

Cuts in retiree pension checks under consideration

WASHINGTON, D.C. — Union and employer representatives are lobbying Congress to modify the Employee Retirement Income Security Act (ERISA) to allow severely underfunded multiemployer pension plans to reduce the paychecks of retirees and partially suspend accrued benefits for all vested participants in an effort to keep the plans from going under.

Nearly 100 multiemployer defined benefit pension plans (MEPPs) are headed for insolvency as a result of the dot-com crash of 2000-02, followed by the “Great Recession” of 2008. Participants in insolvent plans get some protection from the Pension Benefit Guaranty Corporation (PBGC), but it’s only fractions on the dollar — and the agency itself is facing insolvency.

About 10 million workers and retirees are covered by roughly 1,500 multiemployer pension plans in the United States. MEPPs are maintained under collective bargaining agreements between a union and multiple employers, typically smaller businesses.

At a hearing March 5 before the U.S. House subcommittee on Health, Employment, Labor and Pensions, representatives from management, labor,

the federal Pension Benefit Guaranty Corp., (PBGC), and the non-partisan Government Accountability Office (GAO), painted a grim future for multiemployer pension plans.

Besides the two large stock market crashes, other contributing factors to struggling plans include a declining unionized workforce, more unionized employers going out of business, and — due to a still sluggish economy — fewer hours being worked by actives, thus fewer contributions going into the plans.

Joshua Gotbaum, director of PBGC, said 30 years ago, three-quarters of all participants were active and only one quarter were retired or waiting to retire.

“Today, the situation is largely reversed: by 2010, 39 percent of participants were active and 61 percent were inactive,” he said.

PBGC estimates that in the 2012 plan year, just over half of all multiemployer participants were in endangered (yellow) or critical (red) status plans. Further, the agency believes that 80 to 85 plans will be unable to recover.

According to a 2011 survey of 107 critical status plans conducted by the Segal Company, 28 plans had deter-

mined that no realistic combination of employer contribution increases and participant benefit reductions would enable them to emerge from critical status, and their best approach is to forestall insolvency for as long as possible. Among these plans, the average number of years to expected insolvency was 12, with some expecting insolvency in less than five years, and others not for more than 30 years. The majority of these plans expected to go under in 15 or fewer years.

Such is the case for the Western

States Office and Professional Employees Pension Fund. Last month the trust told participants — many of them members of Vancouver-based OPEIU Local 11 — at a special-call meeting that despite implementing a rehabilitation plan in 2009 that increased employer contributions and reduced worker benefits, the fund will likely be insolvent by 2030.

When a multiemployer plan becomes insolvent, PBGC loans the trust money to pay participants a “statutorily guaranteed benefit” for the rest of their lives. (Unlike its insurance of single-employer plans, PBGC does not take over the plan, or its assets and liabilities; the agency funds the plan’s guaranteed benefits and operating costs, and audits to ensure they are reasonable.)

The problem with PBGC’s “guaranteed benefit” is that it doesn’t cover full benefits. It calculates the benefit based on the amount of a participant’s benefit accrual rate and years of credit service earned. Specifically, PBGC guarantees 100 percent of the first \$11 of a plan’s monthly benefit accrual rate, plus 75 percent of the next \$33 of the accrual rate, times each year of credited serv-

ice. Currently, PBGC’s maximum guarantee is \$35.75 per month times a participant’s year of credited service. Thus, a participant who retires at normal retirement age (65) with 30 years of service would receive \$12,870 annually — \$1,072.50 a month.

“Without PBGC, participants would be left with nothing when a plan runs out of money,” Gotbaum said.

Gotbaum said PBGC paid \$95 million in financial assistance for benefits and plan expenses to participants in 49 insolvent multiemployer plans in fiscal year 2012. This allowed those plans to continue paying guaranteed benefits to about 51,000 retirees; 21,000 additional participants will receive benefits from those plans when they retire. There are 61 more plans that have terminated and will run out of money in the next few years.

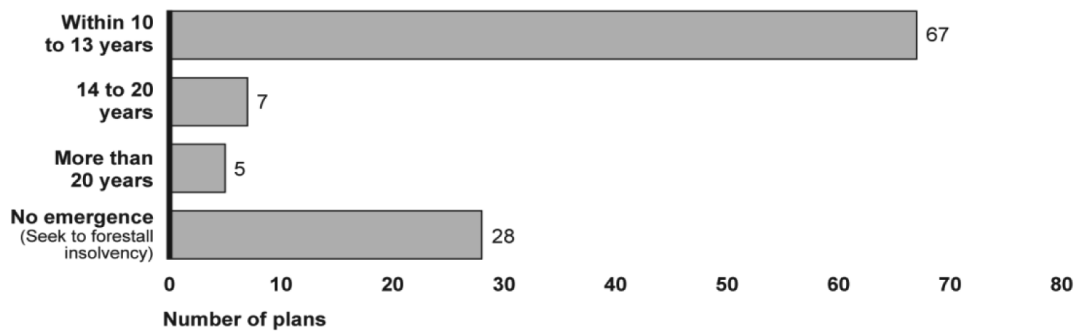
Which only adds to the problem.

Charles Jeszeck, director of the pension section of the GAO, told lawmakers PBGC has been designated as a “high-risk” federal program, whose financial future is uncertain.

“Existing and anticipated plan in-

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Plans’ Expectations about Emergence from Critical Status



Source: GAO representation of data compiled by Segal Company.

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