IMPROVE PENSION BENEFIT GUARANTY CORPORATION MULTIEMPLOYER SOLVENCY

Department of Labor

The Budget proposes to improve the solvency of the Pension Benefit Guaranty Corporation (PBGC) by increasing the insurance premiums paid by underfunded multiemployer pension plans by $18 billion over 10 years. PBGC premiums are currently far lower than what a private financial institution would charge for insuring the same risk. The proposed premium reforms would improve PBGC's financial condition and are expected to be sufficient to fund the multiemployer program for the next 20 years.

Funding Summary
(In millions of dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020-24	2020-29
Proposed Change from Current Law..........................	65	-1,860	-1,925	-2,003	-2,005	781	-4,658	-2,086	-2,110	-2,117	-7,728	-17,918

Justification

PBGC provides pension insurance for private sector defined benefit retirement plans through the single-employer and multiemployer programs. PBGC collects premiums that are set by the Congress separately for each of the programs. Under the multiemployer insurance program, when a plan runs out of money, PBGC provides financial assistance to the plan so that the plan can pay benefits at no more than the guarantee level.

The multiemployer program covers over 10 million participants and is in dire financial condition. The 2018 multiemployer program deficit was $54 billion, with only $2 billion in assets and $56 billion in liabilities. PBGC projects the multiemployer program will be insolvent by the end of 2025, at which point participants in insolvent plans would see their guaranteed benefits cut by as much as 90 percent. Multiemployer premiums are very low—a flat rate of just $29 per participant in 2019. In order to better align multiemployer premiums with the risk PBGC is insuring and prevent insolvency, the Budget proposes to create a variable-rate premium (VRP)—as exists in the single-employer program—and an exit premium.

The multiemployer VRP would require plans to pay an additional premium based on their level of underfunding, up to a cap that would be indexed to national average wages. PBGC would have limited authority to design waivers for terminated plans, or plans that are in critical status, if there is a substantial risk that the payment of premiums would accelerate plan insolvency and result in earlier financial assistance. An exit premium, equal to 10 times the VRP cap, would be assessed on employers that withdraw from a plan to compensate the insurance program for the additional risk imposed on it when employers leave the system and cease making plan contributions. Employers who withdraw from a multiemployer plan pay withdrawal liability to the plan, but this payment is typically insufficient to fully cover the employer's share of the plan's unfunded liabilities.

In contrast, PBGC's single-employer program reached a modest positive net position in 2018 for the first time since 2001. The Budget proposes to freeze for one year premium rates for many single-employer pension plans and adjust the variable-rate premium cap to restore the incentive to improve funding of promised pensions.