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Benefit Reductions in the Central States Multiemployer DB Pension Plan: Frequently Asked Questions

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Summary

Under the Multiemployer Pension Reform Act (MPRA), enacted as Division O in the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235) on December 16, 2014, certain multiemployer defined benefit (DB) pension plans that are projected to become insolvent and therefore have insufficient funds from which to pay benefits may apply to the U.S. Department of the Treasury to reduce participants' benefits. The benefit reductions can apply to both retirees who are currently receiving benefits from a plan and current workers who have earned the right to future benefits.

On September 25, 2015, the Central States, Southeast and Southwest Areas Pension Plan (Central States) applied to the Treasury to reduce benefits to plan participants in order to avoid becoming insolvent. At the end of 2014, Central States had almost 400,000 participants, of whom about 200,000 received \$2.8 billion in benefits that year. The plan reported \$18.7 billion in assets that was sufficient to pay 53% of promised benefits. In its application to reduce benefits, Central States projects that it will become insolvent in 2026.

If Central States does not reduce participants' benefits and the plan becomes insolvent, then the Pension Benefit Guaranty Corporation (PBGC) would provide financial assistance to the plan. PBGC is an independent U.S. government agency that insures participants' benefits in private-sector DB pension plans. Multiemployer plans that receive financial assistance from PBGC are required to reduce participants' benefits to a maximum of \$12,870 per year in 2016. However, the insolvency of Central States would likely result in the insolvency of PBGC, as PBGC would likely have insufficient resources from which to provide financial assistance to Central States to pay 100% of its guaranteed benefits. Treasury is not obligated to provide financial assistance if PBGC were to become insolvent.

Under MPRA, participants' benefits in the Central States plan could be reduced to 110% of the PBGC maximum guarantee level. However, participants aged 80 and older, receiving a disability pension, or who are receiving a benefit that is already less than the PBGC maximum benefit would not receive any reduction in benefits. Central States' application for benefit reductions indicates that about two-thirds of participants would receive reductions in benefits. About 185,000 (almost 40%) participants would receive at least 30% or higher reductions in their benefits.

Treasury is currently reviewing Central States' application and must approve or deny the application by May 7, 2016. If Central States' financial condition and proposed benefit suspensions meet the criteria specified in MPRA, then Treasury must approve the application for benefit reductions. The plan has proposed to begin implementing the benefit reductions beginning in July 2016. If Treasury approves a plan's application to reduce benefits, it must also obtain the approval of the plan's participants via a vote of plan participants. However, MPRA requires Treasury to designate certain plans as *systematically important* if a plan is projected to require \$1 billion or more in financial assistance from PBGC. Plans that are labelled systematically important may implement benefit suspensions regardless of the outcome of the participant vote. Central States is likely a systematically important plan.

Legislation has been introduced in the 114th Congress that would affect potentially insolvent multiemployer DB pension plans. H.R. 2844 and S. 1631, the Keep Our Pension Promises Act, would, among other provisions, repeal the benefit reductions enacted in MPRA. H.R. 4029 and S. 2147, the Pension Accountability Act, would change the criteria of the participant vote and would eliminate the ability of systematically important plans to implement benefit suspensions regardless of the participant vote.

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What Is the Central States Pension Plan?

The Central States, Southeast and Southwest Areas Pension Plan (Central States) is a multiemployer defined benefit (DB) pension plan and is projected to become insolvent by 2026 and then will be unable to pay benefits.¹ On September 26, 2015, Central States submitted an application to the U.S. Department of the Treasury to reduce benefits to two-thirds of the plan participants.

Multiemployer pension plans are sponsored by two or more employers in the same industry and are maintained under collective bargaining agreements. Participants continue to accrue benefits while working for any participating employer. Multiemployer pension plans pool risk to minimize financial strain if one or more employers withdraw from the plan. However, in recent years, an increasing number of employers have left multiemployer pension plans, either voluntarily or through employer bankruptcy. As a result of withdrawals and declines in the value of plan assets (such as those that occurred during the 2008 financial market decline), there are insufficient funds in the plan from which to pay benefits to some participants who worked for employers that have withdrawn from the plan.

Central States is one of the largest multiemployer DB pension plans and is the largest (by number of participants) among plans that may be eligible to reduce benefits as a result of the Multiemployer Pension Reform Act (MPRA), enacted as Division O in the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235).²

Table 1 contains information about the Central States plan from its most recent Form 5500 annual disclosure, which is a required disclosure that pension plans must file with the U.S. Department of Labor.

¹ In defined benefit (DB) pensions plans, participants receive monthly payments in retirement. The benefit is earned while working for an employer that is a sponsor of the plan. The amount of the benefit in retirement is calculated using a predetermined formula. In multiemployer DB pension plans, the monthly payment is typically calculated by multiplying the length of service with employers that contribute to the plan by a fixed dollar amount. The other main type of pension plan is a defined contribution (DC) plan, such as 401(k) plans. In DC plans, employees have individual accounts to which they (and sometimes their employers) make contributions. These accounts are used as a source of income in retirement. In general, DC plans are not at risk of becoming insolvent, because participants are not guaranteed a pre-specified benefit.

² See <http://www.pensionrights.org/publications/fact-sheet/multiemployer-pension-plans-critical-and-declining-status>.

Table I. Central States Pension Plan Information for 2014

Plan Participants at the End of 2014	397,492
Active Participants	64,527
Retired Participants and Receiving Benefits	170,543
Retired Participants Not Yet Receiving Benefits	128,814
Deceased Participants Whose Beneficiaries Are Receiving or Are Entitled to Receive Benefits	33,608
Benefits Paid in 2014 (in billions)	\$2.8
Number of Participating Employers	1,565
Total Employer Contributions (in billions)	\$0.8
Current Value of Assets (in billions)	\$18.7
Current Value of Liabilities (in billions)	\$35.2
Funded Percentage (Assets/Liabilities)	53.1%

Source: Central States Form 5500, Annual Return/Report of Employee Benefit Plan, 2014.

Why Is the Plan Proposing to Reduce Benefits?

A multiemployer DB pension plan is considered insolvent when it no longer has sufficient resources from which to pay any benefits to participants. Central States has indicated that it is likely to become insolvent by 2026.³ MPRA allows certain multiemployer plans that are expected to become insolvent to apply to Treasury for authorization to reduce benefits to participants in the plan, if the benefit reductions can restore the plan to solvency. The reductions may include both active participants (e.g., those still working) and those in pay status (e.g., those who are retired and receiving benefits from the plan). Prior to the passage of MPRA, under the anti-cutback provision in the Employee Retirement Income Security Act (ERISA, P.L. 93-406), pension plans generally did not have the authority to reduce participants' benefits.⁴

By reducing benefits to participants in the immediate term, the plan expects to avoid insolvency and therefore ensure that future retirees will be able to receive plan benefits.

Is the Pension Benefit Guaranty Corporation (PBGC) Supposed to Pay Benefits When a Plan Cannot?

The Pension Benefit Guaranty Corporation (PBGC) was established by ERISA to insure participants in single-employer and multiemployer private-sector DB pension plans.⁵ PBGC indicated that in FY2015 it covered about 10.3 million participants in about 1,400 multiemployer

³ See Central States Pension Plan Application for Benefit Suspension, Checklist Item 5: Critical and Declining Status Certification, <https://www.treasury.gov/services/Pages/central-states-application.aspx>.

⁴ ERISA 204(g).

⁵ For more information on PBGC, see CRS Report 95-118, *Pension Benefit Guaranty Corporation (PBGC): A Primer*.

DB pension plans.⁶ When a multiemployer DB pension plan becomes insolvent, PBGC provides financial assistance to the plan to pay participants' benefits. When a multiemployer plan receives financial assistance from PBGC, the plan must reduce participants' benefits to a maximum per participant benefit. The maximum benefit is \$12,870 per year for an individual with 30 years of service in the plan.⁷ The benefit is lower for individuals with fewer than 30 years of service in the plan.⁸

However, if Central States (or another large multiemployer plan) were to become insolvent, PBGC would likely be unable to provide sufficient financial assistance to pay participants' maximum insured benefit. PBGC's multiemployer program receives funds from premiums paid by participating employers (\$212 million in FY2015) and from the income from the investment of unused premium income (\$68 million in FY2015). Premium revenue is held in a revolving fund, which is invested in Treasury securities. PBGC's multiemployer program does not receive any federal funding.

If the amount of financial assistance exceeds premium revenue, PBGC would pay benefits from the revolving fund. If PBGC were to *exhaust* the funds in the revolving fund, PBGC would be able to provide financial assistance equal only to the amount of premium revenue. If a large plan such as Central States were to become insolvent, PBGC would only be able to pay financial assistance equal to the amount of its premium revenue. Participants in multiemployer plans that receive financial assistance from PBGC would not receive 100% of their promised benefits. In the event of PBGC's insolvency, financial assistance from Treasury is not assured. ERISA states that "the United States is not liable for any obligation or liability incurred by the corporation."⁹

As shown in **Table 1**, Central States paid \$2.8 billion in benefits in 2014. If PBGC were required to provide financial assistance to the Central States plan, it is likely that PBGC would quickly become insolvent. Participants in plans that receive financial assistance from PBGC would likely see their benefits greatly reduced. The coalition of multiemployer pension plan stakeholders that formulated the proposal to reduce participants' benefits assumed that Congress would not authorize financial assistance for PBGC.¹⁰

Table 2 summarizes the financial position of PBGC's multiemployer program. The value of PBGC's expected future assistance to Central States is included as a liability for PBGC.¹¹

⁶ See Pension Benefit Guaranty Corporation, *FY2015 Annual Report*, p. 34, <http://www.pbgc.gov/Documents/2015-annual-report.pdf>.

⁷ The maximum benefit in the multiemployer program is not adjusted for inflation. For more information, see <http://www.pbgc.gov/prac/multiemployer/multiemployer-benefit-guarantees.html>.

⁸ The formula for the multiemployer maximum guarantee is 100% of the first \$11 of the monthly benefit rate plus 75% of the next \$33 of the monthly benefit rate, times the participant's years of credited service. For example, the maximum annual benefit level for an individual with 15 years of service in a plan is $15 \times (1.0 \times 11 + 0.75 \times 33) = \$ 6,435$.

⁹ See 29 U.S.C. 1302(g)(2).

¹⁰ See Randy G. Defrehn and Joshua Shapiro, *Solutions Not Bailouts: A Report on the Proceedings, Findings and Recommendations of the Retirement Security Review Commission of the National Coordinating Committee for Multiemployer Plans*, February 2013, http://webiva-downton.s3.amazonaws.com/71/59/b/39/1/Solutions_Not_Bailouts.pdf.

¹¹ At the end of FY2013, PBGC estimated the value of obligation to Central States to be \$20 billion. See PBGC, *FY2013 Annual Report*, November 17, 2014, <http://www.pbgc.gov/res/reports/ar2013.html>.

Table 2. Selected FY2015 Data for Pension Benefit Guaranty Corporation Multiemployer Insurance Program

Premium Revenue (billions)	\$0.212
Investment Income (billions)	\$0.68
Financial Assistance Paid (billions)	\$0.103
Number of Plans that Have Received Financial Assistance	57
Total Assets (billions)	\$1.9
Total Liabilities (Expected Future Financial Assistance, in billions)	\$54.2
Total Deficit (Assets – Liabilities, in billions)	\$52.3

Source: PBGC FY2015 Annual Report.

How Does the Multiemployer Pension Reform Act (MPRA) Dictate Which Benefits to Cut and by How Much?

Under MPRA, only plans in *critical* and *declining* status may cut benefits. One criterion for a plan to be in critical status is that the plan's funding ratio must be less than 65%.¹² A plan is in declining status if the plan actuary projects the plan will become insolvent within the current year or, depending on certain circumstances as specified in MPRA, within either the next 14 or 19 years.

MPRA requires that plans demonstrate that benefit reductions are distributed equitably. It lists a number of factors that plans may, but are not required to, consider. These factors include

- the age and life expectancy of the participant;
- the length of time an individual has been receiving benefits;
- the type of benefit (such as early retirement, normal retirement, or survivor benefit);
- years to retirement for active employees; and
- the extent to which participants are reasonably likely to withdraw support for the plan, which could cause employers to withdraw from the plan.

MPRA requires that benefit reductions be made only to the extent that the plan will be restored to solvency. It also requires that an individual's benefit be reduced to no less than 110% of the PBGC maximum guarantee. For example, with the maximum guarantee for an individual with 30 years of service in a plan being \$12,870 per year, a participant whose benefit is suspended would have to receive a benefit of at least \$14,157. The PBGC maximum guarantee is less than \$12,870 for individuals with fewer than 30 years of service in a plan.¹³ In addition, disabled individuals

¹² A funding ratio of 65% means the plan has assets to pay 65% of promised benefits.

¹³ The formula for the multiemployer maximum guarantee is 100% of the first \$11 of the monthly benefit rate plus 75% of the next \$33 of the monthly benefit rate, times the participant's years of credited service. For example, the maximum guarantee for an individual with 15 years of service in a plan is $15 \times (1.0 \times 11 + .75 \times 33) = \$ 6,435$.

and retirees aged 80 or older may not have their benefits reduced. The benefits of individuals between the ages of 75 and 80 may be reduced, but to a lesser extent than those younger than 75.

A provision in MPRA requires plans that meet specific conditions to reduce benefits in a specified manner. This provision only applies to the Central States plan. The Central States application for benefit reductions lists three tiers of benefits. Tier 1 includes benefits for participants who worked for an employer that withdrew and failed to pay, in full, the required payments to exit the plan (known as withdrawal liability). Tier 2 includes all other benefits not attributable to either Tier 1 or Tier 3. Tier 3 includes benefits for individuals who worked for an employer that (1) withdrew from the plan, (2) fully paid its withdrawal liability, and (3) established a separate plan to provide benefits in an amount equal to benefits reduced as a result of the financial condition of the original plan. Tier 3 includes only benefits for participants who worked for United Parcel Service (UPS), are receiving benefits from the Central States plan, and for which the UPS plan would be required to offset any benefit reductions.¹⁴

Central States indicated that there are 100,377 Tier 1 participants, 322,560 Tier 2 participants, and 48,249 Tier 3 participants.¹⁵ The total amount of proposed benefit reductions will be \$1.9 billion in Tier 1; \$7.1 billion in Tier 2; and \$2.0 billion in Tier 3. Central States has also indicated that its proposed benefit reductions are equitable and in accordance with the provisions of MPRA.¹⁶

Table 3 summarizes the distribution of the proposed benefit reductions in Central States. About two-thirds of the participants in the plan are facing benefit reductions.

¹⁴ In 2007, United Parcel Service (UPS) reached an agreement with Central States to withdraw from the plan in exchange for \$6.1 billion payment to the plan. UPS transferred certain benefits for UPS workers in Central States to a new, single-employer pension plan. Some UPS benefits continue to be paid by the Central States plan. UPS agreed to offset reductions made by Central States to UPS retirees who began receiving plan benefits after January 2008. UPS retirees in the Central States plan who retired before January 2008 would not receive any UPS offset if their pension is reduced by Central States. In addition, UPS has indicated that it opposes Central States' application to reduce participants' benefits. It says that the proposal does not institute the maximum amount of benefit reductions to Tier 2 participants prior to reducing benefits for Tier 3 participants. UPS contends that MPRA requires Central States to suspend benefits to Tier 2 participants to the maximum extent possible prior to reducing any benefits for Tier 3 participants. See UPS, *Comments on Application and Petition for Relief*, December 5, 2015, <http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0009-1156>.

¹⁵ Individuals who worked for more than one employer could have benefits in more than one tier. Therefore, the sum of the number of participants in the tiers is more than the number of participants in the plan. See Central States Pension Plan Application for Benefit Suspension, *Checklist 13: Equitably Distributed*, page 13.2.1, <https://www.treasury.gov/services/Pages/central-states-application.aspx>.

¹⁶ The Central States application is available at <https://www.treasury.gov/services/Pages/Plan-Applications.aspx>.

Table 3. Distribution of Proposed Benefit Reductions Among Central States Pension Plan Participants

Amount of Benefit Reduction	Number	Percentage Among All Participants	Percentage Among Participants Receiving Benefit Reductions
0%	153,124	32.5%	-
More than 0% and less than or equal to 10%	72,687	15.4%	22.9%
More than 10% and less than or equal to 20%	28,568	6.1%	9.0%
More than 20% and less than or equal to 30%	31,495	6.7%	9.9%
More than 30% and less than or equal to 40%	48,647	10.3%	15.3%
More than 40% and less than or equal to 50%	57,285	12.2%	18.0%
More than 50% and less than or equal to 60%	34,908	7.4%	11.0%
More than 60% and less than or equal to 70%	42,028	8.9%	13.2%
More than 70%	2,444	0.5%	0.8%

Source: Central States Pension Plan Application for Benefit Suspension, *Checklist 13: Equitably Distributed*, <https://www.treasury.gov/services/Pages/central-states-application.aspx>.

What Is the Process for Approving Benefit Reductions?

Central States submitted its proposal to reduce participants' benefits on September 25, 2015. Treasury held a comment period on Central States' application from October 23, 2015, to December 7, 2015. On December 10, 2015, Treasury extended the deadline for comments until February 1, 2016.¹⁷ In addition, Treasury has been holding conference calls and hosting regional public meetings with affected participants.¹⁸

Treasury is currently evaluating Central States' application. Under MPRA, Treasury must approve or deny the application within 225 days of receipt, which is May 7, 2016.

In general, the Secretary of the Treasury must approve the application for benefit suspensions if Central States' financial condition (such as the plan being in critical and declining status) and proposed benefit suspensions meet the criteria specified in MPRA (such as the benefit suspensions being equitably distributed and no benefit suspensions for participants aged 80 and older).

MPRA requires the Treasury to accept the plan sponsor's determinations with respect to the criteria for the benefit suspensions and may reject the application [only] if the plan sponsor's determinations were "clearly erroneous."¹⁹

¹⁷ See Department of the Treasury, "Multiemployer Pension Plan Application To Reduce Benefits; Reopening of Comment Period," 80 *Federal Register* 76743, December 10, 2015.

¹⁸ Information about the conference calls and public meetings is available on Treasury's website for the applications for multiemployer plan benefit suspensions at <https://www.treasury.gov/services/Pages/Benefit-Suspensions.aspx>.

¹⁹ Section 201 of MPRA.

Is a Vote of Participants Required to Approve Benefit Reductions?

In general, Treasury is required to administer a vote of plan participants not later than 30 days after it approves an application for benefit reductions. Unless a majority of all plan participants and beneficiaries reject the proposal, benefit reductions would go into effect. If a majority of plan participants reject the proposal to reduce benefits, the plan sponsor may submit a new proposal to the Treasury to suspend benefits.

Under MPRA, if Treasury determines that a plan is systematically important then Treasury may permit (1) the benefit suspensions to occur regardless of the participant vote or (2) the implementation of a modified plan of benefit suspensions to take effect, provided the modified plan would enable the pension plan to avoid insolvency.

A systemically important plan is a plan that PBGC projects would require more than \$1.0 billion in future financial assistance in the event of the plan's insolvency. At the end of FY2013, PBGC indicated the present value of future financial assistance to Central States to be \$20.2 billion.²⁰ Treasury would most likely determine that Central States is a systematically important plan.

Has Any Legislation Been Introduced That Could Prevent Implementation of the Benefit Reductions?

In the 114th Congress, a number of bills have been introduced that would affect potentially insolvent multiemployer DB pension plans.

H.R. 2844/S. 1631. Representative Marcy Kaptur and Senator Bernie Sanders introduced companion legislation, the Keep Our Pension Promises Act, on June 19, 2015, that would, among other provisions, repeal the benefit suspensions enacted in MPRA.²¹

H.R. 4029/S. 2147. Representative David Joyce on November 17, 2015, and Senator Rob Portman on October 7, 2015, introduced companion legislation, the Pension Accountability Act, that would (1) change the participant vote to approve a plan to reduce benefits from a majority of plan participants to a majority of participants who vote and (2) eliminate the ability of systematically important plans to implement benefit suspensions regardless of the outcome of the participant vote.

²⁰ See PBGC, "FY2013 Annual Report," November 17, 2014, <http://www.pbgc.gov/res/reports/ar2013.html>.

²¹ The bill would allow for multiemployer plans in critical and declining status to be partitioned. In a partition, the benefit obligations for some participants (generally orphan participants) are transferred to a new plan (referred to as a successor plan). PBGC would transfer to the successor plan sufficient assistance so orphan participants could receive their promised benefits up to the PBGC maximum benefit. The original plan would provide participants the difference between (1) the reduced benefit in the original plan (had it not been partitioned) and (2) the PBGC maximum benefit provided in the successor plan.

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