Alliance for Retired Americans®

FACT SHEET

MAY 2018

Pensions Fact Sheet

The Alliance often works with the Pension Benefit Guaranty Corporation (PBGC), an independent government agency, to protect workers' and retirees' private sector defined benefit pension plans and ensure that they remain a key part of Americans' retirement security.

The PBGC insures both single-employer and multi-employer pension plans. In 2017, PBGC paid monthly retirement benefits, up to a guaranteed maximum, to about 900,000 retirees in more than 4,900 single-employer and multiemployer pension plans that could not pay promised benefits.

Two Types of Private Sector Defined Benefit Plans

- Single-employer Plans
    - One employer sponsors the plan on behalf of its employees
    - May be collectively bargained, but is not always
    - 27.5 million participants as of September, 2017

- Multiemployer Plans
    - Collectively bargained and sponsored by more than one employer
    - Administered by Board of Trustees
    - Facilitates continued benefit accruals when employee moves from employer to employer, but remains with union
    - 10.6 million participants as of September, 2017

Public Sector Pensions - State and Local

Pensions provide the most secure retirement for teachers, nurses, firefighters and other public employees.

- There are over 6,000 state and local retirement systems in the U.S.

- The plans cover 14 million active participants and 10 million retirees and beneficiaries, and they have nearly $4 trillion in assets.

- On aggregate, they are funded at about 72 percent.

The plans are established and maintained by state and local governments, so federal law is generally not applicable. There is no Pension Benefit Guaranty Corporation coverage if a plan fails.

Each state has changed its benefits or contributions since 2008. Changes include reducing the multiplier used to calculate benefits, increasing eligibility requirements, and cutting cost-of-living adjustments.

Public Sector Pensions - Federal

The Civil Service Retirement System (CSRS) is for employees hired prior to 1984. CSRS is entirely a "defined benefit" pension plan. CSRS was established in 1920, fifteen years prior to the creation of the Social Security System. Since Social Security duplicated parts of CSRS, Congress decided to keep federal employees out of the Social Security system.

The Federal Employees Retirement System (FERS) is for employees hired in 1984 and after. FERS was created in 1986 as a result of the Social Security Amendments of 1983, which brought federal employees hired after January 1, 1984 into Social Security. FERS has three elements: 1) Social Security, 2) a FERS annuity and the FERS supplement, and 3) the Thrift Savings Plan (TSP).

New Committee Hears What Led to Multiemployer Plan Pension Crisis

Several multi-employer pension plans are on the brink of insolvency. The largest is Central States, which covers workers and retirees from more than 1,500 companies across a range of industries. The largest group of retirees in the Central States plan were truck drivers. If it becomes insolvent, the plan will need assistance from the PBGC, and more than one million pensioners will lose a large portion of their benefits. A Central States insolvency could potentially collapse the PBGC multiemployer pension trust fund, putting the pensions of over 10 million people at risk.

The Bipartisan Budget Act in February 2018 created a new 16-member bipartisan panel of Congress to address the solvency of multi-employer pension plans and the PBGC. On April 18, 2018, the Joint Select Committee on the Solvency of Multiemployer Pension Plans held a hearing on the history of multiemployer pensions and how they came to face their current financial crisis. The committee heard from Tom Barthold, Chief of Staff of the Joint Committee on Taxation, and Ted Goldman, Senior Pension Fellow at the American Academy of Actuaries.

Both witnesses provided background and shed light on the reasons the plans are failing, including: the contracting of the industry (resulting in fewer active employees), liability of employee benefits from employers that are no longer participating, and the economic recession of 2008. Both witnesses made clear that mismanagement did not play a role in the funding issues.

Sen. Sherrod Brown (D-OH), co-chair of the select committee, sponsored the Butch Lewis Act, which would provide the plans with a government-backed loan to help keep them from going under. His proposal is among the plans that will be considered by the committee, which must report back to Congress by November 2018.

During the hearing, Senator Joe Manchin (D-WV) brought up the shortfall in the mine workers multiemployer plans. The United Mine Workers of America 1974 Pension Plan was 94% funded prior to 2007. However, the recession and bankruptcies in the industry have created a shortfall and there are now 10 times as many retirees -- many of whom are widows -- as active participants. The plan is expected to become insolvent in 2022. Senator Manchin has introduced the American Miners Pension Act, which would provide 30-year low-interest, government-backed loans to the pension fund.

The Alliance is Leading the Fight to Protect the Three-Legged Stool

For decades Americans have planned to live the American Dream in retirement through the three-legged stool of pensions, personal savings, and Social Security. This dream has been threatened by wage stagnation, low interest rates, and corporate America's attack on defined benefit pension plans. It is important that there are financially sound pension funds to meet the obligations owed to retirees. The Alliance encourages the use of new tools, such as obtaining surety bonds, letters of credit, and/or securing assets to protect the pension participants' hard-earned benefits and the solvency of the PBGC.

Just as Congress rescued Wall Street during the recession, it must secure the benefits that Americans were promised after a lifetime of demanding work. The Alliance will continue to fight to maintain and enhance defined benefit pensions.