurance system for these plans would be \$4.8 billion (\$2.7 billion if large, broad-based plans are excluded from the group of potential terminations).

- In order to finance these liabilities, an annual premium of \$80 per participant would be required (\$45 if large, broad-based plans are excluded from the group of potential terminations). The \$45 and \$80 premium rates represent approximately 8 and 14 percent of annual plan contributions. Although it is not likely that all of these plans would terminate during the 10-year period, or even thereafter, the magnitude of the potential liabilities indicates that the premium required to maintain the current program on a self-financing basis may not be affordable by multiemployer plans.

- The potential for termination within the group of plans classified as possible terminations varies significantly. Based upon the relative severity of plan financial condition and projections of industry employment trends over the 10-year period, the plans were classified into four groups with respect to their relative potential for termination, ranging from highest (plans projected to become insolvent over the 10-year period) to lowest (plans with the least severe financial condition that cover industries where employment is not projected to decline, according to the Bureau of Labor Statistics).

^{3/} Large, broad-based plans are those that cover a substantial proportion of employers and workers in an industry.

- The nine plans with the highest potential for termination represent less than one percent of all multiemployer plans and contain 1.4 percent of all participants. The estimated present value of the net liability to PBGC under the current guarantee and employer liability rules for these plans is about \$560 million. The annual premium required to finance this liability would be approximately \$9 per participant, which is 3.6 times the single employer premium rate and represents 1.7 percent of annual plan contributions.

- The 51 plans with the second highest potential for termination (generally, non-broad-based plans in industries projected to decline) represent three percent of all multiemployer plans and participants. The estimated present value of the net termination liability for these plans, under the current guarantee and employer liability rules is about \$1.3 billion. An annual premium of \$22 (about 4 percent of annual plan contributions) would be required to finance this level of liability.

- Revising the current program by modifying the current guarantees and employer liability limitations and by providing for plan reorganization assistance to ongoing plans reduces by varying degrees the potential PBGC termination costs for all plans classified as potential terminations:
 - Modification of Current Guarantees: By modifying the current guarantees to require stricter rules for funding and to defer the phase-in of the guarantee of benefit increases (referred to subsequently as the modified guarantee option),^{4/} and by removing the current net worth limit on employer liability, annual premiums if all plans terminate could be reduced to between \$12-\$20 per participant (in contrast to the \$45-\$80 range under the current program), as shown in the following table:

^{4/} The modified guarantee option includes changes in the minimum funding standards for multiemployer plans, as described in Part III.

	Present Value of PBGC Termination Liability <u>(\$ millions)</u>	Annual Premium Rate <u>(\$ per person)</u>
Current Program	\$2,704-\$4,824	\$44.56-\$79.50
Modified guarantee with current employer liability limit	2,007- 3,857	33.08- 63.56
Modified guarantee with elimination of net worth limit on employer liability	702- 1,183	11.57- 19.50

The \$12-\$20 premium rate, which assumes no net worth limitation on employee liability is substantially lower than the potential range of annual premiums that might be experienced under the current program due in part to the higher proportion of the cost of guaranteed benefits borne by employer liability. However, these rates are still considerably higher than the single employer premium (approximately four and one half times higher) and represent approximately two percent of annual plan contributions.

-- Reduced Guarantees: Reducing the current guarantee level in conjunction with the modifications discussed above would further reduce the potential cost of the termination program, but at a high cost to participants in terms of benefit security. As shown in the table below, the premium rates for the various reduced guarantee options under current employer liability limitations range from a low of \$0.56-\$1.88 under a 50 percent guarantee option to a high of \$29-\$46 under a 10 percent per year program phase-in (assuming plans defer termination until the point of insolvency or until the

program is fully phased-in).^{5/} It is estimated that removal of the net worth limit on employer liability would reduce premiums still further, to a range of \$0.10 to \$13-\$17.

Type of Reduced Guarantee	Annual Premium Rate (\$ Per Person)	
	Current Employer Liability Limitation (30% Net Worth Limit)	Alternative Employer Liability Limitation (No Net Worth Limit)
50% Guarantee	\$.56-\$ 1.88	\$.18-\$.25
10% Phase-In	11.83- 16.61	2.21- 2.21
10% Phase-In assuming Deferred Termination	29.25- 46.24	12.82- 17.44
Post-ERISA	2.34- 2.44	.10- .10
Retirees and Near Retirees Only	17.73- 38.33	4.37- 8.36

Under these reduced guarantee options, guaranteed benefits as a percent of vested benefits would range from 43 percent to 79 percent. These proportions are much lower than under the current program where participants in the same group of plans would be guaranteed approximately 94 percent of their vested benefits. (See Table 2.)

-- Plan Reorganization: Changing the program from guaranteeing benefits at plan termination to providing financial assistance in the form of loans to ongoing, reorganized

^{5/} This variation of the 10 percent program phase-in option was examined because of the possibility that, under such a phase-in, plans might defer termination in order to secure a higher guarantee.

plans, or providing such assistance in combination with reduced termination guarantees would result in substantially lower costs than the current program. In addition, plan reorganization provides participants in reorganized plans with virtually the same benefit security as under the current program. As shown in the table below, the level annual premium required to finance a program consisting only of assistance to reorganized plans and no guarantee of benefits for terminated plans is \$2.47 per participant (\$.69 if large broad-based plans are excluded from the group of reorganized plans).^{6/} If reorganization assistance is provided in combination with reduced guarantees for

	Annual Premium Rate (\$ Per Person)	
	<u>Without Reorganiza- tion Option</u>	<u>With Reorganiza- tion Option</u>
Current Program (under current employer liability limitations)	\$44.56-\$79.50	\$28.81-\$54.40
Modified Guarantee (under alternative employer liability limitations)	33.08- 63.56	22.33- 43.65
Reduced Modified Guarantees (under alternative employer liability limitations)		
● 50% Guarantee	.18- .25	.69- 2.47
● 10% Phase-In	2.21	1.51- 3.29
● 10% Phase-In with Deferred Termination	12.82- 17.44	4.33- 6.90
● Post-ERISA	.10	.69- 2.47
● Retirees and Near Retirees Only	4.37- 8.36	.82- 6.16
Reorganization Assistance Costs Only (no guarantees for terminated plans)	--	.69- 2.47

^{6/} The cost and premium estimates used throughout this report for the reorganization option assume that loans provided to reorganize plans are not repaid.

plans that terminate without reorganizing, the level annual premium would range from a low of \$.69 to \$2.47 under the 50 percent and post-ERISA guarantee options, to a high of \$4.33 to \$6.90 under the 10 percent per year program phase-in guarantee with deferred termination (assuming elimination of the current net worth limitation on employer liability).

C. METHODOLOGY

The cost estimates presented above, and the more detailed estimates that follow, reflect the preliminary results of the most comprehensive study to date of multiemployer plan financial status, the potential cost to the PBGC under the current termination insurance program, and the potential cost of alternative programs. Thus, while the results should be treated with caution, they do provide a basis for comparing the costs of various termination insurance options. Four major steps were required to make these estimates.

1. Sample Selection

A stratified random sample of 279 multiemployer plans with approximately 5.7 million participants was used as the basis for assessing current plan financial status, identifying plans that may terminate because of financial hardship, and estimating PBGC termination liabilities and insurance premiums. This stratified random sample is generally representative of all multiemployer plans; it includes approximately 16 percent of all plans and 71 percent of their participants, based upon 1976 PBGC premium records.

The sample was selected by choosing all plans with more than 10,000 participants and, then, by selecting randomly from those remaining, either one plan in every fifteen, or enough plans to assure the selection of at least three plans in each industry category. A discussion of the sample design is contained in Appendix XIII.

2. Plan Forecasts

The financial and participant characteristics of each sample plan were projected over a 10-year period. The projections were made by a computer-based model that, using 1976 data on each plan as a starting point, projected the number of plan participants for 10 years and calculated the associated financial characteristics for each plan over the 10-year period. A discussion of the PBGC forecasting model is contained in Appendix XIII.

The model applies certain of the alternative PBGC insurance program options discussed in Part IV to each plan forecast in order to estimate the amount of guaranteed benefits not funded by plan assets under each program option. Specific options considered in this analysis include:

- Modified guarantee: assumes an increase in funding requirements, a three year delay on the phase-in of guarantees of benefit increases, and the elimination of the \$20 rule on benefit increases;
- 50 percent guarantee: assumes both the modified guarantee described above and a reduction in the level of guarantee to 50 percent of the current program;
- 10 percent per year phase-in of the guarantee program: assumes both the modified guarantee and a gradual phase-in of the current guarantee program at the rate of 10 percent per year (A variation of this option was also examined, in which plans were assumed to defer termination either until the point of insolvency or until the program was fully phased-in. This variation is intended to reflect the costs if plans defer termination as long as possible to obtain the higher guarantees available in later years.);
- Post-ERISA guarantee: assumes both the modified guarantee and a guarantee of only those benefits which accrued after the passage of ERISA; and
- Retiree and near retiree guarantee: assumes both the modified guarantee and a guarantee only of the benefits of retirees and those participants within five years of normal retirement age at the time of plan termination.

The model then applied alternative assumptions about employer liability payments in order to develop estimates of PBGC termination exposure for those plans classified as potential terminations.

3. Termination/Reorganization Screens

In order to estimate potential PBGC termination liabilities, it was necessary first to identify a broad group of plans that might terminate over the 10-year forecast

period due to financial hardship . This was done by constructing several financial criteria or "screens" that could be applied to the annual financial projections for each plan. Under each screen, a plan was then assumed to terminate whenever its projected characteristics first met the screen. The different termination screens considered are described in Appendix XIV.

Some of the screens relied exclusively on plan financial characteristics, whereas others also included characteristics of plan participants. Using 1976 plan data, most screens tended to identify a similar pattern of potential plan terminations, ranging from terminations which affect approximately 9 to 17 percent of all multiemployer plan participants.

a. Primary Termination Screen

In order to provide a conservative basis for initial estimates of potential PBGC termination liabilities, the termination screen that was selected relied solely on plan financial and participant data and identified a preliminary group of plans with unfunded liabilities in the upper range of those for the various plans identified under the different screens. The primary screen consists of three criteria that plans had to meet simultaneously in order to be identified:

- a ratio of retired and separated vested participants to total participants of greater than .34,
- a ratio of assets to annual benefit payments of less than 5.6, and
- a ratio of annual cash flow to assets of less than .026.

When applied to the 279 plan forecasts over the 10-year period, this screen identified plans that represent 166 of all multi-employer plans (9.6 percent of all plans) with 1.3 million participants (15 percent of all participants).

b. Modification to Primary Termination Screen --
Exclusion of Large, Broad-Based Plans

In order to test the sensitivity of the cost estimates to different termination assumptions, two additional steps were taken. First, the primary screen was modified so that all large, broad-based plans identified by the original screen would be excluded from the group of potential terminations because of their potentially greater ability to avoid

termination. This produced a set of 156 plans with 473 thousand participants as the group of potential terminations.

c. Modification to Primary Termination Screen --
Categorization by Relative Termination Potential

In the second step, all 166 plans initially identified by the termination screen were categorized into four groups according to their relative potential for termination. This step was taken because the factors that heavily affect termination potential, such as the severity of a plan's financial status and projected trends in covered industry employment, differ widely among the plans. Grouping plans in this way permits an examination of termination insurance costs under different assumptions for the incidence of termination.

d. Reorganization Test

Finally, in order to estimate the impact of the reorganization option, the Level II reorganization test discussed in Part IV was used to identify the plans in the full sample that would meet this test and, of these plans, the ones that would qualify for PBGC reorganization assistance. The Level II reorganization test identifies plans with an expected life of seven years, based upon projections of cash flow.

4. Cost Analysis and Calculation of Overall Results

After the plan projections were developed and potentially terminating plans were identified, the present value of PBGC termination liabilities was calculated. This was done by summing, in each year, the unfunded liability for guaranteed benefits of each potential termination and by subtracting the assumed employer liability collections. This provided an estimate of annual PBGC termination exposure for the set of sample plans. These annual liabilities were converted into present values by discounting the estimates back to Year one of the forecast period.

Next, an estimate of PBGC termination liabilities for all multiemployer plans was calculated. This was accomplished by multiplying the estimated PBGC termination liabilities for each sample plan assumed to terminate by a factor equal to the proportion of plan participants included in our sample for each plan's industry and size category. The weighted liabilities were added together to estimate the total liability for all multiemployer plans. These PBGC termination liabilities were then converted into the level annual premium per participant required under each program

option, assuming these liabilities were amortized over a 10-year period.

Finally, the costs of the reorganization option were estimated by deducting the termination liabilities of plans meeting the reorganization Level II screen from the total PBGC termination liabilities, and then by computing the costs of PBGC reorganization assistance payments to those reorganized plans that would first require assistance sometime over the next 20 years. Reorganization assistance would be made available by the PBGC in the form of loans that would be repaid after reorganized plans achieved solvency. Not all of the reorganized plans were assumed to require assistance. Those assumed not to require assistance were plans in which assistance was not necessary until after the tenth year and that cover industries in which employment was projected to increase. This assumption was made because of the potential for such plans to stabilize or improve their financial condition before reorganization assistance would be necessary.

The reorganization assistance costs were estimated by projecting plan characteristics indefinitely into the future and by estimating the potential shortfall between plan funds and guaranteed benefits that was assumed to be met by the PBGC. The cash flow estimates were discounted to reflect PBGC liability for reorganization assistance in Year 1 of the forecast period. Although premium rates required for termination insurance were estimated using a 10-year amortization period, the present value of reorganization assistance costs was amortized over a 20-year period to correspond with the period over which these reorganization liabilities were first incurred. (Alternatively, if these costs are amortized over a 10-year period, then the annual premium rates required to support reorganization assistance alone would increase from \$2.47 under a 20-year amortization period to \$3.75 under a 10-year period.)

The reorganization assistance estimates tend to be more uncertain than the termination liability estimates because the latter were obtained by using the more detailed PBGC forecasting model and involve projections over a shorter period. However, because the assumptions used to estimate reorganization costs are quite conservative, the estimates tend to reflect the upper range of reorganization costs that might be expected under this option. For example, by assuming that once a plan first requires reorganization assistance it requires assistance indefinitely, the estimates tend to overstate the costs of supporting these plans. This occurs because some of the plans assumed to require indefinite assistance might improve voluntarily their financial status

and leave reorganization. In addition, because it was assumed that plans would not recover, the estimated cost of reorganization assistance does not reflect the repayment of assistance when plans recover and are able to continue without such assistance.

D. ANALYSIS

This section reviews in greater detail the impact of alternative PBGC guarantee programs on the liabilities, premiums, and expected benefit payments to retirees. Because of the limited historical data on multiemployer plan terminations and because plan terminations can be influenced by factors other than plan financial status, these estimates are necessarily uncertain. The major areas of uncertainty include:

- the difficulty in identifying plans with the greatest risk of termination using only financial and participant characteristics,
- the difficulty in predicting how plan trustees might react to alternative guarantee programs when evaluating termination decisions,
- the lack of employer financial data for evaluating the collectibility of employer liability under different options, and
- the difficulty in predicting how plans would adjust benefits and contributions in reorganization, thus making reorganization assistance estimates uncertain.

Nevertheless, by using relatively conservative assumptions in these areas and by showing the sensitivity of overall results to these assumptions, the cost estimates presented here provide a basis for assessing the current program and the impact of alternative programs. Although the major points will be reviewed in this section, Appendix XIV contains the supporting cost estimates.

1. Total Unfunded Liabilities

Before examining PBGC liabilities and costs under alternative programs, an estimate was made of the total unfunded liability for all plans under the current program. Table 1 presents an estimate of the total unfunded accrued, vested, and guaranteed benefits under the current program in Year 1 and Year 10 of the forecasts for multiemployer plans. This suggests that, in the event that all multiemployer

plans terminate, PBGC termination liability is currently between \$25 and \$34 billion, depending upon the collectibility of employer liability. Over a 10-year period, this exposure grows substantially to between \$34 and \$49 billion.

Because it is highly unlikely that all plans would terminate, we examined the total unfunded liabilities for an initial group of 166 plans, which, based upon the sample of plans identified by the termination screen, represent the plans with the greatest potential for termination. Furthermore, because it is unlikely that all of these 166 plans would actually terminate, an analysis was made of the liabilities for different categories of plans within the 166 plan group in order to estimate the potential range of program costs. In one case, shown in column four of Table 1, we examined the impact of excluding 10 large, broad-based plans from the initial group of 166 potential terminations, because of the possibility that such plans would be in a better position than other plans to avoid termination. A later section examines the impact of categorizing the 166 plans into four groups according to their relative potential for termination.

As shown in Table 1, if it is assumed that all 166 plans terminate over the 10-year period, the present value of PBGC liability under the current program would be approximately \$4.8 billion. The annual premium required to finance this level of liabilities would be approximately \$80 per participant. (See Table 2.) If large, broad-based plans are excluded from this group, the present value of PBGC liability under the current program would be approximately \$2.7 billion, requiring an annual premium of approximately \$45 per participant. The high premium costs for plans identified by the termination screen is due in part to the disproportionately high level of unfunded liabilities in these plans in comparison to other plans. For example, the data indicate that the 166 plans contain 15 percent of all participants, but 27 percent of the total unfunded liability for vested benefits. The average unfunded liability for vested benefits in the group of potential terminations is \$7,100 per participant, as compared with \$4,100 per participant for all multiemployer plans.

2. Modified Guarantees

One option to the current program described in Part IV is simply to increase the minimum funding standards for multiemployer plans and to revise the rules for phasing-in benefit increases. This step would bring multiemployer minimum funding standards in line with the requirements for other types of plans and would reduce potential PBGC termination exposure.

TABLE 1
SUMMARY OF UNFUNDED LIABILITIES OF ALL MULTIEMPLOYER PLANS
AND PLANS ASSUMED TO TERMINATE UNDER CURRENT PROGRAM

	All Multiemployer ^{1/} Plans		Plans Identified by ^{2/} Termination Screen	
	Year 1	Year 10	All Plans Identified	Excluding Large, Broad- Based Plans ^{3/}
	Plans Participants (000)	1,722 8,177	1,722 9,401	166 1,258
Unfunded Liability for Accrued Benefits (\$ millions)	40,215	68,927	9,216	4,440
Unfunded Liability for Vested Benefits (\$ millions)	33,519	58,425	8,986	4,318
PBGC Termination Liability (\$ millions)				
• Assuming No Employer Liability	33,516	49,043	8,345	3,791
• Assuming Current Employer Liability Limitation Rules ^{4/}	25,136	34,438	4,824	2,704

^{1/} Estimated unfunded liabilities assuming all multiemployer plans terminated in Year 1 or Year 10 of the 10-year period under analysis.

^{2/} Estimated present value in Year 1 of unfunded liability for all plans assumed to terminate over the 10-year period under analysis. Participants reflect the number of participants in the year in which the plans are identified by the termination screen.

^{3/} Excludes large, broad-based plans, defined to be those which cover a substantial proportion of employers and workers in an industry.

^{4/} Assumes that PBGC collects employer liability up to the current 30 percent net worth limitation on employer liability; this was approximated by an amount equal to 25 percent of unfunded vested liabilities for most plans, and 75 percent for those in industries where available data indicated substantial net worth.

In order to examine the impact of this modified guarantee option, we estimated the PBGC termination liabilities, the level annual premium required to fund these liabilities, and the proportion of vested benefits received by participants. As shown in Table 2, these estimates indicate that:

- The modified guarantee option, reflecting a change in funding requirements and revised benefit increase phase-in rules, has a relatively modest effect on PBGC termination costs. Assuming no other program changes, the present value of PBGC termination liabilities for all potential terminations would decline from \$4.8 billion under the current program to \$3.9 billion under the modified guarantee, a reduction of 20 percent. Excluding the large, broad-based plans, the present value of PBGC termination liabilities would decline from \$2.7 billion under the current program to \$2.0 billion under the modified guarantee, a reduction of 25 percent.
- The level annual premium required under the modified guarantee option would remain quite high -- between \$33 and \$64 per participant. These premium levels suggest that the modified guarantee option may not be sufficient by itself to provide a self-financing termination insurance program.
- The benefit security of participants declines only slightly under the modified guarantee option, from approximately 94 percent of vested benefits paid under the current program to 88 percent under the option. This suggests that the 20 to 25 percent reduction in PBGC termination liability under this option is achieved primarily through the increased contributions under the proposed funding requirement and to a somewhat lesser extent through the reductions in benefit payments under the proposed deferral of benefit increases.

3. Reduced Modified Guarantees

Because the modified guarantee alone does not significantly reduce PBGC termination exposure, we examined the modified guarantee in combination with various reductions in

IMPACT OF ALTERNATIVE PROGRAMS ON PBGC TERMINATION
LIABILITY, PREMIUMS, AND PERCENT OF VESTED BENEFITS PAID

	Plans Identified by Termination Screen			Plans Identified by Termination Screen, Less Large Broad-Based Plans		
	PBGC Termination Liability (\$ millions)	Annual ^{1/} Premiums (\$ per person)	% of Vested Benefits Paid (%)	PBGC Termination Liability (\$ millions)	Annual ^{1/} Premiums (\$ per person)	% of Vested Benefits Paid (%)
<u>Current Program</u>	4,824	79.50	94.1	2,704	44.56	91.6
<u>Revised Program</u>						
● <u>Current Employer Liability Limitation^{2/}</u>						
-- Modified Guarantee ^{3/}	3,857	63.56	88.0	2,007	33.08	85.5
-- Reduced Modified Guarantees ^{4/}						
1) 50% Guarantee	114	1.88	47.1	34	.56	46.3
2) 10% Phase-In	1,008	16.61	54.1	718	11.83	62.6
3) 10% Phase-In with Deferred Termination	2,806	46.24	70.7	1,775	29.25	79.0
4) Post-ERISA	148	2.44	42.6	142	2.34	50.7
5) Retirees and Near Retirees Only	2,326	38.33	72.1	1,076	17.73	68.9
● <u>Alternative Employer Liability Limitation^{5/}</u>						
-- Modified Guarantee	1,183	19.50	88.0	702	11.57	85.5
-- Reduced Modified Guarantees						
1) 50% Guarantee	15	.25	47.1	11	.18	46.3
2) 10% Phase-In	134	2.21	54.1	134	2.21	62.6
3) 10% Phase-In with Deferred Termination	1,058	17.44	70.7	778	12.82	79.0
4) Post-ERISA	6	.10	42.6	6	.10	50.7
5) Retirees and Near Retirees Only	507	8.36	72.1	265	4.37	68.9
● <u>Reorganization Assistance Costs Only^{6/}</u> (no guarantees for terminated plans)	228	2.47	N/A	64	.69	N/A

- ^{1/} Estimates reflect the average annual level premium required to amortize the termination liability over a 10-year period, assuming an average of 8 million participants in non-terminated plans.
- ^{2/} Assumes that PBGC collects an amount from employers up to the current 30 percent net worth limitation on employer liability; this was approximated by an amount equal to 25 percent of unfunded vested liabilities for most plans, and 75 percent for those in industries where available data indicated substantial net worth.
- ^{3/} Modified guarantees assume an increase in funding requirements, a three year delay on phase-in of guarantees of benefit increases and elimination of the \$20 phase-in rule for guaranteeing benefit increases.
- ^{4/} Reduced modified guarantees reflect both the program changes identified under modified guarantees and the reduced benefit guarantees described in Part IV.
- ^{5/} Assumes elimination of the net worth limit, and that employers are liable up to 100 percent of the plan asset insufficiency; estimated collectible employer liability was approximated by an amount equal to the present value of expected plan contributions under the current program, based upon projected trends in active participation.
- ^{6/} Estimates reflect the approximate range of liabilities and premiums for providing only reorganization assistance to plans identified for reorganization under a modified guarantee program; annual premiums under this option are assumed to be amortized over a 20-year period. Due to the lack of reliable forecast data beyond a 10-year period, these estimates are more uncertain than the other estimates in the table.

the guaranteed benefit level. As described above, five reduced modified guarantee options were studied. As shown in Table 2, the options vary widely in their impact:

- The modified guarantee combined with either the 50 percent guarantee or the post-ERISA guarantee options provide the largest reductions in PBGC termination liabilities, assuming no other program changes. These options reduce PBGC termination liabilities from \$4.8 billion under the current program to \$114 million under the 50 percent guarantee and \$148 million under the post-ERISA guarantee. Excluding large, broad-based plans from the group of plans assumed to terminate yields a reduction in termination liabilities from \$2.7 billion under the current program to \$34 million under the 50 percent guarantee and to \$142 million under the post-ERISA guarantee.
- Although the level annual premiums required under these two reduced modified guarantee options are substantially lower (less than \$3 per participant), these reductions are achieved largely at the expense of vested participants, especially retirees. Benefit guarantees as a percent of vested benefits decline from approximately 94 percent under the current program to 50 percent or less under these options.
- The modified guarantee combined with either the 10 percent program phase-in or the retiree-and-near-retiree only guarantees reduce potential PBGC termination liabilities less substantially than the 50 percent and post-ERISA guarantees. The present value of termination liabilities decline from \$4.8 billion under the current program to \$1.0 billion under the 10 percent program phase-in and \$2.3 billion under the retiree only options. Excluding large, broad-based plans from the group of potential terminations yields a reduction in termination liabilities from \$2.7 billion under the current program to \$718 million under the 10 percent program phase-in and \$1.1 billion under the retiree only guarantees.

- In contrast to the 50 percent and post-ERISA options, the 10 percent program phase-in and retiree only options require a level annual premium that is still relatively high (in excess of \$11 per participant). Even with these relatively high premium rates, the guarantee options provide substantially lower benefit security than the current program -- a range of from 54 percent of vested benefits paid under the 10 percent phase-in to 72 percent under the retiree only option.
- Finally, the possibility that plans might defer termination to take advantage of higher guarantees in later years under the 10 percent program phase-in poses a substantial risk to the PBGC. By deferring termination, plans can increase their guarantees from 54 percent of vested benefits to 71 percent. Furthermore, because the assets of many of these plans may be depleted under the deferred termination assumption, PBGC termination liabilities and the premiums required to finance them are much higher than guarantee options which provide an equivalent level of benefit security.

This analysis suggests several conclusions about the reduced modified guarantee options. First, in most cases, there is a direct relationship between the level of PBGC termination liabilities and the degree of benefit security afforded by the guarantee. Under options which provide a high level of benefit security, PBGC termination liabilities and the premiums required to finance them are also high. Where guarantee options provide a lower level of benefit security, PBGC termination liabilities and required premiums are correspondingly lower.

Second, over the range of options and assumptions examined in this preliminary analysis, it will be quite difficult using modified guarantees alone to provide a termination insurance program that provides even a modest guarantee of unfunded benefits and that can also be financed primarily from annual premium collections. It appears that the only reduced guarantees which can be financed for less than \$10 per participant per year are those which provide very little guarantee of unfunded vested benefits. Thus, the reduced modified guarantee options will probably have to be combined with other changes in order to achieve a self-financing termination insurance program.

Finally, reduced guarantee options that are phased-in over a period of time may pose a major risk to the insurance system. If plans defer termination to take advantage of higher guarantees in later years, termination liabilities rise substantially, not only because participants in these plans receive additional benefits, but also because the funding status of the plans would tend to decline over time.

4. Alternative Employer Liability Limitation

The current program limits employer liability in the event of plan termination to 30 percent of an employer's net worth. The study examined the impact of eliminating the net worth limit by approximating employer liability payments as the present value of expected plan contributions, assuming the continued operation of the plan. These estimates were based upon projected trends in active participation in the terminated plans and reflect the possibility that employer liability payments under this approach would be somewhat higher than under the current program. The results of this analysis are shown in Table 2.

This alternative employer liability limitation substantially reduces PBGC termination liability and annual premium requirements below those under the current employer liability limitation. Specifically, the analysis shows that:

- The present value of PBGC termination liabilities under the modified guarantee decline from \$3.9 billion under the current employer liability limitations to \$1.2 billion under the alternative employer liability limitation. Excluding large, broad-based plans from the group of plans assumed to terminate reduces the present value of PBGC termination liabilities under the modified guarantee from \$2.0 billion under current employer liability limitations to \$702 million under the alternative. Premiums would be substantially reduced under this alternative: from \$64 to \$20 per participant for all potential terminations, and from \$33 to \$12 per participant, if broad-based plans are excluded.
- Under the reduced modified guarantees, the impact is equally significant. For example, under the 50 percent guarantee program, the present value of PBGC termination liabilities decline from \$114 million under current employer liability limitations to \$15 million

under the alternative limitations for all potential terminations. If we assume that large, broad-based plans would not terminate, PBGC termination liabilities would be reduced to \$11 million. The level annual premiums required to finance these liabilities under alternative employer liability limits decline substantially to less than \$10 per participant under all reduced modified guarantee options except the 10 percent program phase-in assuming deferred termination.

Thus, the alternative employer liability limitations have a substantial impact on potential PBGC termination exposure, but little if any impact on benefit security, unless we assume that fewer plans terminate under the more stringent employer liability option. Because of the lack of financial data on employers, there is some uncertainty about the expected collectibility of employer liability payments under both the current and alternative employer liability limitations. Furthermore, because increased employer liability may have a major impact on trustees' decisions regarding plan termination, it is difficult to estimate whether and how the assumed plan terminations might change under the different guarantee and employer liability options.

5. Reorganization

The current program offers plans no intermediate option between continued operation and termination. One program alternative would allow plans identified by a set of PBGC reorganization tests to make adjustments in benefit and contribution levels in order to improve their financial position. Plans unable to meet benefit commitments after reorganizing would be eligible for PBGC assistance in the form of loans until they could achieve self-sufficient operations. This reorganization alternative could be established in place of the current termination insurance program, or in combination with termination insurance but at reduced guarantee levels for plans which fail to reorganize. These options are intended to encourage plan continuation and to provide participants with a high level of benefit security through financial assistance to ongoing, needy plans.

The availability of reorganization to plans in financial distress has a significant impact on PBGC liabilities and insurance premiums. Table 3 shows these estimates and summarizes the impact of reorganization on the modified guarantee options and on the alternative employer liability limitation. The costs of reorganization alone are shown in Table 2. Specifically, the analysis of the reorganization options shows that:

IMPACT OF REORGANIZATION ON PBGC TERMINATION
LIABILITY AND PREMIUMS UNDER ALTERNATIVE PROGRAMS

	<u>No Reorganization Option</u> <u>(Premiums Only)</u> ^{1/}		<u>Reorganization Option with Termination Guarantees</u> <u>(PBGC Liabilities and Premiums)</u> ^{1/}			
	<u>Plans</u> <u>Identified by</u> <u>Termination</u> <u>Screen</u> <u>(\$ Per Person)</u>	<u>Plans Identi-</u> <u>fied Less Large,</u> <u>Broad-Based Plans</u> <u>(\$ Per Person)</u>	<u>Plans Identified by</u> <u>Termination Screens</u>		<u>Plans Identified Less</u> <u>Large, Broad-Based Plans</u>	
			<u>Liabilities</u> <u>(\$ million)</u>	<u>Premiums</u> <u>(\$ Per Person)</u>	<u>Liabilities</u> <u>(\$ million)</u>	<u>Premiums</u> <u>(\$ Per Person)</u>
<u>Current Program</u>	79.50	44.56	3,427	54.40	1,817	28.81
<u>Revised Program</u>						
● <u>Current Employer Liability</u> <u>Limitation</u> ^{2/}						
-- <u>Modified Guarantee</u> ^{3/}	63.56	33.08	2,727	43.65	1,377	22.33
-- <u>Reduced Modified</u> <u>Guarantees</u> ^{4/}						
1) <u>50% Guarantee</u>	1.88	.56	253	2.88	82	.99
2) <u>10% Phase-In</u>	16.61	11.83	1,102	16.87	649	10.33
3) <u>10% Phase-In with</u> <u>Deferred Termi-</u> <u>nation</u>	46.24	29.25	2,008	31.80	1,242	20.10
4) <u>Post-ERISA</u>	2.44	2.34	371	4.83	200	2.93
5) <u>Retirees and Near</u> <u>Retirees Only</u>	38.33	17.73	1,765	27.80	761	12.18
● <u>Alternative Employer</u> <u>Liability Limitation</u> ^{5/}						
-- <u>Modified Guarantee</u>	19.50	11.57	680	9.92	221	3.28
-- <u>Reduced Modified</u> <u>Guarantees</u>						
1) <u>50% Guarantee</u>	.25	.18	228	2.47	64	.69
2) <u>10% Phase-In</u>	2.21	2.21	279	3.29	114	1.51
3) <u>10% Phase-In with</u> <u>Deferred Termi-</u> <u>nation</u>	17.44	12.82	497	6.90	285	4.33
4) <u>Post-ERISA</u>	.10	.10	228	2.47	64	.69
5) <u>Retirees and Near</u> <u>Retirees Only</u>	8.36	4.37	452	6.16	72	.82

^{1/} Estimates reflect the average level premium required to amortize the termination liability over a 10-year period, assuming an average of 8 million participants in non-terminated plans. Premiums under reorganization reflect the subtraction of termination liabilities of reorganized plans and the addition of their reorganization assistance costs.

^{2/} Assumes that PBGC collects an amount from employers up to the current 30 percent net worth limitation on employer liability; this was approximated by an amount equal to 25 percent of unfunded vested liabilities for most plans, and 75 percent for those in industries where available data indicated substantial net worth.

^{3/} Modified guarantees assume an increase in funding requirements, a three year delay on phase-in of guarantees of benefit increases and elimination of the \$20 phase-in rule for guaranteeing benefit increases.

^{4/} Reduced modified guarantees reflect both the program changes identified under modified guarantees and the reduced benefit guarantees described in Part IV.

^{5/} Assumes elimination of the net worth limit, and that employers are liable up to 100 percent of the plan asset insufficiency; estimated collectible employer liability was approximated by an amount equal the present value of expected plan contributions under the current program, based upon projected trends in active participation.

- Under a program consisting only of reorganization assistance and no guarantee of benefits for terminating plans, the present value of PBGC liabilities can be reduced substantially from \$4.8 billion under the current program to \$228 million under reorganization. Excluding large, broad-based plans from the group of plans assumed to terminate produces a reduction from \$2.7 billion under the current program to \$64 million under reorganization. The annual premiums under this option would range from \$.69 to \$2.47 per participant depending upon whether or not large, broad-based plans are excluded from the group assumed to terminate.
- Under current guarantee levels and current employer liability rules, the reorganization assistance costs for plans assumed to reorganize are substantially lower than their termination liabilities. For example, under the modified guarantee, the present value of reorganization assistance liabilities are \$228 million, whereas the termination liabilities of all plans meeting the Level II reorganization test are approximately \$1.4 billion under current employer liability rules (see Table 11 in Appendix XIV). The termination liabilities only for those reorganized plans that are assumed to receive PBGC assistance are equal to \$836 million.
- Under a program of revised guarantees for terminating plans and guarantees at the current level for reorganizing plans requiring assistance, PBGC liabilities can be reduced from a range of \$1.8 to \$3.4 billion under the current program to between \$64-\$228 million under the 50 percent and post-ERISA guarantees and \$221-\$680 million under the modified guarantee alone, assuming the alternative employer liability rule. The annual premiums under this option would range from \$.69 to \$2.47 under the 50 percent and post-ERISA guarantees, to between \$3.28 and \$9.92 under the modified guarantee alone.

Thus, whereas the reduced guarantee options decrease PBGC termination liability primarily at the expense of retirees, and the alternative employer liability limitation reduces the liability primarily at the expense of employers, reorganization provides a high level of benefit security to the most

needy plans at a cost falling more equally on all parties. Furthermore, this option encourages participants and employers in other distressed plans to negotiate appropriate plan adjustments to ensure continued plan solvency.

6. Categories of Termination Potential

Except for the reorganization option, the above estimates of PBGC termination liabilities, premium requirements, and percent of vested benefits paid reflect the assumption that all of the plans identified by the termination screen actually terminate, or alternatively that these plans less large, broad-based plans actually terminate. Although this represents a useful starting point, these assumptions do not accurately reflect the different potential for termination within the group of plans identified by the termination screen. Because the estimates above assume that all plans identified by the screen have an equal potential for termination, they tend to overstate the PBGC termination liabilities and premium requirements for each option.

To examine termination insurance costs under different assumptions for the incidence of termination, the 166 plans previously identified by the primary termination screen were categorized into four groups on the basis of their relative termination potential:

- Highest Potential (9 plans): This category includes only plans identified by the termination screen that are predicted to become insolvent over the 10-year forecast period.
- High Potential (51 plans): This category includes only local or regional plans (*i.e.*, all plans that are not large, broad-based plans) that are identified for potential termination in the first year of the forecast, whose current liability for vested benefits is less than 15 percent funded, or that cover workers in industries with declining employment, as projected by BLS.
- Medium Potential (8 plans): This category includes only large, broad-based plans that meet one of the other conditions in the high risk category above.
- Lowest Potential (98 plans): This category includes the remaining plans out of the 166 identified by the screen and is comprised of both local or regional and large, broad-based

plans that were identified for termination after Year 1 of the forecast, whose current liability for vested benefits is in excess of 15 percent funded, and that cover workers in industries that are not expected to decline, as projected by BLS.

The characteristics of the plans in each of these groups are shown in Table 4.

This presentation of PBGC termination liability and premiums required under the current program indicates the wide range of uncertainty inherent in the cost estimates. If only the nine plans in the highest group terminate, required annual PBGC premiums could be in the \$9 per participant range; however, if all plans identified by the termination screen terminate, the premiums could be in the \$80 range. The analysis shows that:

- The group of 166 plans assumed to terminate represents approximately 10 percent of all plans in the multiemployer plan universe, 15 percent of all participants, and 27 percent of total unfunded liability for vested benefits. Under the current program, these plans would yield a PBGC termination liability of \$4.8 billion and a required annual premium of \$80 per participant.
- Excluding the plans with the lowest termination potential leaves a group of 68 plans representing approximately 4 percent of all plans, 13 percent of all participants, and 20 percent of total unfunded liability for vested benefits. Under the current program, these plans would produce a PBGC termination liability of \$3.5 billion and a required annual premium of \$58 per participant.
- The 60 plans in the two highest termination risk groups represent 3.5 percent of all plans, 4.4 percent of all participants, and 12 percent of total unfunded liability for vested benefits. Under the current program, these plans would produce a PBGC termination liability of \$1.9 billion and a required annual premium of \$31 per participant.
- Finally, the nine plans in the highest termination risk group represent less than one percent of all plans, 1.4 percent of all

TABLE 4
 DISTRIBUTION AND CHARACTERISTICS OF ALL PLANS
 ASSUMED TO TERMINATE BY CATEGORY OF TERMINATION POTENTIAL

Category of Termination Potential	Number of Plans	Number of Participants (000)	Unfunded Liability for Vested Benefits (\$ millions)	PBGC Termination Liability ^{1/} (\$ millions)	Annual ^{1/} Premiums (\$ per person)
Highest ^{2/}	9	112	2,032	562	9.26
High ^{3/}	51	250	1,994	1,322	21.79
Medium ^{4/}	8	680	2,705	1,610	26.53
Lowest ^{5/}	98	216	2,255	1,330	21.92
Total	166	1,258	8,986	4,824	79.50
Total less large, broad-based plans	156	473	4,318	2,704	44.56

^{1/} Under current program and assuming current employer liability limitation.

^{2/} Only plans identified by the termination screen that are predicted to become insolvent during the 10-year forecast period.

^{3/} Only those plans identified by the termination screen that are local or regional plans (i.e., all plans that are not large, broad-based plans) that are identified for potential termination in the first year of the forecast, whose current liability for vested benefits is less than 15 percent funded, or that cover workers in industries with declining employment, as projected by BLS.

^{4/} Only large, broad-based plans identified by the termination screen that meet the conditions in the high category, as described in footnote 3 above.

^{5/} Remaining plans out of those identified by the termination screen, comprised of both local or regional and large, broad-based plans that were identified for termination after Year 1 of the forecast, whose current liability for vested benefits is in excess of 15 percent funded and that cover workers in industries that are not expected to decline, as projected by BLS.

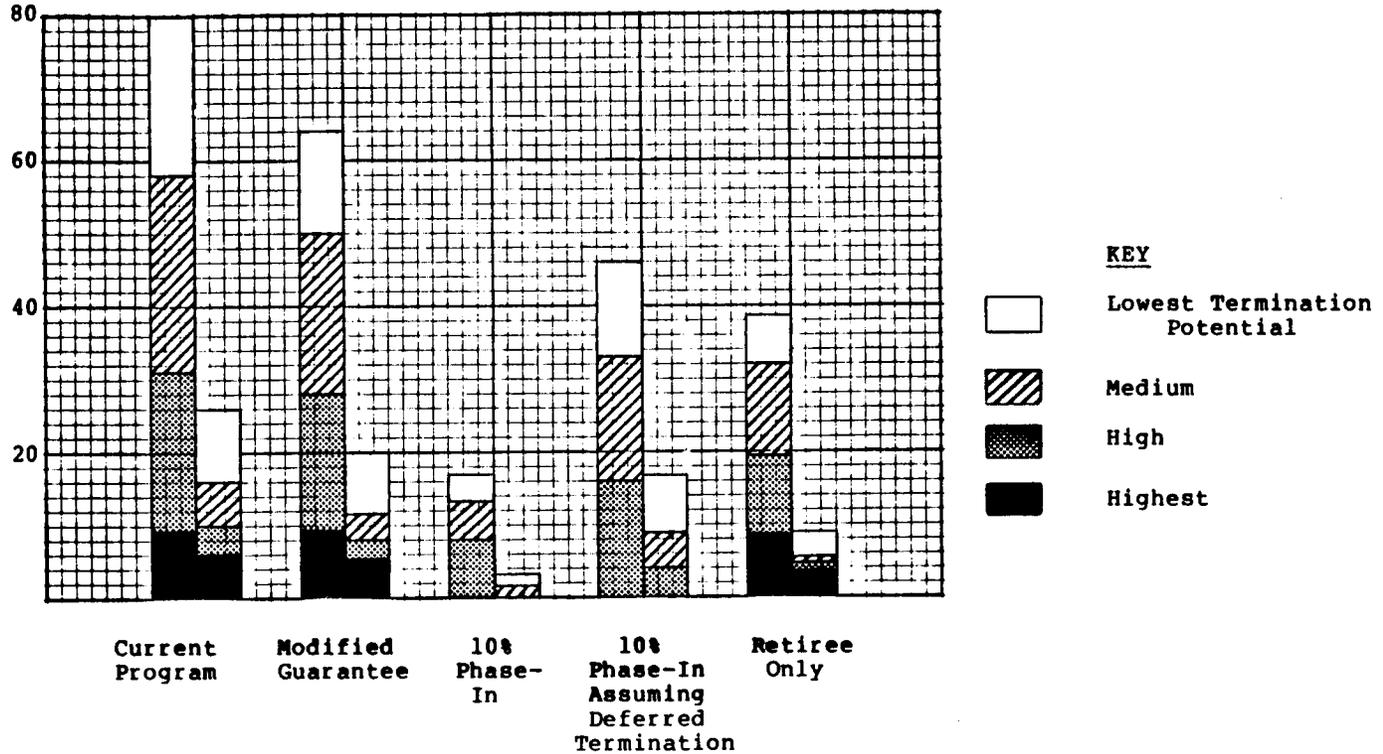
participants, and 6.1 percent of total unfunded liability for vested benefits. Under the current program, these plans would produce a PBGC termination liability of \$562 million and a required annual premium of \$9 per participant.

Table 5 shows a bar graph which reflects the variation in premiums due to the differences in termination potential for selected program options. Because premium requirements under the 50 percent and the post-ERISA reduced guarantee options were uniformly less than \$3 per participant, we did not examine the premiums required under these programs by category of termination potential. (See Tables 32 and 33 in Appendix XIV for detailed estimates under all options.) The bar graph shows that, despite the availability of detailed cost estimates, it is extremely difficult to estimate the most likely expected cost of the current termination insurance program as well as selected program options due to this uncertainty about plan termination potential. The potential variation in liabilities and premiums due to differences in termination potential alone is too large to permit a single estimate of program cost.

TABLE 5

ALLOCATION OF PREMIUM COSTS FOR PLANS ASSUMED
TO TERMINATE UNDER SELECTED PROGRAM OPTIONS BY
CATEGORY OF TERMINATION POTENTIAL^{1/}

Required
Annual Premium^{2/}
(\$ per person)



^{1/} Excludes plan reorganization option, but includes current and alternative employer liability limitations. For each guarantee option, the left-hand column indicates premium requirements under current employer liability limitations, whereas the right-hand column shows the premiums under alternative employer liability limitations.

^{2/} For example, under the current program with the current employer liability limits, the required annual premium is approximately \$80 per participant. Excluding the lowest potential group reduces the required annual premium to approximately \$58 per participant. The premium cost for the two highest potential groups is approximately \$31 per participant and for the highest group, approximately \$9 per participant.

APPENDIX I

POTENTIAL MULTIEMPLOYER PLAN LIABILITIES
UNDER TITLE IV OF ERISA

Pension Benefit Guaranty Corporation

September 29, 1977

I. Introduction

There has been considerable public and Congressional concern over the magnitude of unfunded vested liabilities in multiemployer pension plans and the consequent potential impact of the termination insurance program of Title IV of the Employee Retirement Income Security Act of 1974 (ERISA). This concern is due largely to extreme uncertainty as to the potential cost of the termination insurance program, and the impact that this program may have on the incidence of terminations, plan creations, and expansions in plan coverage and benefits.

In order to assess the potential cost of the program, the Pension Benefit Guaranty Corporation (PBGC) has conducted a study, based on available data in a sample of plans, on potential multiemployer plan liabilities under Title IV. This study covered potential terminations due to financial hardship only. The study did not attempt to estimate liabilities in plans terminating for other reasons, because of the impossibility of estimating the incidence of such terminations on the basis of available plan and industry data, and the limited historical data on multiemployer plan terminations.^{1/} Reasons for termination other than financial hardship would include ERISA generally, and Title IV in particular; a change in the bargaining representative which may occasion the establishment of a new plan; dissolution of the employer association party to the plan; or a vote by union members to terminate pension coverage in favor of higher wages or other fringe benefits.

II. Summary of Findings

The PBGC study shows that:

- About 2% of all multiemployer plans, covering about 5% of all participants in such plans, are experiencing extreme financial hardship, indicating a high potential for plan termination within the next 5 years. The aggregate unfunded vested liabilities of these plans in 1977 exceed \$350 million.

^{1/} The fact that the study did not attempt to estimate potential terminations due to other than financial hardship does not mean that such terminations may be insignificant, either in terms of number or amount of unfunded vested liabilities.

- Another 10% of all multiemployer plans, with 15% of all participants in such plans, are experiencing significant financial hardship which may result in plan termination, although not necessarily in the near future (within 5 years). These plans currently have aggregate unfunded vested liabilities of about \$3.5 billion.

In summary, approximately one-eighth of all multi-employer plans, covering one-fifth of participants in such plans, are experiencing significant financial hardship which may result in plan termination. The extent to which such plans will actually terminate depends in part on future economic developments in their industries, the possibility of merger into another plan, union organizing efforts, and future legislative developments relating to multiemployer plans.

III. Overview of Methodology: Characteristics of Multi-employer Plans and of Potentially Terminating Plans

Approximately 7.7 million persons currently participate in about 2,000 defined benefit multiemployer pension plans covered by Title IV of ERISA. Table 1 shows the percent distribution of plans and participants, by industry. Table 2 shows multiemployer plans and participants as a percent of all defined benefit plans and participants, by industry.

A distinctive feature of multiemployer plans is the sharing of liability for payment of benefits among employers, typically through payment of an hourly-rate contribution during an employer's period of participation in the plan. This method of financing normally assures that benefits of participants who work in covered employment will be provided regardless of whether or not their employer continues to contribute to the plan. However, this financing arrangement also results in employers assuming the burden for providing benefits for participants whose employers have ceased contributing to the plan.

The probability of a multiemployer plan terminating is strongly affected by industry economic characteristics and plan financial characteristics. Industry economic characteristics, including past and future trends, are most determinative of termination, since the size of the plan, contribution levels, and the ability of employers to continue to support the plan are largely dependent on whether the industry is expanding or contracting. Plan financial characteristics are to a large extent a function of past industry economic characteristics. The sample used to identify potential plan terminations consequently placed special emphasis on identifying plans in declining industries (i.e., industries which have experienced sharp declines in employment over the past 10-15 years).

Three selected plan characteristics, which are indicative of plan viability, were used to measure financial hardship which may result in plan termination. These characteristics are:

- the proportion of retired and terminated vested participants relative to total participants (former employees to total participants),
- the level of plan assets relative to annual benefit payout requirements (plan assets to benefits), and
- the net cash inflow (or net cash outflow) relative to total plan assets over several years (net cash flow). ^{2/}

Former Employees to Total Participants:

The proportion of retired and terminated vested participants relative to total participants frequently reflects employment trends. Declining employment in an industry would generally result in a decline in the number of actively employed

^{2/} These 3 characteristics are not the only ones that can be used to measure plan viability; other factors, such as actuarial data, also provide measures of plan viability. The choice of these 3 characteristics as the primary indicators of plan viability was based on the ready availability of data, and the fact that these characteristics can be used to approximate other relevant factors, such as plan funding level.

participants (i.e., the contribution base), and in a stable or increasing number of retirees and terminated vested participants. This would result in a high proportion of retired and terminated vested participants and may indicate a potentially weak plan (i.e., one with a large past service burden for participants no longer in covered employment that must be supported by current contributions). For purposes of this study, this ratio was considered high when it exceeded the average for all multiemployer plans (16.7%). Plans at or below the average were not considered to be potential terminations. These plans were not analyzed further. A high ratio, however, is not by itself a sufficient indicator of financial weakness. This ratio must be viewed in light of the plan's funding status.

Plan Assets to Benefits:

The level of plan assets relative to annual benefit payout requirements was used as an approximate measure of the funding of liabilities attributable to retired and terminated vested participants. This measure also can be used to indicate the length of time that payments can continue if contributions ceased. If current plan assets are sufficient to pay out current annual benefit requirements for more than 15 years then it is safe to assume that the plan has more than funded the liabilities of the current pensioners.^{3/} Furthermore, with this level of plan assets, the higher the proportion of retirees, the greater the funding level of the plan.

Net Cash Flow:

Net cash flow relative to plan assets indicates trends in the funding status of the plan. Over several years, a high positive ratio generally indicates improved funding, while a low positive or a negative

^{3/} The future life expectancy of a 65 year-old pensioner is about 15 years.

ratio suggests relatively weak funding. Also, a negative ratio which is anticipated to continue in the future would provide a means to identify the point in time at which the plan will become insolvent.

Table 3 shows the distribution of all covered defined benefit multiemployer plans with respect to each of these plan characteristics.

As previously mentioned, plans with a ratio of retired and terminated vested participants below 16.7% and plans with a level of assets sufficient to cover at least 15 years of current benefit payments were not considered to be potential terminations.^{4/} This process removed nearly 75% of all multiemployer plans from further consideration.

Of the remaining plans, those with a ratio of retired and vested participants to total participants greater than 50%, a ratio of plan assets to benefit payments less than 5 years, and a ratio of cash flow to plan assets less than 10%, were considered as having a significant potential for termination based on the extreme disparity in the value of these ratios for these plans compared to all plans.

For those plans outside these ranges, determination of the plan's status in regard to potential for termination was based on an analysis of the three ratios, changes in these ratios over several years, and whether or not the plan was in a declining industry.

Finally, all plans identified as potential terminations because of financial hardship were then grouped in terms of degree of hardship. Plans at or near the extreme levels of each of the plan characteristics and within declining industries were considered to have the highest potential for termination. Table 4 shows comparative financial characteristics of these and all other multiemployer plans. The first category, high potential terminations, includes about 2% of all

^{4/} Consideration was given to terminated vested participants as well as retired participants.

multiemployer plans, with a total unfunded vested liability of more than \$350 million. The second category, plans with a significant potential for termination, includes 10% of all plans, with a total unfunded vested liability of about \$3.5 billion.

IV. Impact of Termination Insurance Program

The potential unfunded vested liabilities in plan terminations because of financial hardship may be nearly \$4 billion. Under Title IV of ERISA, these unfunded liabilities, to the extent guaranteed, are allocated among employers contributing to the plan in the 5 years immediately preceding plan termination. Each such employer is liable to the PBGC for the amount of his allocable share, limited by 30 percent of the employer's net worth. Unfunded guaranteed benefits in excess of recoverable employer liability are financed by the premium system. These statutory provisions may impose heavy burdens on employers in terminating plans as well as on employers contributing to financially weak on-going plans.

The precise financial impact on an employer contributing to one of these terminating plans depends on the amount of unfunded guaranteed benefits allocated to that employer relative to that employer's financial position. The most severe adverse impact on employers probably will occur in poorly funded plans in declining industries, because unfunded guaranteed benefits typically would be allocated among fewer employers as a result of previous withdrawals and reductions in the entry of new employers. Many of the remaining employers in such situations are likely to be financially weak, so that the imposition of liability will be extremely burdensome.

Because of this potentially adverse financial impact, the termination insurance program, as presently structured, may adversely affect the growth and continuance of covered multiemployer defined benefit plans. Potential employer liability may be an incentive to early withdrawal from plans and may be an inducement to termination of an otherwise viable plan. Early withdrawal or termination may be advantageous where continuation of the plan would result in increases in employer liability. Such

increases may occur because of higher vested benefits, phase-in of guarantees of benefit increases, or a reduction in the plan contribution base as a result of declining employment or withdrawal of employers.

Potential employer liability also may act as a barrier to entry into existing plans and establishment of new covered plans. Employers seeking to avoid participation in a covered multiemployer plan may decide to provide alternative benefit arrangements (e.g., a profit-sharing plan), or may even decide to operate a non-union shop. Withdrawals, terminations and failure of employers to enter or establish a covered plan deprive workers of the opportunity to enhance their retirement income security through participation in such a plan. Moreover, these results may have the effect of reducing the contribution base for the plan, even where an industry decline is not involved.

Although employer liability can be very burdensome on employers in terminating plans, it is anticipated that unfunded guaranteed benefits frequently will exceed, by a substantial amount, recoverable employer liability. Consequently, most of the burden of financing benefit obligations in these plans will have to be borne by the premium system. ERISA provides for annual payment of a \$.50 per participant premium by multiemployer plans. Based on the 7.7 million multiemployer plan participants covered by Title IV in 1976, these premiums are sufficient to support less than \$4 million in annualized claims. Clearly, if the terminations estimated in the study are realized to any significant extent, the need for additional financing of the PBGC program for multiemployer plans will increase dramatically. The program's financing requirements would be further increased by unfunded liabilities in plans terminating due to unexpected future declines in industries or for reasons other than financial difficulties. Indeed, in some circumstances, the disruptive effects of employer liability discussed above, may act as a catalyst for termination.

Thus, because of the magnitude of the potential liabilities of terminating multiemployer plans and its impact on the current insurance program and employers, and because of the potentially adverse impact of Title IV on the growth and continuance of multiemployer plans, it is essential that a serious and immediate re-examination be undertaken of the provisions of Title IV applicable to these plans.

Table 1. Percent Distribution of Defined
Benefit Multiemployer Plans and Participants,
by Industry, 1976

Industry	Percent distribution of 2,000 covered plans	Percent distribution of 7.7 million participants
Total, all industries	<u>100.0</u>	<u>100.0</u>
Manufacturing	14.1	22.7
Construction	50.3	27.5
Transportation	7.5	20.8
Communications and Utilities	1.5	0.3
Services	12.2	10.4
Trade	8.4	8.3
Other and Unknown	6.0	9.5

Source: Based on data from PBGC-1 Forms providing estimated participation for payment of premiums for coverage under the termination insurance program for plan years beginning during the period September 2, 1975 through September 1, 1976.

Table 2. Multiemployer Plans and Participants as a Percent of all Defined Benefit Plans and Participants, by Industry, 1976

Industry	Multiemployer plans as a percent of all plans	Multiemployer plan participants as a percent of all participants
Total, all industries	<u>2.8</u>	<u>24.6</u>
Manufacturing	1.3	12.1
Construction	24.8	98.6
Transportation	8.4	74.7
Communications and Utilities	1.8	1.4
Services	2.6	46.1
Trade	1.3	28.8
Other and Unknown	0.6	10.9

Source: Based on data from PBGC-1 Forms providing estimated participation for payment of premiums for coverage under the termination insurance program for plan years beginning during the period September 2, 1975 through September 1, 1976.

Table 3. Distribution of Multiemployer Plans
by Select Plan Characteristics

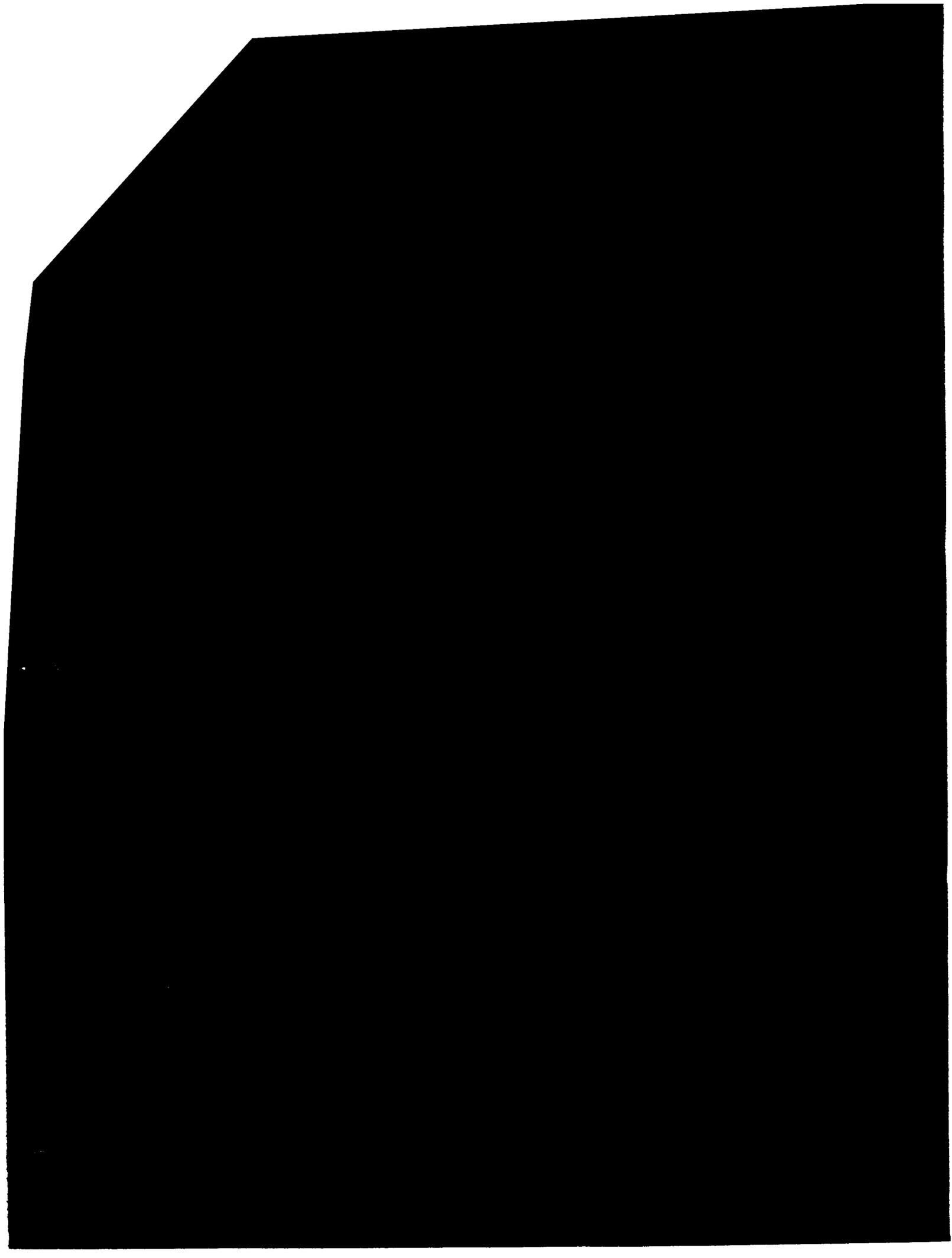
Select Plan Characteristics	Percent of Plans
<u>Retired and terminated vested participants to total participants</u>	
less than 25%	80.5%
25 - 49%	15.8
50 - 74%	2.8
75 -100%	0.9
(Average ratio (mean): 16.7%)	
<u>Plan assets to annual benefit payout requirements</u>	
less than 5 years	10.2%
5 - 10 years	21.3
10- 15 years	16.3
greater than 15 years	52.2
(Average span (mean): 23.6 years)	
<u>Net cash flow to plan assets</u>	
less than 10%	26.4%
10 - 19%	42.4
20 - 29%	22.1
30% or greater	9.1
(Average ratio (mean): 15.9%)	

Source: Based on data from D-2 annual reports filed with the Department of Labor under the requirements of the Welfare and Pension Plans Disclosure Act (WPPDA).

Table 4. Comparative Financial Characteristics
of Potential Multiemployer Plan Terminations
and the Multiemployer Plan Universe, 1977

Category of Termination Risk Based on Degree of Financial Hardship	Retired and Terminated Vested Participants to Total Participants	Plan Assets to Annual Benefit Payout Requirements	Net Cash Flow to Plan Assets
Plans with a high potential of termination (2% of all plans; 5% of all participants)	58.8%	3.6 years	- 27.4%
Plans with a significant potential of termination (10% of all plans; 15% of all participants)	41.7%	7.9 years	5.1%
All other plans	12.5%	25.9 years	18.6%
All multiemployer plans (average)	16.7%	23.5 years	15.9%

Source: Based on data from D-2 annual reports filed with the Department of Labor under the requirements of the Welfare and Pension Plans Disclosure Act (WPPDA).



APPENDIX II

SIZE AND GEOGRAPHIC SCOPE OF
MULTIEMPLOYER PLANS

1. Size of Multiemployer Plans 1/

a. Number of Participants

Multiemployer plans are, on the average, much larger than non-multiemployer plans. The mean number of participants in the 2,000 multiemployer pension plans covered by PBGC (covered plans) is about 3,500, and the median coverage of such plans is 800. In contrast, the mean and median number of participants in non-multiemployer covered plans is 350 and 22, respectively.

As is shown in Table 1, only 10 percent of covered multiemployer plans have less than 100 participants, and these plans contain only one-tenth of one percent of all participants in such plans. About 30 percent of covered multiemployer plans with nearly 16 percent of all participants, have 1,000 to 5,000 participants. Less than three percent of plans have 25,000 or more participants, but these plans contain over one-half of all participants in covered multiemployer plans.

Table 1.
Distribution of Covered Multiemployer Plans and
Participants, by Number of Participants, 1976

Number of participants	Percent of plans	Percent of participants
All covered multiemployer plans	<u>100.0</u>	<u>100.0</u>
Less than 100	10.4	0.1
100-499	29.8	1.8
500-999	16.6	2.7
1,000-4,999	29.8	15.5
5,000-24,999	10.7	25.8
25,000 or more	2.7	54.1

Source: PBGC-1 forms for the plan year ending on or before September 1, 1976.

1/ All data in this section are based on data from PBGC-1 forms for the plan year ending on or before September 1, 1976.

The industry distribution of multiemployer plans tends to follow the nature of collective bargaining relationships. Where multiemployer bargaining is prevalent (e.g., construction, mining, transportation, and apparel), the unions and employers have established multiemployer plans. In contrast, in those industries in which single employer bargaining predominates (e.g., durable manufacturing industries such as automobiles, primary metals, and electrical), single employer plans are the norm.

While multiemployer plans tend to be associated with a single industry or craft, there are a number of plans which cover workers in different industries, or in different crafts. The most prominent example of a multi-industry plan is the Western Conference of Teamsters, which covers motor vehicle transportation, construction, food processing, trade, and various other industries. Multi-craft plans, which cover different unions, are found in construction, primarily in the Western states.

3. Geographic Scope

The geographic scope of multiemployer plans varies from plans covering a single locality, to national plans covering an entire industry, and often reflects the geographic scope of the bargaining agreement. Local plans normally involve a single local union or district council and cover all employers signatory to agreements with the local or district council. Plans in the construction industry have tended to be established on a local basis, since the loci of bargaining has traditionally been at the local or district council level. Next in terms of scope of coverage are regional plans. These plans may cover a number of locals or district councils in a state or in several states. Examples of multi-state regional plans are the various teamsters conference plans. Industry wide or national plans may cover all workers under collective bargaining agreements with a particular union, or they may cover only local unions or subordinate bodies which agree to participate in the plan, with nonparticipating locals maintaining their own multiemployer plans.

b. Number of Contributing Employers

The number of employers contributing to the 2,000 covered multiemployer plans ranges from two employers to over 10,000. The median number of contributing employers is nearly 50. About eight percent of the plans have 500 or more contributing employers and such plans contain nearly 60 percent of all participants in covered multiemployer plans.

2. Industry

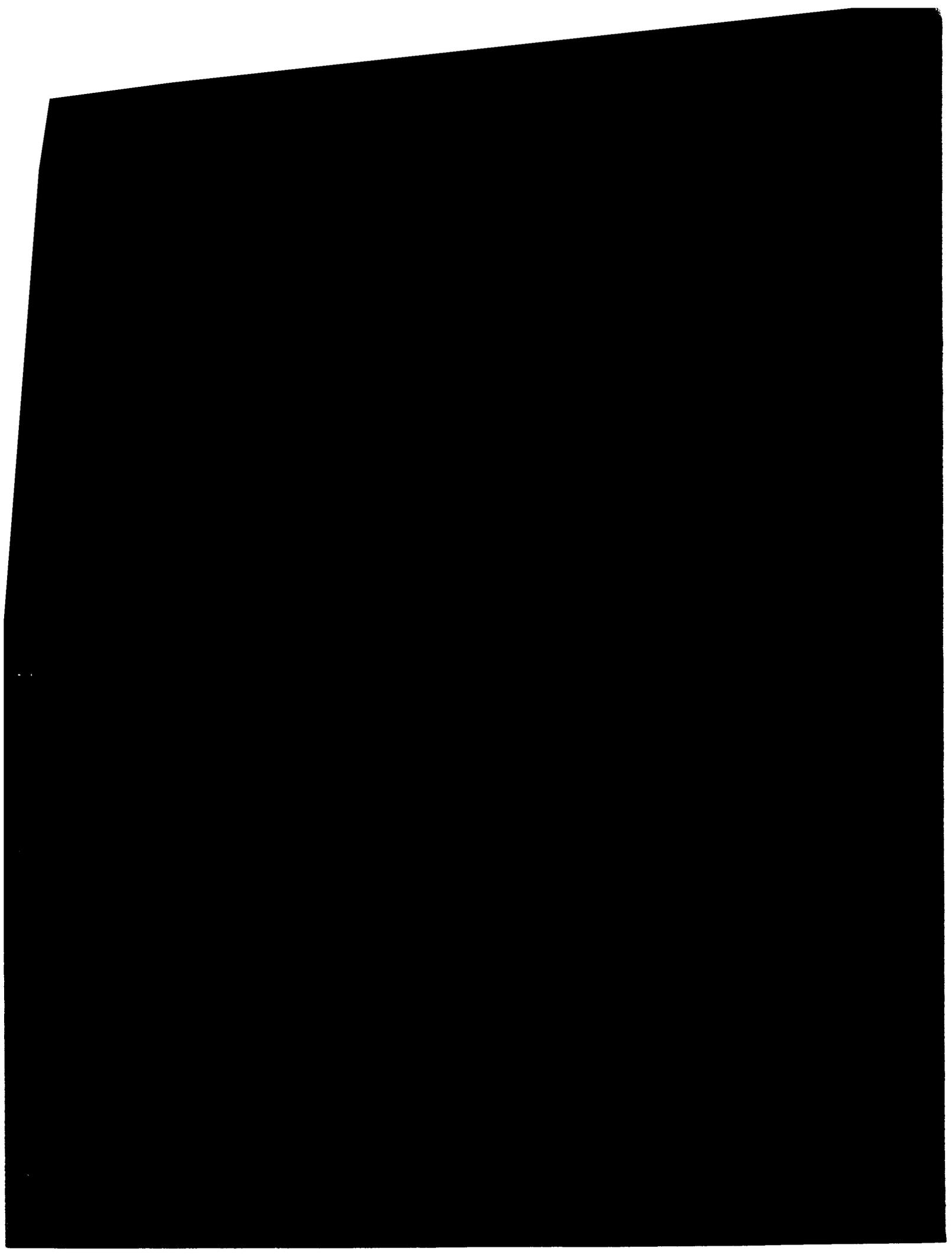
Multiemployer plans are concentrated in industries characterized by seasonal or irregular employment, or small firms, where because of the nature of employment or the size of the employer it would be impractical or too costly to establish a single employer plan. As shown by Table 2 below, just over one-half of all covered multiemployer plans, with about one-fourth of participants, are in the construction industry. Only 14 percent of the plans, and 23 percent of participants, are in manufacturing industries. Within manufacturing, the industries in which multiemployer plans are significant, relative to total multiemployer plan coverage or employment in the industry, are apparel, textiles, and printing and publishing. Nonmanufacturing industries, other than construction, in which multiemployer plans are significant are mining, water and motor vehicle transportation, and entertainment. 2/

Table 2
Percent Distribution of Covered
Multiemployer Plans and Participants,
by Industry, 1976

Industry	Percent of covered plans	Percent of participants
Total, All Industries	<u>100.0</u>	<u>100.0</u>
Manufacturing	14.1	22.7
Construction	50.3	27.5
Transportation	7.5	20.8
Communications and Utilities	1.5	0.3
Services	12.2	10.4
Trade	8.4	8.8
Other and unknown	6.0	9.5

Source: Based on data from PBGC-1 forms for the plan year ending on or before September 1, 1976.

2/ See, for example, Multiemployer Pension Plans Under Collective Bargaining, Spring 1960, Bureau of Labor Statistics, Bulletin No. 1326, 1962; "Multiemployer Pension Plans," Monthly Labor Review, October 1974.



APPENDIX III

MULTIEMPLOYER PLAN DEFINITION-- ALTERNATIVE CONSIDERATION

The following is a discussion of a rejected option for the multiemployer plan definition, considered by the PBGC, under which the 50-75 percent contribution requirement of §414(f)(1)(C) and §414(2)(A) of the Internal Revenue Code would be retained, but modified. 1/

Retention of percentage contribution test

Because the 50-75 percent test focuses on the amount of contributions actually made, a plan may fail to satisfy the test if there is one large contributing employer and a number of employer withdrawals or a significant amount of delinquent contributions in a plan year. This possibility would be eliminated if the 50-75 percent contribution test were changed to base the percentage on required contributions in a plan year, rather than actual contributions. 2/

Even if the test were based on required contributions, however, there still would be situations in which a multiemployer plan might be subject to the single employer program one year and the multiemployer program the next. 3/ Therefore, PBGC concludes that this option is undesirable because it does not remedy the problems caused by the 50-75 percent test.

1/ A similar modification would also be required in ERISA §3(37).

2/ This standard could be difficult to apply because many plans may not have the information needed to calculate required contributions. Accordingly, it might be necessary to adopt a test based on the percentage of active employees in the plan working for an employer.

3/ There also would be situations where a portion of a multiemployer plan might become subject to the non-multiemployer program. Under certain circumstances, a newly created single employer plan resulting from a transfer of assets and liabilities from a multiemployer plan will be considered a single employer plan. See Appendix XII, infra.

Two options for handling a plan's failure to satisfy the 50-75 percent test were also considered. A plan that fails to satisfy the 50-75 percent test could either (1) thereafter be governed by and guaranteed under the non-multiemployer program or (2) remain subject to the multi-employer program on an ongoing basis but be guaranteed under the non-multiemployer program if it failed to satisfy the 50-75 percent test in the plan year in which it terminated. This question needs further consideration if the requirement in Code §§414(f)(1)(C) and (2)(A) is retained.

APPENDIX IV

IMPLEMENTATION RULES -- MINIMUM FUNDING STANDARDS

The PBGC is considering three changes in the minimum funding standards.

First, amortization periods over which multiemployer plans can fund would be reduced to those already established under ERISA for "single employer" plans. This proposal could be implemented by the following rules: 1/

- In the case of a plan which comes into existence on or after July 1, 1979, the unfunded past service liability under the plan on the first day of the first plan year would be amortized over a period not to exceed 30 years (for plans in existence before July 1, 1979, the period is 40 years).

- Separately, with respect to each plan year beginning on or after July 1, 1979, the net increase or decrease in unfunded past service liability under the plan arising from plan amendments adopted in such year would be amortized over a period not to exceed 30 years.

- Separately, with respect to each plan year beginning on or after July 1, 1979, the net loss or gain resulting from changes in actuarial assumptions used under the plan would be amortized over a period not to exceed 30 years.

- Separately, with respect to each plan year, beginning on or after July 1, 1979, the net experience loss or gain under the plan, would be amortized over a period not to exceed 15 years.

The second proposed change would restrict or condition benefit improvements in some way when "excessive" shortfall losses exist. This proposal could be implemented by the following rules:

1/ The effective date could be delayed beyond July 1, 1979.

- Plans electing to use the current shortfall method would be required to keep records for each year of the unamortized portion of the accumulated shortfall for the plan.

- For each plan year subsequent to the fourth reporting year under Schedule B, Form 5500, the following ratio would be calculated:

- (i) the balance currently existing in the shortfall account divided by
- (ii) the sum of the minimum required contributions, determined without regard to the shortfall method, over the past five plan years.

- If this ratio is greater than 10 percent, the plan would have "excessive" shortfall losses.

The third proposed change would establish a minimum funding contribution. This proposal could be implemented through the following rules:

- Separately, with respect to each plan year beginning subsequent to the first collective bargaining agreement after January 1, 1980, and January 1, 1983, respectively, the minimum funding requirement for the plan in such year shall be the greater of:

- (i) the minimum funding requirement as calculated without regard to the minimum contribution requirement, or
- (ii) the appropriate percentage from the following table ^{2/} times the unfunded vested liabilities as reported on Schedule B, Form 5500: 3/

^{2/} The minimum contribution requirement ("MCR") determined from the above table is the amount that would begin to amortize the unfunded vested liabilities over 20 or 15 years, for the columns headed 1980 and 1983, respectively, at the plan's valuation interest rate.

^{3/} Since the minimum contribution calculation is based on unfunded vested benefits, Form 5500 would have to be revised to require that information to be reported. If the plan administrator shows that it is unreasonably costly to compute vested benefits, the minimum contribution could be based on unfunded accrued benefits.

Minimum Contribution Requirement
As a Percentage of Unfunded Vested
Liabilities

<u>Plan's Net Valuation Interest Rate for Liabilities</u>	<u>For plan years commencing after the first collective-bargaining agreement following January 1</u>	
	<u>1980</u>	<u>1983</u>
4%	7.08%	8.65%
4-1/2%	7.36%	8.91%
5%	7.64%	9.18%
5-1/2%	7.93%	9.44%
6%	8.22%	9.71%

APPENDIX V

OTHER OPTIONS FOR MINIMUM FUNDING STANDARDS FOR MULTIEMPLOYER PLANS

As stated in the body of this paper, if multi-employer plans do not improve funding practices, major revisions to strengthen funding standards may need to be made. Some of those possible revisions appear below.

1. Tie amortization period to age composition.

The amortization periods over which a plan must fund past service benefits for active employees could be neither less than five years nor more than the difference between:

- a. the normal retirement age as specified in the plan, and
- b. the average attained age of all active plan participants.

Unfunded retired life liability would be amortized over 10 years.

This option has as its premise that funding of liabilities should reflect the period in which benefits become payable. The major drawback is that it would require funding changes for all plans irrespective of whether such changes are necessary to ensure sound funding.

2. Tie amortization period to current funding status.

Under the assumption that funding standards must be stricter for poorly funded plans, the following approach could be used in the selection of amortization periods:

<u>If the Ratio of the Current Value of Assets to Vested Liabilities is</u>	<u>The Amortization Period must be</u>
0	10 years
25%	15 years
50%	20 years
75%	25 years
100%	30 years

The problems with this option are that it may create substantial increases in the contribution required for those plans least able to afford them, and it does not recognize the fact that a new plan with young participants may have a low ratio of assets to benefit values.

There is insufficient justification at this time for such a drastic change.

3. Vary the funding standard by type of benefit.

Under this option, benefits would be funded as follows:

- a. Unfunded vested liabilities would be funded over a shorter period.
- b. Benefits guaranteeable by the PBGC would be funded more rapidly.
- c. Shorter funding periods for benefit increases covering past service would be required.

These changes could have a significant effect on improving the funding status in many plans. At this time, however, insufficient data exist to justify such changes.

4. Vary the funding standard according to the type of plan.

Although, administrative problems in basing funding on the type of plan would militate against this approach, several options exist. For future reference, these include:

- a. separate standards for small plans and large plans;
- b. separate standards for negotiated plans and non-negotiated plans;
- c. separate standards for salaried plans and non-salaried plans.

5. Revise the funding method.

Requiring that the shortfall account be fully funded prior to granting of future benefit increases, would be a "hardline" approach to the current problems associated with the use of the shortfall method. If future experience shows that most multiemployer plans are using the shortfall method continuously and building up large unamortized shortfalls, this approach may have to be implemented.

6. Miscellaneous changes.

One alternative would be to allow pre-funding of future benefit increases for all plans just as salaried plans do now (i.e., according to salary scale). This proposal has two major drawbacks, however. First, it is difficult if not impossible to select a reasonable projected benefit increase scale. Second, this option would create problems for the Internal Revenue Service concerning the maximum allowable contribution level.

Another option would be to create a hypothetical test valuation to be used periodically to monitor plan funding. Several complex methods of measuring plan funding have been identified during this study whereby a plan could prove that its funding status is at least no worse than it appeared at the last test valuation. Those plans failing the test would be closely monitored and placed under stricter funding standards.*

* This approach is being used in the Canadian pension system.

APPENDIX VI

ADMINISTRATION OF REORGANIZATION

Some of the options for design of a multiemployer program that are discussed in this report include the concept of reorganization of financially distressed plans and financial assistance or higher termination guarantees for plans that reorganize but nevertheless deteriorate to the point that they are unable to pay benefits. This appendix discusses identification of plans eligible for reorganization and plans eligible for financial assistance or higher guarantees. It also discusses administration of financial assistance to reorganized plans.

A. IDENTIFICATION OF PLANS ELIGIBLE FOR REORGANIZATION AND FINANCIAL ASSISTANCE, AND HIGHER TERMINATION GUARANTEES

Identification of plans eligible for reorganization and financial assistance or higher termination guarantees involves analysis of the financial status of multiemployer plans. In defining the most suitable process for identification, there are two issues to be resolved:

(1) What are suitable financial criteria for identification?

(2) How should tests be designed to administer the process and estimate the relevant criteria?

1. What are suitable financial criteria for identification?

This report indicates two levels of reorganization for plans in financial difficulty with different threshold conditions for each level. It also indicates a third threshold that reorganized plans must meet in order to qualify for PBGC loans or higher termination guarantees.

Financial Assistance/Higher Termination Guarantees would be provided to insolvent plans that have taken all required reorganization measures. The report suggests that

insolvency could be defined as being unable to meet benefit payments over a three to five year period, depending on the duration of the current collective bargaining agreement(s). This condition would be readily apparent, and a plan that qualified would therefore approach the PBGC for financial assistance needed to pay guaranteed benefits. 1/ If the program is designed to pay higher termination guarantees to plans that reorganize, PBGC would automatically pay those higher guarantees to plans that qualify.

Level II reorganization is intended to identify plans that are not yet insolvent but that are in imminent danger of insolvency. Imminent danger of insolvency should be readily apparent by examination of present cash flow and the likely cash flow for the next few years. In order for corrective measures to have any chance of saving a plan, the plan must be identified and corrective action begun soon enough for it to be effective. An appropriate threshold for Level II might be that the plan is likely to exhaust its assets within seven years unless corrective action is taken. This period of time probably would span two to three collective bargaining agreements.

Level I reorganization is an early warning for plans that are headed for insolvency in the intermediate future unless some corrective action is taken. Identification of plans at the Level I reorganization threshold would be more difficult than at Level II. Attempts to project cash flow beyond a relatively short period of time are very imprecise and/or subjective. For example, any such attempt requires that a plan's contribution base be projected for some 15-20 years. Such a projection is

1/ Assistance or higher termination guarantees would be provided only if the plan reorganized under Levels I and II. Plans that are insolvent when the program is adopted would qualify for PBGC financial assistance/higher termination guarantees if they reorganize under special procedures to be established for such plans.

difficult because it involves both macro-economic and micro-economic factors which are themselves difficult to forecast. The alternative of a projection based on past trends is an objective, if necessarily imprecise, test. This should probably be used in lieu of a more ambitious, and possibly invalid, test based on economic projections. 2/

Nevertheless, since the ultimate criterion of financial strength or weakness is future cash flow, and since projections of future cash flow provide a more sensitive test (i.e., positive actions of the plan are reflected as well as negative actions) than other tests, 3/ future cash flow is the most suitable criterion for Level I identification as well as for Level II. The only difference between the levels is the number of years before a plan is projected to exhaust its funds. For a Level I threshold, a longer period would be projected for exhaustion of assets, say 15 or 20 years. There may be situations in which a plan has very low assets relative to its benefit payment commitments but would not trigger an early warning signal based on a cash flow threshold test because contributions are high. For such situations it would not be prudent to rely solely on a cash flow projection to signal whether the plan should consider reorganizing. The ratio of assets to annual disbursements will identify a plan in this situation. A low ratio, e.g., seven years or less, indicates a plan that relies heavily on current contributions

2/ It is possible that plan data may not be correlated with industry prospects because the scope of plan coverage may be only a segment of the industry. For example, certain segments of an industry, e.g., residential construction, may be declining while another segment, e.g., commercial, is expanding.

3/ Other tests based on the plan's current financial ratios (e.g., a test using the ratio of assets to disbursements and of active to total participants) provide a simpler measure of overall plan condition. Unfortunately, these tests do not work well in identifying plans eligible to come out of reorganization as well as plans to go into reorganization. Corrective measures taken by a plan may not show up in the assets/disbursements ratio for many years, and cannot influence the active/total participants ratio, which is generally outside the plan's control.

to make current benefit payments. Its financial prospects are therefore very sensitive to changes in the contribution base. If the future contribution base is overestimated by the Level I cash flow test, such a plan could plunge to the Level II threshold without any early warning signal. In order to avoid this result, the Level I early warning will also be triggered if the ratio of plan assets to annual disbursements is low, say seven years.

2. Design of identification tests

a. Pre-screening by the PBGC

Pre-screening by the PBGC would use a combination of a simple asset/disbursement ratio and a cash flow model analysis. The cash flow model should produce the fewest identification errors, since it simulates the final determination process rather than serving as a proxy for it. 4/ In order to achieve the twin goals of objectivity and simplicity, the model assumes a continuation of the trends of the recent past for projecting changes in the contribution base and in disbursements for benefit payments and administrative expenses. 5/ It applies these trends to the existing plan assets, assuming continuation of the same contribution rate and the investment return assumption used by the plan, to project cash flow. A plan is identified in the pre-screening as a possible reorganization candidate if

4/ Identification errors are of two types:

Type A - a problem will be identified when none exists;
Type B - a problem exists which is not identified.

The final determination process would use data provided by the plan in the cash flow analysis model.

5/ Various methods could be used to extrapolate trends, e.g., a linear or exponential projection.

its assets are projected to run out within the number of years set for the criterion for Level I reorganization (e.g., 15 years). 6/

It is important that the identification process begin as soon as possible after a reorganization concept is adopted. A significant amount of lead time would be required to develop the identification process unless either (1) identification is done for the first few years based on an assets/disbursements ratio only or, at best, a less sophisticated analysis of available data, or (2) a special initial filing is required. This is because Form 5500 was not required to be filed until 1975. The machine-readable data being produced by DOL for the 1975 and 1976 plan years cannot be used in their present form without substantial additional effort, and the 1977 filings with IRS will not be completely coded until August 1979 at the earliest. No machine-readable data have been prepared from the Form D-2, the predecessor to the Form 5500. A further complication is that some multiemployer plans are not filing Schedule B, the actuarial schedule, because they do not consider themselves to be defined benefit plans (see Connolly v. PBGC, 419 F. Supp. 737 [C.D. Cal. 1976] rev'd and rem'd, No. 76-2777 [9th Cir. May 4, 1978]), so that their investment return assumptions are not known. Even for those who did file Schedule B, the investment return assumption was not coded into machine-readable form.

b. Final determination and adoption of reorganization plan

If the plan trips the flag established in the previous section the PBGC would send a notice to the plan administrator, stating that preliminary analysis indicates that the plan may qualify for reorganization. 7/ The

6/ For identifying Level I candidates generally, scheduled increases in benefit levels should be assumed. For identifying Level II candidates, no increases in benefits are to be assumed.

7/ If the plan is already in Level I, a different notice may be sent. See Section B below.

notice would explain the options available to the plan, including the option of not reorganizing and the subsequent consequences, and the procedures to be followed if the plan chooses to reorganize. The plan would have three options: (1) the plan could elect not to reorganize, (2) the plan actuary could certify that because of the age-service characteristics of the plan participants, projected benefit payments will not result in the threshold for reorganization being reached, 8/ and (3) if the actuary cannot so certify and the plan wants to reorganize, the plan would be deemed to be in reorganization. 9/

If the plan actuary does not certify that the Level I reorganization threshold has not been reached, and the plan wants to take appropriate reorganization steps, the plan administrator would be required to submit to the PBGC plan data for insertion in the cash flow model. PBGC would then notify the plan whether Level I or Level II reorganization measures were appropriate. If the plan is at Level II, the plan administrator would next submit a statement to PBGC indicating:

- . the measures being taken by the plan,
- . the assumed benefit payments for the next five years as a result of these measures, and
- . the expected life of the plan after adoption of these measures.

8/ In making this certification, the plan actuary will be required to use assumptions for contributions consistent with the assumptions used in the preliminary screen, i.e., a constant contribution rate and a contribution base determined by PBGC's extrapolation of past trends, unless there has been a negotiated increase in the rate. If the actuary believes the assumptions used by PBGC are clearly incorrect, the plan may request a hearing with PBGC. In this situation, the burden of proof will be on the plan.

9/ The plan actuary may include in his certification the projected benefit payments upon which the certification is based. PBGC could then insert these into its model to override the benefit payments projected by the trend analysis for future years' analysis.

The plan actuary would be required to certify to the last two items. If the plan is at Level I, the plan administrator would be required to submit to PBGC only an actuary's certification of the expected life of the plan after adoption of the Level I reorganization measures adopted by the plan.

B. ADMINISTRATION OF LEVEL I REORGANIZATION

A plan in Level I reorganization can either adopt measures which keep its expected life constant, in which case it will remain in reorganization indefinitely, or adopt stronger measures which increase its expected life beyond the Level I threshold, in which case it can come out of reorganization.

If the plan is identified as a Level I candidate during the term of a collective bargaining agreement, corrective measures would not be necessary until the next contract term, unless they were provided for in the contract. However, once a plan is in Level I reorganization, all future contracts would have to be modified to permit the trustees to take corrective action in the event that the plan deteriorates to the point of becoming a Level II candidate.

The PBGC aggregate model described earlier would be used to identify deterioration from either the prior year's model projection or the actuary's projection, if substituted. Only those plans in Level I which the model indicated had deteriorated from what was projected in the previous year would be sent a follow-up letter indicating a potential need for further action. 10/

The plan's response to such a letter would be a statement from the actuary that either (1) the deterioration projected is not expected to continue based on the plan's detailed information or (2) further steps by the plan are

10/ For example, the previous year's projection indicated an expected life of 12 years. The actuary certified that steps were taken to preserve life at 12 years. In the current year, the projection indicates that expected life has declined to 11 years.

being implemented. 11/ The plan would have the option of submitting the revised data on the contribution rate and/or the projected benefit payments in response to a PBGC letter, so that the PBGC model could be updated and future projections made based on this data.

C. ADMINISTRATION OF LEVEL II REORGANIZATION

Once a plan has been identified as eligible for Level II reorganization, it may adopt measures which will increase its expected life up to the Level II threshold. If it does so immediately, the plan would qualify as an acceptable reorganization. This means that the collective bargaining agreement would have to authorize the Board of Trustees to take action at Level II. Special procedures would be needed at the start of the program since the program would be initiated during a term of a collective bargaining agreement. The Board of Trustees of some plans in Level II at that time might not be authorized to take the required actions under the existing bargaining agreement or plan provisions.

A plan that is notified by the PBGC that it qualifies for Level II reorganization based on a cash flow analysis using plan data would be required to submit a report to the PBGC identifying the measures taken and the expected cash flow of the plan after adoption of those measures (as discussed above), within 90 days of notice. PBGC, upon review of the actuary's report, would then advise the plan whether or not it is still in Level II reorganization.

D. ADMINISTRATION OF INSOLVENT REORGANIZED PLANS

Relief would be provided by PBGC to plans that have undergone Level I and Level II reorganization if assets and expected contributions are nevertheless insufficient to support benefit payments for the next three years or during the current collective bargaining cycle, if longer (but not longer than five years). Depending on the program option,

11/ PBGC would look very critically at more favorable assumptions used by a new plan actuary as the reason why no further steps are being implemented.

relief would: (1) take the form of PBGC assumption of some of the guaranteed benefit payments in an ongoing plan and would eventually help maintain the plan on a pay-as-you-go basis or (2) take the form of higher termination guarantees. Higher termination guarantees would be administered in the usual manner in which termination guarantees are administered.

Administration of PBGC financial assistance
to ongoing plans

If the plan administrator indicates to the PBGC that the plan cannot survive the next three years, or for an unexpired term of a current bargaining agreement(s), the administration would be required to submit to the PBGC a certified actuarial statement of the impact of the Level II actions on projected cash flow and to indicate the amount of benefits for which relief is estimated to be needed. PBGC would provide assistance if it agrees that the plan qualifies.

PBGC financial assistance would take the form of monthly payments to an imprest fund established to pay retirees. PBGC's contribution would be the difference between the plan's required contribution to the fund and the monthly disbursements to retirees. 12/

12/ Several issues in this area need to be studied further. One issue pertains to the level of employer contributions that should be required as a condition for PBGC loans. The contribution rate in effect at the time the plan first qualified for reorganization may not be reasonable relative to the level of plan benefits and thus may unduly increase the level of support that the premium system would have to provide. On the other hand, requiring too high a level of support or limiting PBGC assistance could cause the plan to terminate or employers to withdraw, with possible adverse consequences for plan participants. Another issue is whether, or at what point in reorganization, plans should be required to suspend all future accruals and vesting. This suspension would help limit program costs, but further study is required to estimate the possible savings. A disadvantage of suspending all accruals and vesting under some program options is that, depending on the plan's situation and the particular program option, mandatory suspension of accruals and vesting might significantly reduce disincentives to withdraw from or bargain for termination of a plan. Another, possibly more important disadvantage, is that freezing of accruals or vesting would deter entry of new employers into the plan.

PBGC is currently considering that relief would be structured as a loan in order to deter plans from willfully deteriorating by restricting contributions in order to be eligible for this relief, and to enable PBGC to be repaid if the financial circumstances of the plan improve in the future. A major disadvantage of providing grants with the right to refuse to continue them if willful deterioration could be shown is that administration of such a program would be onerous. If financial assistance is a loan, repayment terms should be established so that, if the underlying profitability of the sponsors does not decline further, the loan would be repaid but, if the decline continued, the loan would not be repaid.

Stabilization or improvement in the plan's contribution base might be sufficient to reduce or eliminate the need for PBGC financial assistance and to allow the plan to repay the relief and/or restore benefits. In that case, each dollar of future contributions could be allocated among existing benefits, repayment of the loan, and restoration of prior benefit levels. If actual contributions should exceed projected contributions a method of allocation between loan repayment and benefit restoration is needed. One possibility is that contributions in excess of the amount needed to pay benefits would be used to pay interest on past assistance. After interest was paid, excess contributions could be divided in some proportion, e.g., 50-50, between restoration of benefit cutbacks and payment of loan principal. Restoration of benefits before full repayment of the loan would provide employees an added incentive to continue the plan and also might help attract new employers.

The method of financing the relief provided by PBGC would depend upon the total volume of such relief extended early in the program. Since benefits would be paid by PBGC without assuming any plan assets, there would be an immediate cash drain on the program. Depending on the initial volume of such relief, PBGC may be able to finance it with the existing \$100 million of borrowing authority. Alternatively, increased borrowing authority or a temporary premium surcharge might be needed. If the borrowing authority is used, the cost of such relief would be repaid over time through increases in the premiums. In fact, if the reorganization program works well enough, such relief would be responsible for most of the premium requirement.

APPENDIX VII

PHASE-IN ALTERNATIVES

A. Benefit Security Ratio

Instead of delaying the start of the five year phase-in period for three years in every case, the delay could be determined by the percent change in the benefit security ratio (i.e., the ratio of plan assets to vested liabilities), so that a relatively small benefit increase would be guaranteed more rapidly than a larger one in a less well funded plan.

The following table illustrates one way to determine the phase-in.

<u>Percent Change in Benefit Security Ratio due to Increase</u>	<u>Waiting Period Before Phase-in</u>
100% or greater	5 years
80-99%	4 years
60-79%	3 years
40-59%	2 years
20-39%	1 year
less than 20%	0 years

The percentage change in the benefit security ratio is determined by dividing the amount by which unfunded vested benefits increase, due to the benefit increase, by plan assets. This automatically takes into account the relative size of the increase and the plan's funding status for purposes of determining the phase-in period. For example, a 20 percent increase in a plan that was 20 percent funded results in a 100 percent change in the benefit security ratio, whereas a 20 percent increase in a plan which is 50 percent funded results in only a 40 percent change in the benefit security ratio.

B. Contribution Rate and Benefit Security Ratio Test

It is unreasonable to expect the multiemployer plan universe to finance past benefit increases granted when a plan's financial condition was deteriorating or when a plan

was not increasing contributions at a rate sufficient to keep the plan's benefit liabilities constant. Therefore, the phase-in of guarantees based on plan funding is appropriate.

It may be difficult, however, to apply the benefit security ratio test in many plans for periods before ERISA. Therefore, the benefit security ratio test could be applied to all benefit increases during plan years beginning on or after September 2, 1974, but a different test could be applied to benefits created before that.

This latter test would be applied to benefit increases made during the ten plan years prior to ERISA's enactment. 1/ The benefit levels in effect ten years before the first year ending on or after September 2, 1974, would be guaranteed in all cases. A benefit increase occurring after that date would be guaranteed only if (1) the ratio of assets to retired life liabilities had been stable or increasing 2/ and (2) contributions were increasing at the same rate or more rapidly than the total benefit liabilities. 3/ For purposes of the test, contributions would be equal to the greater of: (1) the actual contributions made or (2) the contributions which would have been made if the contribution base at the time of the last benefit increase had remained constant.

1/ Imposing this rule on benefit increases over more than ten years could result in a longer phase-in of Pre-ERISA than post-ERISA increases.

2/ Retired life liabilities would be valued using standard assumptions of mortality, interest, and average age(s).

3/ Total benefit liabilities would be valued using normal retirement age benefits for active participants and standard assumptions of mortality, interest and average age(s).

APPENDIX VIII

COLLECTION OF TERMINATION LIABILITY AND ADMINISTRATION OF TERMINATING PLANS

Some of the approaches presented for design of a termination insurance program would assess liability against employers that contributed to the terminated plan. This appendix discusses issues involved in collection of employer liability and administration of terminating plans in which employers are assessed the full amount of unfunded vested liabilities.

A. Collection of Employer Liability

Termination liability payable to PBGC under this approach would be collected either by direct assessment against liable employers or by payments under a collective bargaining agreement. 1/

1. Direct Assessment of Employer Liability

An employer's ability to continue in business could be severely hampered if it were required to pay termination liability in a single lump sum soon after plan termination. The prospect of one large liability payment in the event of plan termination may discourage employers from participating in a plan. To alleviate this real or potential financial strain on employers and plans, PBGC would permit employers to pay their termination liabilities in a series of annual payments rather than in a single lump sum. Three options for collecting these liabilities are:

1/ Section F of Part IV of this report discussed allocation of termination liability.

(1) PBGC would adopt a discretionary policy similar to policies used in the private sector for collecting loans in default. 2/

(2) Employers would pay their share of termination liability at the level they had been contributing to the plan prior to termination.

(3) Employers would be required to fund their termination liability over a fixed period of years, e.g., 15 years.

Option 1 would require the most sophistication because PBGC would be in a position similar to that of a creditor in the private sector collecting a defaulted loan. Because so many subjective evaluations would be needed, this option could be quite costly to administer. Moreover, the prospect of strict payment terms could deter employers from entering multiemployer plans.

Options 2 and 3 represent compromises to the completely discretionary approach under Option 1. The payments required under Option 2 may represent a better approximation of what employers are able to pay since they had previously been funding the plan at this rate. In any event, solvent employers would be required to pay their liability at least at the same rate they were contributing to the plan, in order to prevent termination from becoming the more attractive financial alternative. For plans in which the contribution rate itself precipitated the plan termination, however, payment terms under Option 2 could be severe for some employers.

Under Option 3 the employer's liability payment could be either more or less than its contributions

2/For example, the PBGC might offer deferred payment terms to an employer who can demonstrate that immediate payment would impair its ability to continue in operation profitably. Criteria to be used in determining if a hardship exists might include, but not be limited to, the following:

(a) the percent of the employer's net worth represented by the liability,

(b) overall employer financial condition, including existing debt, available liquid assets, and cash flow history and projections indicating undue pressure on operations unless terms are granted, and

(c) the availability of credit in the private sector.

to the plan depending upon (1) the amortization period and (2) the ratio of vested benefits to accrued benefits.

a. Security

When payment terms are granted, the PBGC's claim can be protected in two ways. The first is to create a general lien against the employer's assets which is superior to all unsecured debt. The second is to take a security interest in all or certain of the assets of the terminating employer. Under the first approach, the high priority of a potential PBGC claim could hamper an employer's business operations and, in particular, affect its ability to secure credit. The second approach, on the other hand, can offer similar protection for a PBGC claim, without the accompanying adverse business consequences.

b. Interest Rates

If deferred payment terms are granted, an employer probably should be required to pay interest on its deferred liability. The considerations underlying the setting of interest rates are identical to those for terminating non-multiemployer plans. The interest rate policy for multiemployer plans could be developed in tandem with the policy for non-multiemployer plans. The considerations underlying the setting of interest rates would include:

(1) whether the interest rate should be the same for all employers, or whether it should vary with credit risk,

(2) the interest rate to which the PBGC rate is to be pegged (e.g., prime rate, PBGC close-out rate, etc.),

(3) whether the rate should be fixed or floating during the payment period, and

(4) the overall level at which the interest rate should be set.

2. Termination Liability Attached to the Bargaining Agreement

If the parties elect to attach liability to the bargaining agreement, the agreement must specify those employers who will be required to contribute towards this

liability, e.g., only those employers who were contributing to the terminating plan, or any employer signatory to succeeding agreements, whether or not contributing prior to termination. 3/

a. Payment Terms

Under this approach, payment terms would be negotiated by the collective bargaining parties, subject to PBGC approval and pursuant to PBGC (or statutory) guidelines. In general, if the payment requirement extends to all employers subsequently entering into agreements with the union, PBGC would agree to a longer payment period than if the payment were to apply only to employers who contributed to the terminated plan (e.g., 20 years as compared to 10 years). 4/ Also, the PBGC would agree to lengthen its proposed payment period if employers would otherwise have to contribute a larger percentage of the monetary compensation package than they contributed the year the plan terminated in order to meet the payment schedule.

Under PBGC-plan agreements, an employer's obligation to contribute during the payment period would be on the same basis as the obligation while the plan was ongoing, i.e., at a specified cents per hour or per unit of production rate. The weekly or monthly payments would be made to PBGC as specified in the agreement and agreed to by the PBGC.

Since employers would contribute on a cents per hour or units of production basis, the annual payments for the duration of an agreement may be more or less than the annual amount required to amortize the original liability.

3/ Any employer who is liable at termination and who does not sign the agreement providing for such payments would be directly assessed for his liability.

4/ The longer payment period for situations in which the liability attaches to the labor pool, rather than to specific employers, would serve as an inducement to the union to attach liability to the labor pool in order to minimize the impact of employer liability on existing employers. It would also protect PBGC against a dwindling contribution base because of employer attrition. See discussion below of employer withdrawals during the payment period.

In the event an actual payment is less than the amount required to amortize the original liability, the parties would be required to increase the contribution rate in the next agreement by an amount sufficient to amortize the "shortfall" over the duration of that next agreement. 5/

In the event an actual payment during a contract period exceeds the amortization amount, PBGC would be authorized to allow the parties to reduce the rate for the next contract period, but not below the contribution rate originally established to amortize the liability.

b. Employer Withdrawals During the Payment Period

In general, employer withdrawals during the termination liability payment period would be treated similarly to withdrawals from an ongoing plan. The rules under consideration provide that a withdrawal would occur when an employer bargains out or otherwise ceases to be obligated to contribute under the agreement establishing liability payment terms, subject to a statutory exemption for temporary employers. 6/ Upon withdrawal, an employer would be liable to PBGC for an amount equal to its average annual required contributions to the terminated plan times the number of years remaining in the payment period.

If the withdrawn employer is solvent, the total amount of the remaining liability attached to the bargaining agreement would be reduced by the liability of the withdrawn employer. If the withdrawn employer is insolvent at the time of withdrawal, its liability would remain an obligation of the bargaining agreement. Any "shortfall" resulting from the withdrawals of an insolvent employer would be amortized over the duration of the next agreement as discussed above.

5/ However, PBGC would not require employers to contribute a higher percentage of their monetary compensation package than they contributed in the year the plan terminated. Also, PBGC would be authorized to waive the requirement of increased contributions or to grant an increase in the amortization period in the event that the increased contributions needed to fund a "shortfall" would result in a hardship on employers.

6/ See Part V of the report for a discussion of the withdrawal rules.

c. Establishment of Successor Plans During the Payment Period

If the parties to the terminated plan elect to attach the payment of liability to their collective bargaining agreements, PBGC would not guarantee any benefits under a successor plan until the liability of the terminated plan is paid in full.

B. Administration of Terminating Multiemployer Plans

Some of the program options would make employers liable for total unfunded vested benefits on plan termination. Under such options, payment of unfunded vested benefits in excess of PBGC guarantees would depend on recoverable employer liability. The recoverable amount will not be known with certainty at termination unless it is paid in a lump sum at that time. This will be the rare case since most employers will seek, and be granted, payment terms allowing them at least several years to pay their liability. Therefore, it is necessary to determine the basis on which unfunded vested benefits above guaranteed levels will be paid.

PBGC is considering three basic approaches. The first approach is to estimate the amount of recoverable employer liability and to pay benefits at the level that would be provided by the estimated amount. Any gains or losses resulting from differences between the estimated and actual amounts recovered would inure to, or be suffered by, the insurance program. The feasibility of this approach would depend on the likelihood that a given estimate is reasonably accurate, so that neither PBGC nor participants would receive large windfalls or suffer large losses because of substantial deviations between PBGC estimates and actual experience. Implementation of this approach would involve developing measures and procedures for evaluating an employer's future prospects and credit-worthiness.

The second approach is to allow benefit adjustments after termination to reflect actual experience or a revised estimate of collectibility. Benefits could be set initially on the assumption that the full amount of liability would be collected, except from bankrupt employers. Downward adjustments, but not below guarantee levels, would be made later, if necessary. This option would favor retirees since they would have the advantage of the most optimistic estimate of

the amount of collectible employer liability. Actives would be at a relative disadvantage since the major burden of reductions would fall on them. Alternatively, benefits could be initially adjusted at termination to reflect estimates of collectibility and then readjusted in the future. This option could result in more equitable treatment of actives and retirees.

The second approach creates uncertainties as to actual benefits to be paid. However, these uncertainties could be mitigated if the adjustments were made promptly. Possible adjustment of benefits after termination of a plan creates incentives for participants to involve themselves in the process of setting payment terms through their unions, in order to assure the greatest protection of their own class of benefits. Unduly rapid payment, however, could jeopardize an employer's operations and therefore the jobs of active workers.

The third approach is to treat unfunded vested benefits in excess of PBGC guarantees ("excess vested benefits") as money purchase benefits. Under this approach, participants would be divided into two classes: (1) retirees and those within five years of normal retirement age and (2) active and separated vested participants, five years or more from normal retirement age. Each dollar of liability collected above the amount necessary to pay unfunded guaranteed benefits would first be allocated to each class of participants according to the ratio the value of unfunded vested benefits of participants in each class bears to the total value of unfunded vested benefits in the plan. Each participant within a class then would be credited with the portion of the amount allocated to his or her class according to the ratio that the value of his or her unfunded "excess" vested benefits bears to the total value of unfunded vested benefits in the class. To assure that the younger active workers do not profit by the longer accumulation period in their individual accounts, this second allocation would be set on a target benefit basis.

Example: A plan terminates with \$420,000 in unfunded vested benefits. The table below shows the unfunded guaranteed liabilities and nonguaranteed liabilities of active and retired participants.

Unfunded Guaranteed and Nonguaranteed
Vested Liabilities of Active and Retired Participants

	<u>Total Vested</u>	<u>Guaranteed</u>	<u>Nonguaranteed</u>
Total	\$420,000	\$240,000	\$180,000
Active	168,000	120,000	48,000
Retired	252,000	200,000	52,000

The value of the unfunded vested benefits of active participants equals \$168,000 (i.e., 40 percent of the total value of unfunded vested benefits in the plan), of which \$140,000 is guaranteed and \$28,000 is nonguaranteed. The value of unfunded vested benefits of retirees equals \$252,000 (i.e., 60 percent of the total value of unfunded vested benefits in the plan), of which \$200,000 is guaranteed and \$52,000 is nonguaranteed.

Assume that an employer liability payment of \$100 is received by the plan. Under this approach, \$60 of the payment would first be allocated to the retiree class and \$40 to the active class. These respective amounts would then be reallocated within each class to reflect the proportions of unfunded guaranteed and unfunded nonguaranteed vested benefits to total unfunded vested benefits in that class. For the active class in this example, 83 percent $\frac{\$140,000}{168,000}$

of the \$40 amount, or \$33.20, allocated to this class of participants would be earmarked to pay guaranteed benefits, and 17 percent $\frac{\$28,000}{168,000}$ of the \$40 amount, or \$6.80

would be treated as a money purchase plan and allocated to individual active participants on a target benefit basis. ^{7/} For the retiree class, 79 percent $\frac{\$200,000}{252,000}$

amount, or \$47.40 would be earmarked to pay guaranteed benefits to retirees, and 21 percent $\frac{\$52,000}{252,000}$ of the \$60 amount, or

\$12.60 would be treated as a money purchase plan and allocated to individuals within the retiree class on a target benefit basis.

^{7/} In the active class, for example, the \$6.80 allocated to nonguaranteed vested benefits would be reallocated to each participant's account according to a formula which would consider the difference between the participant's vested and guaranteed benefits and the number of years until the participant's normal retirement age. A further adjustment could be made to take into account the length of the employer liability payment period.

In order not to disadvantage retirees and those within five years of normal retirement age, PBGC could underwrite their entire vested benefit as a defined benefit. If this were done, individual accounts would not be established for this group. Instead, the total amount of the share of liability payments for excess vested benefits allocated to this group would be treated as PBGC funds, and the insurance program would suffer any losses resulting from differences between unfunded vested benefits and amounts recovered.

One advantage of the third approach is that it would not require downward adjustment of benefits. On the other hand, the money purchase aspect would cause some uncertainty as to the actual amount of the excess vested benefit to be paid each participant. Such uncertainty could be greater under the second approach, however, in which benefits already in pay status could be readjusted to reflect actual employer liability payments. Another advantage of the third approach is that it would minimize subjective evaluations, since it would not require the PBGC to estimate "collectibility" as would the other approaches. However, the risk to PBGC could be high under the third approach if the PBGC pays the full vested benefits of the retiree class regardless of employer liability payments, because the bulk of plan liabilities would be concentrated in this group.

APPENDIX IX

DISCRETIONARY COVERAGE

ERISA provides PBGC, in Section 4082(c)(2) and 4082(c)(3) with two independent bases for extending discretionary coverage to a multiemployer plan that terminates on or after September 2, 1974 and before July 1, 1979.

First, under Section 4082(c)(2), the PBGC may exercise its discretion to pay benefits guaranteed under Title IV to a multiemployer plan that was maintained during the sixty months preceding termination if the PBGC determines that such payments will not jeopardize the payments the PBGC will be required to make for plans which terminate on or after July 1, 1979. 1/

Second, under Section 4082(c)(3), the PBGC may provide discretionary coverage with respect to a multiemployer plan that would not be covered under Title IV if, in addition to satisfying the conditions contained in paragraph (c)(2), the PBGC determines that the plan has been in substantial compliance with the funding requirements for qualified plans and had no reasonable alternative to termination. 2/

Section 4082(c) also contains four additional provisions designed to limit the payment of guaranteed benefits when the PBGC exercises its discretionary coverage under Sections 4082(c)(2) or (3). 3/ These additional provisions are intended to protect the PBGC's ability to make benefit payments in the future. The two most significant limitations: (1) prohibit the PBGC from making payments pursuant to a discretionary guarantee that are derived

1/ ERISA §§4082(c)(2)(A) and (B).

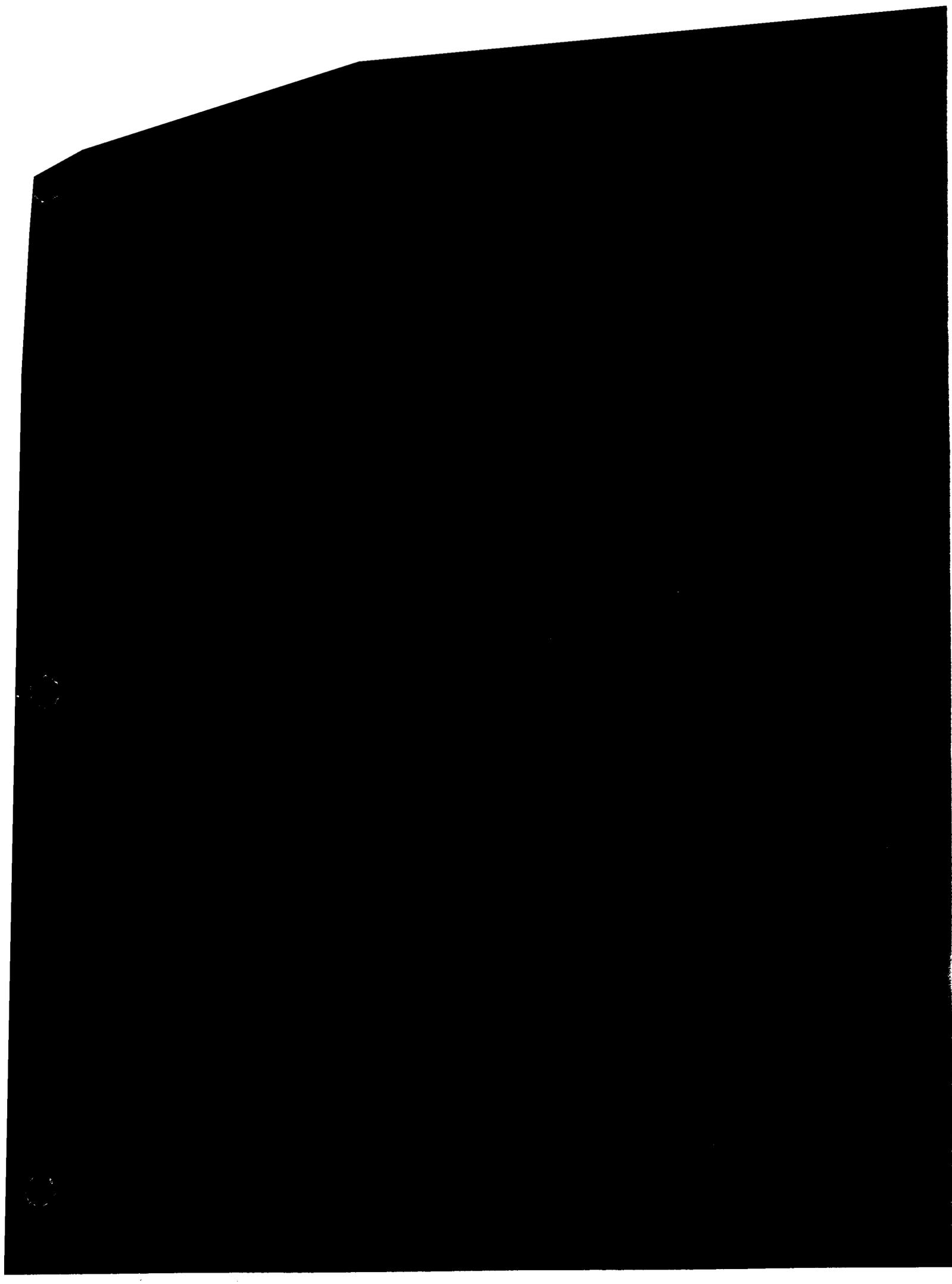
2/ ERISA §§ 4082(c)(3)(A) and (B).

3/ ERISA §4082(c)(4).

directly or indirectly from amounts borrowed by the PBGC from the Treasury, 4/ and (2) require the PBGC to reduce or cease discretionary payments if necessary "to avoid jeopardizing the ability of the [PBGC] to make payments of benefits guaranteed under [Title IV] in connection with multiemployer plans which terminate after June 30, 1979, without increasing premium rates for such plans." 5/

4/ ERISA §4082(c)(4)(C).

5/ ERISA §4082(c)(4)(D), as amended by Public Law 95-214, 91 Stat. 1501 (1977).



APPENDIX X

EMPLOYER LIABILITY UPON WITHDRAWAL - DISCUSSION PAPER

The PBGC's study is concentrating on a requirement that a withdrawing employer, i.e., one that ceases or reduces contributions because it is no longer subject to the bargaining agreement or because it closes a facility, complete the funding of its share of unfunded vested liabilities. Other options and alternatives are the subject of this paper.

A. Alternative Definitions of Withdrawal

There are a number of situations other than the discontinuance of contributions for a bargaining unit or a facility in which a reduction in contributions may impair the ability of a plan to continue. 1/ Nevertheless, the statutory rules cover only facility closings and bargaining unit withdrawals because of the difficulty involved in identifying and defining additional events that would weaken

1/ PBGC has considered and rejected the possibility of defining a withdrawal as a cessation or reduction in contributions by an employer resulting from bargaining out of the plan, going non-union, or transferring work to another location. The rejected approach would cover only those withdrawals in which jobs were removed from the contribution base and the business activity of the employer continued.

The approach discussed in the text is much easier to administer because it does not require an examination of the cause or effect of the withdrawal as does the rejected approach (e.g., it can be very difficult to determine whether an employer that ceases operations at a facility has, in fact, moved that work to another facility).

Moreover, regardless of the reason for withdrawal, it is inequitable to shift from the withdrawn employer to the remaining employers the obligation to fund the portion of the benefits created as a result of the withdrawn employer's participation in the plan as long as the withdrawn employer is able to fund those benefits.

the plan and therefore warrant imposition of liability. 2/ For example, imposing statutory liability for "substantial reductions in contributions" is difficult because of the problems that the plan (or the PBGC) would face in trying to administer such a test on a case-by-case basis. 3/

2/ PBGC experience to date indicates that facility and bargaining unit withdrawals are the most prevalent situations involving a reduction in contributions.

3/ Establishing a statutory percentage reduction that would constitute a substantial reduction and applying that test to all plans, regardless of the size of the plan, the number of contributing employers, and the nature of the work covered, would pose additional problems. A 50 percent reduction in contributions by a 30 percent contributor may be a significant event, but a 50 percent reduction in contributions by a 25 percent contributor may not be. Statutory de minimis rules to avoid the unnecessary administrative burdens of establishing a 50 percent reduction test would be difficult to develop and unfair to impose on plans. For example, a rule which imposed no liability if a full or partial withdrawal involved less than five percent of contributions could eliminate liability completely for some plans. Yet liability may be appropriate in such instances for another plan.

Another problem would be selecting a minimum required contribution period for purposes of determining whether an employer withdrawal has a "substantial" impact on the plan. For example, a ten percent reduction in contributions because of the withdrawal of a short-term contributor may have little or no impact on a plan. Also, a rule designed to capture substantial reductions in contributions would need to be tailored to avoid reductions caused by normal fluctuations in employment. For these reasons, the statutory rules under consideration do not contain a "substantial reduction in contributions" test for determining whether a withdrawal has occurred.

B. Temporary employers.

There are reasons other than those mentioned in the main body of the paper why temporary employers should be statutorily exempt from withdrawal liability, unless the plan waives the exemption. First, all parties understand, usually at the point of plan entry, that the participation of certain employers will be temporary. 4/ Second, in the case of a long-term contributor, a significant portion of a plan's vested liabilities may be due to its participation. Thus, its withdrawal will likely increase the funding burden for the other contributing employers.

The major drawback to the rules under consideration is that employers may be encouraged to withdraw before they have participated in the plan for at least four plan years. 5/ However, once in the plan, a contributing employer might not be able or willing to leave a plan, especially if the plan is prudently administered. An employer in a stable employment industry might be faced with strong employee pressure

4/ It is possible, of course, that the withdrawal of a temporary employer may be indicative of a declining employment situation and imminent plan termination. For instance, a temporary employer may leave an area because it is unable to obtain additional projects, or because of a decline in the local economy. In such instances, it is not the withdrawal, but the condition of the industry, that is adversely impacting the plan.

5/ In a stable employment situation an employer may attempt to participate in a plan sporadically to retain "temporary employer" status, but this course of action would probably be difficult (if not impossible) to pursue in the face of pressure by the union, other employers, and the adverse consequences on its workers because of the break-in-service rules.

to continue participation in the plan. And in many cases withdrawal would result in no cost advantage.

C. Methods for Computing and Allocating Withdrawal Liability

The alternative methods considered by the PBGC for determining an employer's withdrawal liability likely will include a method based on the maintenance of separate withdrawal accounts for each employer. The withdrawal accounts would be initially calculated and annually adjusted under rules set by the PBGC. The annual adjustment would allocate the increase in unfunded vested benefits occurring during a plan year to each employer participating during that year based on its proportionate share of contributions. Since these accounts, once established, would be maintained and updated annually, the employer's liability on withdrawal (or termination) would be readily available.

The PBGC alternative methods for determining an employer's withdrawal liability also likely will include a method based on the employer's proportionate share of the plan's unfunded liability for vested benefits. ^{6/} The proportionate share would equal the ratio of the employer's total contributions to the plan during the prior five (or ten) plan years to the total plan contributions for the prior five (or ten) plan years.

Finally, the PBGC alternative methods for determining an employer's withdrawal liability likely will include a method based on plan liabilities attributable to each employer, i.e., plan liabilities arising as a result of employment with the employer. However, a portion of the plan's "inherited liability", ^{7/} if any, might need to be allocated to withdrawing employers. Otherwise, it might be cheaper for an employer to withdraw than to continue to fund the plan.

^{6/} For the sake of administrative convenience and expense it might be appropriate to consider computing the plan's unfunded liability for vested benefits as of the beginning of the plan year.

^{7/} The term "inherited liability" means unfunded liability resulting from participation in the plan of employers who are no longer contributing to the plan.

D. Benefit increase cutback provisions

Under current law, when an employer withdraws from a multiemployer plan, the plan may disregard benefits that accrued as a result of service with the withdrawing employer before that employer was required to contribute to the plan. ^{8/} The PBGC has considered and rejected a proposal allowing multiemployer plans to design and adopt additional benefit reduction provisions.

Under the rejected approach, a plan would be permitted to impose these additional cutbacks if the plan does not provide for withdrawal liability, or the added cutback authority could be limited to situations where the employer owes withdrawal liability but that liability is uncollectible. These rules would enable a plan to limit its liability for short-term contributors and for benefit increases granted shortly before an employer's withdrawal, in cases in which withdrawal liability provides inadequate compensation.

Under this alternative method, the parties to a multiemployer plan could agree to whatever additional benefit cutback formula best suits their situation. These additional benefit cutbacks would represent a further exception for multiemployer plans to ERISA's minimum vesting and accrual rules. However, the formula could not permit cutbacks below two statutory floors, either one of which could be elected by the plan. The first proposed floor is the "maximum benefit increase cutback". A multiemployer plan, if it elected this floor, could not reduce the benefits attributable to service with a withdrawing employer during its period of participation in the plan below the level that would be guaranteed under the non-multiemployer program (as if those participants' benefits were a new plan effective on the date the withdrawing employer adopted the multiemployer plan). Thus, the non-multiemployer phase-in rules would be applied to all benefits accrued while the participants' employer was contributing to the multiemployer plan, as well as to benefit increases granted during that time. The plan, rather than the PBGC, would be the "guarantor" whose obligation

^{8/} I.R.C. §414(f)(1)(D), ERISA §1015; ERISA §3(37).

to pay benefits would be phased-in at 20 percent per year for each year that the benefits (or benefit increases) had been in effect. 9/

For example, assume that an employer was a contributor to a multiemployer plan for four years, and that benefits had not been increased during that time. If the employer withdraws at the end of the fourth full year, the multiemployer plan could reduce the benefits of that employer's participants as follows:

(a) The plan could disregard all benefits attributable to service with the employer prior to its adoption of the plan.

(b) If withdrawal liability is not imposed on or recoverable from the withdrawing employer, in addition to the past-service disregard the plan could disregard 20 percent of those employees' benefits accrued while their employer was a plan contributor. Therefore, 80 percent of the benefits would be phased-in at the completion of four full years of plan participation.

The second floor, if elected, would not permit benefit reductions, in addition to the past-service disregard, that would reduce participants' benefits below the level supportable by their employer's net contributions. 10/ "Net contributions" would include withdrawal liability

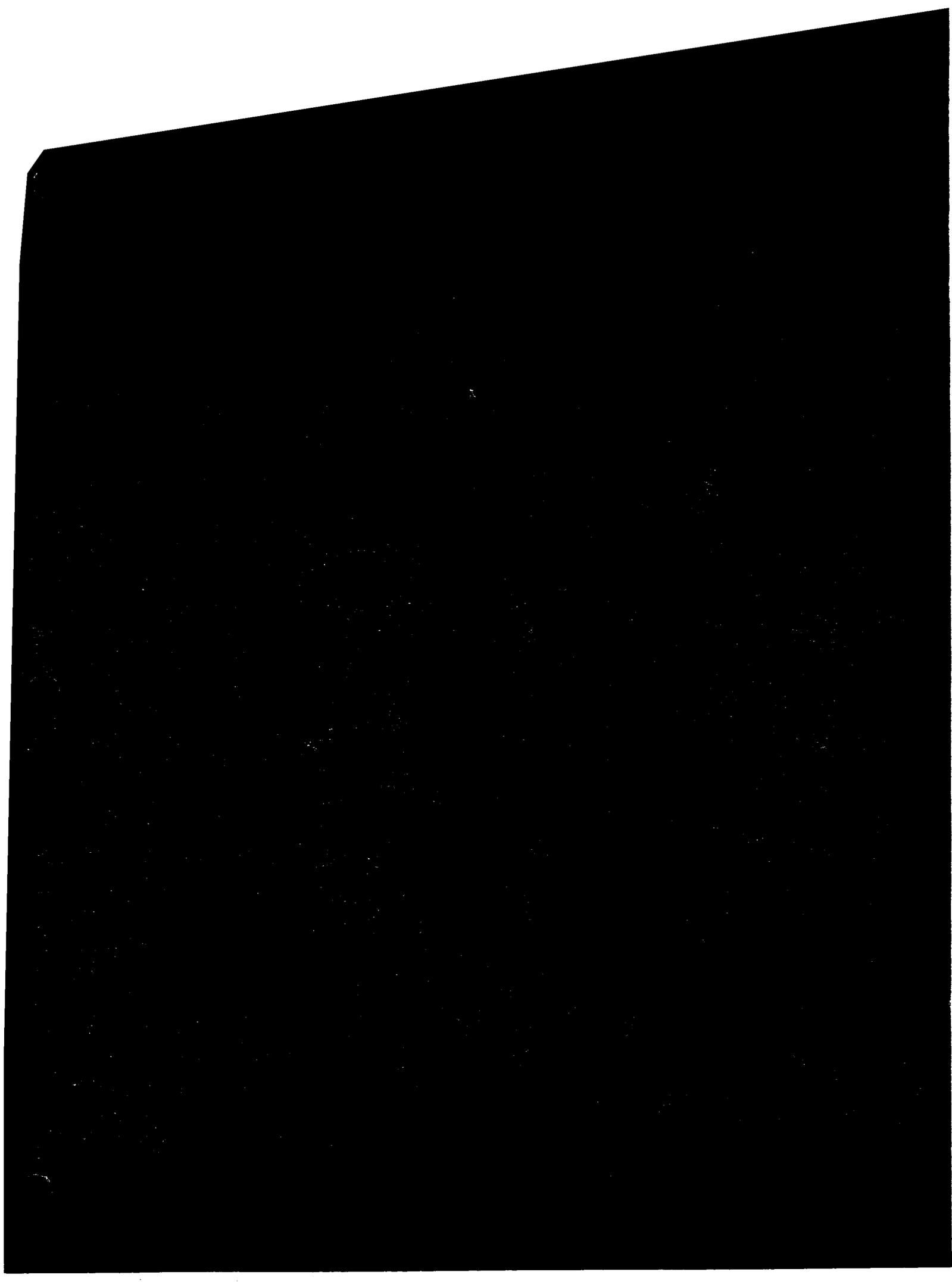
9/ For this purpose, all such phased-in benefits would be treated as ERISA §4044 priority category four benefits and thus subject to the guarantee limitations; only the 20 percent per year phase-in test would be applied.

10/ The past service disregard privilege under I.R.C. §414(f)(1)(D) would not be subject to this limitation. In addition, the "maximum benefit increase cutback" could not exceed the phase-in guidelines described above, even if the withdrawn employer's net contributions would not be sufficient to cover the phased-in benefits.

Special rules may be needed to protect vested benefits earned under a pre-ERISA single employer plan that merged into a multiemployer plan.

payments as well as past contributions, less all benefits actually paid to retirees and terminated vested workers attributable to the withdrawn employer. Thus, if the plan imposes liability on the withdrawing employer, it may not invoke its "benefit increase cutback" provision until the withdrawn employer defaults or becomes bankrupt or insolvent. Once the employer's total withdrawal liability is paid, the plan may not make any "benefit increase cutback" reductions.

These rules would balance the multiemployer plans' need for relief from certain liabilities, in order to continue, against the participants' rights to benefits for which their employers can and will pay. The premise underlying the rules is that, if the withdrawing employer has not been in the plan long enough to fund its employees' benefits, or withdraws shortly after a significant benefit increase, the remaining employers need not be compelled to accept the responsibility for full funding of the benefits payable to employees of the withdrawn employer. Within the statutory limits, plans can design cutback provisions that fit their particular needs, as agreed to in collective bargaining.



APPENDIX XI

OTHER STATUTORY PROVISIONS APPLICABLE TO WITHDRAWALS-- IMPLEMENTATION RULES

The following statutory rules, some of which are present in existing law, would be necessary to implement the withdrawal provisions under consideration:

(a) Obligation upon withdrawal.

Upon withdrawal the employer would have to continue to fund the entire amount of its withdrawal liability subject to payment terms.

(b) Payment terms.

Plans would be required, as a condition for tax qualification, to contain a provision establishing a withdrawal liability payment policy, which would have to comply with guidelines established in PBGC regulations. The PBGC guidelines would provide, inter alia:

(1) that the payment period be no longer than 20 years for employers who joined the plan during or after the 1978 plan year, and 30 years for employers who joined the plan before the 1978 plan year;

(2) that the withdrawn employer pay in one or more installments a yearly amount not less than the employer's average yearly contribution under the plan during the three plan years preceding its withdrawal; and

(3) that a reasonable rate of interest, but not less than the plan's assumed interest rate, be paid on the outstanding liability.

Plans would be authorized to adopt rules concerning the minimum payment period. Such rules should take into account the amount of the liability and the employer's ability to pay.

(c) Collection.

Because withdrawal liability would be payable to the plan and because collection by the plan trustees is more efficient, the plan trustees, not the PBGC, would be statutorily authorized to collect withdrawal liability. This also would keep down the insurance program costs.

(d) Enforcement.

The plan would be authorized to adopt a provision requiring binding arbitration over disputes concerning withdrawal. Also, the plan administrator would be authorized under ERISA Title I to sue in federal district court for delinquent liability payments. Costs of the action and reasonable attorney fees would be assessed against the delinquent employer. A six year statute of limitations would apply.

In addition, to assist the plan administrator in enforcing withdrawal liability, the liability payment would be treated as a required contribution under the minimum funding standards for the withdrawn employer so that an excise tax could be imposed for failure to pay.

(e) Security.

The right of a plan to demand security for a withdrawal claim would be restricted. If plans were given full discretion to demand security, then many trustees might feel compelled to do so, in light of fiduciary accountability, even though that could cause undue harm to some employers. Also, the potential of a fully secured claim may deter some employers from entering a plan. A possible approach is to allow the plan to demand security for some portion of the liability. For example, the maximum secured amount could be set equal to the amount afforded priority in bankruptcy, as described in (h) below. This would provide an added measure of protection in nonbankruptcy situations.

(f) Treatment of liability payments with respect to minimum funding standards.

Withdrawal liability payments would be treated as a required contribution for purposes of the minimum funding standard account.

Payment of withdrawal liabilities would not represent a new source of funds for the plan. Rather they would be a partial continuation of an old source of funds and therefore should not be used to reduce the contributions of remaining employers.

The withdrawal liability payments should be treated, for purposes of the funding standard account, in such a way that as long as the payments are made the remaining employers are not required to fund the portion of plan liability represented by the withdrawal liability. If a withdrawn employer stops paying, however, the remaining employers would be responsible for funding the remaining liabilities. Such a result is both consistent with the share-the-risk nature of multiemployer plans and sound policy. It would encourage the remaining employers to seek vigilant enforcement of withdrawal liability. If the withdrawn employer goes bankrupt and is unable to pay, the shifting of funding responsibility onto the remaining employers would help keep the plan financially sound.

Two methods exist for accomplishing the desired result: First, treat the imposition of withdrawal liability as creating a plan asset in the nature of a promissory note from the withdrawing employer to the plan. The withdrawal liability would be written down, in accordance with the plan amortization schedule, even though the period for paying withdrawal liability may be shorter. Second, recognize withdrawal liability payments as credits to the funding standard account, but not at a rate faster than the amortization period for unfunded vested benefits.

(g) Deductibility of withdrawal liability payments.

The current rules for deducting plan contributions would apply unless minor modifications are needed to assure equitable tax treatment under the revised program. These rules are contained in Section 404 of the Internal Revenue Code of 1954, as amended.

(h) Priority of claim for withdrawal liability.

In bankruptcy, withdrawal liability would be treated in the same manner as plan contributions under the Bankruptcy Code now being considered by the Congress.* That is, withdrawal liability would have a limited fourth priority. The priority would be limited in amount to the dollar limitation placed on the priority for plan contributions, i.e., \$2400 multiplied by the number of plan participants attributable to the withdrawing employer on

* H.R. 8200, establishing a revised Bankruptcy Code, was passed by the United States House of Representatives on February 1, 1978. A similar Senate bill, S. 2266, is now being considered by the Senate Judiciary Committee.

Section 407(4) of H.R. 8200 (hereafter, all references are to this bill) gives a limited fourth priority to contributions to employee benefit plans. Priority is limited to contributions arising from services rendered within one year of the earlier of the filing of a bankruptcy petition or the cessation of the debtor's business, and further limited to a dollar amount equal to \$2400 multiplied by the number of covered employees. A contribution liability in excess of that amount or for periods earlier than one year previous to the base date is treated as a general unsecured claim.

Under the bill's reorganization provisions, which combine features of Chapters 10 and 11 of the present Bankruptcy Act, priority claims must be paid in property of a value equivalent to the dollar amount of the claims. Section 1129(a)(9) changes the Chapter 11 requirement that priority claims be paid in full in cash. The priority claimants must, of course, approve the plan of reorganization and find the payment provision acceptable. Non-priority claims are treated in much the same fashion as under the present Chapter 11. The plan of reorganization may provide for satisfaction of these claims in whole or in part, and over any period of time that the creditors find acceptable.

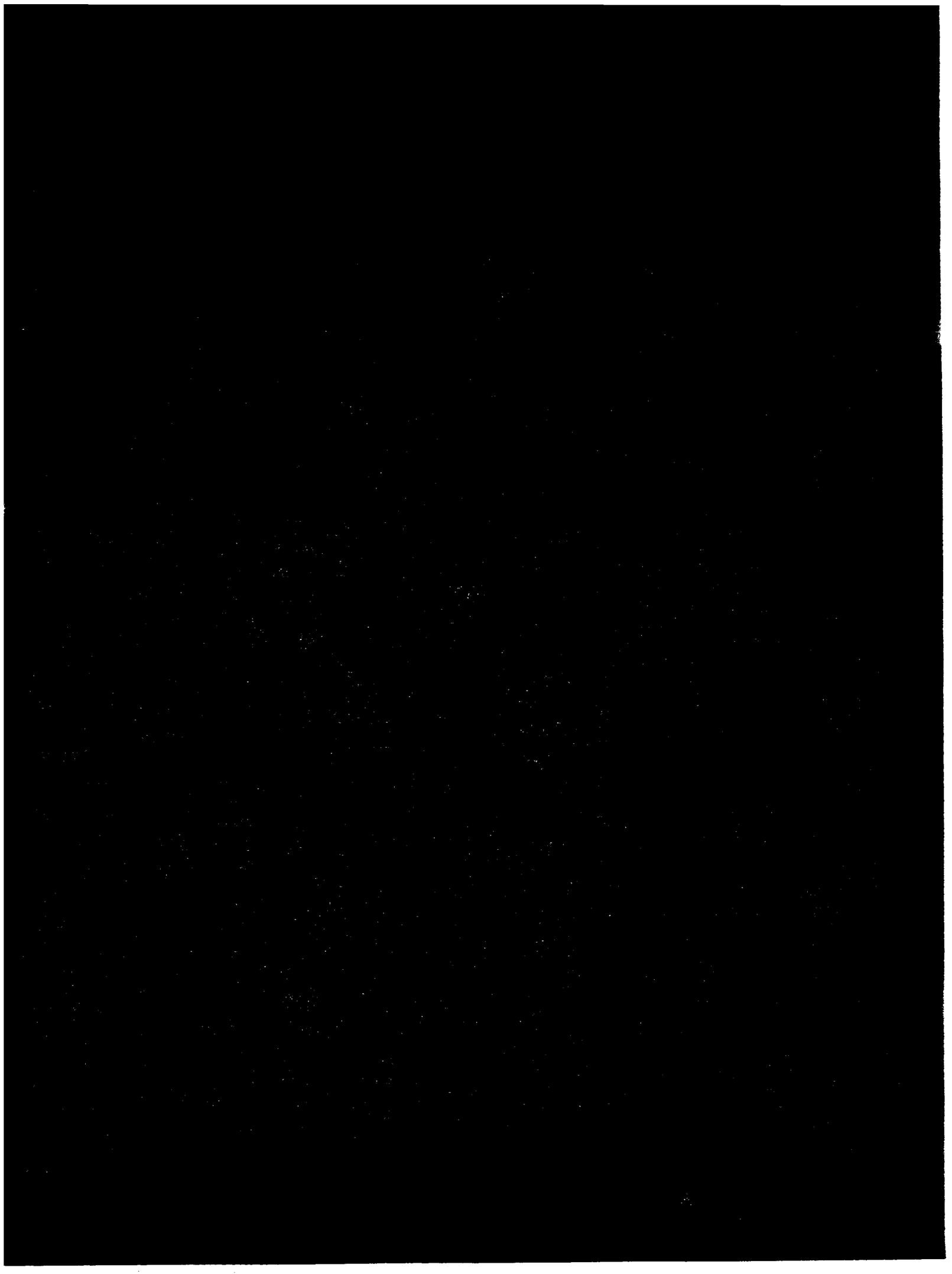
the date of withdrawal from the plan. Any additional liability would be treated as a general unsecured claim. While the dollar limitation on this priority is somewhat arbitrary, it does place a cap on a priority liability and would prevent such liability from becoming so large as to defeat any possibility of obtaining credit and reorganizing.

In a nonbankruptcy insolvency situation, there are a variety of methods by which a distressed debtor may make a settlement with its creditors. It would not be advisable to attempt to devise a scheme to provide a preference for the claim of a multiemployer plan for withdrawal liability in these nonbankruptcy situations. Aside from the difficulty of devising a comprehensive scheme, it should be noted that the nonbankruptcy settlement methods are ordinarily utilized by relatively small businesses. Consequently, a withdrawal liability claim should be relatively small in these cases.

(i) Trustees' obligation to pursue the plan's claim.

In an employer's bankruptcy, the plan trustees would be responsible for pursuing the plan's claim.

In nonbankruptcy insolvency situations the focus should be on the plan's obligation to recover on its liability claim. The plan trustees have a fiduciary obligation to preserve plan assets by pursuing the claim in the same manner as any ordinary business creditor.



APPENDIX XII

LIMITATION OF PLAN LIABILITIES THROUGH A SPIN-OFF UPON AN EMPLOYER WITHDRAWAL

A. INTRODUCTION

Some multiemployer plan representatives have suggested that when an employer ceases contributions to a plan, the plan should be permitted to segregate the assets and liabilities attributable to the withdrawing employer within the trust and limit the plan's liability to that segregated portion of the fund. 1/ They have suggested further that such a spin-off 2/ should be an insurable event 3/ and the remaining contributors to the original plan would not be assessed employer liability under Title IV.

1/ A transfer of assets and liabilities, on the other hand, occurs when a plan transfers assets and liabilities to a new or existing ongoing plan.

2/ It is unclear whether the "spun-off" portion would be a successor plan under Title IV. See ERISA §4021(a).

3/ Some multiemployer plan representatives have suggested that the "spun-off" portion should be covered under the non-multiemployer plan program. The PBGC has considered and rejected this proposal for two reasons: (1) The different guarantees and employer liability rules under the non-multiemployer plan program might result in an adverse impact or a windfall for employers and/or employees. For example, employees might receive higher guarantees if the "spun-off" portion were terminated under the non-multiemployer program than under the multiemployer program. (2) It would be inequitable to permit multiemployer plans to transfer liabilities to the non-multiemployer program and charge that premium system for the unfunded guaranteed benefits. To place multiemployer plan "spin-offs" in the single employer program could endanger the financing of that program and require a substantial increase in premium or a sharp reduction in termination insurance.

The PBGC believes that, except for certain existing plans, 4/ it is neither necessary nor desirable to permit a multiemployer plan to spin off assets and liabilities attributable to withdrawing employers with no liability attaching to the original plan sponsors upon the subsequent termination of the "spun-off" portion. Moreover, the withdrawal, funding, and reorganization proposals should mitigate the need for a spin-off procedure by resulting in more responsible plan funding, plan continuation, and participants receiving a greater portion of promised benefits.

Before enactment of ERISA, some multiemployer plans limited their liability upon an employer withdrawal. 5/

Some plans segregated assets and liabilities attributable to withdrawn employers and reduced benefits for employees of those employers to the levels supportable by such segregated assets ("spin-off"). Other plans merely reduced benefits for participants associated with the withdrawn employers without segregating assets. For some of these plans ("probationary period plans"), only withdrawals occurring shortly after the employer began contributing, such as within five years, would result in reduced benefits.

In some cases, the reduced benefits may have been "guaranteed" by the plans, which assumed liability for continued payment of the reduced benefits. In other cases these reduced benefits could be reduced further or stopped completely as a result of subsequent adverse experience. These approaches were used in various combinations or in modified forms, such as retention by the plan of liability for retirees' full benefits, but reduction of the benefits of active workers. Often plan provisions gave the trustees discretion over whether to reduce benefits in a given case and what method to use.

4/ The exceptions for certain existing plans are discussed later in this appendix.

5/ Plans that limited their liability upon an employer withdrawal are generally found in industries characterized by stable employment relationships where there is a long-term employer-employee attachment or where benefit accruals can be readily attributed to services performed for specific employers.

However, ERISA has restricted the methods that plans may employ to limit liabilities when an employer withdraws. In particular, the minimum accrual and vesting requirements have virtually eliminated the option of reducing benefits, the primary exception being the multi-employer plans' option to disregard benefits accrued as a result of service with the employer prior to the employer's participation in the plan.

In recognition that certain multiemployer plans, in which the parties historically have intended not to share unfunded liabilities attributable to withdrawals, may face substantial hardship and possible termination because of ERISA requirements which no longer permit them to limit their liabilities, some limited relief may be considered. Such relief would take the form of permitting plans that meet certain criteria to provide for an automatic spin-off upon every employer withdrawal with no liability attaching to the plan or the remaining contributors upon termination of the "spun-off" portion. 6/ The termination of the spin-off would be covered under the non-multiemployer program. 7/ The criteria that plans would be required to meet would include the existence of pre-ERISA plan provisions evidencing an intent to limit the plan's and the remaining employers' liability upon an employer withdrawal and documentation of previous attempts to limit liability upon an employer withdrawal as evidenced by little inherited liability attributable to withdrawn employers.

Plans that are "grandfathered" would be permitted to spin off only assets and liabilities attributable to employers that withdraw from the plan after the effective date of the

6/ The PBGC is still considering whether the determination of the assets and liabilities allocable to the withdrawing employer, which would be segregated within the trust, should be on the basis of an ERISA §4044 allocation or an alternative more easily administrable basis such as "net contributions," i.e. contributions plus earnings minus benefit payments and administrative expenses.

7/ This would be an exception to the proposed transfer rules.

"grandfather provisions". However, a plan would not be able to spin off assets and liabilities attributable to an employer that joined the plan after the effective date of the "grandfather" provisions.

Plans eligible for "grandfather" treatment would remain in the multiemployer program. Of course, placing these plans in the multiemployer program gives them preferential treatment in limiting their liabilities by providing, in effect, termination insurance for partial terminations. This could result in higher benefits or lower costs for plans covering stable employment industries.

B. DISCUSSION

The PBGC believes that, except for certain plans, the disadvantages outweigh the advantages of permitting plans to spin off assets and liabilities attributable to a withdrawing employer, and of covering the termination under the non-multiemployer plan program without imposing any liability on the original plan or remaining contributors.

1. Advantages

The existence of a spin-off procedure might allow employers to maintain a defined benefit plan that might not otherwise be able to afford one. By utilizing a spin-off procedure, a plan could provide larger benefits for the employees of continuing employers than would have been possible if the unfunded liabilities of withdrawing insolvent employers had remained with the plan.

If a plan could spin off to an insolvent employer assets that are less than the value of vested benefits, this procedure could enable some plans to continue. If the unfunded vested liabilities of the withdrawing employer were to remain with the plan, the plan might eventually be unable to continue. In addition, the spin-off procedure may enable a plan to attract new employers because no increases in ongoing funding costs would be created when an employer becomes insolvent. And this procedure would result in lower administrative costs for plans than the withdrawal rules, since the potentially substantial expenses associated with collecting withdrawal liability would not exist. 8/

8/ On the other hand, a plan would have the added administrative expense involved in spinning off the withdrawing employer's allocable share of plan assets and liabilities.

2. Disadvantages

The proposal, if adopted, would present formidable problems for participants, the plan termination insurance system, and the PBGC. There would be inadequate disincentives to irresponsible plan action. In addition, the proposal would not result in desirable self-regulation by plans.

a. Effect on Participants

Participants may have greater benefit protection in a plan that would not permit spin-offs than a plan that would. Termination of a "spun-off" plan may result in immediate benefit losses for affected participants, which might be averted if the plan retained the liabilities. If the plan retained the benefits of the withdrawing employer's employees, these employees might receive their full vested benefits. ^{9/} If the "spun-off" plan is covered under the non-multiemployer insurance program, participants could be harmed because the phase-in of the guarantee of benefit increases upon the termination of the "spun-off" plan could result in lower benefits than would be payable under the original plan. ^{10/}

b. Effect on the Termination Insurance System and the PBGC

There are many existing plans with substantial unfunded liabilities that are attributable to employers who withdrew in the past ("inherited liabilities"). A spin-off procedure could result in an immediate transfer to the

^{9/} The plan, however, might reduce participants' benefits that accrued as a result of service with the employer prior to their employer's participation in the plan.

^{10/} If the plan retained the liabilities and subsequently terminated, the multiemployer program guarantees might be lower than the non-multiemployer program guarantees.

termination insurance system of these inherited liabilities. 11/ But the mere existence of significant inherited liabilities would indicate that such plans had not taken steps to limit liabilities upon previous withdrawals, and it would be inequitable to permit each such plan to transfer unfunded liabilities to the non-multiemployer insurance system.

For plans with significant inherited liability attributable to pre-ERISA withdrawals, reorganization, including financial assistance, would be a more appropriate remedy and would be to the advantage of affected participants. The withdrawal rules under consideration would largely obviate the necessity of spin-offs, since withdrawn employers would be required to fund their share of the liability. Reorganization might mitigate the hardship for specific participant groups by spreading the sacrifice throughout the participant population.

There would be substantial administrative costs in permitting a spin-off upon an employer withdrawal from a plan rather than having the plan retain the liabilities. Considering the fact that a large number of multiemployer plans could conceivably adopt such a procedure, if available generally, the number of such spin-offs and terminations could exceed one thousand annually, resulting in tremendous administrative costs for the termination insurance system. 12/

In addition, since spin-offs would be covered as plan terminations, a plan's reporting requirements for reportable events 13/ would increase because the PBGC would need to treat each employer as though it maintained a separate plan in order to advise the PBGC of the possibility of a potential spin-off. This would present a substantial

11/ This problem is avoided under these proposals by limiting the spin-off privilege to new or existing plans with small amounts of inherited liabilities due to pre-ERISA withdrawals.

12/ Approximately one-half of the 2,000 covered multi-employer plans are in stable employment industries.

13/ See ERISA §4043.

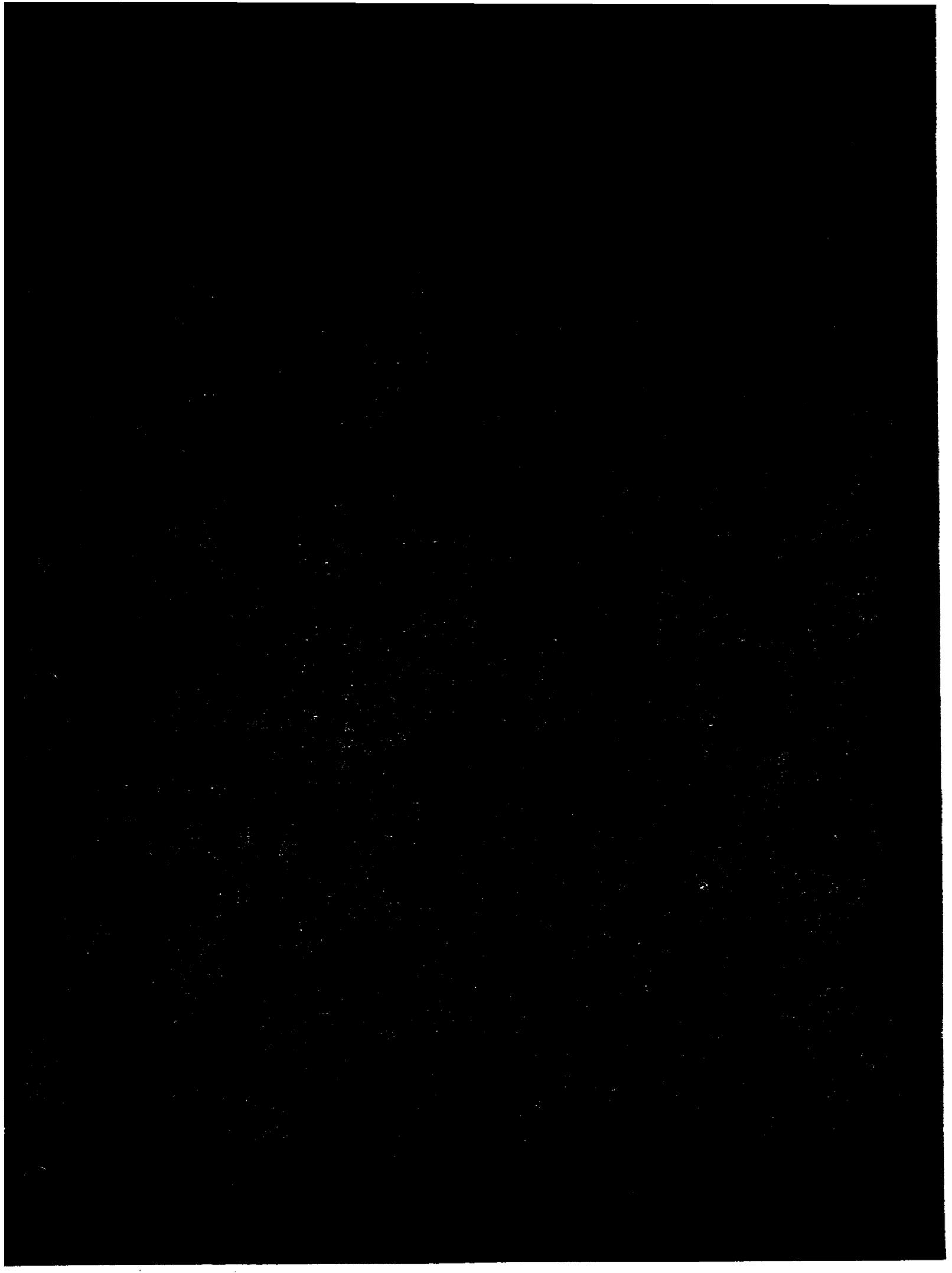
additional administrative burden. Additionally, increased PBGC involvement would be necessary to assure that excessive liabilities or costs of the spin-off were not attributed to withdrawing employers, especially insolvent ones, and to attempt to collect liability from the withdrawing employer.

c. Effect on plans

Another concern is the potential effect on plan funding of permitting spin-offs with no liability for the original plan upon termination of the "spun-off" portion. If the plan could ignore liabilities left when an employer withdraws, there would be less need for funding discipline in granting past service benefit increases or in recognizing the past service of employees of entering employers.

Also, although the spin-off procedure may provide the same results that would have occurred if each employer had established a single employer plan, there are a number of reasons why this may not be true. Some employers, especially small ones, may not have established defined benefit plans. The defined benefit plans established as single employer plans would have been designed to follow more closely the desires and capabilities of the individual employer-employee group. Such hypothetical single employer plans would, in most instances, have terminated much earlier than the point in time when the employer finally ceases contributions to the multiemployer plan. Although during years of declining employment the subsequently withdrawing employer may have been able to satisfy its obligation to make contributions under the collective bargaining agreement, the employer may not have been able to fund a single employer plan.

Thus, because of possible adverse effects on funding, there is a potential for the spin-off procedure to produce more and larger losses for the termination insurance system than if each contributing employer had established its own plan or if the multiemployer plan had retained liability upon an employer withdrawal.



APPENDIX XIII

MULTIEMPLOYER PROJECT EVALUATION

A. INTRODUCTION

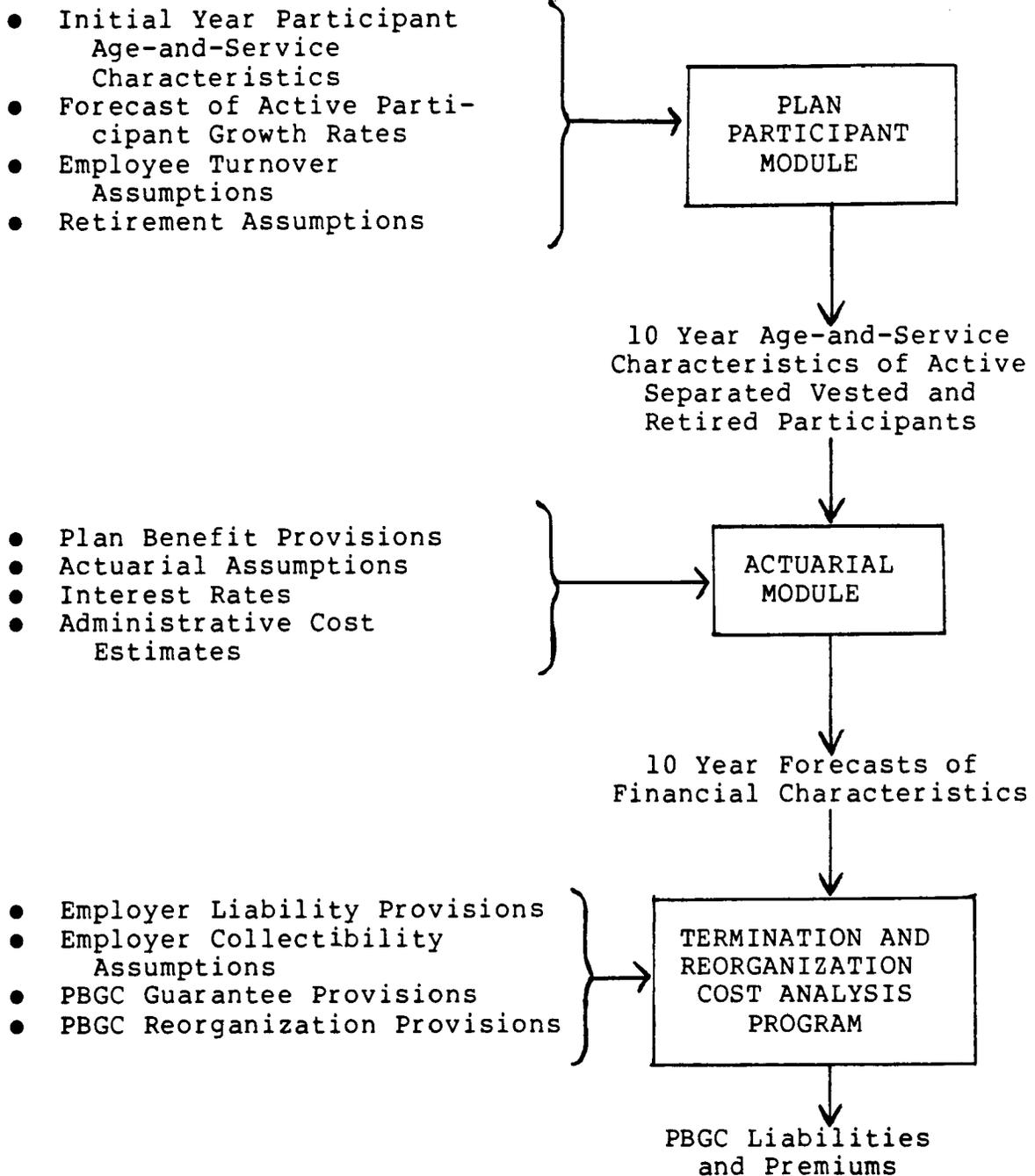
Appendix XIII briefly describes the assumptions and methodology used to develop 10-year forecasts of the financial status, accrued benefits, and participant characteristics of multiemployer plans. These forecasts were made for a sample of multiemployer plans and were compared with termination and reorganization screens to identify those plans assumed to terminate or reorganize. Then estimates of PBGC termination liabilities under different program alternatives were calculated and extrapolated to reflect the liabilities of all potential terminations over the 10-year period. Figure 1 presents a general overview of the methodology used to analyze each plan in our sample.

The PBGC forecasting procedure consisted of three steps. First forecasts were made of the number of active, separated vested, and retired participants by age-and-service category in each plan in the plan sample for each year over the 10-year period. Then, benefits, contributions and assets for each plan were projected over the ten years in order to estimate accrued, vested and guaranteed benefits under each program option considered. Finally, PBGC termination liabilities and premium requirements were estimated by summing in each year the unfunded guaranteed benefits for plans assumed to terminate and by adjusting these estimates to reflect different assumptions about employer liability and collectibility. All of these functions were performed by a set of computer programs developed by the project staff.

Part 1 of this Appendix describes how the multiemployer plan sample was selected. In addition, it summarizes the major assumptions used to develop the forecasts. Part 2 of this Appendix describes how these assumptions were incorporated into a computer model.

FIGURE 1

OVERVIEW OF PBGC MULTIEMPLOYER
PLAN TERMINATION INSURANCE ANALYSIS



PART 1. BACKGROUND ON MULTIEMPLOYER PLAN ANALYSIS

B. THE DEVELOPMENT OF THE 279 PLAN SAMPLE

1. Characteristics of the Sample

The sample of multiemployer pension plans used in this analysis consists of 279 plans with approximately 5.7 million participants. This represents about 16 percent of all multiemployer plans and 71 percent of their participants. It is a stratified random sample, stratified according to industry and size categories. The sample was stratified on the basis of industry because industry employment and financial characteristics play a significant role in the decision to terminate. It is stratified on the basis of size because the financial consequences of one large plan termination may be much more significant than many small plan terminations.

There are 123 large plans (defined as those with 10,000 or more participants) in the sample, which represent all but four of the multiemployer plans with 10,000 or more participants. In addition there are 156 small plans (defined as those with fewer than 10,000 participants) or about one of every ten multiemployer plans with less than 10,000 participants. Table 1 shows the percentage of participants in each industry in the sample. The information is shown in greater detail in Attachment 1.

From the most recent annual reports required under ERISA for the sample plans, data on the characteristics of all multiemployer plans were developed. Attachments 6 and 7 present the distribution of multiemployer plans and participants by industry and size categories. Attachment 8 shows the distribution of multiemployer plans by average monthly benefit payments. Finally, Attachment 9 is a presentation of the funding status of vested benefits in all multiemployer plans.

TABLE 1: COMPARISON OF PLANS AND PARTICIPANTS IN THE 279 PLAN
SAMPLE WITH ALL MULTIEMPLOYER PLANS BY INDUSTRY

<u>Industry</u>	<u>Sample</u>		<u>Multiemployer Universe</u>		<u>Percentage of All Plans in Sample</u>	<u>Percentage of All Participants in Sample</u>
	<u># of Plans</u>	<u># of Participants</u>	<u># of Plans</u>	<u># of Participants</u>		
Mining	3	285,347	3	285,347	100	100
Construction	106	1,319,257	952	2,421,887	11.1	54.5
Manufacturing	67	1,485,305	290	1,841,959	23.1	80.6
Transportation	23	1,394,347	143	1,637,728	16.1	85.1
Trade	36	673,534	128	890,214	28.1	75.7
Service	40	487,120	172	799,308	23.3	60.9
Other	<u>4</u>	<u>25,532</u>	<u>48</u>	<u>109,572</u>	<u>8.3</u>	<u>23.3</u>
Total ^{1/}	279	5,670,442	1,736	7,986,015	16.1	71.0

^{1/} The total number of plans and participants in this table differs slightly from the totals presented in Table 1 in Part VIII and Tables 1 and 4 in Appendix XIV. The estimates here are based upon adjusted 1976 PBGC premium records while the estimates in Part VIII and Appendix XIV are based upon the latest available plan data filed with the Department of Labor under ERISA reporting requirements.

SOURCE: Multiemployer plan universe data based upon adjusted 1976 PBGC premium records.

2. Sample Selection

The sample selection consisted of three basic steps. First, all multiemployer plans were divided into industry categories using 1972 Standard Industrial Classification Codes. From this classification effort, 38 industries were selected, each with over 10,000 multiemployer participants. The only exception to this procedure was the selection of the millinery industry as a category. Because there had been a termination in this industry, its inclusion was thought to be necessary. The classification of multiemployer plans by industry is shown in Attachment 2, and a listing of the industries is shown in Attachment 3.

The second step was the selection of the 279 sample plans. This was done by first selecting all plans with over 10,000 participants according to 1976 PBGC premium records. Then, one of every 15 plans with less than 10,000 participants in each industry was randomly selected. The rationale for a one-in-fifteen sample was that a sample large enough to be representative of the universe but small enough to ensure manageability was desired; and a sample of approximately 300 plans met these criteria. One major modification was made to the one-in-fifteen rule: at least three small plans in each industry were selected so that there would be more confidence in the representativeness of the sample for each particular industry. As a consequence of this oversampling, the sample contains about one of every ten small multiemployer plans.

Because of time limitations for collecting data, one major change was made to the random selection of 156 small plans: about 65 of the randomly selected small plans were replaced by matched plans (matched on the basis of size and industry) from two other sources. These two sources were a PBGC survey of multiemployer plans and a DOL study of 1,600 pension plans. Data had already been collected on both of these samples, and, in the case of the PBGC plans, an especially current and detailed set of data had been collected. This matching was appropriate because both the DOL and PBGC samples were also randomly selected.

The third and final step of the sample selection consisted of two modifications to the sample caused by a lack of data:

- four plans with over 10,000 participants were dropped from the sample because annual reports required by the Employee Retirement Income Security Act (ERISA) and the Welfare and Pension Plans Disclosure Act (WPPDA) could not be located for them, and

- randomly selected backup plans were used for about 12 of the small plans in our sample because data on these plans were missing.

C. ASSUMPTIONS USED IN DEVELOPING PLAN FORECASTS

The assumptions discussed below were used in developing individual plan forecasts over a 10-year period. The model used to make these forecasts is described in more detail in Part 2 of this Appendix. In general, the model developed 10-year forecasts of the financial, participant, and actuarial characteristics of each of the 279 plans in the sample. Using the termination screens discussed in Appendix XIV, each plan was examined in each year of the forecast period to see whether it failed the screens. The liabilities of all the plans that failed the screens (and thus were judged as potential terminations) were then accumulated and were used as the basis for premium calculations discussed in Appendix XIV. In addition, the plans failing the screens were used in separate analyses of PBGC cash flows and the cost of reorganization. The key assumptions entering into these forecasts are discussed below.

1. Growth Rates for Active Participants

All plans in the sample were divided into two types -- those in which the number of active participants in a plan was highly correlated with employment in its industry, and those in which the correlation was low or negative. To determine the degree of correlation, regression analysis was used to compare the actual growth of active participants in plans from 1972 to 1976 with employment in the primary industry covered by each plan during those same years. This involved using a regression formula of the type:

$$A_t = a + b N_t$$

where A_t was the number of active participants in year t and N_t was the employment in the plan's industry during the same year. If the plan and industry growth were related positively at the 90 percent level of confidence or above, the regression formula shown above was used to forecast the growth in actives in each plan during the 1976-1985 period. In these regression formulas, the most recently published BLS forecast of industry growth for the 1976 to 1985 period was used as the estimate of industry employment.* If plan and

* Thomas J. Mooney and John H. Tschetter, "Revised Industry Projections to 1985", Monthly Labor Review, November 1976, pp. 3-9.

industry growth rates were not highly correlated, then we used the plan's actual average annual growth rate for active participants during 1972-76 as our forecast of active participant growth.

This basic methodology was modified in a number of cases however. First, there were a number of cases where the methodology was modified because plans were formed very recently (after 1972) or where data were missing for early years. For example, if a plan split into two plans in one year, the earlier data were disregarded and data from only the later years were used in the forecasts. A second and more significant modification was that the growth in the number of actives in a plan was limited if a plan's forecasted growth during the 1976-1985 period exceeded the corresponding growth forecast for its industry by BLS. Where plans were estimated to grow faster than BLS projections of industry employment, BLS industry growth rates were used. This modification assured that any unusually high rates of growth forecasted by the basic methodology were limited to a more conservative rate.

2. Benefit Formulas

Although the actual benefit formulas were generally available, it was not possible to use the actual benefit formula in all cases because the formulas for some plans were too complex to adapt to the model (such as formulas which used different accrual rates for past and future service). Consequently, certain assumptions about the benefit formulas were made for some plans. Basically, all plans were divided into three types. Those types and the method of modelling those benefit formulas are:

- Plans with Unit Benefit Formulas with Uniform Rates -- For plans that had uniform rates for past and future service the uniform rate in effect in 1977 was used. Existing retirees were paid the average benefit payment in 1976.
- Deposit Administration Plans -- These plans were treated separately because they pay benefits in a significantly different manner than non-insured plans. For these plans, it was assumed that retirees in 1976 would receive \$1 in benefits and that new retirees would receive 123.9 percent of the monthly benefit. The rationale for the 23.9 percent adjustment is discussed below.

- Other Plans -- In general, the benefit formulas of all the other plans in the sample were treated alike: a flat benefit rate equal to 123.9 percent of each plan's average benefit payment in 1976 was used. Existing retirees were paid the average benefit payment in 1976.

Three other assumptions were made in modelling benefit formulas:

- Adjustments to Flat Benefit Formulas -- All flat benefit rates for new retirees were increased by 23.9 percent to account for the technique the computer program used to retire participants between early and normal retirement ages. The program retires about one-third of the participants eligible for early retirement prior to normal retirement age with reduced benefits. Consequently, using just the average benefit payment as a flat benefit would understate the total amount of benefit payments. Therefore the average benefit payment was increased by 23.9 percent so that the product of retirees and average benefit payments would equal total benefit payments.
- Benefit Increases for New Retirees -- The benefits of those persons retiring after Year 1 of the forecast were increased by 17.4 percent every three years. This 17.4 percent increase represents the projected average increase in the Consumer Price Index during each three year period over the 1976-1985 period (as forecast by Data Resources Incorporated). The decision to increase benefits at this rate was based upon the results of a study by DOL entitled Union Status & Benefits of Retirees, which showed that benefit increases during the 1955-1970 period were approximately equal to or greater than this level.
- Benefit Increases for Existing Retirees -- The benefits for all existing retirees in Year 1 of the forecast were increased at 60 percent of the increase for new retirees. This is equal to 10.4 percent every three years. This increase was consistent with the results of the DOL study mentioned above.

3. Age and Service Distributions for Participants

Estimates of the age and service of the active and separated vested participants were required because such data were not available for the majority of the plans in the sample. Basically, there were three cases which arose in estimating age-and-service distributions:

1. Age-and-service tables were available from plan data for both actives and separated vested participants.
2. Age-and-service tables were available from plan data for actives only.
3. No age-and-service tables were available from plan data.

In the first two cases, the active participants in Year 1 of the forecast were distributed in accordance with the most recent actual age-and-service distributions.

In Case 1, where a separated vested table was also provided, the entries in that table were scaled so that the total in the table equalled the number of separated vested participants reported for 1976.

In Case 2, where no separated vested table was provided (and a plan had separated vested participants in 1976), a distribution based upon the active participant distribution was developed. To do this, the fraction of vested actives in each age-and-service category was calculated, assuming that only actives with 10 or more years of service were vested. Then these fractions were multiplied by the total number of separated vested participants to obtain estimates of the number of separated vested participants in these categories.

In Case 3, one of 21 pairs of "standard" distributions was used to estimate the age-and-service distributions for active and separated vested participants. These standard distributions were developed using data on plans for which age-and-service tables for active participants were available. The standard distributions for actives were constructed so that their average ages ranged from 35 to 55. In their construction, the distribution of years of service for plan cohorts of any given age was assumed to be the same. Then, distributions for separated vested participants were generated using these active distributions and the methodology applied for Case 2 plans. Attachment 4 contains the 21 pairs of distributions used in the initial valuation estimates.

In order to select a pair of standard distributions for each plan, the average age of active participants was estimated, and then the standard distributions corresponding to that average age were selected. The average age estimate for each plan was made using the ratio of retirees to total participants. This approach was used because, using data from the plans that reported age and service distributions, it was found that the retiree-to-total participant ratio and average age were highly correlated.

4. Interest Rates

Interest rates were used in two parts of this analysis. They were used in the actuarial calculations for each plan in order to estimate each plan's actuarial liability. In order to be consistent in estimating individual plan liability, the actual interest rate assumed by the plan was used where available. Otherwise, a rate of 5.25 percent was used. This rate was the average interest rate used in 1976 by all plans in the sample that reported interest rates.

Interest rates were also used to calculate the present value of PBGC liabilities for plans upon termination. In this situation, the PBGC interest rate of 6.75 percent was used.

5. Administrative Costs

Based upon an analysis of the administrative costs of a subsample of plans over the 1972-76 period, it was assumed that, during the 1976 to 1985 period, the annual administrative cost of each plan would be equal to 0.75 percent of its beginning-of-year assets. This assumption was used to estimate administrative costs for plans that were assumed to terminate as well as for active plans.

6. Limits on Contributions

In this analysis, projected plan contributions during the 1976 to 1985 period are based upon ERISA's minimum funding standards. In the future, because the number of active participants change and because benefits increase, some plans require substantial contribution increases in order to meet these standards. However, because there are realistic limits to increases in contributions, an upper limit was set on the rate of increase. Based upon an analysis of average negotiated contribution increases for plans in the sample over the 1972-76 period, the limit was set at a level equal to two times the projected rate of increase in the Consumer Price Index.

7. Turnover

Because few plans reported turnover rates, assumptions were made about the rate of turnover in most plans. Analysis of turnover rates by plans that reported them showed that turnover is fairly similar within each industry. Consequently, we assumed that, within each industry grouping, turnover would be the same. An appropriate table for each industry was then chosen based upon an analysis of reported turnover rates used by plan actuaries. The matching of turnover tables to industries is shown in Attachment 5.

8. Actuarial Funding Assumptions

It was assumed that all plans used the entry age normal method of funding which is the most prevalent method used by multiemployer plans. This was based upon an analysis of the funding methods of the plans in the sample. The entry age in the plan for each participant was equal to the attained age minus the number of years of service. These assumptions are described in further detail in Part 2 of this Appendix.

9. Past Service Liability

The initial past service liability of each plan in the sample was equal to the difference between accrued liability and the assets of the plan. This amount was calculated using the estimated value of accrued liability and the actual value of 1976 plan assets. The annual amortization payment for initial past service liability was equal to the level amount necessary to amortize this initial past service liability over 40 years (or 30 years under the modified guarantee options). Subsequent increases in past service liabilities caused by benefit increases were calculated by amortizing increases in accrued liabilities over the periods specified in each program option.

10. Retirement Assumptions

Assumptions were made about the retirement patterns in the sample plans because in most plans the assumed age of retirement used by the plan's actuary was not known. The assumptions were based upon an analysis of the age and service characteristics of active and retired participants in a subset of plans and the relationship of those characteristics to the normal retirement age in those plans. The assumptions about the average retirement age in each plan were based upon a number of principles:

- First, the average retirement age in each plan was related to the plan's normal retirement age. When the normal retirement age was 65, it was assumed that the average age of retirement was 65. Where the normal retirement age was 62 or less it was assumed that the average age of retirement was 62.
- Second, where available, the age and service requirements for early retirement would be the actual ones used by the plan.
- Third, the percentage of persons assumed to retire early would be a function of the early retirement age.
- Fourth, unless stated by the plan, the reduction for early retirement age would be a function of the early retirement age.

More specifically, it was assumed that all persons remaining in a plan would retire by age 65. It was also assumed that, if data were not available on normal or early retirement age, then the normal retirement age would be 65 and the early retirement age would be 55 for those with at least 10 years of service.

PART 2. BACKGROUND ON MULTIEMPLOYER MODEL DEVELOPMENT

A. GENERAL

The Multiemployer Project was organized to design a viable multiemployer insurance program. That effort requires a sizable amount of analysis in structuring program policy and premium requirements.

To assist in that design effort a computer driven simulation model has been developed. That model has been structured to analyze a large sample of multiemployer plans under a variety of program alternative utilizing data that could be gathered in a relatively short period of time.

B. CONCEPTUAL OVERVIEW

The model discussed in this paper was developed as part of an analytical effort undertaken to provide a quantitative basis for analyzing alternative multiemployer insurance program approaches. This section seeks to present a conceptual framework within which to view the approach taken in the development of applicable analytical tools. The thoughts presented in this section rely heavily on the discussion of program options contained in the main study report. These include benefit guarantees, funding constraints and incentives, employer liability in the event of termination or withdrawal, accrual and vesting requirements, and premium requirements.

Ideally, the multiemployer insurance program should be designed so that the stream of net premium income is equal to the stream of net insurance claims. This ideal identity is defined by the following:

$$\sum_u (p)PV_1 (G-A-L) = PV_2 (P+I-E) \quad (1)$$

where: u = the universe of plans over which the summation
 must be made;

 G = guaranteed benefits;

 A = the asset of a given plan;

 L = the termination liability of the sponsoring
 employers for a given plan;

 P = premium income to the PBGC;

 I = investment income on the premium assets of
 the PBGC; and

 E = administrative expenses of the PBGC.

The PV (present value) terms are used to represent a time dimension. In a certain world, equation (1) would simply equate two discounted cash streams. In fact, the stream of claims is highly uncertain and the (p) term has been included in equation (1) to represent this uncertainty in terms of a probability of termination. The parentheses on the left side of equation (1) cannot be removed or rearranged, and the left side of equation (1) must be considered from the level of the plans making up the universe of plans. The right hand side, on the other hand, is only meaningful in the aggregate as premiums are pooled to cover all unfunded claims. Thus, we must understand the total claims exposure presented by the universe of plans, based upon an aggregation of the claims exposure presented by individual plans in that universe.

Employer withdrawal liability is not reflected directly in equation (1) since the model reflects only termination exposure. However, the withdrawal liability is implicit within the assets variable (A). Essentially, any liability of an employer incurred upon withdrawal from a plan becomes a claim to the plan (i.e., a receivable) and should be factored into the income stream along with any uncertainties concerning collectibility.

The funding rate of employer contributions is also implicit in the asset variable. Any funding constraints to be considered would be reflected through their impact on assets over time.

Program options which relate to benefit levels (i.e., vesting and accrual) or guarantee strategies become operational through the variable (G) in equation (1). The benefits to be guaranteed are defined by the level and type of benefits specified in each plan. The level of benefits to be guaranteed will be a function of the accrued vested benefits under the plan and the guarantee strategies which may include maximums, phase-in of increases, etc. The liability exposure of the PBGC also is driven by the asset allocation alternatives under consideration.

The modelling effort addressed in this paper is, for the most part, concerned with the plan level analysis defined by the variables within the parentheses on the left-hand side of equation (1). An approach is presented which provides the capability of simulating the operation of multiemployer pension plans over time, reflecting movements in the population benefit accruals, employer contributions, benefit payments and other activities which determine financial position. The expected PBGC liability exposure is also modelled.

The model is composed of two major modules with a third minor module added for report generation. A top level schematic is shown in Figure 1. The first module is concerned with the development of a population projection for the plan reflecting numbers and certain characteristics of that population. The characteristics include age, years of service (i.e., information upon which benefit entitlements and the costing of those benefits can be based), and participant status (i.e., information to drive the accrual and payment of benefits). The primary input to this module are initial age and service distributions of a plan's participants. This first module also can be used to model a profile of employer withdrawal from a plan since the affected participants simply change status from active to separated vested and cease to accrue benefits in the future.

PLAN LEVEL MODEL

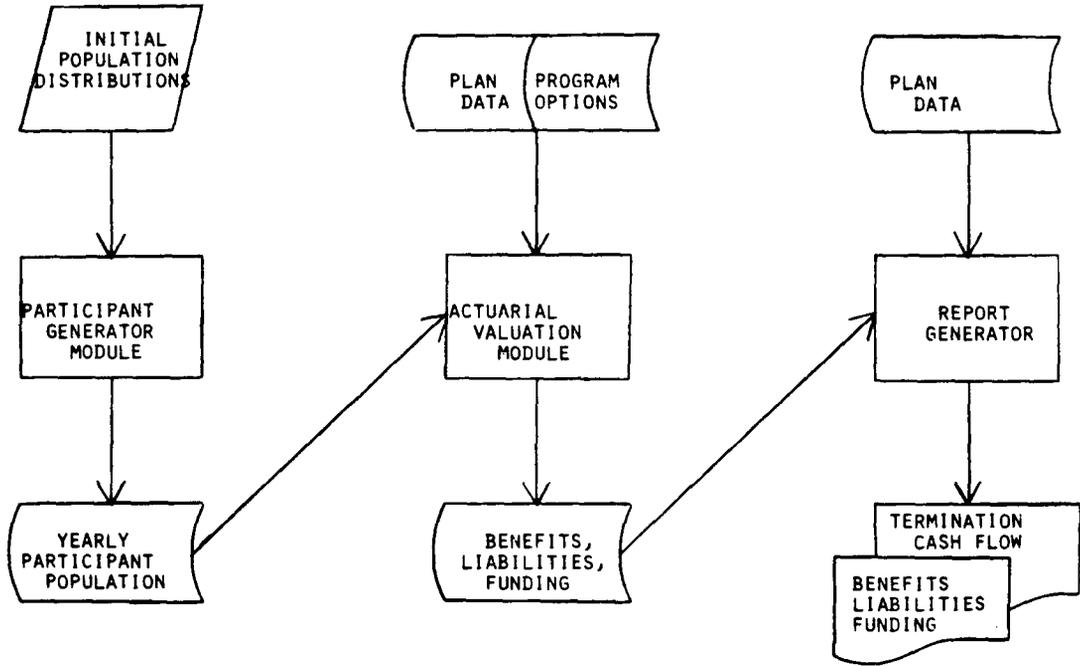


FIGURE 1

The second module employs the population projections to estimate accrued benefits and liabilities under the plan as well as contributions, cash flows, and other measures useful to the analysis of plan condition. This step performs an ongoing evaluation of the plan for each year of the simulation as well as the determination of the termination liabilities. Superimposed on the plan are PBGC policy options which can be varied to reflect funding, guarantee asset allocation, termination liability, and other program considerations.

The third module is primarily concerned with formal report generation. However, this step presents the opportunity to analyze some policy variables. Model software for this step incorporates the capability of generating termination cash flow estimates given a termination profile for the universe of plans. Additional software assists in the analysis of reorganization and premium policy.

C. POPULATION PROJECTION MODULE

The Population Projection Module produces estimates of the plan population over a 10-year period. Input to this module initializes the participant population as to age, service, and status (active, separated vested, and retired). Population projections, input in the form of growth factors, are used to generate total changes in the active population, processes of death, withdrawal from the plan, hiring practices, and procedures followed during reductions in force are modelled. In addition, the population is aged and retirement occurs under specified criteria.

1. Age, Service, and Status Data

Active and separated vested participants are initialized with age and service distributions similar to those presented in Figure 2. The initial data are presented in five-year incremental cells for age and service (age cells range from 20 through 64 years; services ranges from zero through 45 years).

SERVICE AGE	0	5	10	15	20	25	30	30+	TOTALS
20-24									
25-29	145								145
30-34	40	79							119
35-39	16	33	49						98
40-44	9	19	28	33					94
45-49	7	13	20	26	33				99
50-54	5	9	14	19	23	28			98
55-59	3	6	9	12	16	19	22		87
60-64	2	4	6	9	11	13	15	17	77
64-69									64
70+									49
TOTALS	227	163	126	104	30	60	37	17	817

FIGURE 2

Implicit in the manner in which these age and service distributions are constructed are two assumptions:

1. Service before the age of 20 is not considered. Participants found to be less than 20 years of age are added to the 20-24 year cell.
2. Late retirement beyond the age of 65 is not allowed.

Data on retirees are initially presented by age cells. These are five-year cells ranging from the age of 50 through 69. The number of retirees beyond the age of 69 is initially grouped in one single number. Inherent in this distribution is the assumption that no retirement is allowed before the age of 50.

2. Smoothing of Initial Age and Service Cells

In order to work with the population in yearly groups, the initial distributions are smoothed. This involves taking the numbers in each of the five-year cells and transforming them into one-year cells. For active and separated vested distributions, the totals in each five-year cell are divided equally into five one-year cells created by incrementing both the age and service one year at a time. For example, if there initially were 500 active participants in the cell representing ages from 45 through 49 and service from 10 through 14 years, that number would be distributed into the following groupings:

100 active participants of age 45
with 10 years of service

100 active participants of age 46
with 11 years of service

100 active participants of age 47 with 12
years of service

100 active participants of age 48
with 13 years of service

100 active participants of age 49
with 14 years of service

The model can accommodate any hiring procedure one wishes to define. The default procedure adds participants in the age groups from 20 years to 35 years. A sum-of-the-years digits approach is employed to weight the proportion introduced into each age group with the heaviest proportion going to the younger ages. All new hires are added with no prior service and thus the rehiring of previous participants is not considered.

Reductions in force are performed on a strictly seniority basis, reducing participants with the least years of service first.

The model incorporates three withdrawal tables which have been assigned to specific plans in order to reflect the characteristics of the individual plans and the industries within which they are organized. Mortality is chosen using the 1971 GAM tables. The model also accepts a user defined factor which will be applied to withdrawal and mortality factors to increase or decrease their impact.

As previously indicated, retired participants are initialized only with respect to age. However, as participants retire within subsequent years they retain both age and service identifiers. Initial retirees are given benefit amounts to reflect reported benefits in pay status. Subsequent retirees have benefits calculated under the benefit formula which is input to the simulation in the next modelling step (discussed in the next section). In addition, information is retained on the year in which retirement occurred so that the model can structure asset allocation categories under the program phase-in strategy which guarantees only post-ERISA accruals. This procedure is discussed further in the next section.

The withdrawal of a sponsoring employer can be modelled through the Population Projection Module. To accomplish this, the user must define the proportion of the population which is lost in each year due to withdrawals. The participants affected are assumed to be distributed uniformly across all age and service cells. These participants are removed from the active distribution and added to the separated vested population so that they no longer accrue benefits.

As the population is aged, active and separated vested participants are retired according to the retirement criteria defined by the user. The model accommodates a normal retirement age, an early retirement age and service criteria, and a forced retirement criteria based on credited service. Forced retirement assumes no reduction in benefits. Other early retirement allows the user to define a percentage reduction for each year. The model also allows the user to define a percentage which is applied to each cell containing participants eligible for early retirement to determine the number actually retired. All participants are retired automatically upon reaching normal retirement age.

The model does not incorporate disability benefits.

The processes outlined above are reiterated for each year over which projections are to be made. An age and service distribution is generated for each year and for each participant status.

The described software outputs two files for each plan. One of these files contains all of the age, service, and status projections for subsequent processing by the valuation software. In addition, a file is stored containing summary statistics for each of the projection years.

D. VALUATION MODULE

The Valuation Module performs all of the benefit accrual and costing calculations. It provides estimates of contributions, plan expenses, and assets over time. Also, termination liabilities and plan asset insufficiencies are estimated each year.

The calculations performed by this module can best be grouped into two categories. One of these categories covers the computations required under the assumptions that the plan is ongoing. The second concerns those computations required in estimating termination liabilities. While both of these categories are impacted by the multiemployer program options under consideration, the second category is severely impacted through the guaranty, benefit phase-in, program phase-in, and asset allocation options.

1. Initialization of Decrement Rates

The first step in the procedure is to initialize the mortality tables to be utilized. Any table which has been loaded can be employed. Employee withdrawal rates are combined with the mortality rates for the ongoing costing of benefits for active participants. These are the same tables employed in the Population Projection Module. The costing of benefits for separated vested and retired participants is accomplished with tables reflecting only mortality. The UP-1984 Mortality Table with PBGC valuation rates was used for costing termination liabilities.

2. Benefit Entitlements

Two basic input sources are used in performing these calculations. The major source consists of the age and service projections output from the previous module. The other input source is a data file on each plan containing data on the interest rate assumption employed by the plan, benefit type and rate, vesting type, benefits in pay status, initial assets, contributions, and the identification of the withdrawal table to be employed for the plans.

Accrued vested benefits are calculated each year for each status grouping as they are always required for the category five allocations. Similarly, total projected benefits through normal retirement age are calculated for all actives for use in the normal cost calculations. If guaranteed benefits are to be based on accruals subsequent to the effective date of the plan, accrued vested benefits are calculated for each status grouping from that time period forward. Since an age and service distribution is not available for retirees at the start of the simulation, the accrued vested benefits from the effective date of the plan for that group cannot be determined. This could be a source of difficulty when applying this guaranteeable benefit option. However, all the analysis performed to date has used an allocation to retirees prior to the guarantees and in most cases the full benefit of retirees is covered. Thus, little inaccuracy is reflected in the results. Under the post-ERISA guaranty strategy, both the pre-ERISA and post-ERISA accruals must be calculated for retirees to provide the basis for the allocation of assets. To accomplish this, the age and service distribution for retirees created

by the Population Projection Module identify the year of retirement for each age and service cell. From this information the amount of retiree benefits to be guaranteed can be determined.

3. Ongoing Plan Calculations

Identical calculations are performed on each plan in order to determine estimated contributions and cash flow projections. Funding costs are calculated assuming the Entry Age Normal Method. The payments required to amortize the initial past service liability can be user defined.

A negotiation cycle of three years is assumed for each plan, with the first period commencing with the start of the simulation. A contribution rate is calculated on a per active participant basis. The rate is held constant over the three-year negotiation period and actual contributions are driven by that rate and the number of active participants in the plan in each year. At the end of each three-year period shortfalls in contributions can be determined and a schedule of payments established to amortize that shortfall over a period of fifteen years. Also, the contribution rate can be revised to bring the payment in line with minimum funding requirements at the end of each three-year period. The model allows the user to establish a maximum on the amount that the contribution rate can be raised in any period so that contributions will not necessarily always be self-correcting.

Benefit increases are simulated and allowed at the end of each three-year period. Increases in the past service liability caused by benefit increases are identified and an amortization schedule developed to write off that liability over a period defined by the user.

4. Termination Calculations

In each year of the simulation, estimated termination liabilities are determined. The specific calculations to be performed depend upon the program option assumed for the particular simulation.

a. Determining Guaranteed Benefits

Determination of the guaranteeable benefit requires a unique step to accommodate the benefit phase-in rule. Changes in benefit amounts occurring due to benefit increases must be identified as well as the number of years from the current year that they were granted. Once the benefit increases have been determined, the appropriate phase-in rule is applied along with any maximums or minimums specified by the user. Then calculations are performed on each of the age and service cells, and present value calculated. If the program phase-in option has been elected, the guaranteed benefit is further reduced to reflect the year of the simulation.

b. Allocation of Assets

The allocation of assets addresses three priority categories:

First, retirees and those within five years of retirement,

Second, guaranteed benefits not included in prior allocation, and

Third, total vested benefits not included in prior allocation.

Employee contributions are not considered in the model and allocation beyond the vested accrued benefits is unimportant to the analysis.

To perform the allocation of assets, both the present value of the total benefits assigned to each allocation category and the benefit amounts in each of the age cells of each category must be available. Assets are allocated in turn to the total present value of all benefits in each category. If the assets are exhausted in any of the categories, a partial allocation is performed, allocating assets to each age cell in the proportion that the benefit amounts in that cell bear to the total benefits in the category. The benefit amounts in each age cell and each category that have been covered by an allocation of assets and/or are guaranteed are stored in a data set for the later generation of termination benefit cash flow estimates.

Benefits accrued through the year of the simulation for retired participants and those within five years of normal retirement are combined to form one allocation category. If the allocation is first to guaranteed benefits, benefits in the previously formed category are reduced by the amount of the guaranteed benefit for those participants. An additional category is formed to receive the final allocation. This category contains the accrued vested benefits for all participants less those assigned to the previous categories.

The allocation proceeds from category to category in the sequence defined by the option chosen. If the allocation is made first to that category composed of retirees and those within five years of normal retirement, the guaranteed benefits of those participants are reduced by the amount of the guaranteeable benefits which were covered by that allocation.

E. MODEL OUTPUT

Although the model retains a variety of output on disk, two formal reports are developed. The first of these is shown in Figure 3. This report displays the valuation results for the normal ten-year period of simulation. Each of the combinations of program options run is given an alpha code and this is shown at the top of the page along with plan identifier information. Second, certain reference

information is displayed indicating initializing data and assumptions concerning the plan. Following this, the valuation results are displayed along with several ratios which are provided to assist in the analysis. One sheet of output is provided for each plan and each program option combination in the sample of plans run. A summary page is also provided which displays accumulated values for all plans in the sample under each option combination.

The second standard output is shown in Figure 4. This report displays the expected benefit payment outflow under the conditions of a termination. Benefits which resulted from each of the allocation categories is shown along with a total payout. This report also displays a repayment stream of employer termination liabilities for both unfunded guaranteed and accrued vested liabilities. The years of amortization of the liability is defined by the user and reflect the PBGC interest rate. At the bottom of the display, termination benefit entitlements for participants are shown by age group.

This report uses a standard 20-year projection. The year in which the termination occurs is user defined. Totals for the sample are provided on the first page of the report.

FIGURE 3

TOTAL VALUES FOR SAMPLE, 24 PLANS IN SAMPLE

4/20/78

PROGRAM OPTION A

YEARS FROM BEGINNING OF SIMULATION

	1	2	3	4	5	6	7	8	9	10
LIABILITIES ESTIMATES										
1. LIABILITY (IN 0000,000\$)										
ACCUMULATED LIABILITY	1910.5	2010.8	2101.3	2486.7	2577.7	2658.8	3107.7	3190.9	3267.8	3770.8
P.V. ACCRUED BENEFITS	1734.6	1835.3	1927.8	2286.9	2383.3	2471.3	2894.9	2988.9	3066.9	3580.8
P.V. VESTED ACCRUED BEN.	1634.8	1737.1	1832.2	2178.5	2279.7	2373.6	2791.0	2893.6	2986.2	3473.8
GUARANTY LIABILITY (IN 0000\$)										
CATEGORY 3 BENEFITS	412938.	393107.	341218.	356444.	337925.	316746.	331809.	316628.	299119.	310989.
CATEGORY 4 BENEFITS	1091368.	1244848.	1343249.	1435344.	1671880.	1825917.	1937796.	2213208.	2382514.	2802681.
CATEGORY 5 BENEFITS	112.	116.	124.	212261.	86723.	39032.	299394.	134465.	88416.	388803.
GUARANTY INSUFFICIENCY	1001771.	1018393.	1040762.	1089155.	1234524.	1315017.	1394727.	1599937.	1732887.	1834922.
VESTED ACCRUED INSUFFICIENCY	1001659.	1018480.	1040851.	1282938.	1318152.	1353919.	1677940.	1733998.	1791129.	2209674.
2. CONTRIBUTIONS (IN 0000\$)										
NORMAL COSTS	49574.	46466.	43900.	48673.	45950.	43321.	48582.	46406.	44328.	49683.
AMORTIZATION OF INITIAL PAST SERVICE LI.	77900.	77900.	77900.	77900.	77900.	77900.	77900.	77900.	77900.	77900.
CHANGE IN P&L	0.	0.	0.	12905.	12905.	12905.	28900.	28900.	28900.	48452.
SHORT-FALL	0.	0.	0.	356.	356.	356.	223.	223.	223.	98.
CONTRIBUTIONS:										
MINIMUM THIS YEAR	127474.	124366.	121800.	139834.	137111.	134483.	155606.	153430.	151351.	176140.
RECORDED	127474.	127474.	127474.	139834.	139834.	139834.	155606.	155606.	155606.	176140.
ACTUAL	127474.	125393.	125835.	139805.	140337.	140827.	155531.	156066.	156642.	175826.
SHORTFALL	0.	2062.	1639.	29.	-503.	-993.	74.	-461.	-1037.	314.
3. CASH FLOW (IN 0000\$)										
CONTRIBUTIONS	127474.	125393.	125835.	139805.	140337.	140827.	155531.	156066.	156642.	175826.
CONTRIBUTION RATE/ACTIVE	18537.	18537.	18537.	20235.	20235.	20235.	22928.	22928.	22928.	26633.
EARNINGS	29366.	33588.	37372.	40947.	44308.	47316.	49975.	52179.	53863.	55111.
BENEFITS PAID	65468.	76975.	87436.	105657.	116034.	125390.	149564.	162197.	173549.	201088.
ADMINISTRATION	3880.	4536.	5117.	5647.	6168.	6636.	7057.	7424.	7714.	7933.
NLT CASH FLOW	87492.	77469.	70654.	69448.	62443.	58117.	48885.	38624.	29243.	21924.
% OF AVERAGE ASSETS	0.16	0.12	0.10	0.09	0.07	0.06	0.05	0.04	0.03	0.02
4. ASSETS (IN 0000\$)										
BEGINNING OF YEAR	517345.	604837.	682306.	752960.	822408.	884851.	940968.	989852.	1028476.	1087719.
END OF YEAR	604837.	682306.	752960.	822408.	884851.	940968.	989852.	1028476.	1087719.	1079643.
5. PARTICIPANTS										
ACTIVES VESTED	226986	227054	222424	222953	223541	224094	224716	225403	226153	226999
SEPARATED VESTED	11292	13118	15044	17019	19038	21060	23080	25105	27191	29288
RETIRED	37073	41624	45743	49462	52822	55788	59346	62577	65498	68113
TOTAL	275349	276819	265237	289457	295428	300970	307134	313107	318863	324328
6. SELECTED RATION										
RETIRED AND SEP. VESTED/TOTAL	0.18	0.20	0.21	0.23	0.24	0.26	0.27	0.28	0.29	0.30
PERCENT CHANGE IN ACTIVES	-2.16	0.17	0.24	0.26	0.25	0.28	0.31	0.33	0.33	0.30
ASSETS/CURRENT BENEFITS	7.90	7.86	7.80	7.12	7.09	7.06	5.29	6.10	5.93	5.26
CASH FLOW/AVERAGE ASSETS	0.16	0.12	0.10	0.09	0.07	0.06	0.05	0.04	0.03	0.02
NORMAL COST/CONTRIBUTIONS	0.39	0.37	0.35	0.35	0.33	0.31	0.31	0.30	0.28	0.28
CURRENT BENEFITS/CONTRIB.	0.51	0.49	0.49	0.46	0.43	0.42	0.46	0.44	0.41	0.44

FIGURE 4

CASUT, DAT(27305,36)

10134 02-MAY-78

PAGE 1

TERMINATION CASH FLOW ESTIMATES (IN 8000) FOR BENEFIT PAYOUT, PROGRAM OPTION A ASSUMED RETIREMENT AT 65 2-MAY-78

PLAN NO. 110

YEARS FROM START OF SIMULATION	1	2	3	4	5	6	7	8	9	10
	11	12	13	14	15	16	17	18	19	20
A. GUARANTEED BENEFIT PAYOUT	784.2 2445.9	921.2 2638.2	1055.8 2824.7	1187.8 3005.5	1317.2 3180.3	1444.0 3349.2	1653.3 3490.7	1858.2 3626.6	2058.7 3756.9	2284.6 3881.6
B. BENEFIT PAYOUT FROM ALLOCATIONS PRIOR TO GUARANTY	2085.5 2066.5	2085.4 2059.7	2085.2 2051.2	2084.8 2040.8	2084.0 2028.3	2082.8 2013.3	2081.3 1995.7	2079.8 1978.2	2078.8 1981.7	2071.8 1928.1
C. TOTAL BENEFIT PAYMENTS THROUGH GUARANTEED BENEFITS	2869.7 4512.3	3006.6 4697.8	3141.0 4875.9	3272.5 5046.3	3401.2 5208.6	3526.9 5362.5	3734.6 5486.4	3937.3 5601.9	4134.6 5708.6	4326.6 5806.6
D. EMPLOYER LIABILITY AMORTIZATION OVER 15 YEARS										
UNFUNDED GUARANTY BENEFITS	2273.6 2273.6	2273.6 2273.6	2273.6 2273.6	2273.6 2273.6	2273.6 2273.6	2273.6 0.0	2273.6 0.0	2273.6 0.0	2273.6 0.0	2273.6 0.0
UNFUNDED VESTED ACCRUED BENEFITS	2274.0 2274.0	2274.0 2274.0	2274.0 2274.0	2274.0 2274.0	2274.0 2274.0	2274.0 0.0	2274.0 0.0	2274.0 0.0	2274.0 0.0	2274.0 0.0

BENEFIT ENTITLEMENTS THROUGH CATEGORY 4 BY AGE GROUPS

AGE GROUPS									
20 - 24	25 - 29	30 - 34	35 - 39	40 - 44	45 - 49	50 - 54	55 - 59	60 - 64	65 - 69
70 - 74	75 - 79	80 - 84	85 - 89	90 - 94	95 - 99				
0.	0.	108.	274.	443.	695.	921.	1008.	1496.	1123.
394.	277.	163.	73.	23.	4.				

ATTACHMENT 1

PLANS IN THE SAMPLE AS A PERCENTAGE OF PLANS AND PARTICIPANTS IN EACH INDUSTRY

Industry Code	Small Plans in Sample (< 10,000 Participants)				All Plans in Sample			
	No. of Sample Plans	% of All Small Plans	No. of Sample Participants	% of All Small Plan Participants	No. of Sample Plans	% of All Plans	No. of Sample Participants	% of All Participants
01	--	--	--	--	1	100	16,500	100
02	--	--	--	--	2	100	268,847	100
03	3	37.5	5,510	16.7	5	50.0	48,287	63.7
04	11	6.6	6,690	4.5	14	8.2	59,123	29.6
05	3	8.6	2,939	5.2	4	11.1	37,939	41.3
06	7	6.4	7,728	7.2	9	8.1	218,068	68.5
07	14	6.8	14,383	10.1	16	7.7	66,083	34.2
08	5	6.6	19,429	24.8	7	9.0	112,372	65.6
09	21	6.8	57,361	8.8	51	15.1	777,385	56.7
10	3	75.0	11,026	97.8	4	80.0	56,026	99.6
11	3	27.3	11,466	34.5	3	27.3	11,466	34.5
12	3	27.3	4,137	22.7	3	27.3	4,137	22.7
13	3	25.0	5,570	36.0	4	30.8	114,620	92.1
14	3	33.3	6,983	46.6	3	33.3	6,983	46.6
15	3	16.7	4,459	14.9	6	28.6	592,157	95.9
16	3	30.0	2,765	32.9	3	30.0	2,765	32.9
17	3	42.9	5,017	35.8	5	55.6	51,854	85.2
18	3	60.0	6,159	68.9	6	75.0	117,980	97.7
19	3	60.0	9,431	82.7	4	66.7	37,225	95.0
20	4	6.7	4,439	6.4	7	11.1	164,173	71.7
21	3	37.5	15,072	68.5	4	44.4	28,043	80.2
22	3	7.7	12,671	15.5	5	11.9	125,206	52.8
23	5	7.4	20,538	17.8	10	13.7	172,670	64.6
24	5	6.6	18,704	10.4	15	17.4	1,278,421	88.8
25	3	5.8	10,297	11.1	8	13.8	115,926	58.5
26	3	20.0	2,375	17.8	3	20.0	2,375	17.8
27	3	42.9	6,455	35.6	3	42.9	6,455	35.6
28	3	9.4	16,685	15.4	14	32.6	301,306	76.7
29	3	75.0	12,916	82.3	3	75.0	12,916	82.3
30	3	6.1	13,658	12.1	13	22.0	350,482	77.9
31	3	7.1	9,308	7.4	10	19.6	141,009	44.2
32	3	15.0	9,727	31.3	3	15.0	9,727	31.3
33	3	37.5	11,233	63.3	4	44.4	27,510	80.8
34	3	14.3	1,026	5.7	6	25.0	61,350	78.2
35	3	21.4	3,319	21.1	5	31.3	52,516	80.9
36	3	37.5	15,495	63.8	5	50.0	83,741	90.5
37	3	8.1	1,753	3.0	7	16.6	111,267	62.1
38	3	6.4	2,225	2.6	4	8.3	25,532	23.3
Total ^{1/}	156	9.7	368,949	14.2	279	16.1	5,670,442	71.0

^{1/} The total number of plans and participants in this table differs slightly from the totals presented in Table 1 in Part VIII and Tables 1 and 4 in Appendix XIV. The estimates here are based upon adjusted 1976 PBGC premium records while the estimates in Part VIII and Appendix XIV are based upon the latest available plan data filed with the Department of Labor under ERISA reporting requirements.

SOURCE: Multiemployer plan universe data based upon adjusted 1976 PBGC premium records.

ATTACHMENT 2

THE CLASSIFICATION OF ALL MULTIEMPLOYER PLANS BY INDUSTRY

Industry No.	All Plans With More Than 10,000 Participants		All Plans With Fewer Than 10,000 Participants		Total for All Plans	
	Plans	Participants	Plans	Participants	Plans	Participants
01	1	16,500	--	--	1	16,500
02	2	268,847	--	--	2	268,847
03	2	42,777	8	33,064	10	75,841
04	3	52,433	167	147,291	170	199,724
05	1	35,000	35	56,905	36	91,905
06	2	210,340	109	107,966	111	318,306
07	2	51,700	207	141,721	209	193,421
08	2	92,943	76	78,433	78	171,376
09	30	720,024	308	651,290	338	1,371,314
10	1	45,000	4	11,275	5	56,275
11	--	--	11	33,211	11	33,211
12	--	--	11	18,245	11	18,245
13	1	109,050	12	15,452	13	124,502
14	--	--	9	14,976	9	14,976
15	3	587,698	18	29,926	21	617,624
16	--	--	10	8,401	10	8,401
17	2	46,837	7	14,032	9	60,869
18	3	111,821	5	8,939	8	120,760
19	1	27,794	5	11,397	6	39,191
20	3	159,734	60	69,299	63	229,033
21	1	12,971	8	22,004	9	34,975
22	3	134,535	39	81,991	42	216,526
23	5	152,132	68	115,239	73	267,371
24	10	1,259,717	76	179,707	86	1,439,424
25	5	105,629	52	92,675	57	198,304
26	--	--	15	13,338	15	13,338
27	--	--	7	18,127	7	18,127
28	11	284,621	32	108,345	43	392,966
29	--	--	4	15,688	4	15,688
30	10	336,824	49	113,271	59	450,095
31	9	192,701	42	126,549	51	319,250
32	--	--	20	31,126	20	31,126
33	1	16,277	8	17,758	9	34,035
34	3	60,324	21	18,102	24	78,426
35	2	49,197	14	15,698	16	64,895
36	2	68,246	8	24,282	10	92,528
37	5	121,451	37	57,597	42	179,048
38	1	23,307	47	86,265	48	109,572
Total ^{1/}	127	5,396,430	1,609	2,589,585	1,736	7,986,015

^{1/} The total number of plans and participants in this table differs slightly from the totals presented in Table 1 in Part VIII and Tables 1 and 4 in Appendix XIV. The estimates here are based upon adjusted 1976 PBGC premium records while the estimates in Part VIII and Appendix XIV are based upon the latest available plan data filed with the Department of Labor under ERISA reporting requirements.

SOURCE: Multiemployer plan universe data based upon adjusted 1976 PBGC premium records.

ATTACHMENT 3

THE 38 INDUSTRY CATEGORIES IN THE 279 PLAN SAMPLE

<u>Industry Number</u>	<u>Name</u>
01	Anthracite Mining
02	Bituminous Mining
03	Heavy Construction
04	Plumbing
05	Painting
06	Heavy Construction
07	Masonry
08	Roofing and Sheet Metal
09	Other Construction
10	Canning
11	Meat Packing
12	Milk
13	Baking and Confectionary
14	Breweries
15	Apparel and Textiles
16	Millinery
17	Lumber
18	Furniture
19	Paper
20	Printing
21	Leather
22	Metal Working
23	Other Manufacturing
24	Trucking
25	Water Transportation
26	Wholesale Trade
27	Retail Trade
28	Food Retailing
29	Restaurants and Bars
30	Other Trade
31	Hotels
32	Laundries
33	Building Services
34	Movies
35	Recreation
36	Hospitals
37	Other Services
38	Other Industries

ATTACHMENT 4. AGE AND SERVICE DISTRIBUTIONS FOR ACTIVE AND SEPARATED VESTED PARTICIPANTS

10									
50	AVERAGE AGE EQUALS 35	FRACTION VESTED EQUALS	0.264	FRACTION OVER AGE 55 EQUALS	0.056				
60	ACTIVE PARTICIPANTS:								
70	0.130E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
80	0.154E+00	0.742E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
90	0.883E-01	0.852E-01	0.415E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
100	0.479E-01	0.505E-01	0.327E-01	0.258E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
110	0.260E-01	0.266E-01	0.166E-01	0.166E-01	0.134E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
120	0.103E-01	0.141E-01	0.109E-01	0.103E-01	0.959E-02	0.763E-02	0.000E+00	0.000E+00	0.000E+00
130	0.692E-02	0.932E-02	0.885E-02	0.817E-02	0.786E-02	0.672E-02	0.406E-02	0.000E+00	0.000E+00
140	0.466E-02	0.598E-02	0.635E-02	0.715E-02	0.800E-02	0.758E-02	0.518E-02	0.202E-02	0.000E+00
150	0.739E-03	0.103E-02	0.112E-02	0.126E-02	0.142E-02	0.142E-02	0.112E-02	0.586E-03	0.279E-03
160									
180	SEPARATED VESTED PARTICIPANTS:								
190	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
200	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
210	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
220	0.000E+00	0.000E+00	0.124E+00	0.976E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
230	0.000E+00	0.000E+00	0.627E-01	0.627E-01	0.507E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
240	0.000E+00	0.000E+00	0.413E-01	0.389E-01	0.363E-01	0.289E-01	0.000E+00	0.000E+00	0.000E+00
250	0.000E+00	0.000E+00	0.335E-01	0.310E-01	0.298E-01	0.254E-01	0.154E-01	0.000E+00	0.000E+00
260	0.000E+00	0.000E+00	0.241E-01	0.271E-01	0.303E-01	0.287E-01	0.196E-01	0.766E-02	0.000E+00
270	0.000E+00	0.000E+00	0.423E-02	0.478E-02	0.539E-02	0.539E-02	0.423E-02	0.222E-02	0.106E-02
280									
320	AVERAGE AGE EQUALS 36	FRACTION VESTED EQUALS	0.284	FRACTION OVER AGE 55 EQUALS	0.063				
330	ACTIVE PARTICIPANTS:								
340	0.126E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
350	0.142E+00	0.685E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
360	0.821E-01	0.793E-01	0.386E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
370	0.482E-01	0.507E-01	0.329E-01	0.259E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
380	0.276E-01	0.282E-01	0.176E-01	0.176E-01	0.142E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
390	0.121E-01	0.165E-01	0.128E-01	0.120E-01	0.112E-01	0.893E-02	0.000E+00	0.000E+00	0.000E+00
400	0.841E-02	0.113E-01	0.108E-01	0.993E-02	0.955E-02	0.816E-02	0.493E-02	0.000E+00	0.000E+00
410	0.522E-02	0.669E-02	0.711E-02	0.801E-02	0.896E-02	0.848E-02	0.580E-02	0.227E-02	0.000E+00
420	0.864E-03	0.120E-02	0.131E-02	0.148E-02	0.167E-02	0.167E-02	0.131E-02	0.685E-03	0.327E-03
430									
450	SEPARATED VESTED PARTICIPANTS:								
460	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
470	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
480	0.000E+00	0.000E+00	0.136E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
490	0.000E+00	0.000E+00	0.116E+00	0.912E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
500	0.000E+00	0.000E+00	0.619E-01	0.619E-01	0.501E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
510	0.000E+00	0.000E+00	0.449E-01	0.423E-01	0.395E-01	0.314E-01	0.000E+00	0.000E+00	0.000E+00
520	0.000E+00	0.000E+00	0.378E-01	0.349E-01	0.336E-01	0.287E-01	0.174E-01	0.000E+00	0.000E+00
530	0.000E+00	0.000E+00	0.250E-01	0.282E-01	0.315E-01	0.297E-01	0.204E-01	0.797E-02	0.000E+00
540	0.000E+00	0.000E+00	0.160E-02	0.519E-02	0.586E-02	0.586E-02	0.460E-02	0.241E-02	0.115E-02
550									
590	AVERAGE AGE EQUALS 37	FRACTION VESTED EQUALS	0.319	FRACTION OVER AGE 55 EQUALS	0.094				
600	ACTIVE PARTICIPANTS:								
610	0.115E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
620	0.127E+00	0.619E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
630	0.220E-01	0.244E-01	0.162E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
640	0.449E-01	0.469E-01	0.304E-01	0.239E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
650	0.301E-01	0.308E-01	0.192E-01	0.192E-01	0.155E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
660	0.147E-01	0.187E-01	0.144E-01	0.136E-01	0.127E-01	0.101E-01	0.000E+00	0.000E+00	0.000E+00
670	0.921E-02	0.131E-01	0.131E-01	0.115E-01	0.110E-01	0.942E-02	0.000E+00	0.000E+00	0.000E+00

680	0.620E-02	0.795E-02	0.845E-02	0.951E-02	0.106E-01	0.101E-01	0.688E-02	0.269E-02	0.000E+00
690	0.257E-02	0.357E-02	0.388E-02	0.438E-02	0.494E-02	0.494E-02	0.388E-02	0.203E-02	0.970E-03
700									
720	SEPARATED VESTED PARTICIPANTS:								
730	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
740	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
750	0.000E+00	0.000E+00	0.114E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
760	0.000E+00	0.000E+00	0.954E-01	0.752E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
770	0.000E+00	0.000E+00	0.602E-01	0.602E-01	0.486E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
780	0.000E+00	0.000E+00	0.453E-01	0.427E-01	0.398E-01	0.317E-01	0.000E+00	0.000E+00	0.000E+00
790	0.000E+00	0.000E+00	0.390E-01	0.360E-01	0.346E-01	0.296E-01	0.179E-01	0.000E+00	0.000E+00
800	0.000E+00	0.000E+00	0.265E-01	0.299E-01	0.334E-01	0.316E-01	0.216E-01	0.845E-02	0.000E+00
810	0.000E+00	0.000E+00	0.122E-01	0.138E-01	0.155E-01	0.155E-01	0.122E-01	0.639E-02	0.305E-02
820									
860	AVERAGE AGE EQUALS 38		FRACTION VESTED EQUALS		0.343	FRACTION OVER AGE 55 EQUALS		0.113	
870	ACTIVE PARTICIPANTS:								
880	0.103E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
890	0.118E+00	0.570E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
900	0.720E-01	0.695E-01	0.339E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
910	0.441E-01	0.464E-01	0.301E-01	0.237E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
920	0.298E-01	0.304E-01	0.190E-01	0.190E-01	0.153E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
930	0.152E-01	0.208E-01	0.161E-01	0.151E-01	0.141E-01	0.112E-01	0.000E+00	0.000E+00	0.000E+00
940	0.110E-01	0.148E-01	0.140E-01	0.130E-01	0.125E-01	0.107E-01	0.644E-02	0.000E+00	0.000E+00
950	0.716E-02	0.918E-02	0.976E-02	0.110E-01	0.123E-01	0.116E-01	0.795E-02	0.311E-02	0.000E+00
960	0.339E-02	0.471E-02	0.512E-02	0.578E-02	0.653E-02	0.653E-02	0.517E-02	0.268E-02	0.128E-02
970									
990	SEPARATED VESTED PARTICIPANTS:								
1000	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1010	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1020	0.000E+00	0.000E+00	0.988E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1030	0.000E+00	0.000E+00	0.877E-01	0.691E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1040	0.000E+00	0.000E+00	0.553E-01	0.553E-01	0.447E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1050	0.000E+00	0.000E+00	0.469E-01	0.442E-01	0.412E-01	0.328E-01	0.000E+00	0.000E+00	0.000E+00
1060	0.000E+00	0.000E+00	0.410E-01	0.378E-01	0.364E-01	0.311E-01	0.188E-01	0.000E+00	0.000E+00
1070	0.000E+00	0.000E+00	0.285E-01	0.320E-01	0.358E-01	0.339E-01	0.232E-01	0.906E-02	0.000E+00
1080	0.000E+00	0.000E+00	0.149E-01	0.169E-01	0.190E-01	0.190E-01	0.149E-01	0.783E-02	0.373E-02
1090									
1130	AVERAGE AGE EQUALS 39		FRACTION VESTED EQUALS		0.372	FRACTION OVER AGE 55 EQUALS		0.137	
1140	ACTIVE PARTICIPANTS:								
1150	0.949E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1160	0.107E+00	0.514E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1170	0.648E-01	0.626E-01	0.305E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1180	0.418E-01	0.440E-01	0.285E-01	0.225E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1190	0.304E-01	0.311E-01	0.194E-01	0.194E-01	0.157E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1200	0.173E-01	0.236E-01	0.182E-01	0.172E-01	0.140E-01	0.128E-01	0.000E+00	0.000E+00	0.000E+00
1210	0.126E-01	0.170E-01	0.161E-01	0.149E-01	0.143E-01	0.127E-01	0.740E-02	0.000E+00	0.000E+00
1220	0.835E-02	0.107E-01	0.114E-01	0.128E-01	0.143E-01	0.116E-01	0.298E-02	0.363E-02	0.000E+00
1230	0.432E-02	0.601E-02	0.654E-02	0.738E-02	0.833E-02	0.833E-02	0.654E-02	0.343E-02	0.163E-02
1240									
1260	SEPARATED VESTED PARTICIPANTS:								
1270	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1280	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1290	0.000E+00	0.000E+00	0.820E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1300	0.000E+00	0.000E+00	0.766E-01	0.604E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1310	0.000E+00	0.000E+00	0.520E-01	0.520E-01	0.421E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1320	0.000E+00	0.000E+00	0.490E-01	0.462E-01	0.430E-01	0.343E-01	0.000E+00	0.000E+00	0.000E+00

1330	0.000E+00	0.000E+00	0.433E-01	0.400E-01	0.385E-01	0.329E-01	0.199E-01	0.000E+00	0.000E+00
1340	0.000E+00	0.000E+00	0.306E-01	0.344E-01	0.385E-01	0.365E-01	0.249E-01	0.974E-02	0.000E+00
1350	0.000E+00	0.000E+00	0.176E-01	0.198E-01	0.224E-01	0.224E-01	0.176E-01	0.920E-02	0.439E-02
1360									
1400	AVERAGE AGE EQUALS 40		FRACTION VESTED EQUALS		0.392	FRACTION OVER AGE 55 EQUALS		0.147	
1410	ACTIVE PARTICIPANTS:								
1420	0.949E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1430	0.925E-01	0.445E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1440	0.605E-01	0.585E-01	0.285E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1450	0.418E-01	0.440E-01	0.285E-01	0.225E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1460	0.304E-01	0.311E-01	0.194E-01	0.194E-01	0.157E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1470	0.190E-01	0.260E-01	0.201E-01	0.189E-01	0.176E-01	0.140E-01	0.000E+00	0.000E+00	0.000E+00
1480	0.140E-01	0.189E-01	0.179E-01	0.166E-01	0.159E-01	0.136E-01	0.822E-02	0.000E+00	0.000E+00
1490	0.939E-02	0.121E-01	0.128E-01	0.144E-01	0.161E-01	0.153E-01	0.104E-01	0.408E-02	0.000E+00
1500	0.432E-02	0.601E-02	0.654E-02	0.738E-02	0.833E-02	0.833E-02	0.654E-02	0.343E-02	0.163E-02
1510									
1530	SEPARATED VESTED PARTICIPANTS:								
1540	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1550	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1560	0.000E+00	0.000E+00	0.727E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1570	0.000E+00	0.000E+00	0.727E-01	0.573E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1580	0.000E+00	0.000E+00	0.494E-01	0.494E-01	0.399E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1590	0.000E+00	0.000E+00	0.512E-01	0.482E-01	0.450E-01	0.358E-01	0.000E+00	0.000E+00	0.000E+00
1600	0.000E+00	0.000E+00	0.457E-01	0.422E-01	0.406E-01	0.347E-01	0.210E-01	0.000E+00	0.000E+00
1610	0.000E+00	0.000E+00	0.327E-01	0.368E-01	0.411E-01	0.390E-01	0.266E-01	0.104E-01	0.000E+00
1620	0.000E+00	0.000E+00	0.167E-01	0.188E-01	0.212E-01	0.212E-01	0.167E-01	0.874E-02	0.417E-02
1630									
1670	AVERAGE AGE EQUALS 41		FRACTION VESTED EQUALS		0.420	FRACTION OVER AGE 55 EQUALS		0.165	
1680	ACTIVE PARTICIPANTS:								
1690	0.826E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1700	0.837E-01	0.403E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1710	0.550E-01	0.532E-01	0.259E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1720	0.378E-01	0.398E-01	0.258E-01	0.203E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1730	0.325E-01	0.332E-01	0.207E-01	0.207E-01	0.167E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1740	0.203E-01	0.278E-01	0.214E-01	0.202E-01	0.188E-01	0.150E-01	0.000E+00	0.000E+00	0.000E+00
1750	0.165E-01	0.222E-01	0.211E-01	0.195E-01	0.187E-01	0.160E-01	0.967E-02	0.000E+00	0.000E+00
1760	0.102E-01	0.131E-01	0.139E-01	0.157E-01	0.176E-01	0.166E-01	0.114E-01	0.444E-02	0.000E+00
1770	0.508E-02	0.706E-02	0.768E-02	0.868E-02	0.979E-02	0.979E-02	0.768E-02	0.403E-02	0.192E-02
1780									
1800	SEPARATED VESTED PARTICIPANTS:								
1810	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1820	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1830	0.000E+00	0.000E+00	0.617E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1840	0.000E+00	0.000E+00	0.814E-01	0.484E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1850	0.000E+00	0.000E+00	0.493E-01	0.493E-01	0.399E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1860	0.000E+00	0.000E+00	0.511E-01	0.481E-01	0.449E-01	0.357E-01	0.000E+00	0.000E+00	0.000E+00
1870	0.000E+00	0.000E+00	0.302E-01	0.464E-01	0.446E-01	0.381E-01	0.230E-01	0.000E+00	0.000E+00
1880	0.000E+00	0.000E+00	0.332E-01	0.374E-01	0.418E-01	0.396E-01	0.271E-01	0.106E-01	0.000E+00
1890	0.000E+00	0.000E+00	0.183E-01	0.207E-01	0.233E-01	0.233E-01	0.183E-01	0.260E-02	0.459E-02
1900									
1940	AVERAGE AGE EQUALS 42		FRACTION VESTED EQUALS		0.452	FRACTION OVER AGE 55 EQUALS		0.199	
1950	ACTIVE PARTICIPANTS:								
1960	0.731E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1970	0.704E-01	0.439E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1980	0.471E-01	0.405E-01	0.222E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
1990	0.482E-01	0.402E-01	0.241E-01	0.209E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00

2000	0.328E-01	0.336E-01	0.209E-01	0.209E-01	0.169E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2010	0.205E-01	0.281E-01	0.217E-01	0.204E-01	0.190E-01	0.152E-01	0.090E+00	0.000E+00	0.000E+00
2020	0.180E-01	0.243E-01	0.231E-01	0.213E-01	0.205E-01	0.175E-01	0.106E-01	0.000E+00	0.000E+00
2030	0.124E-01	0.159E-01	0.169E-01	0.190E-01	0.213E-01	0.202E-01	0.138E-01	0.539E-02	0.000E+00
2040	0.599E-02	0.833E-02	0.906E-02	0.102E-01	0.115E-01	0.115E-01	0.906E-02	0.475E-02	0.226E-02
2050									
2070	SEPARATED VESTED PARTICIPANTS:								
2080	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2090	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2100	0.000E+00	0.000E+00	0.491E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2110	0.000E+00	0.000E+00	0.577E-01	0.455E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2120	0.000E+00	0.000E+00	0.463E-01	0.463E-01	0.374E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2130	0.000E+00	0.000E+00	0.480E-01	0.452E-01	0.421E-01	0.335E-01	0.000E+00	0.000E+00	0.000E+00
2140	0.000E+00	0.000E+00	0.511E-01	0.472E-01	0.454E-01	0.387E-01	0.234E-01	0.000E+00	0.000E+00
2150	0.000E+00	0.000E+00	0.374E-01	0.421E-01	0.471E-01	0.446E-01	0.305E-01	0.119E-01	0.000E+00
2160	0.000E+00	0.000E+00	0.201E-01	0.226E-01	0.256E-01	0.256E-01	0.201E-01	0.105E-01	0.501E-02
2170									
2210	AVERAGE AGE EQUALS 43		FRACTION VESTED EQUALS		0.476	FRACTION OVER AGE 55 EQUALS		0.218	
2220	ACTIVE PARTICIPANTS:								
2230	0.626E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2240	0.634E-01	0.305E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2250	0.428E-01	0.413E-01	0.201E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2260	0.350E-01	0.369E-01	0.239E-01	0.188E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2270	0.328E-01	0.336E-01	0.209E-01	0.209E-01	0.169E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2280	0.223E-01	0.304E-01	0.235E-01	0.221E-01	0.206E-01	0.164E-01	0.000E+00	0.000E+00	0.000E+00
2290	0.194E-01	0.262E-01	0.248E-01	0.229E-01	0.221E-01	0.189E-01	0.114E-01	0.000E+00	0.000E+00
2300	0.134E-01	0.172E-01	0.183E-01	0.206E-01	0.231E-01	0.218E-01	0.149E-01	0.583E-02	0.000E+00
2310	0.685E-02	0.952E-02	0.104E-01	0.117E-01	0.132E-01	0.132E-01	0.104E-01	0.543E-02	0.259E-02
2320									
2340	SEPARATED VESTED PARTICIPANTS:								
2350	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2360	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2370	0.000E+00	0.000E+00	0.423E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2380	0.000E+00	0.000E+00	0.502E-01	0.396E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2390	0.000E+00	0.000E+00	0.440E-01	0.440E-01	0.355E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2400	0.000E+00	0.000E+00	0.493E-01	0.465E-01	0.434E-01	0.345E-01	0.000E+00	0.000E+00	0.000E+00
2410	0.000E+00	0.000E+00	0.527E-01	0.482E-01	0.464E-01	0.396E-01	0.240E-01	0.000E+00	0.000E+00
2420	0.000E+00	0.000E+00	0.385E-01	0.434E-01	0.485E-01	0.459E-01	0.314E-01	0.123E-01	0.000E+00
2430	0.000E+00	0.000E+00	0.218E-01	0.246E-01	0.277E-01	0.277E-01	0.218E-01	0.114E-01	0.544E-02
2440									
2480	AVERAGE AGE EQUALS 44		FRACTION VESTED EQUALS		0.499	FRACTION OVER AGE 55 EQUALS		0.242	
2490	ACTIVE PARTICIPANTS:								
2500	0.527E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2510	0.570E-01	0.274E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2520	0.389E-01	0.376E-01	0.183E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2530	0.422E-01	0.339E-01	0.219E-01	0.173E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2540	0.332E-01	0.339E-01	0.211E-01	0.211E-01	0.171E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2550	0.225E-01	0.307E-01	0.237E-01	0.224E-01	0.208E-01	0.166E-01	0.000E+00	0.000E+00	0.000E+00
2560	0.210E-01	0.283E-01	0.269E-01	0.248E-01	0.239E-01	0.204E-01	0.123E-01	0.000E+00	0.000E+00
2570	0.146E-01	0.188E-01	0.179E-01	0.224E-01	0.251E-01	0.238E-01	0.142E-01	0.635E-02	0.000E+00
2580	0.779E-02	0.108E-01	0.118E-01	0.134E-01	0.159E-01	0.159E-01	0.118E-01	0.412E-02	0.294E-02
2590									
2610	SEPARATED VESTED PARTICIPANTS:								
2620	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2630	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2640	0.000E+00	0.000E+00	0.362E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00

2650	0.000E+00	0.000E+00	0.440E-01	0.347E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2660	0.000E+00	0.000E+00	0.424E-01	0.424E-01	0.343E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2670	0.000E+00	0.000E+00	0.476E-01	0.448E-01	0.418E-01	0.333E-01	0.000E+00	0.000E+00	0.000E+00
2680	0.000E+00	0.000E+00	0.539E-01	0.498E-01	0.479E-01	0.409E-01	0.248E-01	0.000E+00	0.000E+00
2690	0.000E+00	0.000E+00	0.400E-01	0.450E-01	0.503E-01	0.477E-01	0.326E-01	0.127E-01	0.000E+00
2700	0.000E+00	0.000E+00	0.236E-01	0.267E-01	0.301E-01	0.301E-01	0.236E-01	0.124E-01	0.590E-02
2710	AVERAGE AGE EQUALS 45 FRACTION VESTED EQUALS 0.521 FRACTION OVER AGE 55 EQUALS 0.260								
2760	ACTIVE PARTICIPANTS:								
2770	0.418E-01	0.000E+00							
2780	0.493E-01	0.238E-01	0.000E+00						
2790	0.342E-01	0.331E-01	0.161E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2800	0.318E-01	0.335E-01	0.217E-01	0.171E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2810	0.328E-01	0.336E-01	0.209E-01	0.209E-01	0.169E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2820	0.240E-01	0.327E-01	0.253E-01	0.238E-01	0.222E-01	0.177E-01	0.000E+00	0.000E+00	0.000E+00
2830	0.222E-01	0.299E-01	0.284E-01	0.262E-01	0.252E-01	0.215E-01	0.130E-01	0.000E+00	0.000E+00
2840	0.155E-01	0.199E-01	0.211E-01	0.238E-01	0.266E-01	0.252E-01	0.172E-01	0.673E-02	0.000E+00
2850	0.856E-02	0.119E-01	0.129E-01	0.146E-01	0.165E-01	0.165E-01	0.129E-01	0.679E-02	0.324E-02
2860	SEPARATED VESTED PARTICIPANTS:								
2890	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2900	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2910	0.000E+00	0.000E+00	0.309E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2920	0.000E+00	0.000E+00	0.416E-01	0.328E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2930	0.000E+00	0.000E+00	0.401E-01	0.401E-01	0.324E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
2940	0.000E+00	0.000E+00	0.485E-01	0.457E-01	0.426E-01	0.339E-01	0.000E+00	0.000E+00	0.000E+00
2950	0.000E+00	0.000E+00	0.545E-01	0.503E-01	0.484E-01	0.413E-01	0.250E-01	0.000E+00	0.000E+00
2960	0.000E+00	0.000E+00	0.405E-01	0.457E-01	0.511E-01	0.484E-01	0.330E-01	0.129E-01	0.000E+00
2970	0.000E+00	0.000E+00	0.248E-01	0.280E-01	0.316E-01	0.316E-01	0.248E-01	0.130E-01	0.621E-02
2980	AVERAGE AGE EQUALS 46 FRACTION VESTED EQUALS 0.542 FRACTION OVER AGE 55 EQUALS 0.291								
3030	ACTIVE PARTICIPANTS:								
3040	0.418E-01	0.000E+00							
3050	0.423E-01	0.204E-01	0.000E+00						
3060	0.300E-01	0.289E-01	0.141E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3070	0.287E-01	0.302E-01	0.195E-01	0.154E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3080	0.301E-01	0.308E-01	0.192E-01	0.192E-01	0.155E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3090	0.240E-01	0.327E-01	0.253E-01	0.238E-01	0.222E-01	0.177E-01	0.000E+00	0.000E+00	0.000E+00
3100	0.236E-01	0.318E-01	0.307E-01	0.279E-01	0.268E-01	0.229E-01	0.138E-01	0.000E+00	0.000E+00
3110	0.176E-01	0.225E-01	0.240E-01	0.270E-01	0.302E-01	0.286E-01	0.195E-01	0.763E-02	0.000E+00
3120	0.242E-02	0.131E-01	0.142E-01	0.161E-01	0.181E-01	0.181E-01	0.142E-01	0.747E-02	0.356E-02
3130	SEPARATED VESTED PARTICIPANTS:								
3160	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3170	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3180	0.000E+00	0.000E+00	0.260E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3190	0.000E+00	0.000E+00	0.360E-01	0.284E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3200	0.000E+00	0.000E+00	0.354E-01	0.354E-01	0.286E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3210	0.000E+00	0.000E+00	0.468E-01	0.439E-01	0.410E-01	0.326E-01	0.000E+00	0.000E+00	0.000E+00
3220	0.000E+00	0.000E+00	0.556E-01	0.514E-01	0.474E-01	0.422E-01	0.275E-01	0.000E+00	0.000E+00
3230	0.000E+00	0.000E+00	0.442E-01	0.498E-01	0.555E-01	0.527E-01	0.360E-01	0.141E-01	0.000E+00
3240	0.000E+00	0.000E+00	0.243E-01	0.297E-01	0.335E-01	0.335E-01	0.243E-01	0.138E-01	0.452E-02
3250	AVERAGE AGE EQUALS 47 FRACTION VESTED EQUALS 0.564 FRACTION OVER AGE 55 EQUALS 0.405								
3300	ACTIVE PARTICIPANTS:								
3310	0.417E-01	0.000E+00							

3320	0.356E-01	0.171E-01	0.000E+00							
3330	0.260E-01	0.251E-01	0.122E-01	0.000E+00						
3340	0.257E-01	0.271E-01	0.174E-01	0.138E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3350	0.304E-01	0.311E-01	0.194E-01	0.194E-01	0.157E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3360	0.260E-01	0.355E-01	0.274E-01	0.258E-01	0.241E-01	0.192E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3370	0.253E-01	0.340E-01	0.323E-01	0.298E-01	0.287E-01	0.245E-01	0.148E-01	0.000E+00	0.000E+00	0.000E+00
3380	0.188E-01	0.241E-01	0.254E-01	0.289E-01	0.373E-01	0.306E-01	0.209E-01	0.817E-02	0.000E+00	0.000E+00
3390	0.952E-02	0.132E-01	0.144E-01	0.162E-01	0.183E-01	0.183E-01	0.144E-01	0.754E-02	0.360E-02	0.000E+00

3400
 3420 SEPARATED VESTED PARTICIPANTS:

3430	0.000E+00									
3440	0.000E+00									
3450	0.000E+00	0.000E+00	0.217E-01	0.000E+00						
3460	0.000E+00	0.000E+00	0.311E-01	0.246E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3470	0.000E+00	0.000E+00	0.344E-01	0.344E-01	0.278E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3480	0.000E+00	0.000E+00	0.486E-01	0.458E-01	0.427E-01	0.340E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3490	0.000E+00	0.000E+00	0.573E-01	0.529E-01	0.509E-01	0.435E-01	0.263E-01	0.000E+00	0.000E+00	0.000E+00
3500	0.000E+00	0.000E+00	0.455E-01	0.512E-01	0.573E-01	0.542E-01	0.371E-01	0.145E-01	0.000E+00	0.000E+00
3510	0.000E+00	0.000E+00	0.255E-01	0.288E-01	0.325E-01	0.325E-01	0.255E-01	0.134E-01	0.638E-02	0.000E+00

3520
 3560 AVERAGE AGE EQUALS 48 FRACTION VESTED EQUALS 0.578 FRACTION OVER AGE 55 EQUALS 0.323
 3570 ACTIVE PARTICIPANTS:

3580	0.209E-01	0.000E+00								
3590	0.352E-01	0.170E-01	0.000E+00							
3600	0.257E-01	0.248E-01	0.121E-01	0.000E+00						
3610	0.223E-01	0.235E-01	0.152E-01	0.120E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3620	0.301E-01	0.308E-01	0.192E-01	0.192E-01	0.155E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3630	0.257E-01	0.351E-01	0.271E-01	0.255E-01	0.238E-01	0.190E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3640	0.264E-01	0.355E-01	0.337E-01	0.312E-01	0.300E-01	0.256E-01	0.155E-01	0.000E+00	0.000E+00	0.000E+00
3650	0.196E-01	0.252E-01	0.268E-01	0.302E-01	0.337E-01	0.319E-01	0.218E-01	0.853E-02	0.000E+00	0.000E+00
3660	0.103E-01	0.143E-01	0.155E-01	0.175E-01	0.198E-01	0.198E-01	0.155E-01	0.815E-02	0.388E-02	0.000E+00

3670
 3690 SEPARATED VESTED PARTICIPANTS:

3700	0.000E+00									
3710	0.000E+00									
3720	0.000E+00	0.000E+00	0.209E-01	0.000E+00						
3730	0.000E+00	0.000E+00	0.263E-01	0.208E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3740	0.000E+00	0.000E+00	0.332E-01	0.332E-01	0.268E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3750	0.000E+00	0.000E+00	0.469E-01	0.442E-01	0.412E-01	0.328E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3760	0.000E+00	0.000E+00	0.584E-01	0.539E-01	0.519E-01	0.443E-01	0.268E-01	0.000E+00	0.000E+00	0.000E+00
3770	0.000E+00	0.000E+00	0.464E-01	0.522E-01	0.584E-01	0.553E-01	0.378E-01	0.148E-01	0.000E+00	0.000E+00
3780	0.000E+00	0.000E+00	0.169E-01	0.304E-01	0.343E-01	0.343E-01	0.269E-01	0.141E-01	0.631E-02	0.000E+00

3790
 3830 AVERAGE AGE EQUALS 49 FRACTION VESTED EQUALS 0.602 FRACTION OVER AGE 55 EQUALS 0.354
 3840 ACTIVE PARTICIPANTS:

3850	0.104E-01	0.000E+00								
3860	0.280E-01	0.136E-01	0.000E+00							
3870	0.214E-01	0.207E-01	0.101E-01	0.000E+00						
3880	0.223E-01	0.235E-01	0.152E-01	0.120E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3890	0.274E-01	0.308E-01	0.192E-01	0.192E-01	0.155E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3900	0.257E-01	0.351E-01	0.271E-01	0.255E-01	0.238E-01	0.190E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3910	0.264E-01	0.355E-01	0.337E-01	0.312E-01	0.300E-01	0.256E-01	0.155E-01	0.000E+00	0.000E+00	0.000E+00
3920	0.217E-01	0.252E-01	0.268E-01	0.302E-01	0.337E-01	0.319E-01	0.218E-01	0.853E-02	0.000E+00	0.000E+00
3930	0.111E-01	0.143E-01	0.155E-01	0.175E-01	0.198E-01	0.198E-01	0.155E-01	0.815E-02	0.388E-02	0.000E+00

3940
 3960 SEPARATED VESTED PARTICIPANTS:

3970	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3980	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
3990	0.000E+00	0.000E+00	0.167E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4000	0.000E+00	0.000E+00	0.252E-01	0.199E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4010	0.000E+00	0.000E+00	0.290E-01	0.290E-01	0.234E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4020	0.000E+00	0.000E+00	0.450E-01	0.424E-01	0.395E-01	0.315E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4030	0.000E+00	0.000E+00	0.589E-01	0.544E-01	0.524E-01	0.447E-01	0.270E-01	0.000E+00	0.000E+00	0.000E+00
4040	0.000E+00	0.000E+00	0.491E-01	0.553E-01	0.619E-01	0.586E-01	0.400E-01	0.157E-01	0.000E+00	0.000E+00
4050	0.000E+00	0.000E+00	0.279E-01	0.316E-01	0.356E-01	0.356E-01	0.279E-01	0.146E-01	0.699E-02	
4060										
4100	AVERAGE AGE EQUALS 50		FRACTION VESTED EQUALS	0.618		FRACTION OVER AGE 55 EQUALS	0.368			
4110	ACTIVE PARTICIPANTS:									
4120	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4130	0.285E-01	0.137E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4140	0.173E-01	0.147E-01	0.815E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4150	0.193E-01	0.203E-01	0.132E-01	0.104E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4160	0.277E-01	0.283E-01	0.176E-01	0.176E-01	0.142E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4170	0.260E-01	0.355E-01	0.274E-01	0.258E-01	0.241E-01	0.192E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4180	0.295E-01	0.397E-01	0.377E-01	0.348E-01	0.335E-01	0.286E-01	0.173E-01	0.000E+00	0.000E+00	0.000E+00
4190	0.230E-01	0.295E-01	0.313E-01	0.353E-01	0.395E-01	0.374E-01	0.255E-01	0.998E-02	0.000E+00	0.000E+00
4200	0.113E-01	0.154E-01	0.170E-01	0.192E-01	0.217E-01	0.217E-01	0.170E-01	0.892E-02	0.425E-02	
4210										
4230	SEPARATED VESTED PARTICIPANTS:									
4240	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4250	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4260	0.000E+00	0.000E+00	0.132E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4270	0.000E+00	0.000E+00	0.213E-01	0.168E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4280	0.000E+00	0.000E+00	0.285E-01	0.285E-01	0.230E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4290	0.000E+00	0.000E+00	0.443E-01	0.417E-01	0.389E-01	0.310E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4300	0.000E+00	0.000E+00	0.609E-01	0.563E-01	0.541E-01	0.462E-01	0.280E-01	0.000E+00	0.000E+00	0.000E+00
4310	0.000E+00	0.000E+00	0.507E-01	0.571E-01	0.638E-01	0.605E-01	0.413E-01	0.161E-01	0.000E+00	0.000E+00
4320	0.000E+00	0.000E+00	0.275E-01	0.311E-01	0.351E-01	0.351E-01	0.275E-01	0.144E-01	0.488E-02	
4330										
4370	AVERAGE AGE EQUALS 51		FRACTION VESTED EQUALS	0.635		FRACTION OVER AGE 55 EQUALS	0.396			
4380	ACTIVE PARTICIPANTS:									
4390	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4400	0.212E-01	0.102E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4410	0.171E-01	0.165E-01	0.806E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4420	0.159E-01	0.168E-01	0.109E-01	0.857E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4430	0.246E-01	0.252E-01	0.157E-01	0.157E-01	0.127E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4440	0.257E-01	0.351E-01	0.271E-01	0.255E-01	0.238E-01	0.190E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4450	0.306E-01	0.411E-01	0.391E-01	0.361E-01	0.347E-01	0.296E-01	0.179E-01	0.000E+00	0.000E+00	0.000E+00
4460	0.248E-01	0.318E-01	0.338E-01	0.381E-01	0.426E-01	0.404E-01	0.276E-01	0.108E-01	0.000E+00	0.000E+00
4470	0.120E-01	0.167E-01	0.131E-01	0.205E-01	0.231E-01	0.231E-01	0.191E-01	0.951E-02	0.433E-02	
4480										
4500	SEPARATED VESTED PARTICIPANTS:									
4510	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4520	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4530	0.000E+00	0.000E+00	0.127E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4540	0.000E+00	0.000E+00	0.171E-01	0.135E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4550	0.000E+00	0.000E+00	0.247E-01	0.247E-01	0.209E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4560	0.000E+00	0.000E+00	0.427E-01	0.402E-01	0.375E-01	0.299E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4570	0.000E+00	0.000E+00	0.616E-01	0.568E-01	0.547E-01	0.467E-01	0.292E-01	0.000E+00	0.000E+00	0.000E+00
4580	0.000E+00	0.000E+00	0.533E-01	0.400E-01	0.671E-01	0.636E-01	0.434E-01	0.170E-01	0.000E+00	0.000E+00
4590	0.000E+00	0.000E+00	0.286E-01	0.323E-01	0.364E-01	0.364E-01	0.286E-01	0.170E-01	0.000E+00	0.000E+00
4600										

4640	AVERAGE AGE EQUALS 52		FRACTION VESTED EQUALS		0.647	FRACTION OVER AGE 55 EQUALS		0.416		
4650	ACTIVE PARTICIPANTS:									
4660	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4670	0.212E-01	0.102E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4680	0.128E-01	0.124E-01	0.605E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4690	0.127E-01	0.134E-01	0.849E-02	0.685E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4700	0.219E-01	0.224E-01	0.140E-01	0.140E-01	0.113E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4710	0.257E-01	0.351E-01	0.271E-01	0.255E-01	0.238E-01	0.190E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4720	0.320E-01	0.430E-01	0.408E-01	0.377E-01	0.363E-01	0.310E-01	0.187E-01	0.000E+00	0.000E+00	0.000E+00
4730	0.259E-01	0.332E-01	0.353E-01	0.397E-01	0.444E-01	0.420E-01	0.287E-01	0.112E-01	0.000E+00	0.000E+00
4740	0.128E-01	0.179E-01	0.194E-01	0.219E-01	0.248E-01	0.248E-01	0.194E-01	0.102E-01	0.484E-02	
4750	SEPARATED VESTED PARTICIPANTS:									
4780	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4790	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4800	0.000E+00	0.000E+00	0.934E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4810	0.000E+00	0.000E+00	0.134E-01	0.106E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4820	0.000E+00	0.000E+00	0.216E-01	0.216E-01	0.174E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4830	0.000E+00	0.000E+00	0.419E-01	0.394E-01	0.368E-01	0.293E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4840	0.000E+00	0.000E+00	0.631E-01	0.583E-01	0.560E-01	0.479E-01	0.289E-01	0.000E+00	0.000E+00	0.000E+00
4850	0.000E+00	0.000E+00	0.544E-01	0.613E-01	0.686E-01	0.649E-01	0.444E-01	0.173E-01	0.000E+00	0.000E+00
4860	0.000E+00	0.000E+00	0.300E-01	0.339E-01	0.382E-01	0.382E-01	0.300E-01	0.157E-01	0.750E-02	
4870	SEPARATED VESTED PARTICIPANTS:									
4910	AVERAGE AGE EQUALS 53		FRACTION VESTED EQUALS		0.655	FRACTION OVER AGE 55 EQUALS		0.433		
4920	ACTIVE PARTICIPANTS:									
4930	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4940	0.209E-01	0.101E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4950	0.127E-01	0.123E-01	0.599E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4960	0.946E-02	0.996E-02	0.645E-02	0.509E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4970	0.190E-01	0.194E-01	0.121E-01	0.121E-01	0.977E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4980	0.254E-01	0.347E-01	0.268E-01	0.253E-01	0.236E-01	0.188E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
4990	0.330E-01	0.444E-01	0.422E-01	0.390E-01	0.375E-01	0.320E-01	0.194E-01	0.000E+00	0.000E+00	0.000E+00
5000	0.274E-01	0.355E-01	0.377E-01	0.424E-01	0.475E-01	0.449E-01	0.307E-01	0.120E-01	0.000E+00	0.000E+00
5010	0.127E-01	0.177E-01	0.192E-01	0.217E-01	0.245E-01	0.245E-01	0.192E-01	0.101E-01	0.481E-02	
5020	SEPARATED VESTED PARTICIPANTS:									
5050	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5060	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5070	0.000E+00	0.000E+00	0.914E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5080	0.000E+00	0.000E+00	0.985E-02	0.776E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5090	0.000E+00	0.000E+00	0.184E-01	0.184E-01	0.149E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5100	0.000E+00	0.000E+00	0.409E-01	0.386E-01	0.360E-01	0.284E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5110	0.000E+00	0.000E+00	0.644E-01	0.595E-01	0.572E-01	0.489E-01	0.295E-01	0.000E+00	0.000E+00	0.000E+00
5120	0.000E+00	0.000E+00	0.575E-01	0.648E-01	0.724E-01	0.686E-01	0.469E-01	0.183E-01	0.000E+00	0.000E+00
5130	0.000E+00	0.000E+00	0.294E-01	0.331E-01	0.374E-01	0.374E-01	0.294E-01	0.154E-01	0.234E-02	
5140	SEPARATED VESTED PARTICIPANTS:									
5180	AVERAGE AGE EQUALS 54		FRACTION VESTED EQUALS		0.666	FRACTION OVER AGE 55 EQUALS		0.452		
5190	ACTIVE PARTICIPANTS:									
5200	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5210	0.214E-01	0.103E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5220	0.364E-02	0.836E-02	0.407E-02	0.050E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5230	0.644E-02	0.678E-02	0.439E-02	0.346E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5240	0.166E-01	0.170E-01	0.106E-01	0.106E-01	0.855E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5250	0.269E-01	0.355E-01	0.274E-01	0.258E-01	0.241E-01	0.192E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5260	0.337E-01	0.454E-01	0.431E-01	0.398E-01	0.383E-01	0.312E-01	0.198E-01	0.000E+00	0.000E+00	0.000E+00
5270	0.253E-01	0.377E-01	0.399E-01	0.449E-01	0.502E-01	0.476E-01	0.325E-01	0.127E-01	0.000E+00	0.000E+00

5280	0.130E-01	0.181E-01	0.196E-01	0.222E-01	0.250E-01	0.250E-01	0.196E-01	0.103E-01	0.491E-02
5290									
5310	SEPARATED VESTED PARTICIPANTS:								
5320	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5330	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5340	0.000E+00	0.000E+00	0.612E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5350	0.000E+00	0.000E+00	0.659E-02	0.520E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5360	0.000E+00	0.000E+00	0.159E-01	0.159E-01	0.128E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5370	0.000E+00	0.000E+00	0.411E-01	0.387E-01	0.361E-01	0.288E-01	0.000E+00	0.000E+00	0.000E+00
5380	0.000E+00	0.000E+00	0.647E-01	0.597E-01	0.574E-01	0.491E-01	0.297E-01	0.000E+00	0.000E+00
5390	0.000E+00	0.000E+00	0.599E-01	0.674E-01	0.754E-01	0.714E-01	0.488E-01	0.191E-01	0.000E+00
5400	0.000E+00	0.000E+00	0.295E-01	0.333E-01	0.376E-01	0.376E-01	0.295E-01	0.154E-01	0.737E-02
5410									
5450	AVERAGE AGE EQUALS 55		FRACTION VESTED EQUALS		0.674	FRACTION OVER AGE 55 EQUALS		0.469	
5460	ACTIVE PARTICIPANTS:								
5470	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5480	0.212E-01	0.102E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5490	0.857E-02	0.827E-02	0.403E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5500	0.319E-02	0.335E-02	0.217E-02	0.171E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5510	0.137E-01	0.140E-01	0.872E-02	0.872E-02	0.705E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5520	0.257E-01	0.351E-01	0.271E-01	0.255E-01	0.238E-01	0.190E-01	0.000E+00	0.000E+00	0.000E+00
5530	0.347E-01	0.468E-01	0.444E-01	0.410E-01	0.394E-01	0.337E-01	0.204E-01	0.000E+00	0.000E+00
5540	0.300E-01	0.385E-01	0.409E-01	0.461E-01	0.515E-01	0.488E-01	0.333E-01	0.130E-01	0.000E+00
5550	0.137E-01	0.191E-01	0.207E-01	0.234E-01	0.264E-01	0.264E-01	0.207E-01	0.109E-01	0.518E-02
5560									
5580	SEPARATED VESTED PARTICIPANTS:								
5590	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5600	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5610	0.000E+00	0.000E+00	0.598E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5620	0.000E+00	0.000E+00	0.322E-02	0.254E-02	0.000E+00	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5630	0.000E+00	0.000E+00	0.129E-01	0.129E-01	0.105E-01	0.000E+00	0.000E+00	0.000E+00	0.000E+00
5640	0.000E+00	0.000E+00	0.402E-01	0.379E-01	0.353E-01	0.281E-01	0.000E+00	0.000E+00	0.000E+00
5650	0.000E+00	0.000E+00	0.659E-01	0.608E-01	0.585E-01	0.500E-01	0.302E-01	0.000E+00	0.000E+00
5660	0.000E+00	0.000E+00	0.607E-01	0.683E-01	0.764E-01	0.724E-01	0.494E-01	0.193E-01	0.000E+00
5670	0.000E+00	0.000E+00	0.307E-01	0.347E-01	0.392E-01	0.392E-01	0.307E-01	0.161E-01	0.769E-02

ATTACHMENT 5

WITHDRAWAL TABLES USED WITH EACH INDUSTRY

<u>Industry Code</u>	<u>Withdrawal Table</u>
01, 02, 10-25	T-3
03-09, 38	T-5
26-37	T-7

ATTACHMENT 6

THE DISTRIBUTION OF ALL MULTIEMPLOYER PLANS BY NUMBER
OF PARTICIPANTS AND INDUSTRY, 1976

<u>Industry</u>	<u>Number of Plans</u>			<u>Percentage of Plans</u>		
	<u>Participant Size Category</u>		<u>Total</u>	<u>Participant Size Category</u>		<u>Total</u>
	<u>< 10,000</u>	<u>≥ 10,000</u>		<u>< 10,000</u>	<u>≥ 10,000</u>	
Mining	0	3	3	0	100.0	100.0
Construction	910	42	952	95.6	4.4	100.0
Manufacturing	267	23	290	92.1	7.9	100.0
Transportation	128	15	143	89.5	10.5	100.0
Trade	107	21	128	83.6	16.4	100.0
Services	150	22	172	87.2	12.8	100.0
Other	<u>47</u>	<u>1</u>	<u>48</u>	<u>97.9</u>	<u>2.1</u>	<u>100.0</u>
TOTAL ^{1/}	1,609	127	1,736	92.7	7.3	100.0

^{1/} The total number of plans and participants in this table differs slightly from the totals presented in Table 1 in Part VIII and Tables 1 and 4 in Appendix XIV. The estimates here are based upon adjusted 1976 PBGC premium records while the estimates in Part VIII and Appendix XIV are based upon the latest available plan data filed with the Department of Labor under ERISA reporting requirements.

SOURCE: Multiemployer plan universe data based upon adjusted 1976 PBGC premium records.

ATTACHMENT 7

THE DISTRIBUTION OF ALL MULTIEMPLOYER PLAN PARTICIPANTS
BY SIZE CATEGORY AND INDUSTRY, 1976

<u>Industry</u>	<u>Number of Participants</u>			<u>Percentage of Participants</u>		
	<u>Participant Size Category</u>			<u>Participant Size Category</u>		
	<u>< 10,000</u>	<u>> 10,000</u>	<u>Total</u>	<u>< 10,000</u>	<u>> 10,000</u>	<u>Total</u>
Mining	0	285,347	285,347	0	100.0	100.0
Construction	1,216,670	1,205,217	2,421,887	50.2	49.8	100.0
Manufacturing	454,387	1,387,572	1,841,959	24.7	75.3	100.0
Transportation	272,382	1,365,346	1,637,728	16.6	83.4	100.0
Trade	268,769	621,445	890,214	30.2	69.8	100.0
Services	291,112	508,196	799,308	36.4	63.6	100.0
Other	<u>86,265</u>	<u>23,307</u>	<u>109,572</u>	<u>78.7</u>	<u>21.3</u>	<u>100.0</u>
TOTAL ^{1/}	2,589,585	5,396,430	7,986,015	32.4	67.6	100.0

^{1/} The total number of plans and participants in this table differs slightly from the totals presented in Table 1 in Part VIII and Tables 1 and 4 in Appendix XIV. The estimates here are based upon adjusted 1976 PBGC premium records while the estimates in Part VIII and Appendix XIV are based upon the latest available plan data filed with the Department of Labor under ERISA reporting requirements.

SOURCE: Multiemployer plan universe data based upon adjusted 1976 PBGC premium records.

ATTACHMENT 8

DISTRIBUTION OF ALL MULTIEmployer PLANS AND PARTICIPANTS
BY AVERAGE MONTHLY BENEFIT LEVEL FOR RETIREES AND
BY PLAN SIZE CATEGORY, 1976

<u>Average Monthly Benefit</u>	<u>Plan Size Category</u>					
	<u>Less Than 10,000</u>		<u>Greater Than</u>		<u>All Plans</u>	
	<u>% of</u>	<u>% of</u>	<u>% of</u>	<u>% of</u>	<u>% of</u>	<u>% of</u>
	<u>Plans</u>	<u>Partici-</u>	<u>Plans</u>	<u>Partici-</u>	<u>Plans</u>	<u>Partici-</u>
		<u>pants</u>		<u>pants</u>		<u>pants</u>
Less than \$ 75	35.1	36.5	24.8	15.0	34.3	22.3
\$ 75-\$150	32.8	29.0	34.4	36.7	32.9	34.1
\$150-\$250	18.8	21.8	26.4	29.9	19.3	27.2
\$250-\$350	8.5	6.3	9.6	13.7	8.6	11.2
Greater than \$350	<u>4.8</u>	<u>6.5</u>	<u>4.8</u>	<u>4.7</u>	<u>4.8</u>	<u>5.3</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0

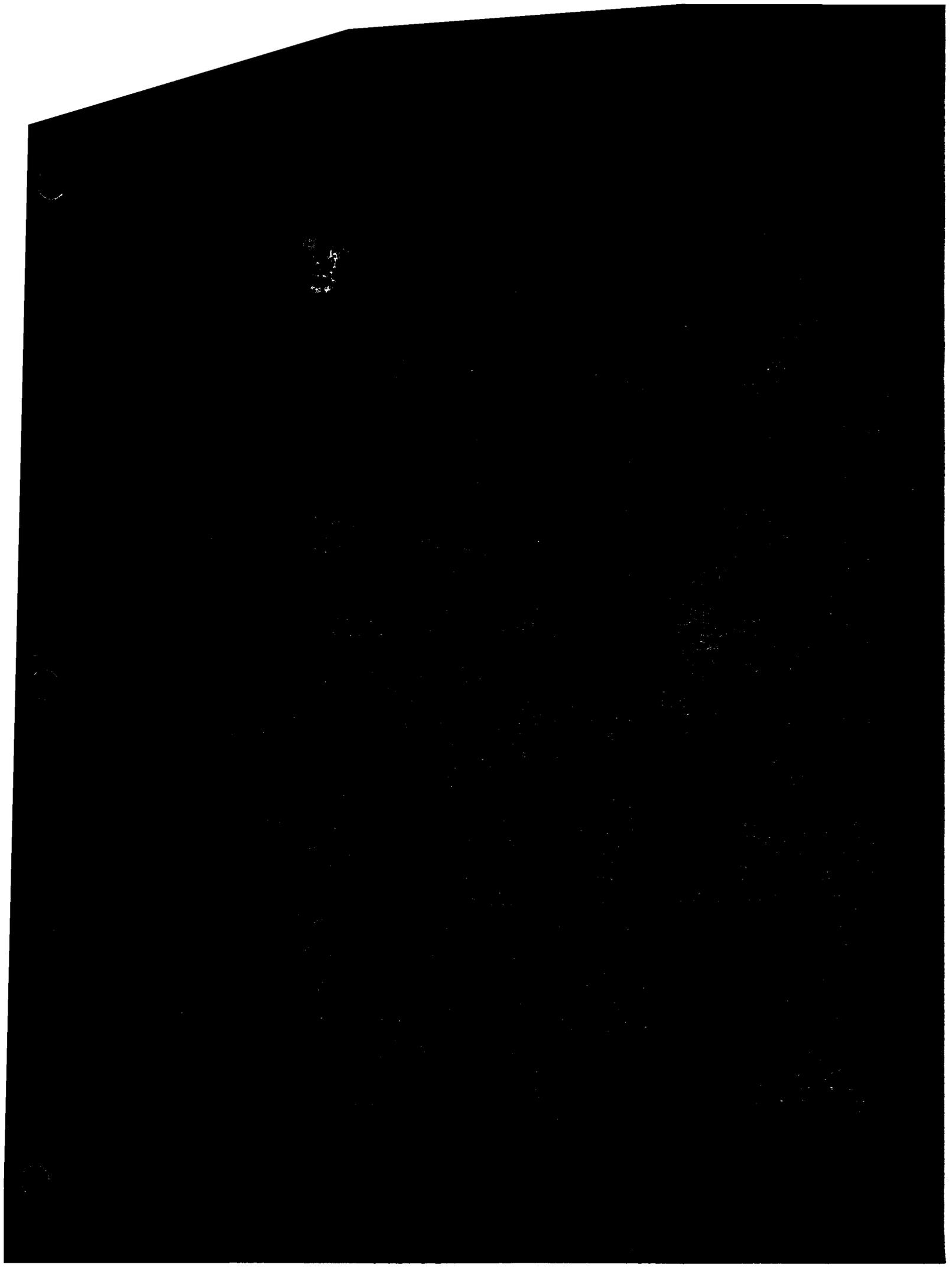
SOURCE: Data based upon a weighting of the 279 plan sample.

ATTACHMENT 9

FUNDING STATUS OF VESTED BENEFITS IN ALL MULTIEMPLOYER
PLANS BY PLAN SIZE CATEGORY, 1976

<u>Plan Size Category</u>	<u>Percentage of Plans</u>					<u>Percentage of Participants</u>				
	<u>Percent of Vested Benefits Funded</u>					<u>Percent of Vested Benefits Funded</u>				
	<u>0-24%</u>	<u>25-49%</u>	<u>50-74%</u>	<u>75-100%</u>	<u>Total</u>	<u>0-24%</u>	<u>25-49%</u>	<u>50-74%</u>	<u>75-100%</u>	<u>Total</u>
Less than 10,000 Participants	8.2	29.6	28.1	34.1	100.0	10.6	29.6	28.3	31.5	100.0
Greater than 10,000 Participants	20.0	44.8	16.0	19.2	100.0	34.4	42.7	10.5	12.4	100.0
All Plans	9.1	30.7	27.2	33.0	100.0	26.3	38.3	16.5	18.9	100.0

SOURCE: Data based upon a weighting of the 279 plan sample.



APPENDIX XIV

COST ANALYSIS -- RESULTS

The first section of this Appendix describes the design and selection of the termination screen used to identify plans in possible financial difficulty. The second section describes the procedures used to determine the plans that would be identified by the Level II reorganization test and the cost to the PBGC of providing financial assistance to them. Finally, the third section presents a comprehensive set of PBGC termination and reorganization insurance cost estimates to supplement the summary estimates in Part VIII.

A. TERMINATION SCREENS

In order to convert projections of guaranteed liabilities into projected PBGC insurance costs, it was necessary to identify the plans in the sample that may terminate because of financial problems. For this reason, screens were designed to identify plans in the greatest financial difficulty. Several alternative screens were developed, their results were compared, and one screen was selected for use in the cost analysis.

The screens that were examined rely only on plan financial and participant characteristics. These screens do not take into account the level of the benefit guarantee, the extent of employer liability, or other characteristics that might be unique to particular industries, localities, or even individual plans. Thus, the screens can only identify plans in potential financial difficulty and, in this preliminary analysis, cannot account for other possible factors that may affect the decision to terminate.

1. Description of the Screens

The screens presented below were developed to identify plans facing potential financial difficulty. The rationale for each of them will be discussed in turn.

- Screen #1: Modification of Screen from PBGC September Report

To be identified as a possible termination under this screen, a plan must meet all three of the following conditions:

- (1) $\frac{\text{Retired + Separated Vested Participants}}{\text{Total Participants}} \geq .34;$
- (2) $\frac{\text{Assets}}{\text{Annual Benefit Payments}} \leq 5.6;$ and
- (3) $\frac{\text{Cash Flow}}{\text{Assets}} < .026.$

These three measures are the same as the measures used in the PBGC's September, 1977 study of multiemployer terminations, but the threshold values of the ratios have been changed. Each of the three thresholds was set so that each was equally severe in identifying plans with potential financial hardship. This was accomplished by requiring that each ratio identify an equal number of plans out of the 279 plan sample using 1976 plan data reported under ERISA reporting requirements. After examining alternative sets of thresholds where each set met this "equal severity" constraint, the threshold levels shown above were selected. When the three conditions were applied in combination to 1976 plan data, less than three percent of all plans failed the screen. This screen identifies plans with a large proportion of retirees, low assets relative to benefit payments, and low cash flow relative to assets.

- Screen #2: Contributions Supporting Retirees

To be identified for possible termination under this screen, a plan must meet the following two conditions:

- (1) $\frac{\text{Retired + Separated Vested Participants}}{\text{Total Participants}} \geq .34;$ and
- (2) $\frac{\text{Normal Cost}}{\text{Total Contributions}} < .225.$

This screen identifies plans in which a large proportion of the annual contribution is required for the funding of benefits of currently retired and separated vested participants, rather than the future benefits of active participants. This is usually the case in a plan with a large percentage of retired and separated vested participants where normal cost is low relative to the annual contribution.

- Screen #3: Contributions Supporting Retirees Due to Poor Funding

To be identified for possible termination under this screen, a plan must meet the following two conditions:

- (1) $\frac{\text{Normal Cost}}{\text{Total Contributions}} < .225$; and
- (2) $\frac{\text{Separated Vested + Retired Liabilities}}{\text{Assets}} \geq 1.75$.

Similar to screen #2, this screen also serves to identify plans where a large proportion of the annual contribution pays for the benefits of currently retired and separated vested participants. In addition, it identifies poorly funded plans.

● Screen #4: Contribution Supporting Retirees

To be identified for possible termination under this screen a plan must meet the following single condition:

$$(1) \frac{\text{Normal Cost} + \left[\frac{\text{active liabilities}}{\text{total liabilities}} \right] \times \text{Amortization Payment}}{\text{Contribution}} < .5$$

This screen is designed to identify plans where the contributions support primarily the benefits of non-active participants. Under this criterion, the numerator approximates that proportion of the contribution that funds benefits of active participants. The denominator represents the sum of the normal cost and amortization payments. When the proportion of contributions for active participants is less than 50 percent, there may be a strong incentive for active participants to seek termination of the plan. This criterion should exclude from possible termination both well-funded mature plans (with a high proportion of retirees) and poorly funded young plans (with few assets but also few retirees), neither of which are likely candidates for termination.

● Screen #5: The September 1977 Screen

This is a screen that was used in PBGC's study of September 1977 entitled "Potential Multiemployer Plan Liabilities Under Title IV of ERISA." A plan must satisfy all three of these conditions to be identified for possible termination under screen five:

- (1) $\frac{\text{Retired + Separated Vested Participants}}{\text{Total Participants}} > .50$;
- (2) $\frac{\text{Assets}}{\text{Annual Benefit Payments}} < 5.0$; and
- (3) $\frac{\text{Cash Flow}}{\text{Assets}} < .10$.

This screen was included in order to provide a basis for comparison with the results of the earlier study.

2. Choice of Modified September 1977 Screen

Screen #1 was chosen as the screen for the initial cost analysis. Screens #2 through #4 identified a similar pattern of plan terminations and unfunded liabilities. However, Screen #1 is the only screen that relies exclusively on plan characteristics and not on the actuarial assumptions used in computing normal cost. Because Screen #1 is the most straightforward and provides a relatively conservative estimate of potential termination liabilities, it was selected as the basis for this initial analysis. Subsequent analysis will focus upon the use of alternative threshold values and modified screens from those identified above.

The results of applying each screen to the 279 plan sample and the weighted sample representing the group of all multiemployer plans is shown below.

COMPARISON OF PLANS AND PARTICIPANTS
FAILING ALTERNATIVE SCREENS

	<u>Modified Sept. 77 Screen #1</u>	<u>Screen #2</u>	<u>Screen #3</u>	<u>Screen #4</u>	<u>Sept. 77 Screen #5</u>
Number of Plans Failing Screen					
● Sample	42	57	45	40	21
● Universe	166	314	184	183	51
Thousands of Participants Affected					
● Sample	1,055	1,065	984	532	366
● Universe	1,258	1,387	1,205	734	439

Because the estimate of the 166 plans assumed to terminate is based upon a sample of plans, it is possible for sampling errors to arise. An estimate of the potential error indicates that, at the 95 percent confidence level, the number of plans assumed to terminate could vary by up to ± 64 plans. However, because this potential error arises only among small plans in the sample, the corresponding error in unfunded liabilities would be only about ± 12 percent.

B. REORGANIZATION TEST AND COST METHODOLOGY

In order to evaluate the reorganization option, it was necessary to identify those plans that may require financial assistance during reorganization and to estimate the cost to the PBGC of that assistance. This section first describes the test used to identify plans that would meet the Level II reorganization criterion and then discusses the methodology used to estimate the cost of reorganization assistance payments to those plans that require assistance.

1. The Reorganization Test

Plans were assumed to qualify for Level II reorganization if, at the time the test was applied, plan assets and expected contributions were not sufficient to pay plan benefits for seven more years. The analysis of whether a plan would qualify for reorganization was performed for years one through ten of the projection period using the following methodology:

- First, in each year, the number of active participants and retirees in the plan during each of the seven following years was estimated. These estimates were made using linear regression analysis and were based upon the number of actives and retirees in the test year and in the four previous years.
- Second, plan contributions and benefit payments during each of the seven following years were estimated. To estimate contributions, the number of actives in each year (as calculated in the first step) was multiplied by the average contribution per active in the test year. Similarly, benefit payments were forecast for future years using the projected number of retirees and the average benefit payment in the test year.
- Third, in each year, a projection of plan assets was made based upon the level of assets in the test year and the projected cash flow. The cash flows were forecast by using projected contributions, benefits and net earnings on assets.

- Finally, those plans that were projected under the methodology above to become insolvent within seven years from the date of the reorganization test were assumed to qualify for Level II reorganization.

Using this methodology to identify those plans in the 279 plan sample which qualified for Level II reorganization, it was found that all plans qualifying for reorganization were also identified by the termination screen.

2. The Cost of Financial Assistance During Reorganization

Reorganization financial assistance would be made only to those plans that become insolvent during reorganization. Consequently, plans that qualified for Level II reorganization were analyzed to determine whether they would eventually require PBGC assistance payments. This section describes how this determination was made and how the cost of these assistance payments was estimated.

All plans identified by the Level II reorganization test over the 10-year forecast period were divided into two groups: those which first required assistance during the initial ten years, and those which first required assistance sometime after Year 10. All plans projected to require assistance starting in the first ten years were assumed to receive it. However, for the group projected to initially require assistance after Year 10, a subset of plans, where BLS employment projections indicated an increase in covered employment, were assumed not to require assistance. This assumption was made because of the potential for such plans to improve their financial condition before assistance would first be required. The remaining plans in the group initially requiring assistance after Year 10 (i.e., those covering industries with a projected decline in employment) were assumed to receive it.

For those plans that required assistance payments, different methodologies were used to estimate payments during years one to ten than during later years. The cost of reorganization assistance payments for plans projected to require assistance during the first ten years was equal to the amount of guaranteed benefits during the period that could not be funded by the plan. The amount of PBGC assistance was assumed to be equal to guaranteed benefit payments less projected employer contributions and plan assets, if any. To estimate assistance costs beyond the tenth year, the value of unfunded guaranteed benefits in year 10 (which was the last year of the forecasting model projection), less the present value of continued employer contributions for 10 more years was calculated.

For plans initially receiving assistance during the first 10 years, the estimated assistance cost was discounted from year 10 to Year 1 of the forecasts. For plans first receiving assistance after year 10, this cost was discounted from the first year the plan required assistance to Year 1 of the forecasts. Annual premium requirements were estimated using a 20-year amortization period to correspond approximately with the period over which the reorganization liabilities were first incurred.

Finally, total program costs for reorganization in conjunction with benefit guarantees for terminating plans were estimated by combining costs as follows:

- For plans assumed to terminate but not assumed to qualify for Level II reorganization, their termination liabilities were included in total PBGC program costs.
- For plans assumed to terminate and assumed both to qualify for Level II reorganization and actually to receive assistance, only the cost of reorganization assistance was included in total PBGC program costs.
- For plans assumed to terminate and to qualify for Level II reorganization, but not assumed to receive reorganization assistance because they were assumed to recover, no costs were included in total PBGC program costs.

This procedure reduces termination costs by eliminating the termination cost of plans assumed to reorganize.

C. COST ESTIMATES

In order to compare the potential impact of different guarantee programs, a number of cost estimates were made based upon the valuations of those plans assumed to reorganize and terminate. Appendix XIII describes the assumptions used in making the valuations for plans failing the termination screen. The methodology for estimating reorganization costs was discussed in Section B above.

Tables 1-3 were presented in Part VIII and represent summary tables of specific PBGC costs and liabilities under different program alternatives and assumptions. Tables 4-16 provide supporting data for these summary tables, and Tables 17-30 provide estimates of annual termination liabilities, permitting a more detailed analysis of our assumptions about plan terminations. Finally, Tables 31 and 36 appear in Part VIII as Tables 4 and 5 respectively, and Tables 32-35 provide supporting cost estimates for plans in different categories of termination potential.

COST ANALYSIS TABLES

A. SUMMARY TABLES

- Table 1: Summary of Unfunded Liabilities of All Multi-employer Plans and Plans Assumed to Terminate Under Current Program
- Table 2: Impact of Alternative Programs on PBGC Termination Liability, Premiums, and Percent of Vested Benefits Paid
- Table 3: Impact of Reorganization on PBGC Termination Liability and Premiums Under Alternative Programs
- Table 4: Summary of Unfunded Liabilities for Multiemployer Plan Universe
- Table 5: Summary of PBGC Termination Liabilities for Alternative Programs with Current Employer Liability Net Worth Limitation
- Table 6: Summary of PBGC Termination Liabilities for Alternative Programs with No Net Worth Limitation on Employer Liability
- Table 7: Summary of PBGC Termination Liabilities for Alternative Programs with Current Employer Liability Limitation (excluding large, broad-based plans)
- Table 8: Summary of PBGC Termination Liabilities for Alternative Programs with No Net Worth Limitation on Employer Liability (excluding large, broad-based plans)
- Table 9: Summary of Percent of Vested Benefits Paid for Alternative Programs under Alternative Employer Liability Rules
- Table 10: Summary of Total Employer Liability for Alternative Programs Under Alternative Employer Liability Rules
- Table 11: Summary of PBGC Termination Liabilities for Alternative Programs with Reorganization Option
- Table 12: Summary of PBGC Termination Liabilities for Alternative Programs with Reorganization Option (excluding large, broad-based plans)

Table 13: Summary of PBGC Reorganization Assistance Liabilities and Premiums Under Modified Guarantees

Table 14: Summary of PBGC Reorganization Assistance Liabilities and Premiums Under Modified Guarantees (excluding large, broad-based plans)

Table 15: Summary of PBGC Premiums Required Under Alternative Programs

Table 16: Summary of PBGC Premiums Required Under Alternative Programs (excluding large broad-based plans)

B. ANNUAL ESTIMATES ASSUMING CURRENT EMPLOYER LIABILITY LIMITATION

Table 17: PBGC Liabilities Under Current Program

Table 18: PBGC Liabilities Under Modified Guarantees

Table 19: PBGC Liabilities Under Reduced Modified Guarantees (50 Percent of Current Guarantee)

Table 20: PBGC Liabilities Under Modified Guarantees and 10 Percent Per Year Program Phase-In of Guarantees

Table 21: PBGC Liabilities Under Modified Guarantees and 10 Percent Per Year Program Phase-In With Deferred Termination

Table 22: PBGC Liabilities Under Reduced Modified Guarantee of Post ERISA Benefits Only

Table 23: PBGC Liabilities Under Reduced Modified Guarantee of Retirees and Near Retirees Benefits

C. ANNUAL ESTIMATES ASSUMING NO NET WORTH LIMITATION ON EMPLOYER LIABILITY

Table 24: PBGC Liabilities Under Current Program

Table 25: PBGC Liabilities Under Modified Guarantees

Table 26: PBGC Liabilities Under Reduced Modified Guarantees (50 Percent of Current Guarantee)

Table 27: PBGC Liabilities Under Modified Guarantees and 10 Percent Per Year Program Phase-In of Guarantees

Table 28: PBGC Liabilities Under Modified Guarantees and 10 Percent Per Year Program Phase-In With Deferred Termination

Table 29: PBGC Liabilities Under Reduced Modified Guarantee of Post ERISA Benefits Only

Table 30: PBGC Liabilities Under Reduced Modified Guarantee of Retirees and Near Retirees Benefits

D. ESTIMATES BY CATEGORY OF TERMINATION POTENTIAL

Table 31: Distribution and Characteristics of All Plans Assumed to Terminate by Category of Risk Termination Potential

Table 32: Annual Premium Requirements Under Program Options by Category of Termination Potential for Current Employer Liability Limitation

Table 33: Annual Premium Requirements Under Program Options by Category of Termination Potential for Alternative Employer Liability Limitation

Table 34: PBGC Liabilities Under Program Options by Category of Termination Potential for Current Employer Liability Limitation

Table 35: PBGC Liabilities Under Program Options by Category of Termination Potential for Alternative Employer Liability Limitation

Table 36: Allocation of Premium Costs for Plans Assumed to Terminate Under Selected Program Options by Category of Termination Potential

TABLE 1

**SUMMARY OF UNFUNDED LIABILITIES OF ALL MULTIEMPLOYER PLANS
AND PLANS ASSUMED TO TERMINATE UNDER CURRENT PROGRAM**

	All Multiemployer Plans ^{1/}		Plans Identified by ^{2/} Termination Screen	
	Year 1	Year 10	All Plans Identified	Excluding Large, Broad- Based Plans ^{3/}
Plans	1,722	1,722	166	156
Participants (000)	8,177	9,401	1,258	473
Unfunded Liability for Accrued Benefits (\$ millions)	40,215	68,927	9,216	4,440
Unfunded Liability for Vested Benefits (\$ millions)	33,519	58,425	8,986	4,318
PBGC Termination Liability (\$ millions)				
• Assuming No Employer Liability	33,516	49,043	8,345	3,791
• Assuming Present Employer Liability Limitation Rules ^{4/}	25,136	34,438	4,824	2,704

^{1/} Estimated unfunded liabilities assuming all multiemployer plans terminated in Year 1 or Year 10 of the 10-year period under analysis.

^{2/} Estimated present value in Year 1 of unfunded liability for all plans assumed to terminate over the 10-year period under analysis. Participants reflect the number of participants in the year in which the plans are identified by the termination screen.

^{3/} Excludes large, broad-based plans, defined to be those which cover a substantial proportion of employers and workers in an industry.

^{4/} Assumes that PBGC collects employer liability up to the current 30 percent net worth limitation on employer liability; this was approximated by an amount equal to 25 percent of unfunded vested liabilities for most plans, and 75 percent for those in industries where available data indicated substantial net worth.

TABLE 2

**IMPACT OF ALTERNATIVE PLANS ON PBGC TERMINATION
LIABILITY, PREMIUMS, AND PERCENT OF VESTED BENEFITS PAID**

	Plans Identified by Termination Screen			Plans Identified by Termination Screen, Less Large Broad-Based Plans		
	PBGC Termination Liability (\$ millions)	Annual ^{1/} Premiums (\$ per person)	% of Vested Benefits Paid (%)	PBGC Termination Liability (\$ millions)	Annual ^{1/} Premiums (\$ per person)	% of Vested Benefits Paid (%)
Current Program	4,824	79.50	94.1	2,704	44.56	91.6
Revised Program						
● Current Employer Liability Limitation ^{2/} -- Modified Guarantee ^{3/}	3,857	63.56	88.0	2,007	33.08	85.5
-- Reduced Modified Guarantees ^{4/}						
1) 50% Guarantee	114	1.88	47.1	34	.56	46.3
2) 10% Phase-In	1,008	16.61	54.1	718	11.83	62.6
3) 10% Phase-In with Deferred Termination	2,806	46.24	70.7	1,775	29.25	79.0
4) Post-ERISA	148	2.44	42.6	142	2.34	50.7
5) Retirees and Near Retirees Only	2,326	38.33	72.1	1,076	17.73	68.9
● Alternative Employer Liability Limitation ^{5/} -- Modified Guarantee	1,183	19.50	88.0	702	11.57	85.5
-- Reduced Modified Guarantees						
1) 50% Guarantee	15	.25	47.1	11	.18	46.3
2) 10% Phase-In	134	2.21	54.1	134	2.21	62.6
3) 10% Phase-In with Deferred Termination	1,058	17.44	70.7	778	12.82	79.0
4) Post-ERISA	6	.10	42.6	6	.10	50.7
5) Retirees and Near Retirees Only	507	8.36	72.1	265	4.37	68.9
● Reorganization Assistance Costs Only ^{6/} (no guarantees for terminated plans)	228	2.47	N/A	64	.69	N/A

- ^{1/} Estimates reflect the average annual level premium required to amortize the termination liability over a 10-year period, assuming an average of 8 million participants in non-terminated plans.
- ^{2/} Assumes that PBGC collects an amount from employers up to the current 30 percent net worth limitation on employer liability; this was approximated by an amount equal to 25 percent of unfunded vested liabilities for most plans, and 75 percent for those in industries where available data indicated substantial net worth.
- ^{3/} Modified guarantees assume an increase in funding requirements, a three year delay on phase-in of guarantees of benefit increases and elimination of the \$20 phase-in rule for guaranteeing benefit increases.
- ^{4/} Reduced modified guarantees reflect both the program changes identified under modified guarantees and the reduced benefit guarantees described in Part IV.
- ^{5/} Assumes elimination of the net worth limit, and that employers are liable up to 100 percent of the plan asset insufficiency; estimated collectible employer liability was approximated by an amount equal to the present value of expected plan contributions under the current program, based upon projected trends in active participation.
- ^{6/} Estimates reflect the approximate range of liabilities and premiums for providing only reorganization assistance to plans identified for reorganization under a modified guarantee program; annual premiums under this option are assumed to be amortized over a 20-year period. Due to the lack of reliable forecast data beyond a 10-year period, these estimates are more uncertain than the other estimates in the table.

TABLE 3

IMPACT OF REORGANIZATION ON PBGC TERMINATION
LIABILITY AND PREMIUM UNDER ALTERNATIVE PROGRAMS

	No Reorganization Option (Premiums Only) ^{1/}		Reorganization Option with Termination Guarantees ^{1/} (PBGC Liabilities and Premiums)			
	Plans Identified by Termination Screen (\$ Per Person)	Plans Ident- ified Less Large, Broad-Based Plans (\$ Per Person)	Plans Identified by Termination Screens		Plans Identified Less Large, Broad-Based Plans	
			Liabilities (\$ million)	Premiums (\$ Per Person)	Liabilities (\$ million)	Premiums (\$ Per Person)
	<u>Current Program</u>	79.50	44.56	3,427	54.40	1,817
<u>Revised Program</u>						
● Current Employer Liability Limitation ^{2/}						
-- Modified Guarantee ^{3/}	63.56	33.08	2,727	43.65	1,377	22.33
-- Reduced Modified Guarantees ^{4/}						
1) 50% Guarantee	1.88	.56	253	2.88	82	.99
2) 10% Phase-In	16.61	11.83	1,102	16.87	649	10.33
3) 10% Phase-In with Deferred Termi- nation	46.24	29.25	2,008	31.80	1,242	20.10
4) Post-ERISA	2.44	2.34	371	4.83	200	2.93
5) Retirees and Near Retirees Only	38.33	17.73	1,765	27.80	761	12.18
● Alternative Employer Liability Limitation ^{5/}						
-- Modified Guarantee	19.50	11.57	680	9.92	221	3.28
-- Reduced Modified Guarantees						
1) 50% Guarantee	.25	.18	228	2.47	64	.69
2) 10% Phase-In	2.21	2.21	279	3.29	114	1.51
3) 10% Phase-In with Deferred Termi- nation	17.44	12.82	497	6.90	285	4.33
4) Post-ERISA	.10	.10	228	2.47	64	.69
5) Retirees and Near Retirees Only	8.36	4.37	452	6.16	72	.82

^{1/} Estimates reflect the average level premium required to amortize the termination liability over a 10-year period, assuming an average of 8 million participants in non-terminated plans. Premiums under reorganization reflect the subtraction of termination liabilities of reorganized plans and the addition of their reorganization assistance costs.

^{2/} Assumes that PBGC collects an amount from employers up to the current 30 percent net worth limitation on employer liability; this was approximated by an amount equal to 25 percent of unfunded vested liabilities for most plans, and 75 percent for those in industries where available data indicated substantial net worth.

^{3/} Modified guarantees assume an increase in funding requirements, a three year delay on phase-in of guarantees of benefit increases and elimination of the \$20 phase-in rule for guaranteeing benefit increases.

^{4/} Reduced modified guarantees reflect both the program changes identified under modified guarantees and the reduced benefit guarantees described in Part IV.

^{5/} Assumes elimination of the net worth limit, and that employers are liable up to 100 percent of the plan asset insufficiency; estimated collectible employer liability was approximated by an amount equal the present value of expected plan contributions under the current program, based upon projected trends in active participation.

TABLE 4

SUMMARY OF UNFUNDED LIABILITIES FOR MULTIEMPLOYER PLAN UNIVERSE^{1/}

<u>Year of Forecast</u>	<u>Plan Participants</u>	<u>Unfunded Liability for Accrued Benefits (\$ millions)</u>	<u>Unfunded Liability for Vested Benefits (\$ millions)</u>	<u>Unfunded Liability for Guaranteed Benefits (\$ millions)</u> ^{2/}
1	8,177	40,215	33,519	33,516
2	8,287	39,266	32,890	32,886
3	8,383	38,705	32,365	32,361
4	8,508	47,012	38,189	32,519
5	8,637	46,671	38,130	36,399
6	8,758	46,211	38,600	38,081
7	8,922	56,714	46,516	39,323
8	9,084	56,400	47,009	44,363
9	9,244	55,974	47,955	46,968
10	9,401	68,927	58,425	49,043

^{1/} Based upon the 279 plan sample, weighted to reflect all multiemployer plans. Estimates represent the unfunded liabilities assuming all plans terminate in the year indicated.

^{2/} Assuming current program guarantees and no employer liability at plan termination.

TABLE 5
 SUMMARY OF PBGC TERMINATION LIABILITIES FOR ALTERNATIVE PROGRAMS
 WITH CURRENT EMPLOYER LIABILITY NET WORTH LIMITATION
 (\$ millions)

	<u>Total With No Employer Collections</u>	<u>Total Less Employer Collections Based Upon 25% Collectibility</u>	<u>Total Less Employer Collections Based Upon Variable Collectibility</u>
<u>Current Program</u>	8,345	6,099	4,824
<u>Revised Program</u> ^{1/}			
● Modified Guarantees	7,050	5,002	3,857
● Reduced Modified Guarantees			
-- 50% Guarantee	2,357	567	114
-- 10% Phase-In	2,581	1,191	1,008
-- 10% Phase-In with Deferred Termination	4,753	2,990	2,806
-- Post-ERISA	1,440	238	148
-- Retirees and Near Retirees Only	5,349	3,300	2,326

^{1/} See footnotes 3 and 4, Table 2.

TABLE 6

SUMMARY OF PBGC TERMINATION LIABILITIES FOR ALTERNATIVE PROGRAMS
 WITH NO NET WORTH LIMITATION ON EMPLOYER LIABILITY
 (\$ millions)

	<u>Total With No Employer Collections</u>	<u>Total Less Expected Employer Collections</u>
<u>Current Program</u>	8,345	1,566
<u>Revised Program</u> ^{1/}		
● Modified Guarantees	7,050	1,183
● Reduced Modified Guarantees		
-- 50% Guarantee	2,357	15
-- 10% Phase-In	2,581	134
-- 10% Phase-In with Deferred Termination	4,753	1,058
-- Post-ERISA	1,440	6
-- Retirees and Near Retirees Only	5,349	507

^{1/} See footnotes 3 and 4, Table 2.

TABLE 7

SUMMARY OF PBGC TERMINATION LIABILITIES FOR ALTERNATIVE PROGRAMS WITH
CURRENT EMPLOYER LIABILITY LIMITATION, EXCLUDING LARGE, BROAD-BASED PLANS

	<u>Total With No Employer Collections</u>	<u>Total Less Employer Collections Based Upon 25% Collectibility</u>	<u>Total Less Employer Collections Based Upon Variable Collectibility</u>
<u>Current Program</u>	3,791	2,711	2,704
<u>Revised Program</u> ^{1/}			
● Modified Guarantees	2,936	2,012	2,007
● Reduced Modified Guarantees			
-- 50% Guarantee	743	34	34
-- 10% Phase-In	1,537	724	718
-- 10% Phase-In with Deferred Termination	2,753	1,781	1,775
-- Post-ERISA	922	144	142
-- Retirees and Near Retirees Only	2,000	1,077	1,076

^{1/} See footnotes 3 and 4, Table 2.

TABLE 8

SUMMARY OF PBGC TERMINATION LIABILITIES FOR ALTERNATIVE PROGRAMS WITH
NO NET WORTH LIMITATION ON EMPLOYER LIABILITY, EXCLUDING LARGE, BROAD-BASED PLANS

	<u>Total With No Employer Collections</u>	<u>Total Less Expected Employer Collections</u>
<u>Current Program</u>	3,791	920
<u>Revised Program</u> ^{1/}		
• Modified Guarantees	2,936	702
• Reduced Modified Guarantees		
-- 50% Guarantee	743	11
-- 10% Phase-In	1,537	134
-- 10% Phase-In with Deferred Termination	2,753	778
-- Post-ERISA	922	6
-- Retirees and Near Retirees Only	2,000	265

^{1/} See footnotes 3 and 4, Table 2.

TABLE 9

SUMMARY OF PERCENT OF VESTED BENEFITS PAID FOR ALTERNATIVE PROGRAMS
UNDER ALTERNATIVE EMPLOYER LIABILITY RULES

	<u>Percent Assuming No Employer Liability</u>	<u>Percent Assuming Current Employer Liability Limitation</u>			<u>Percent Assuming Alternative Employer Liability Limitation</u>	
		<u>Employer Liability = Unfunded Vested Benefits</u>		<u>Employer Liability = Unfunded Guaranteed Benefits</u>	<u>Employer Liability = Unfunded Vested Benefits</u>	<u>Employer Liability = Unfunded Guaranteed Benefits</u>
		<u>25% Collect.</u>	<u>Variable Collect.</u>			
<u>Current Program</u>	94.1%	94.1%	94.1%	94.1%	97.1%	94.1%
<u>Revised Program</u> ^{1/}						
● Modified Guarantees	88.0	88.0	88.0	88.0	92.9	88.0
● Reduced Modified Guarantees						
-- 50% Guarantee	47.1	49.6	55.7	47.1	83.0	47.1
-- 10% Phase-In	54.1	58.6	65.5	54.1	87.3	54.1
-- 10% Phase-In with Deferred Termination	70.7	72.7	78.8	70.7	84.1	70.7
-- Post-ERISA	42.6	48.5	56.5	42.6	83.0	42.6
-- Retirees and Near Retirees Only	72.1	72.1	74.7	72.1	87.0	72.1

^{1/} See footnotes 3 and 4, Table 2.

TABLE 10
 SUMMARY OF TOTAL EMPLOYER LIABILITY FOR ALTERNATIVE PROGRAMS UNDER
 ALTERNATIVE EMPLOYER LIABILITY RULES
 (\$ millions)

	<u>Employer Liability = Unfunded Vested Benefits</u>	<u>Employer Liability = Unfunded Guaranteed Benefits</u>
<u>Current Program</u>	8,986	8,345
<u>Revised Program</u> ^{1/}		
● Modified Guarantees	8,177	7,050
● Reduced Modified Guarantees		
-- 50% Guarantee	8,177	2,357
-- 10% Phase-In	8,177	2,581
-- 10% Phase-In with Deferred Termination	8,362	4,753
-- Post-ERISA	8,177	1,440
-- Retirees and Near Retirees Only	8,177	5,349

^{1/} See footnotes 3 and 4, Table 2.

TABLE 11

SUMMARY OF PBGC TERMINATION LIABILITIES FOR ALTERNATIVE
PROGRAMS WITH REORGANIZATION OPTION
(\$ millions)

	PBGC Liabilities With Current Employer Liability Limitation			PBGC Liabilities With Alterna- tive Employer Liability Limitation		
	Reorg. Plans	Term. Plans	All Plans ^{1/}	Reorg. Plans	Term. Plans	All Plans ^{1/}
<u>Current Program</u>	1,763	3,061	4,824	865	701	1,566
<u>Revised Program</u> ^{2/}						
● Modified Guarantees	1,358	2,499	3,857	731	452	1,183
● Reduced Modified Guarantees						
-- 50% Guarantee	89	25	114	15	0	15
-- 10% Phase-In	134	874	1,008	84	50	134
-- 10% Phase-In with Deferred Termination	1,026	1,780	2,806	789	269	1,058
-- Post-ERISA	5	143	148	6	0	6
-- Retirees and Near Retirees Only	789	1,537	2,326	283	224	507

^{1/} All plans represent those identified by the termination screen and include plans that are assumed both to reorganize and to terminate.

^{2/} See footnotes 3 and 4, Table 2.

TABLE 12

SUMMARY OF PBGC TERMINATION LIABILITIES FOR ALTERNATIVE
PROGRAMS WITH REORGANIZATION OPTION, EXCLUDING LARGE, BROAD-BASED PLANS
(\$ millions)

	PBGC Liabilities With Current Employer Liability Limitation			PBGC Liabilities With Alterna- tive Employer Liability Limitation		
	Reorg. Plans	Term. Plans	All Plans ^{1/}	Reorg. Plans	Term. Plans	All Plans ^{1/}
<u>Current Program</u>	1,089	1,615	2,704	670	250	920
<u>Revised Program</u> ^{2/}						
● Modified Guarantees	694	1,313	2,007	545	157	702
● Reduced Modified Guarantees						
-- 50% Guarantee	16	18	34	11	0	11
-- 10% Phase-In	133	585	718	84	50	134
-- 10% Phase-In with Deferred Termination	597	1,178	1,775	557	221	778
-- Post-ERISA	6	136	142	6	0	6
-- Retirees and Near Retirees Only	379	697	1,076	257	8	265

^{1/} All plans represent those identified by the termination screen and include plans that are assumed both to reorganize and to terminate.

^{2/} See footnotes 3 and 4, Table 2.

TABLE 13

SUMMARY OF PBGC REORGANIZATION ASSISTANCE LIABILITIES
AND PREMIUMS UNDER MODIFIED GUARANTEES

	Reorganized Plans That First Require Assistance During		<u>Total</u>
	<u>1 to 10-Year Period</u>	<u>11 to 20-Year Period</u>	
Reorganization Assistance Liability (present value of liability in Year 1 in \$ millions)	66.4	161.1	227.5
Annual Level Premium Required if amortized over 20 years	.72	1.75	2.47

TABLE 14

SUMMARY OF PBGC REORGANIZATION ASSISTANCE LIABILITIES
AND PREMIUMS UNDER MODIFIED GUARANTEES, EXCLUDING
LARGE BROAD-BASED PLANS

	Reorganized Plans That First Require Assistance During		Total
	1 to 10-Year Period	11 to 20-Year Period	
Reorganization Assistance Liability (present value of liability in Year 1 in \$ millions)	45.7	18.1	63.8
Annual Level Premium Required if amortized over 20 years	.49	.20	.69

TABLE 15

SUMMARY OF PBGC PREMIUMS REQUIRED UNDER ALTERNATIVE PROGRAMS^{1/}
(\$ Per Person)

	<u>No Reorganization Option</u>	<u>Reorganization Option with Termination Guarantees</u>
<u>Current Program</u>	79.50	54.40
<u>Revised Program^{2/}</u>		
● Current Employer Liability Limitation		
-- Modified Guarantee	63.56	43.65
-- Reduced Modified Guarantees		
1) 50% Guarantee	1.88	2.88
2) 10% Phase-In	16.61	16.87
3) 10% Phase-In with Deferred Termination	46.24	31.80
4) Post-ERISA	2.44	4.83
5) Retirees and Near Retirees Only	38.33	27.80
● Alternative Employer Liability Limitation		
-- Modified Guarantee	19.50	9.92
-- Reduced Modified Guarantees		
1) 50% Guarantee	.25	2.47
2) 10% Phase-In	2.21	2.29
3) 10% Phase-In with Deferred Termination	17.44	6.90
4) Post-ERISA	.10	2.47
5) Retirees and Near Retirees Only	8.36	6.16

^{1/} Estimates reflect the average annual level premium required to amortize the termination liability over a 10-year period, assuming an average of 8 million participants in non-terminated plans.

^{2/} See footnotes 3 and 4, Table 2.

TABLE 16
 SUMMARY OF PBGC PREMIUMS REQUIRED UNDER ALTERNATIVE PROGRAMS, ^{2/}
 EXCLUDING LARGE, BROAD-BASED PLANS
 (\$ Per Person)

	<u>No Reorganization Option</u>	<u>Reorganization Option with Termination Guarantees</u>
<u>Current Program</u>	44.56	28.81
<u>Revised Program</u> ^{1/}		
● Current Employer Liability Limitation		
-- Modified Guarantee	33.08	22.33
-- Reduced Modified Guarantees		
1) 50% Guarantee	.56	.99
2) 10% Phase-In	11.83	10.33
3) 10% Phase-In with Deferred Termination	29.25	20.10
4) Post-ERISA	2.34	2.93
5) Retirees and Near Retirees Only	17.73	12.18
● Alternative Employer Liability Limitation		
-- Modified Guarantee	11.57	3.28
-- Reduced Modified Guarantees		
1) 50% Guarantee	.18	.69
2) 10% Phase-In	2.21	1.51
3) 10% Phase-In with Deferred Termination	12.82	4.33
4) Post-ERISA	.10	.69
5) Retirees and Near Retirees Only	4.37	.82

^{1/} See footnotes 3 and 4, Table 2.

^{2/} Estimates reflect the average annual level premium required to amortize the termination liability over a 10-year period, assuming an average of 8 million participants in non-terminated plans.

TABLE 17
 ANNUAL INCREASE IN PBGC LIABILITIES
 UNDER CURRENT PROGRAM
 WITH CURRENT EMPLOYER LIABILITY NET WORTH LIMITATION^{1/}

Year	Plans Assumed to Terminate ^{2/}		Total PBGC Exposure (\$ millions) ^{3/}	Total Exposure Less Employer Collections Based Upon (\$ millions)	
	New	Cumul.		25% Collect ^{4/}	Variable Collect ^{5/}
1	10	10	2,733	2,050	1,088
2	6	16	192	144	144
3	9	25	719	539	539
4	2	27	192	133	133
5	1	28	75	55	55
6	20	48	305	225	225
7	45	93	2,443	1,708	1,708
8	28	121	1,621	1,215	1,215
9	7	128	1,181	869	869
10	38	166	1,779	1,239	675
Net Present Value @ 6.75%	--	--	8,345	6,099	4,824

^{1/} Assumes current 30 percent of net worth limitation on employer liability.

^{2/} Based upon application of termination screens to a sample of 279 plans, the results of which were then weighted to reflect the universe of all multiemployer plans. Selection of plans assumed to terminate were based upon plans that crossed the following screens:

- (Retirees + Separated Vested)/Total Participants \geq .34
- Assets/Annual Benefits \leq 5.6
- Cash Flow/Assets \leq .026

^{3/} Base estimate of PBGC liability, assuming no collection of employer liability.

^{4/} Assumes PBGC collects 25 percent of unfunded vested liability from all terminating plans.

^{5/} Assumes PBGC collects 25 percent of unfunded vested liability for most terminating plans and 75 percent from remaining plans, identified to be in industries with substantial net worth.

TABLE 18
ANNUAL INCREASE IN PBGC LIABILITIES
UNDER MODIFIED GUARANTEES
WITH CURRENT EMPLOYER LIABILITY NET WORTH LIMITATION^{1/}

Year	Plans Assumed to Terminate ^{2/}		Total PBGC Exposure ^{3/} (\$ millions)	Total Exposure Less Employer Collections Based Upon (\$ millions)	
	New	Cumul.		25% Collect ^{4/}	Variable Collect ^{5/}
1	10	10	2,733	2,050	1,088
2	6	16	192	144	144
3	9	25	719	539	539
4	2	27	192	133	133
5	1	28	63	42	42
6	20	48	271	191	191
7	26	74	1,085	726	726
8	48	122	2,347	1,565	1,565
9	7	129	976	664	664
10	19	148	551	339	9
Net Present Value @ 6.75%	--	--	7,050	5,002	3,857

- ^{1/} Modified guarantees assume an increase in funding requirements, a three year delay in phase-in of guarantees for benefit increases, and an elimination of the \$20 rule on benefit increases; also assumes current 30 percent of net worth limitation on employer liability.
- ^{2/} Based upon application of termination screens to a sample of 279 plans, the results of which were then weighted to reflect the universe of all multiemployer plans. See footnote 2 in Table 17.
- ^{3/} Base estimate of PBGC liability, assuming no collection of employer liability.
- ^{4/} Assumes PBGC collects same amount as under current program from employers, estimated at 25 percent of unfunded vested liabilities.
- ^{5/} Assumes PBGC collects same amount as under current program from employers, equal to 25 percent of unfunded vested liabilities for most plans, and 75 percent for those in industries with substantial net worth.

TABLE 19
ANNUAL INCREASE IN PBGC LIABILITIES UNDER
REDUCED MODIFIED GUARANTEES (50 PERCENT)
WITH CURRENT EMPLOYER LIABILITY NET WORTH LIMITATION^{1/}

Year	Plans Assumed to Terminate ^{2/}		Total PBGC ^{3/} Exposure (\$ millions)	Total Exposure Less Employer Collections Based Upon (\$ millions)	
	New	Cumul.		25% Collect ^{4/}	Variable Collect ^{5/}
1	10	10	1,143	488	35
2	6	16	71	23	23
3	9	25	229	50	50
4	2	27	43	0	0
5	1	28	12	0	0
6	20	48	95	16	16
7	26	74	219	0	0
8	48	122	663	4	4
9	7	129	284	0	0
10	19	148	174	0	0
Net Present Value @ 6.75%	--	--	2,357	567	114

- ^{1/} Includes modified guarantees described in Table 18, but with a guarantee reduced to 50 percent of current program; also assumes current 30 percent of net worth limitation on employer liability.
- ^{2/} Based upon application of termination screens to a sample of 279 plans, the results of which were then weighted to reflect the universe of all multiemployer plans. See footnote 2 in Table 17.
- ^{3/} Base estimate of PBGC liability, assuming no collection of employer liability.
- ^{4/} Assumes PBGC collects same amount as under current program from employers, estimated at 25 percent of unfunded vested liabilities.
- ^{5/} Assumes PBGC collects same amount as under current program from employers, equal to 25 percent of unfunded vested liabilities for most plans, and 75 percent for those in industries with substantial net worth.

TABLE 20

ANNUAL INCREASE IN PBGC LIABILITIES UNDER MODIFIED
GUARANTEES AND 10 PERCENT PER YEAR PROGRAM PHASE-IN
WITH CURRENT EMPLOYER LIABILITY NET WORTH LIMITATION^{1/}

Year	Plans Assumed to Terminate ^{2/}		Total PBGC Exposure ^{3/} (\$ millions)	Total Exposure Less Employer Collections Based Upon (\$ millions)	
	New	Cumul.		25% Collect ^{4/}	Variable Collect ^{5/}
1	10	10	169	0	0
2	6	16	19	0	0
3	9	25	77	0	0
4	2	27	35	0	0
5	1	28	12	0	0
6	20	48	128	48	48
7	26	74	545	186	186
8	48	122	1,628	846	846
9	7	129	830	517	517
10	19	148	551	339	9
Net Present Value @ 6.75%	--	--	2,581	1,191	1,008

- ^{1/} Includes modified guarantees described in Table 18, but with a phase-in of the guarantee of 10 percent per year up to 100 percent of current program in Year 10; also assumes current 30 percent of net worth limitation on employer liability.
- ^{2/} Based upon application of termination screens to a sample of 279 plans, the results of which were then weighted to reflect the universe of all multiemployer plans. See footnote 2 in Table 17.
- ^{3/} Base estimate of PBGC liability, assuming no collection of employer liability.
- ^{4/} Assumes PBGC collects same amount as under current program from employers, estimated at 25 percent of unfunded vested liabilities.
- ^{5/} Assumes PBGC collects same amount as under current program from employers, equal to 25 percent of unfunded vested liabilities for most plans, and 75 percent for those in industries with substantial net worth.

TABLE 21

ANNUAL INCREASE IN PBGC LIABILITIES UNDER MODIFIED GUARANTEES
AND 10 PERCENT PER YEAR PROGRAM PHASE-IN WITH DEFERRED TERMINATION ^{1/}
AND WITH CURRENT EMPLOYER LIABILITY NET WORTH LIMITATION

Year	Plans Assumed to Terminate ^{2/}		Total PBGC Exposure ^{3/} (\$ millions)	Total Exposure Less Employer Collections Based Upon (\$ millions)	
	New	Cumul.		25% Collect ^{4/}	Variable Collect ^{5/}
1	2	2	146	0	0
2	0	2	0	0	0
3	0	2	0	0	0
4	3	5	29	8	8
5	0	5	0	0	0
6	0	5	0	0	0
7	0	5	0	0	0
8	0	5	0	0	0
9	0	5	0	0	0
10	143	148	8,252	5,369	5,040
Net Present Value @ 6.75%	--	--	4,753	2,990	2,806

- ^{1/} Includes modified guarantees described in Table 18 and the 10 percent phase-in described in Table 21, but reflects the impact of plans deferring termination as long as possible to obtain higher guarantees; also assumes current 30 percent of net worth limitation on employer liability.
- ^{2/} Based upon application of termination screens to a sample of 279 plans, the results of which were then weighted to reflect the universe of all multiemployer plans. These plans were then assumed to terminate either in the year they became insolvent or in year 10 to reflect the possibility that such plans might defer termination under this option.
- ^{3/} Base estimate of PBGC liability, assuming no collection of employer liability.
- ^{4/} Assumes PBGC collects same amount as under current program from employers, estimated at 25 percent of unfunded vested liabilities.
- ^{5/} Assumes PBGC collects same amount as under current program from employers, equal to 25 percent of unfunded vested liabilities for most plans, and 75 percent for those in industries with substantial net worth.

TABLE 22
 ANNUAL INCREASE IN PBGC LIABILITIES UNDER
 REDUCED MODIFIED GUARANTEE OF POST-ERISA BENEFITS ONLY^{1/}
 WITH CURRENT EMPLOYER LIABILITY NET WORTH LIMITATION^{1/}

Year	Plans Assumed to Terminate ^{2/}		Total PBGC Exposure ^{3/} (\$ millions)	Total Exposure Less Employer Collections Based Upon (\$ millions)	
	New	Cumul.		25% Collect ^{4/}	Variable Collect ^{5/}
1	10	10	20	0	0
2	6	16	9	0	0
3	9	25	68	0	0
4	2	27	36	0	0
5	1	28	13	0	0
6	20	48	59	1	1
7	26	74	350	4	4
8	48	122	879	97	97
9	7	129	447	135	135
10	19	148	379	167	5
Net Present Value @ 6.75%	--	--	1,440	238	148

^{1/} Includes modified guarantees described in Table 18, but with a guarantee limited to benefits accrued following the passage of ERISA; also assumes current 30 percent of net worth limitation on employer liability.

^{2/} Based upon application of termination screens to a sample of 279 plans, the results of which were then weighted to reflect the universe of all multiemployer plans. See footnote 2 in Table 17.

^{3/} Base estimate of PBGC liability, assuming no collection of employer liability.

^{4/} Assumes PBGC collects same amount as under current program from employers, estimated at 25 percent of unfunded vested liability.

^{5/} Assumes PBGC collects same amount as under current program from employers, equal to 25 percent of unfunded vested liabilities for most plans, and 75 percent for those in industries with substantial net worth.

TABLE 23
ANNUAL INCREASE IN PBGC LIABILITIES UNDER
REDUCED MODIFIED GUARANTEE OF RETIREE AND NEAR RETIREE BENEFITS ONLY^{1/}
WITH CURRENT EMPLOYER LIABILITY NET WORTH LIMITATION

Year	Plans Assumed to Terminate ^{2/}		Total PBGC Exposure ^{3/} (\$ millions)	Total Exposure Less Employer Collections Based Upon (\$ millions)	
	New	Cumul.		25% Collect ^{4/}	Variable Collect ^{5/}
1	10	10	2,459	1,776	814
2	6	16	142	94	94
3	9	25	495	315	315
4	2	27	99	40	40
5	1	28	39	19	19
6	20	48	190	110	110
7	26	74	771	413	413
8	48	122	1,563	781	781
9	7	129	728	416	416
10	19	148	237	25	2
Net Present Value @ 6.75%	--	--	5,349	3,300	2,326

^{1/} Includes modified guarantees described in Table 18, but with a guarantee limited to the benefits of retirees and those participants within five years of normal retirement; also assumes current 30 percent of net worth limitation on employer liability.

^{2/} Based upon application of termination screens to a sample of 279 plans, the results of which were then weighted to reflect the universe of all multiemployer plans. See footnote 2 in Table 17.

^{3/} Base estimate of PBGC liability, assuming no collection of employer liability.

^{4/} Assumes PBGC collects same amount as under current program from employers, estimated at 25 percent of unfunded vested liability.

^{5/} Assumes PBGC collects same amount as under current program from employers, equal to 25 percent of unfunded vested liabilities for most plans, and 75 percent for those in industries with substantial net worth.

TABLE 24
ANNUAL INCREASE IN PBGC LIABILITIES
UNDER CURRENT PROGRAM
WITH NO NET WORTH LIMITATION ON EMPLOYER LIABILITY^{1/}

Year	Plans Assumed to Terminate ^{2/}		Total PBGC Exposure ^{3/} (\$ millions)	PBGC Exposure Less Employer Collections Based Upon Expected Contributions
	New	Cumul.		
1	10	10	2,733	341
2	6	16	192	74
3	9	25	719	166
4	2	27	192	86
5	1	28	75	15
6	20	48	305	67
7	45	93	2,443	708
8	28	121	1,621	248
9	7	128	1,181	352
10	38	166	1,779	66
Net Present Value @ 6.75%	--	--	8,345	1,566

^{1/} Assumes no net worth limitations on employer liability, and that collectible employer liability is equivalent to the present value of expected plan contributions under the current program, based upon projected trends in active participation.

^{2/} Based upon application of termination screens to a sample of 279 plans, the results of which were then weighted to reflect the universe of all multiemployer plans. See footnote 2 in Table 17.

^{3/} Base estimate of PBGC liability, assuming no collection of employer liability.

TABLE 25
ANNUAL INCREASE IN PBGC LIABILITIES
UNDER MODIFIED GUARANTEES
WITH NO NET WORTH LIMITATION ON EMPLOYER LIABILITY^{1/}

Year	Plans Assumed to Terminate ^{2/}		Total PBGC Exposure ^{3/} (\$ millions)	PBGC Exposure Less Employer Collections Based Upon Expected Contributions
	New	Cumul.		
1	10	10	2,733	341
2	6	16	192	74
3	9	25	719	166
4	2	27	192	86
5	1	28	63	3
6	20	48	271	33
7	26	74	1,085	586
8	48	122	2,347	10
9	7	129	976	206
10	19	148	551	10
Net Present Value @ 6.75%	--	--	7,050	1,183

^{1/} Assumes no net worth limitations on employer liability, and that collectible employer liability is equivalent to the present value of expected plan contributions under the current program, based upon projected trends in active participation.

^{2/} Based upon application of termination screens to a sample of 279 plans, the results of which were then weighted to reflect the universe of all multi-employer plans. See footnote 2 in Table 17.

^{3/} Base estimate of PBGC liability, assuming no collection of employer liability.

TABLE 26
 ANNUAL INCREASE IN PBGC LIABILITIES UNDER REDUCED
 MODIFIED GUARANTEES (50 PERCENT)
 WITH NO NET WORTH LIMITATION ON EMPLOYER LIABILITY^{1/}

Year	Plans Assumed to Terminate ^{2/}		Total PBGC Exposure ^{3/} (\$ millions)	PBGC Exposure Less Employer Collections Based Upon Expected Contributions
	New	Cumul.		
1	10	10	1,143	4
2	6	16	71	11
3	9	25	229	0
4	2	27	43	0
5	1	28	12	0
6	20	48	95	0
7	26	74	219	0
8	48	122	663	0
9	7	129	284	0
10	19	148	174	0
Net Present Value @ 6.75%	--	--	2,357	15

^{1/} Assumes no net worth limitations on employer liability, and that collectible employer liability is equivalent to the present value of expected plan contributions under the current program, based upon projected trends in active participation.

^{2/} Based upon application of termination screens to a sample of 279 plans, the results of which were then weighted to reflect the universe of all multi-employer plans. See footnote 2 in Table 17.

^{3/} Base estimate of PBGC liability, assuming no collection of employer liability.

TABLE 27

ANNUAL INCREASE IN PBGC LIABILITIES UNDER MODIFIED
GUARANTEES AND 10 PERCENT PER YEAR PROGRAM PHASE-IN
WITH NO NET WORTH LIMITATION ON EMPLOYER LIABILITY^{1/}

Year	Plans Assumed to Terminate ^{2/}		Total PBGC Exposure ^{3/} (\$ millions)	PBGC Exposure Less Employer Collections Based Upon Expected Contributions
	New	Cumul.		
1	10	10	169	0
2	6	16	19	0
3	9	25	77	0
4	2	27	35	0
5	1	28	12	0
6	20	48	128	1
7	26	74	545	108
8	48	122	1,628	0
9	7	129	830	92
10	19	148	551	10
Net Present Value @ 6.75%	--	--	2,581	134

^{1/} Assumes no net worth limitations on employer liability, and that collectible employer liability is equivalent to the present value of expected plan contributions under the current program, based upon projected trends in active participation.

^{2/} Based upon application of termination screens to a sample of 279 plans, the results of which were then weighted to reflect the universe of all multi-employer plans. See footnote 2 in Table 17.

^{3/} Base estimate of PBGC liability, assuming no collection of employer liability.

TABLE 28

ANNUAL INCREASE IN PBGC LIABILITIES UNDER MODIFIED GUARANTEES
AND 10 PERCENT PER YEAR PROGRAM PHASE-IN WITH DEFERRED TERMINATION^{1/}
AND WITH NO NET WORTH LIMITATION ON EMPLOYER LIABILITY

<u>Year</u>	<u>Plans Assumed to Terminate^{2/}</u>		<u>Total PBGC Exposure^{3/} (\$ millions)</u>	<u>PBGC Exposure Less Employer Collections Based Upon Expected Contributions</u>
	<u>New</u>	<u>Cumul.</u>		
1	2	2	146	0
2	0	2	0	0
3	0	2	0	0
4	3	5	29	7
5	0	5	0	0
6	0	5	0	0
7	0	5	0	0
8	0	5	0	0
9	0	5	0	0
10	143	148	8,252	1,895
Net Present Value @ 6.75%	--	--	4,753	1,058

^{1/} Assumes no net worth limitations on employer liability, and that collectible employer liability is equivalent to the present value of expected plan contributions under the current program, based upon projected trends in active participation.

^{2/} Based upon application of termination screens to a sample of 279 plans, the results of which were then weighted to reflect the universe of all multi-employer plans. These plans were then assumed to terminate either in the year they became insolvent or in year 10 to reflect the possibility that such plans might defer termination under this option.

^{3/} Base estimate of PBGC liability, assuming no collection of employer liability.

TABLE 29
 ANNUAL INCREASE IN PBGC LIABILITIES
 UNDER REDUCED MODIFIED GUARANTEE OF POST-ERISA BENEFITS ONLY ^{1/}
 WITH NO NET WORTH LIMITATION ON EMPLOYER LIABILITY

Year	Plans Assumed to Terminate ^{2/}		Total PBGC Exposure ^{3/} (\$ millions)	PBGC Exposure Less Employer Collections Based Upon Expected Contributions
	New	Cumul.		
1	10	10	20	0
2	6	16	9	0
3	9	25	68	0
4	2	27	36	0
5	1	28	13	0
6	20	48	59	0
7	26	74	350	2
8	48	122	879	0
9	7	129	447	3
10	19	148	379	6
Net Present Value @ 6.75%	--	--	1,440	6

^{1/} Assumes no net worth limitations on employer liability, and that collectible employer liability is equivalent to the present value of expected plan contributions under the current program, based upon projected trends in active participation.

^{2/} Based upon application of termination screens to a sample of 279 plans, the results of which were then weighted to reflect the universe of all multi-employer plans. See footnote 2 in Table 17.

^{3/} Base estimate of PBGC liability, assuming no collection of employer liability.

TABLE 30
ANNUAL INCREASE IN PBGC LIABILITIES UNDER
REDUCED MODIFIED GUARANTEE OF RETIREE AND NEAR RETIREE BENEFITS ONLY^{1/}
WITH NO NET WORTH LIMITATION ON EMPLOYER LIABILITY

Year	Plans Assumed to Terminate ^{2/}		Total PBGC Exposure ^{3/} (\$ millions)	PBGC Exposure Less Employer Collections Based Upon Expected Contributions
	New	Cumul.		
1	10	10	2,459	237
2	6	16	142	32
3	9	25	495	5
4	2	27	99	0
5	1	28	39	0
6	20	48	190	2
7	26	74	771	326
8	48	122	1,563	0
9	7	129	728	20
10	19	148	237	4
Net Present Value @ 6.75%	--	--	5,349	507

^{1/} Assumes no net worth limitations on employer liability, and that collectible employer liability is equivalent to the present value of expected plan contributions under the current program, based upon projected trends in active participation.

^{2/} Based upon application of termination screens to a sample of 279 plans, the results of which were then weighted to reflect the universe of all multi-employer plans. See footnote 2 in Table 1.

^{3/} Base estimate of PBGC liability, assuming no collection of employer liability.

TABLE 31

DISTRIBUTION AND CHARACTERISTICS OF ALL PLANS
ASSUMED TO TERMINATE BY CATEGORY OF TERMINATION POTENTIAL

<u>Termination Risk Category</u>	<u>Number of Plans</u>	<u>Number of Participants (000)</u>	<u>Unfunded Liability for Vested Benefits (\$ millions)</u>	<u>PBGC Termination^{1/} Liability (\$ millions)</u>	<u>Annual^{1/} Premiums (\$ per person)</u>
Highest ^{2/}	9	112	2,032	562	9.26
High ^{3/}	51	250	1,994	1,322	21.79
Medium ^{4/}	8	680	2,705	1,610	26.53
Lowest ^{5/}	98	216	2,255	1,330	21.92
Total	166	1,258	8,986	4,824	79.50
Total less large, broad based plans	156	473	4,318	2,704	44.56

^{1/} Under current program and assuming current employer liability limitation.

^{2/} Only plans identified by the termination screen that are predicted to become insolvent during the 10-year forecast period.

^{3/} Only those plans identified by the termination screen that are local or regional plans (*i.e.*, all plans that are not large, broad-based plans) that are identified for potential termination in the first year of the forecast, whose current liability for vested benefits is less than 15 percent funded, or that cover workers in industries with declining employment, as projected by BLS.

^{4/} Only large, broad-based plans identified by the termination screen that meet the conditions in the high category, as described in footnote 3 above.

^{5/} Remaining plans out of those identified by the termination screen, comprised of both local or regional and large, broad-based plans that were identified for termination after Year 1 of the forecast, whose current liability for vested benefits is in excess of 15 percent funded and that cover workers in industries that are not expected to decline, as projected by BLS.

TABLE 32

ANNUAL PREMIUM REQUIREMENTS UNDER PROGRAM OPTIONS BY CATEGORY OF
TERMINATION POTENTIAL FOR CURRENT EMPLOYER LIABILITY LIMITATION 1/

	<u>Highest</u> ^{2/}	<u>High</u>	<u>Medium</u>	<u>Lowest</u>
<u>Current Program</u>				
Annual Premium	9.26	21.79	26.53	21.92
Cumulative Annual Premium ^{3/}	9.26	31.05	57.58	79.50
<u>Revised Program</u>				
● Modified Guarantee				
Annual Premium	9.26	18.38	22.08	13.92
Cumulative Annual Premium	9.26	27.56	49.64	63.56
● Reduced Modified Guarantees				
-- 50% Guarantee				
Annual Premium	0.40	0.29	1.17	0.02
Cumulative Annual Premium	0.40	0.69	1.86	1.88
-- 10% Phase-In				
Annual Premium	0	8.09	4.78	3.74
Cumulative Annual Premium	0	8.09	12.87	16.61
-- 10% Phase-In with Deferred Termination				
Annual Premium	0.02	15.97	16.99	13.26
Cumulative Annual Premium	0.02	15.99	32.98	46.24
-- Post-ERISA				
Annual Premium	0	1.42	0.12	0.90
Cumulative Annual Premium	0	1.42	1.54	2.44
-- Retirees and Near Retirees Only				
Annual Premium	8.22	10.60	13.00	6.51
Cumulative Annual Premium	8.22	18.82	31.82	38.33

1/ Assumes that PBGC collects an amount from employers up to the current 30 percent net worth limitation on employer liability; this was approximated by an amount equal to 25 percent of unfunded vested liabilities for most plans, and 75 percent for those in industries where available data indicated substantial net worth.

2/ See Table 31 for description of categories of termination potential.

3/ Cumulative annual premiums are equal to the sum of annual premiums in a given category of termination potential and all higher risk categories.

TABLE 33

ANNUAL PREMIUM REQUIREMENTS UNDER PROGRAM OPTIONS BY CATEGORY OF TERMINATION POTENTIAL FOR ALTERNATIVE EMPLOYER LIABILITY LIMITATION^{1/}

	<u>Highest^{2/}</u>	<u>High</u>	<u>Medium</u>	<u>Lowest</u>
<u>Current Program</u>				
Annual Premium	5.47	4.48	5.93	9.93
Cumulative Annual Premium ^{3/}	5.47	9.95	15.88	25.81
<u>Revised Program</u>				
● Modified Guarantee				
Annual Premium	5.47	2.62	3.20	8.21
Cumulative Annual Premium	5.47	8.09	11.29	19.50
● Reduced Modified Guarantees				
-- 50% Guarantee				
Annual Premium	0.23	0	0	0.02
Cumulative Annual Premium	0.23	0.23	0.23	0.25
-- 10% Phase-In				
Annual Premium	0	0.82	0	1.39
Cumulative Annual Premium	0	0.82	0.82	2.21
-- 10% Phase-In with Deferred Termination				
Annual Premium	0.10	3.68	4.63	9.03
Cumulative Annual Premium	0.10	3.78	8.41	17.44
-- Post-ERISA				
Annual Premium	0	0	0	0.10
Cumulative Annual Premium	0	0	0	0.10
-- Retirees and Near Retirees Only				
Annual Premium	4.43	0.12	0.07	3.74
Cumulative Annual Premium	4.43	4.55	4.62	8.36

^{1/} Assumes elimination of the net worth limit, and that employers are liable up to 100 percent of the plan asset insufficiency; estimated collectible employer liability was approximated by an amount equal to the present value of expected plan contributions under the current program, based upon projected trends in active participation.

^{2/} See Table 31 for description of categories of termination potential.

^{3/} Cumulative annual premiums are equal to the sum of annual premiums in a given risk category of termination potential and all higher risk categories.

TABLE 34

PBGC LIABILITIES UNDER PROGRAM OPTIONS BY CATEGORY OF
TERMINATION POTENTIAL FOR CURRENT EMPLOYER LIABILITY LIMITATION 1/

	<u>Highest</u> ^{2/}	<u>High</u>	<u>Medium</u>	<u>Lowest</u>
<u>Current Program</u>				
Liability	562	1,322	1,610	1,330
Cumulative Liability ^{3/}	562	1,884	3,494	4,824
<u>Revised Program</u>				
● Modified Guarantee				
Liability	562	1,110	1,340	845
Cumulative Liability	562	1,672	3,012	3,857
● Reduced Modified Guarantees				
-- 50% Guarantee				
Liability	24	18	71	1
Cumulative Liability	24	42	113	114
-- 10% Phase-In				
Liability	0	491	290	227
Cumulative Liability	0	491	781	1,008
-- 10% Phase-In with Deferred Termination				
Liability	1	969	1,031	805
Cumulative Liability	1	970	2,001	2,806
-- Post-ERISA				
Liability	0	86	7	55
Cumulative Liability	0	86	93	148
-- Retirees and Near Retirees Only				
Liability	499	643	789	395
Cumulative Liability	499	1,142	1,931	2,326

1/ Assumes that PBGC collects an amount from employers up to the current 30 percent net worth limitation on employer liability; this was approximated by an amount equal to 25 percent of unfunded vested liabilities for most plans, and 75 percent for those in industries where available data indicated substantial net worth.

2/ See Table 31 for description of categories of termination potential.

3/ Cumulative liabilities are equal to the sum of liabilities in a given category of termination potential and all higher risk categories.

TABLE 35

PBGC LIABILITIES UNDER PROGRAM OPTIONS BY CATEGORY OF
TERMINATION POTENTIAL FOR ALTERNATIVE EMPLOYER LIABILITY LIMITATION^{1/}

	<u>Highest^{2/}</u>	<u>High</u>	<u>Medium</u>	<u>Lowest</u>
<u>Current Program</u>				
Annual Premium	332	272	360	602
Cumulative Annual Premium ^{3/}	332	604	964	1,566
<u>Revised Program</u>				
● Modified Guarantee				
Annual Premium	332	159	194	498
Cumulative Annual Premium	332	491	685	1,183
● Reduced Modified Guarantees				
-- 50% Guarantee				
Annual Premium	14	0	0	1
Cumulative Annual Premium	14	14	14	15
-- 10% Phase-In				
Annual Premium	0	50	0	84
Cumulative Annual Premium	0	50	50	134
-- 10% Phase-In with Deferred Termination				
Annual Premium	6	223	281	548
Cumulative Annual Premium	6	229	510	1,058
-- Post-ERISA				
Annual Premium	0	0	0	6
Cumulative Annual Premium	0	0	0	6
-- Retirees and Near Retirees Only				
Annual Premium	269	7	4	227
Cumulative Annual Premium	269	276	280	507

^{1/} Assumes elimination of the net worth limit, and that employers are liable up to 100 percent of the plan asset insufficiency; estimated collectible employer liability was approximated by an amount equal to the present value of expected plan contributions under the current program, based upon projected trends in active participation.

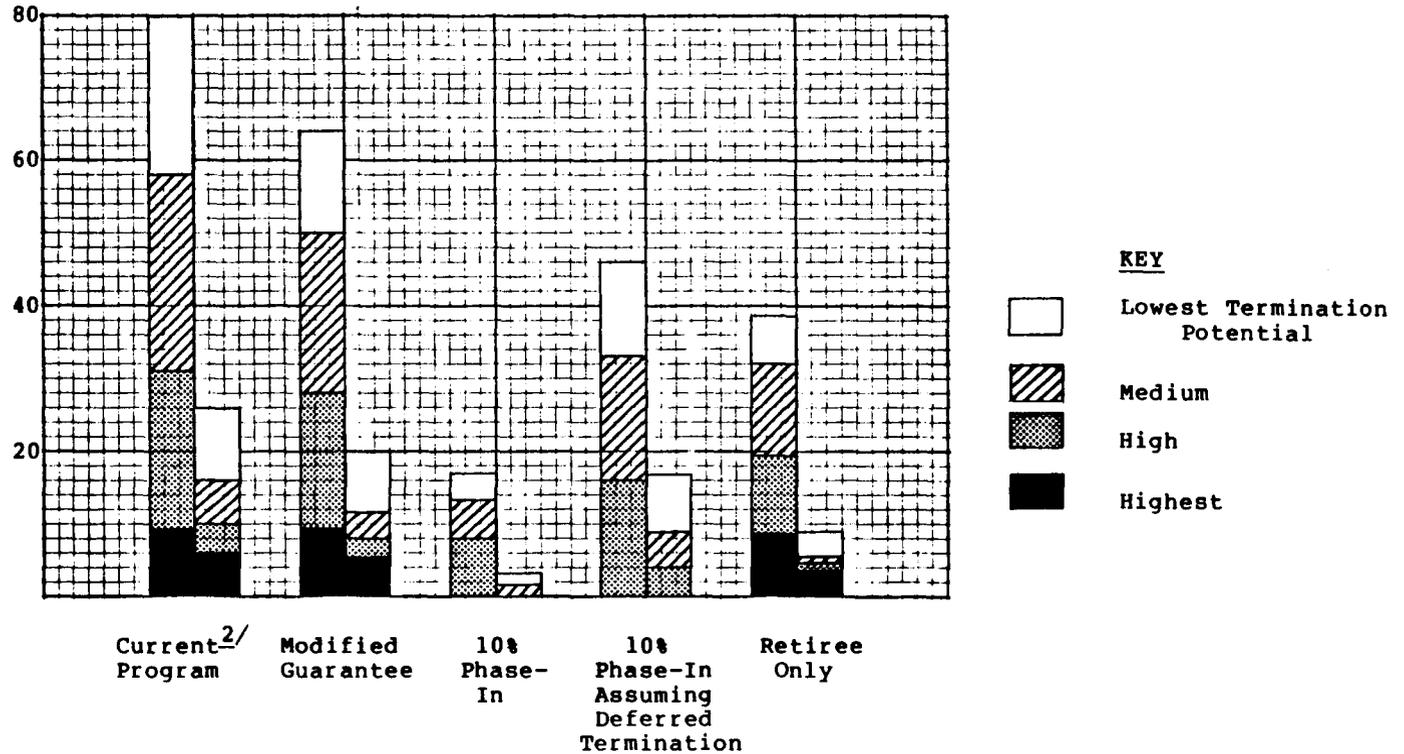
^{2/} See Table 31 for description of categories of termination potential.

^{3/} Cumulative liabilities are equal to the sum of liabilities in a given category of termination potential and all higher risk categories.

TABLE 36

ALLOCATION OF PREMIUM COSTS FOR PLANS ASSUMED TO TERMINATE
UNDER SELECTED PROGRAM OPTIONS BY CATEGORY OF TERMINATION POTENTIAL^{1/}

Required
Annual Premium^{2/}
(\$ per person)



^{1/} Excludes plan reorganization option, but includes current and alternative employer liability limitations. For each guarantee option, the left-hand column indicates premium requirements under current employer liability limitations, whereas the right-hand column shows the premiums under alternative employer liability limitations.

^{2/} For example, under the current program with the current employer liability limits, the required annual premium is approximately \$80 per participant. Excluding the lowest potential group reduces the required annual premium to approximately \$58 per participant. The premium cost for the two highest potential groups is approximately \$31 per participant and for the highest group, approximately \$9 per participant.

APPENDIX XV

MULTIEMPLOYER TERMINATIONS GUARANTEED
DURING THE DISCRETIONARY PERIOD

MILK INDUSTRY LOCAL 680 PENSION PLAN

Case No. 120-4

The Milk Industry Local 680 Pension Plan (the "Plan"), a multiemployer pension plan as defined under Section 4001(a)(3) of ERISA was granted discretionary coverage by the PBGC on December 21, 1977, when a Trusteeship Agreement was signed between PBGC and the Plan. An application for discretionary coverage under Section 4082(c) of ERISA was filed by the Plan's trustees on December 17, 1975 requesting that the Plan be terminated as of November 30, 1975 (the "DOPT").

The Plan was originally established, with an effective date of May 1, 1951, by an Agreement and Declaration of Trust with Locals #338, #584, #607, and #680 of the International Brotherhood of Teamsters, Chauffeurs, Warehousemen, and Helpers of America. On June 1, 1962, Local 680 established its own separate plan for employees working within the jurisdiction of the Milk Drivers Employees Union Local #680.

In 1962, when Local 680 established its own plan, there were 75 contributing employers. By November 30, 1970, the number of contributing employers had declined to 56 and by the DOPT to 21. Thus, during the life of the Plan, from June 1, 1962 to November 30, 1975, there was an approximate 72 percent decline in the number of companies contributing to the Plan.

The major reason for the decline in the number of contributing employers was that companies were either going out of business or withdrawing from the milk industry in the Northern New Jersey area. *

*For example, Bordens, a major contributor to the Plan, withdrew from the Plan when it abandoned its home delivery routes in the area and moved its wholesale operations to other locations. However, the great majority of the smaller companies simply went out of business.

The decline can be attributed to the following:

1. Changes in Consumer Demand.

At the time the Plan was established, the contributing employers were primarily engaged in the home delivery of milk and other dairy products. In the ensuing years, the volume of home deliveries steadily declined. At one point home delivery was the major distribution method for getting milk and dairy products to the consumer. Now the major distribution method is through the grocery stores.

2. Increased Competition from within the Local Industry.

The increase in competition is attributable directly to volume of sales. In the shift from retail to wholesale operations, companies that did not have the financial resources to enable them to expand their operations were forced out of business.

3. Increased Competition from Out-of-State Competitors.

Technology has increased the distances that perishable dairy products can be shipped. This has opened the populous Northern New Jersey area to competition from dairies in the rural agricultural areas of Pennsylvania and other parts of New Jersey.

During the five-year period preceding the DOPT, the number of active employees decreased from approximately 1400 to approximately 850. The number of retirees increased during this period from approximately 1100 to approximately 1450. The decrease in active employees is directly related to the shift of emphasis from the home delivery type of operation to the wholesale type of operation. The shift to the wholesale market required less manpower. It should be noted that a census taken in April 1974 showed that, out of 958 active employees covered by the Plan, 778 were in the non-retail category. Over the life of the Plan, the contribution rate had increased to such an extent that the contributing employers found their cost to be prohibitive. The individual employer's contribution rate had increased

from \$.27 per hour worked per employee in the retail category in June of 1962 to \$.927 per hour worked per employee in December 1973. The contribution for each participant in the non-retail category went from \$.27 per hour worked per employee to \$1.23262 per hour worked per employee during the same period.

Since the Plan's inception in 1962 benefit increases to the Plan were negotiated regularly as part of each collective bargaining agreement. The normal retirement benefit had increased approximately 100 percent from June 1, 1962 to the DOPT.

As of the DOPT, it was determined that the Plan had insufficient assets to provide the benefits that would be guaranteeable by PBGC. The Plan asset insufficiency as of the Plan's termination was determined to be \$20,701,985. The present value of guaranteeable benefits was \$25,836,107, and the market value of plan assets was \$5,134,122.

Prior to the PBGC's granting discretionary coverage to the Plan under Section 4082(c) of ERISA, the contributing employers and the PBGC agreed to a settlement of the PBGC's employer liability claim in the amount of approximately \$4,000,000. The method of payment includes immediate cash payments and long-term secured notes.

MILLINERY WORKERS RETIREMENT FUND

Case Nos. 120-1, 120-2, 120-3

The Retirement Plan of the Millinery Industry of New York City and Vicinity (Joint Board) was established in 1949 by collective bargaining agreements between the Joint Board of Millinery Workers Union and employers in the industry, with an effective date of October 1, 1951. At the plan's inception, the Joint Board was comprised of Locals 2, 24, 42, 57 and 90 which were organized on a "craft union" basis. Local 2 withdrew its membership from the Joint Board by 1967. Local 57 merged into Local 42 in 1971, the same year that Local 90 merged into 24. At the time the pension plan terminated, the Joint Board consisted of Locals 24 and 42.

More than 10,500 employees were covered under the original (1949) plan. They were promised benefits ranging from \$40 to \$50 a month. The benefits were to be funded solely through employer contributions negotiated via collective bargaining agreements.

In 1952, the Millinery Designers, Foremen and Foreladies, Union Local 92 established a retirement plan covering, at its inception, 217 participants. The United Millinery Salesmen Local 98 established its retirement plan in 1956 covering 142 employees. Those two plans and the Joint Board plan commingled their funds in the Millinery Workers Retirement Fund (the "Fund"), which was administered by a Board of Trustees. The Board was comprised equally of union and employer representatives.

The millinery industry consisted of numerous small manufacturers, i.e., in 1960 the number of employer-contributors reached a high of 491. The industry was, however, in a constant state of flux. The low initial capital outlay and availability of cheap labor encouraged many new businesses. However, production (as measured by dollar value) and employment declined on an average of 14 percent annually between 1963 and 1973. Consequently, the entrants were more than offset by the failures and withdrawals. By December 31, 1976. the date of the termination of the plan (the "DOPT"), the number of employer-contributors had declined to 171.

In the 1960's, as fashions changed, the millinery industry began its decline. The Fund, which began making pension payments in 1952, had not accumulated adequate reserves to fund benefits. Contributions were a negotiated percentage of gross wages, which percentage was increased over the years as follows:

RATES OF CONTRIBUTION

<u>Joint Board</u>		<u>Local 92</u>		<u>Local 98</u>	
<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
1949	2%	1952	2%	1956	2%
1958	3%	1958	2%	1958	2%
1965	4%	1967	3%	1967	4%
1967	4.5%	1968	4%	1968	4%
1968	5%	1969	4%	1969	4%
1969	7%	1970	4%	1970	6%
1970	10.5%	1971	5%	1971	6%
1971	10.5%	1973	6%	1973	7%
1972	10.5%	1975	6%	1975	7%
1975	10.5%				

NOTE: Contribution rates were not always adhered to; exceptions were made by the Fund for employers for various reasons.

The 1975 contribution rates were in effect on the DOPT. Even though the contribution percentages had been increasing, the gross wage base on which the contributions were based continued to decline. There were fewer employers to contribute to the Fund. Fewer employees worked, shorter hours were instituted (the 35 hour work week was negotiated in the 1972 Joint Board labor contract), and gross wages declined. The dwindling wage base more than offset the rise in the contribution percentages. Liabilities continued to grow as the number of retirees increased and the number of active participants and contributing employers decreased.

CHART OF RETIREES AND ACTIVE WORKING PARTICIPANTS

	Participants			Total
	Year	Retired	Active	
Local 92	1970	52	78	130
	1971	52	78	130
	1972	85	45	130
	1973	86	44	130
	1974	88	42	130
Local 98	1970	60	70	130
	1971	60	70	130
	1972	71	29	100
	1973	71	29	100
	1974	67	30	100
Joint Board	1970	2500	2700	5200
	1971	2500	2700	5200
	1972	2800	1500	4300
	1973	2800	1500	4300
	1974	2900	1400	4300

In 1952, the Joint Board provided for a benefit of \$40 or \$50 per month according to craft. Benefits were increased in 1963 to \$45 and \$55. As the Fund experienced financial difficulties, both future benefits and retirees' benefits were reduced in 1973 to \$35 and \$45 per month. Benefits paid under the Local 92 and Local 98 plans started and remained at \$55 per month.

By 1975 the Fund was so severely underfunded that the Board of Trustees applied to the PBGC for termination insurance to cover a proposed partial termination. The PBGC replied to the Board of Trustees in a December 1975 letter that the insurance program did not extend coverage to partial plan terminations, and PBGC could only extend discretionary coverage upon full termination if it found a basis to do so.

On December 7, 1976, the PBGC received another application from the Board of Trustees requesting discretionary coverage under Section 4082(c) of ERISA upon the complete termination of all three plans. The PBGC replied on December 23, 1976, that discretionary coverage was under consideration.

As of the DOPT the combined plans had 2,821 retirees either in pay status or with vested rights to a deferred pension, and only 1,450 active participants. Total assets of the Fund at the time of termination were approximately \$2.5 million dollars, consisting of an office building worth about \$1 million dollars, a quarter interest in a first mortgage on a low income housing development that had a fair market value in the \$1 million dollar range, cash, stocks, and bonds. Unfunded guaranteed benefits were estimated to be about \$7 million dollars.

Pursuant to Section 4064(a) of ERISA, all employers who were contributing sponsors at any time within the five years prior to plan termination are liable for the lesser of their share of plan asset insufficiency (PAI) or 30 percent of their net worth. Some of the employer-sponsors had been inactive in the industry for more than a year, and net worth was minimal for a number of employers. The difficulties in determining the exact liability of the employers have been compounded by the small size of the individual businesses, the fact that the composition of the employer group was constantly changing, and the unavailability of financial data for the sponsors. Employer liability, in the amount of \$1 million dollars, is now being paid. PBGC became Trustee of the plans on May 2, 1977.