It is important to keep the differences between single employer and multiemployer defined benefit (DB) plans in mind and understand that the issues affecting single employer plans may not apply to or even affect multiemployer plans. This article focuses on why multiemployer DB plans are likely to remain prominent in the retirement benefits landscape.

Multiemployer Defined Benefit Pension Plans

Why Their Future Looks Strong

by David Blumenstein and Clifford H. Routh

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As most people are aware, over the last several decades, defined contribution (DC) plans have increased in prominence as a way to provide retirement benefits. At the same time, the number of defined benefit (DB) plans has declined. The number of single employer DB plans fell from more than 95,000 in 1980 to less than 29,000 in 2006, mainly because of plan terminations, according to the most recent available data from the Pension Benefit Guaranty Corporation (PBGC). In recent years, there has been a seemingly constant stream of media reports about the ongoing erosion of corporate support for DB pension plans in favor of DC plans.

We do not see similar coverage about multiemployer DB plans. The failure to mention multiemployer plans may lead to the erroneous impression that the future of all DB plans is equally tenuous. Although the number of PBGC-insured multiemployer plans has also fallen—from a peak of nearly 2,300 plans in 1982 to about 1,600 plans in 2005—that pattern is largely attributable to mergers (not terminations). In fact, while the total number of participants in single employer plans has declined, participation in multiem-
employer plans has increased: from 8.2 million participants in 1985 to 9.9 million in 2005.

It is important to note that even though single employer and multiemployer DB plans share much of the same basic “DNA,” there are certain distinctive features, both from the employer and employee perspective, that create enduring value for the continuation of DB plans in the multiemployer environment as an important base of retirement income.

Appeal of Multiemployer DB Plans to Employers

Here are the top ten reasons why multiemployer DB plans are likely to remain prominent in the retirement benefits landscape for employers with union-represented workers:

1. Multiemployer plans handle the administrative burden and expense of plan operations. In a multiemployer pension plan, fiduciary responsibility for running the plan—not only managing investments, but handling virtually all compliance obligations—rests with the plan’s trustees rather than the employers whose workers benefit from the plan. Administrative costs are charged against the general pool of funds (employer contributions and investment earnings) otherwise available for benefits. Fund office employees serve as the “human resources department” for contributing employers, fielding participant questions, as well as managing all other plan operations, including participant notices and disclosures, government reporting and record-keeping.

2. Multiemployer plans are economically efficient. Because they tend to be relatively large, multiemployer DB plans benefit from economies of scale, allowing the plans to tap into high-quality professional services while making administrative, investment and other professional fees reasonable on a per capita basis. In addition, at $8 per participant per year, multiemployer plan PBGC termination insurance premiums are a bargain compared to the minimum $30 rate for single employer plans (or substantially more under the variable-rate premium rules, if the plan is not fully funded).

Multiemployer plans are also cost-effective for contributing employers because benefit increases can be funded out of plan surpluses when investment performance is exceptionally strong. Such increases, which are made at no additional cost to the contributing employers, can be presented to the employees by both the employer and the union as part of an increase to the total compensation package.

3. Pension costs are relatively predictable. The cost of a multiemployer DB plan is more predictable for employers because their fixed contributions are negotiated as part of the collective bargaining process. In certain circumstances, under the Pension Protection Act of 2006 (PPA), if a plan goes into “critical status,” the law imposes a temporary 5% to 10% surcharge on the contributing employers, but, in the end, the bargaining agreement sets contributions. Moreover, PPA added safeguards for employers if their multiemployer pension plans run into serious funding problems.

4. Multiemployer DB plans are solid financially. PBGC statistics support this conclusion. In recent years, the agency has had to provide termi...
Considering DC Plan Designs or Features

Despite the enduring appeal of traditional multiemployer DB plans, many plans also offer annuity plans to supplement pension coverage. Increasingly, trustees are exploring expanded defined contribution (DC) plan designs and/or DC-like alternatives. The primary reasons for this activity are to respond to participant demand and to increase interest in multiemployer plans among nonparticipating employers.

Two examples of these alternatives follow:

• **Add a Section 401(k) feature to the annuity fund, to supplement the DB plan.** In describing this approach, one national fund that offers such an option stresses that the 401(k) plan is not intended to replace the DB plan: "We can't say it often enough: a guaranteed defined benefit pension plan makes the safest foundation for a secure retirement . . . But many [of our] . . . members have asked for a way to put aside their own money for retirement."

• **Add hybrid features to the DB plan.** Another alternative trustees and bargaining parties may consider is adding cash balance or other hybrid pension features to a standard DB plan. Cash balance plans show participants the present value of their accruing annuity. That symbolic account balance grows based on service credits and investment returns. Participants generally can elect to receive lump-sum distributions from cash balance plans, giving credibility to the concept of an "account balance" within what is technically a DB plan.

Those designs may interest employers that operate in industries that do not have a tradition of offering DB plans; participants who want some control over investing their retirement benefits; workers who change careers, not just industries, throughout their working lives; and immigrant workers who do not intend to retire in the United States.

Trustees that are seriously considering alternatives to their current pension strategy should do so in the context of a carefully devised strategic planning process. As part of this process, trustees are often coming to terms with some very hard-to-quantify variables: the economic prospects for their industry, the economy as a whole and the investment outlook.

The multiemployer DB plan’s board of trustees, not the officers of the employer organization, is primarily responsible for investing plan assets.
ductivity or output measurement uniquely appropriate to its industry. Examples include “tons of coal mined” and “loaves of bread baked.” In many cases, employers can participate at lower initial rates (and provide lower benefits). As conditions warrant, negotiated contributions can be increased, thereby “buying” greater benefits.

9. Benefit coverage can also be flexible. In addition to deciding to offer different benefit schedules to new participating groups, multiemployer plans can tailor the plan design to reflect such special programs as job-sharing, reciprocity agreements, flexible benefit suspension rules and hour banks to bridge service during periods of temporary unemployment. The design can accommodate the provision of early retirement incentives, self-funded disability coverage and self-funded death benefits.

10. Employees value multiemployer pensions. Although research conducted by the Employee Benefit Research Institute (EBRI) and WorldatWork (EBRI/WorldatWork's 2001 Value of Benefits Survey: www.ebri.org/pdf/notespdf/0302notes.pdf) indicates employees appreciate all types of pensions, several unique features of multiemployer pensions add to their appeal. The fact that employees value these plans is, of course, a benefit to employers to the extent that employee appreciation translates into low turnover, recruitment advantage and productivity gains.

PPA could make participation in multiemployer DB plans more attractive to employers. Congress recognized the special nature of multiemployer plans when it drafted PPA. The law gives multiemployer DB plans significant flexibility in structuring and meeting their funding goals.

**Appeal of Multiemployer DB Plans to Participants**

So what makes multiemployer plans distinctively appealing to workers, compared to single employer plans? Here are several factors:

- **Availability of a pension:** Workers who hold a series of jobs over the course of their careers with companies that sponsor single employer pensions would not, in all probability, enjoy the same retirement benefits. Two factors come into play. First, they may not earn enough service from any one employer to become eligible for benefits. Second, even if benefits were earned from each employer, the total benefit accrued would almost certainly be less than if it had been earned under one plan and formula. Indeed, in the absence of a multiemployer plan, many workers might enter retirement with no pension benefits at all if they worked in an industry characterized by short-tenure jobs.

- **Portability:** The portability of this kind of pension is also very important to workers. When moving among participating employers, coverage is seamless and benefit credits continue to accrue. In addition, basic portability within an individual multiemployer plan is often enhanced by reciprocal agreements with other multiemployer plans.

- **Labor-management cooperation:** Management of multiemployer DB plans by a joint labor-management board of trustees consisting of an equal number of union and management representatives provides assurance that the interests of the participants will be protected.

- **Fairness:** Multiemployer pension plan benefits are considered equitable because employers contribute a fixed amount per employee, regardless of the employee's age or length of service in an industry. Workers also know that a uniform contribution structure precludes any incentive for employers to hire employees based on age or length of service. These plans are also flexible enough to be designed to provide increased credit accruals for those who work more hours, or to provide compensation-based pensions.

- **Stability:** Because they do not depend on the fortunes of a single employer, multiemployer plans are more secure and stable than single employer plans, especially in the current environment of company bankruptcies, single em-

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**Table I**

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* Each survey year is generally based on data used for completed actuarial valuations for plan years beginning the previous year through the first few months of the survey year (i.e., for the 2006 survey, plan years beginning in 2005 through early 2006).

Source: The Segal Company.
Recent Data

The annual Survey of the Funded Position of Multiemployer Plans, which Segal has conducted since 1983, focuses on the withdrawal liability funded ratio: the ratio of assets to vested benefits calculated by the actuary for the purpose of withdrawal liability. The 2006 Survey of the Funded Position of Multiemployer Plans shows that the average withdrawal liability funded ratio of multiemployer pension plans has stabilized following several years of decline, and also shows modest improvement in the percentage of plans that were 100% funded for their vested benefits. Based on the survey data, significant improvement on the average withdrawal liability funded ratio is expected. Key findings of the 2006 survey, which examined 410 plans, include:

- The average withdrawal liability funded ratio is 81%, an increase of one percentage point from the previous survey. As significant, it is projected that the average withdrawal liability funded ratio will increase to about 88% by the end of 2006.

- The percentage of surveyed plans that were fully funded for their vested benefits increased by three percentage points since the previous survey, to 14%.

- The average withdrawal liability funded ratios remained about the same in all industries and were relatively consistent among plans of all participant sizes.

The 2006 survey is generally based on data used for completed actuarial valuations for plan years beginning in 2005 through early 2006. Consequently, the results do not fully reflect the recovery of the U.S. equity markets in 2006. Using the current data available, the average withdrawal liability funded ratio is projected to increase from 81% as of this survey to about 88% by the end of 2006. This projection takes into account an adjustment to reflect interest rates at the end of 2006 and is based on the expectation that pension funds will earn the average assumed rate of return.

Second Survey

PPA will soon require trustees of multiemployer plans to review projections of their financial status at least annually. If the projections reveal a funding problem, a plan will be classified as being in “endangered status” (yellow zone) or “critical status” (red zone).

Segal conducted a survey of 410 multiemployer pension plans to estimate the percentage of plans that may fall into the yellow zone and red zone in 2008, as well as the percentage whose funding status would be classified as neither endangered nor critical (green zone). Two key findings of the Survey of Multiemployer Pension Plans’ PPA’06 Funded Percentage and Projected Zone Status follow:

- The average PPA-funded percentage for the surveyed plans was estimated to be 94% as of the end of 2006.
- A majority of the plans are projected to be in the green zone.

In 2008, an even greater focus on plan funding measurements introduced by PPA is anticipated.

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