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Will 2020 Deliver Union Pension Funding Solution?

The American Federation of Musicians and Employers' Pension Fund is just the latest union multiemployer pension to appeal to the Treasury Department for permission to cut benefits.

By John Manganaro

In new commentary shared with PLANADVISER, Israel Goldowitz, partner with the Wagner Law Group, says the financial hardship faced by the American Federation of Musicians and Employers' Pension Fund is characteristic of a broader problem.

As Goldowitz explains, the U.S. Treasury Department has received an application from the American Federation of Musicians and Employers' Pension Fund to suspend benefits, based on authorities granted under the Multiemployer Pension Reform Act of 2014. The plan's suspension application is the latest of more than 30 by similar union-run multiemployer plans.

So far, Goldowitz says, the applications have mainly covered workers in transportation and the building trades. But upwards of 120 plans in a number of industries are considered "critical and declining," he says, which means they are expected to run out of money within 20 years. Such plans, under the 2014 funding reforms, may suspend benefits if that would prevent outright insolvency.

According to a statement from the Musicians' union, more than 20,000 musicians could see benefit reductions under the plan. The vast majority face reductions ranging from 0% to 20%, while fewer than 1,000 could see reductions in the range of 20% to 40%. In cases like this, the Treasury must approve or deny the benefit reduction plan after conferring with the U.S. Department of Labor and the Pension Benefit Guaranty Corporation (PBGC)—for which Goldowitz once served as chief counsel. Once approved, the suspension proposal goes to the plan's participants and beneficiaries for a vote.

While it might seem unlikely that pension beneficiaries would vote in favor of benefit cuts, in fact this has already happened across the U.S. Votes in favor of benefit reductions are cast based on a simple economic analysis: The guaranteed monthly benefit limit that will be paid out by the PBGC (which insures both union and single-employer corporate pensions) is about $36 per month per year of service, or about $13,000 annually with 30 years of service. This amount is far less than the PBGC single-employer guarantee of about $65,000, and it is often also far less than the level of the benefit to be paid after a proposed reduction. And unlike the single-employer guarantee, Goldowitz observes, the multiemployer guarantee is not adjusted for inflation.

"Worse, the PBGC's multiemployer insurance fund is itself projected to become insolvent no later than 2026," he warns. "At that point, there will be no backstop for plans that fail or for the 1.3 million people who depend on them. That includes 400,000 people in the Teamsters Central States plan alone."

Goldowitz says it is no surprise that Congress has picked up on this challenge, given the political influence of unions. However, consensus on a solution remains elusive, even with the lobbying efforts of high-profile politicians and business leaders. Unlike the approach favored by Democrats in the House of Representatives, which would establish a government-backed loan program to assist troubled union pension, the Republican-favored approach in the Senate would permit the partition of such plans and would require accounting reforms.

"Either proposal would involve a cost to taxpayers, with interest groups citing various figures," Goldowitz says. "Butch Lewis Act proponents [mainly Democrats] point out that retiree spending has a multiplier effect, as most retirement income is spent quickly on goods and services, keeping others at work and generating tax revenues. A compromise may be reached, but we can only speculate when that may happen or what a compromise would look like. These issues should be of concern to companies that participate in multiemployer defined benefit plans, to unions, and to retirees. They should also be of interest to those seeking to lend to or acquire such companies."

To gauge public awareness and sentiment around multiemployer pension plans and their impending collapse, the Retirement Security Coalition recently commissioned a bipartisan poll among 2,700 likely voters in key states affected by the multiemployer pension crisis. According to the Coalition, the results clearly indicate voter recognition of the pension crisis, as well as the urgent need for Congressional action.

"The survey results show broad voter support for protecting retirees and Congress needing to make changes to multiemployer pension plans," the Coalition reports. "Voters said overwhelmingly (92%) that protecting American retirees is essential to our economy. The survey found that three-quarters of voters recognize the urgency and need for Congress to take action. Voters support Congress taking action through a comprehensive (70%) 'shared solution,' including additional employer support, government assistance and additional retiree support."

Tagged: multiemployer pension plans