

Multiemployer Alert

Update on Issues Affecting Taft-Hartley Plans

SEPTEMBER 2021

American Rescue Plan significantly improves financial status of PBGC

On September 20, 2021, the Pension Benefit Guaranty Corporation (PBGC) released its [2020 fiscal year \(FY\) Projections Report](#), which forecasts the financial condition of the PBGC's multiemployer insurance program over the next 10 years, and its [2020 Multiemployer Program Quinquennial Report](#) ("5-Year Report"), which reviews whether the premiums are sufficient to sustain current benefit guarantee levels.

American Rescue Plan delays and may avoid program insolvency

Last year, the 2019 FY Projections Report noted a "very high likelihood of insolvency during FY 2026" and that "insolvency is a near certainty by the end of FY 2027." This year, insolvency of the multiemployer insurance program is now delayed, with the 2020 report noting that "half of projected scenarios result in insolvency by the end of FY 2055 and half result in either insolvency after FY 2055 or indefinite solvency." This is primarily due to the American Rescue Plan Act of 2021, enacted on March 11 of this year, which established a special financial assistance (SFA) program for financially distressed plans and will increase the PBGC premium rate to \$52 per participant beginning in 2031.

The SFA program provides one-time cash payments to eligible plans to pay for projected benefit payments and expenses through the 2051 plan year, calculated using specified assumptions. The program is funded through transfers from the U.S. Treasury rather than from the PBGC multiemployer insurance program. In total, the PBGC estimates \$97.2 billion will be paid out under the SFA program to 268 plans.

The projections are based on the [PBGC's interim final rule on the SFA](#) issued on July 9, 2021. The projections may change when the final rule is issued.

Program deficit dropped \$57 billion since last year

The 2020 report states the multiemployer insurance program's projected deficit declined from \$63.7 billion as of September 30, 2020, to a mean deficit of \$6.7 billion as of September 30, 2030 (FY 2030). There is a chance the program could be in a surplus position in FY 2030 under more favorable scenarios.

The projections report lists the following as significant areas of uncertainty in the PBGC multiemployer program projections: number of plans that become eligible for and receive SFA, SFA amounts provided, and changes in the funded status of all plans (those that receive SFA and those that do not).

The projections reflect economic data through December 31, 2020, but do not consider the potential future effects of the COVID-19 pandemic.

Longer-term challenges remain

While the American Rescue Plan has helped the financial position of the PBGC multiemployer insurance program in the near term, the PBGC acknowledges that the relief the American Rescue Plan provides does not solve the longer-term "underlying structural issues in the multiemployer system that contributed to the crisis," which we discuss [here](#).

The 5-Year Report provides that, under the current premium structure, including the increase to \$52 per participant provided by the American Rescue Plan, there's a 56% chance the multiemployer insurance program will go insolvent before FY 2060. The probability of insolvency is reduced to 50% if premiums are increased 1.3 times (or \$67.60 per participant for the 2031 plan year) and reduced to 25% if premiums are increased 4.0 times (or \$208 per participant for the 2031 plan year).

The maximum PBGC guaranteed monthly benefit is \$35.75 per year of service, or \$1,072.50 per month for a participant with 30 years of service. If the PBGC multiemployer program becomes insolvent, financial assistance to insolvent plans would be reduced to the level supported by premium income.

Please contact your Milliman consultant with any questions.