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Multiemployer Defined Benefit (DB) Pension Plans: A Primer

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Multiemployer Defined Benefit (DB) Pension Plans: A Primer

Multiemployer defined benefit (DB) pension plans are private sector pensions sponsored by more than one employer and maintained as part of a collective bargaining agreement. In 2023, about 3% of all DB pension plans, covering 36% of all DB pension plan participants, were multiemployer plans. Nearly all of the remaining DB pension plans were maintained by a single employer. A few DB pension plans were maintained by more than one employer but were not maintained under a collective bargaining agreement. In DB pension plans, participants receive a monthly benefit in retirement that is based on a formula. In multiemployer DB pensions, the formula typically multiplies a dollar amount by the number of years of service the employee has worked for any of the employers that participate in the DB plan.

DB pension plans are subject to funding rules in the Internal Revenue Code (26 U.S.C. §431) designed to ensure they have sufficient resources from which to pay promised benefits. Because single-employer and multiemployer DB pension plans have different structures, Congress has established separate funding rules for these plans.

When a multiemployer DB pension plan becomes insolvent (i.e., unable to pay participants the entirety of their promised benefits in a given year), the Pension Benefit Guaranty Corporation (PBGC)—a federally chartered corporation—insures the benefits of participants up to a statutory maximum. PBGC operates two separate insurance programs: one for single-employer plans and one for multiemployer plans. PBGC does not become the trustee of insolvent multiemployer DB pension plans; rather, it makes loans to them so that the plans may continue to pay participants' guaranteed benefits.

As a result of a number of factors, such as the recessions in 2001 and that from 2007 to 2009, stakeholders became concerned about the financial health of some multiemployer plans, with PBGC indicating in the mid-2010s that 10% to 15% of multiemployer plan participants were in plans that could become insolvent. The projected insolvencies of these multiemployer plans would likely have resulted in the insolvency of PBGC's multiemployer plan insurance program, and, in the absence of increased financial resources, PBGC indicated that the multiemployer insurance program would have been highly likely to become unable to pay 100% of participants' benefits at the guaranteed level.

In response to these concerns, Congress enacted Special Financial Assistance (SFA) in Section 9704 in Title IX, Subtitle H, of the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2). SFA provides financial assistance in the form of grants to eligible financially troubled multiemployer DB pension plans. Plans receiving special financial assistance are expected to be able to pay benefits through 2051.

As of May 15, 2026, 196 SFA applications from 161 plans covering 1.8 million participants had been approved for SFA. The dollar amount of SFA for these approved plans is approximately \$77.9 billion.

After adjusting the amount of SFA-approved grants because of plan census adjustments, 67 plans have repaid a total of \$261.9 million in SFA. While SFA provides for financial assistance for eligible multiemployer plans, it did not require any structural changes to multiemployer plans.

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Introduction

A pension is a benefit offered by employers to assist employees in providing for their financial security in retirement. Department of Labor (DOL) data indicated that 81% of full-time private sector workers in the United States had access to, and 62% participated in, a retirement plan sponsored by their employer in March 2025.¹

The two types of pension plans are defined contribution (DC) plans, in which participants have individual accounts that can provide a source of income in retirement, and defined benefit (DB) plans, in which participants receive regular monthly benefit payments in retirement (which some refer to as a “traditional” type of pension).² Pension plans are also classified by whether they are sponsored by one employer (single-employer plans) or by more than one employer (multiemployer and multiple-employer plans). Multiemployer pension plans are typically sponsored by employers in the same industry and maintained as part of a collective bargaining agreement between a union or unions and participating employers. Multiple-employer plans are sponsored by more than one employer but are not maintained as part of a collective bargaining agreement. This report focuses on multiemployer DB pension plans. For an overview of pensions plans, see CRS Report R47119, *Pensions and Individual Retirement Accounts (IRAs): An Overview*.

Nearly all private sector pension plans are governed by the Employee Retirement Income Security Act of 1974 (ERISA; P.L. 93-406), which is enforced by the Department of the Treasury, DOL, and the Pension Benefit Guaranty Corporation (PBGC).³ Because of differences in plan structures, single, multiple, and multiemployer DB pension plans have different rules under some sections of ERISA. For example, single-employer and multiemployer plans have separate funding rules, and the PBGC’s pension insurance programs that cover them function differently.

Congress may be interested in multiemployer DB plans for several reasons, including because

- recent legislation provided for Special Financial Assistance (SFA), in which eligible multiemployer plans in poor financial condition (covering about 10% to 15% of participants in these plans) received grants from the U.S. Treasury to pay participants’ benefits through 2051; while the program has disbursed \$77.9 billion in grants as of May 15, 2026, some stakeholders have expressed concerns regarding aspects of the program’s implementation; and
- absent changes to funding rules, it is possible that a number of currently financially healthy multiemployer plans could become insolvent in future years and require financial assistance from PBGC.

Prior to the enactment of SFA (in Section 9704 in Title IX, Subtitle H, of the American Rescue Plan Act of 2021 [P.L. 117-2]), Congress had expressed concern about the multiemployer

¹ See U.S. Department of Labor (DOL), *National Compensation Survey: Employee Benefits in the United States, March 2025*, September 25, 2025, <https://www.bls.gov/news.release/pdf/ebs2.pdf>.

² In some defined contribution (DC) plans, plan participants have the option to purchase annuities (a monthly payment for life) with some or all of their account balances. In some defined benefit (DB) plans, plan participants have the option to receive a lump-sum payment at retirement in lieu of the annuity.

³ ERISA covers only private-sector pension plans and plans run by nonprofit organizations; pension plans established by the federal, state, and local governments and by churches are exempt from ERISA’s coverage. The Pension Benefit Guaranty Corporation (PBGC) was created in the Employee Retirement Income Security Act of 1974 (ERISA) to insure private-sector DB pension plans. For more information on PBGC, see CRS Report 95-118, *Pension Benefit Guaranty Corporation (PBGC): A Primer*.

system's finances for years. As a result of the 2007-2009 recession and market downturn, the financial condition of some multiemployer plans worsened to the point that PBGC projected a large increase in plan insolvencies. A large increase in plan insolvencies would likely have resulted in the insolvency of PBGC's multiemployer insurance program, which is financed by premiums that multiemployer plans pay. The insolvency of PBGC would have led to reduced benefits for participants in plans receiving PBGC financial assistance.

As of May 15, 2026, 196 SFA applications from 161 plans covering 1.8 million participants had been approved for \$77.9 billion in SFA.⁴ As a result, many multiemployer plans that were expected to become insolvent are now able to pay benefits through 2051, and the PBGC's multiemployer insurance program is operating with a surplus. The final deadline for submitting an application for SFA was December 31, 2025.⁵

Background on Multiemployer Pension Plans

The two kinds of pension plans are DC and DB pension plans. In a DC plan, of which the 401(k) is the most common, participants and/or their employer make regular contributions to a tax-advantaged retirement account. The contributions are invested, most often in mutual funds or collective investment trusts (CITs), and the accumulated contributions and earnings, if any, are used as a source of income in retirement.

In DB plans, employers make contributions to a trust from which benefits are paid to participants in retirement. An employee's benefit is typically paid as a monthly payment for the life of the participant and, if married, to the spouse. Some DB plans allow participants to receive the benefit as an equivalent, lump-sum payment. The amount of the participant's benefit is calculated using a formula based on either (1) an accrual rate, length of employment, and salary or (2) a flat dollar amount times the number of months or years in the plan.

Participants' DB benefits must be prefunded; that is, the employer must make an annual contribution to the plan to pay for the amount of benefits earned by participants in that year, even though the benefits may be paid many years in the future. An employer's contribution may include additional amounts if the plan is underfunded as a result of past investment losses.

Most DB plans are sponsored by one employer for the benefit of eligible workers of the company. However, multiemployer DB plans are sponsored jointly by a union and the employers who are part of a collective bargaining agreement (CBA) with the union. Employer contributions to the DB plan are typically established in the CBA and are typically expressed as a dollar amount per hour worked.

Many multiemployer plans are in unionized industries such as construction, manufacturing, and transportation. Because a union member might work for several employers who participate in the CBA, the union member continues to earn benefits in a single DB plan.

Multiemployer DB pension plans pool risk so that the withdrawal of a few employers from the plan does not place the plan in financial jeopardy, because when a company wishes to exit a multiemployer DB plan, the company is responsible for paying its *withdrawal liability*, defined as its share of unfunded vested benefits (i.e., benefits to which participants have a contractual right

⁴ PBGC regularly updates the list of SFA applications. They are available at <https://www.pbgc.gov/arp-sfa/applications>. Some plans are listed twice in the dataset because they submitted initial and supplemental applications.

⁵ Revised applications may be submitted through December 31, 2026.

but for which the plan has insufficient assets to pay).⁶ In some instances, employers do not pay the full amount of their assessed withdrawal liability because they either negotiate a lower amount or have declared bankruptcy.

The 2007-2009 recession and associated declines in the value of plan assets as a result of stock market losses resulted in the underfunding of many plans, some of which were significantly underfunded. In addition, an increasing number of employers left multiemployer pension plans (either voluntarily or through employer bankruptcy). Exiting employers leave behind plan participants with vested benefits (sometimes called *orphan participants* because they do not have an employer that will make additional contributions to the plan for their unfunded benefits).⁷ The existence of orphan plan participants can result in a worsening funding situation for the multiemployer plan, because (1) the underfunding becomes the responsibility of the remaining employers in the plan⁸ and (2) DB plan assets are commingled in a trust and are not assigned to a particular employer's contributions or participant's benefit. Thus, benefit payments for all participants draw down general plan assets. The remaining employers might have difficulty meeting the increases in required contributions, which could cause employers to become bankrupt and could threaten the solvency of some multiemployer plans (which some refer to as a *death spiral*).⁹

Table 1 provides data on multiemployer DB plans in 2023 (the most recent year for which data are available).¹⁰ In 2023, more than 1,300 plans covered 11.4 million participants and beneficiaries and held assets of \$727.2 billion. Just more than one-third (4.2 million) were *active participants*, meaning that they were currently in employment covered by a plan and were earning or retaining credited service under a plan. Other types of participants include retired or separated participants receiving benefits (3.4 million), retired or separated participants with a vested right to benefits (3.1 million; representing those who are owed benefits from a plan but have not yet begun receiving them), and beneficiaries (0.7 million).¹¹

⁶ If a plan were fully funded, there would be no withdrawal liability for an employer that exits a plan. For more information, see PBGC, *Withdrawal Liability*, available at <http://www.pbgc.gov/prac/multiemployer/withdrawal-liability.html>, or Keith R. McMurdy, Esq., *Multiemployer Withdrawal Liability: Understanding the Basics*, Fox Rothschild LLP, at <http://documents.jdsupra.com/ac470c58-3493-4f12-9294-4b37fc49046c.pdf>.

⁷ Because some participants could have worked for both an inactive employer and an active employer, some stakeholders refer to orphan liabilities, rather than orphan participants. For more information, see PBGC, *Orphan and Inactive Participants in Multiemployer Plans, 2015 Plan Year Reporting*, available at <https://www.pbgc.gov/sites/default/files/orphan-and-inactive-participant-report-final.pdf>.

⁸ Withdrawing employers might not pay their full share of unfunded benefits because of bankruptcy or withdrawal liability rules.

⁹ See, for example, U.S. Congress, Joint Select Committee On Solvency Of Multiemployer Pension Plans, *The History And Structure Of The Multiemployer Pension System*, 115th Cong., 2nd sess., April 18, 2018.

¹⁰ CRS analyzed DOL's Form 5500 data for the 2023 plan year (the most recent year for which complete information is available). Nearly all private-sector pension plans (including multiemployer DB plans) are required to file Form 5500 with the Internal Revenue Service (IRS), the Department of Labor (DOL), and PBGC. The Form 5500 information includes breakdowns on the number of plan participants, financial information about the plan, and details of companies providing services to the plan.

¹¹ A beneficiary is an individual, typically a spouse, who is entitled to receive a pension benefit from a plan after a participant dies.

Table I. Multiemployer Defined Benefit Plans in 2023

Number of plans and participants; total assets in plans

Number of Plans	1,341
Number of Participants and Beneficiaries	11.4 million
Active Participants	4.2 million
Retired or Separated Participants Receiving Benefits	3.4 million
Other Retired or Separated Participants with Vested Right to Benefits	3.1 million
Beneficiaries	0.7 million
Total Assets	\$728.6 billion

Source: Department of Labor, Private Pension Plan Bulletin, Abstract of 2023 Form 5500 Annual Reports, Tables A2 and A6, at <https://www.dol.gov/sites/dolgov/files/ebsa/researchers/statistics/retirement-bulletins/private-pension-plan-bulletins-abstract-2023.pdf>

Notes: Active participants include any workers currently in employment covered by a plan and who are earning or retaining credited service under a plan. Retired or separated participants with a vested right to benefits are those who are owed benefits from a plan but have not yet begun receiving them.

Multiemployer Defined Benefit Plan Funding

DB pension benefits are accrued by eligible employees while working and are paid, typically as a monthly annuity, during the worker's retirement.¹² In multiemployer DB pension plans, the payment is typically calculated as the length of service with employers that contribute to the plan multiplied by a dollar amount.¹³ The dollar amount is agreed to by a board of trustees—of which labor and management are equally represented—or between employers and unions during collective bargaining negotiations.¹⁴ The payments are made by the plan for the lifetime of the worker after he or she retires. Plan participants who are married may receive a joint-and-survivor annuity, which is an annuity payable for the lifetime of the participant or the participant's spouse, whichever is longer.

The benefits in DB plans subject to ERISA are required to be prefunded, which means that in each year the plan sponsor sets aside adequate funds, taking into account expected future investment returns, for pension benefits earned in that year.¹⁵ Plan sponsors may also be required to make additional contributions for investment losses that occurred in previous years, as well as increases in the present value of future plan obligations. Plan participants receive their monthly benefit in retirement from these funds that have been set aside.

The required contributions for employers in multiemployer DB pension plans are fixed for several years as established in CBAs. Even if plans make their required contributions each year, various situations may arise that cause a plan to become underfunded (i.e., have a smaller amount of funds than the amount of benefits that have been promised by the plan). These situations

¹² Plans may permit employees to instead receive a lump-sum payment.

¹³ In contrast, participants in single-employer plans receive a monthly payment in retirement that is based on a formula that typically uses a combination of length of service, accrual rate, and average of final years' salary. For example, a plan might specify that retirees receive an amount equal to 1.5% of their prescribed pay for each year of service, where the proscribed pay is the average of a worker's highest five pay years. A worker with 20 years of service in a DB plan that has an accrual rate of 1.5% that is based on an average of the worker's highest five years of salary of \$50,000 would receive a pension benefit of $\$50,000 \times 20 \times 0.015 = \$15,000$ per year.

¹⁴ See Pension Benefit Guaranty Corporation, *Introduction to Multiemployer Plans*, available at <https://www.pbgc.gov/prac/multiemployer/introduction-to-multiemployer-plans>.

¹⁵ The funding rules for multiemployer DB pension plans are found at 26 U.S.C. §431.

include (1) declines in the values of plan assets (which can occur during stock market declines), (2) increases in the current value of future benefit obligations (which can occur when the Federal Reserve lowers interest rates), or (3) changes in plan assumptions (such as mortality assumptions, which are assumptions about how many participants will receive plan benefits and the length of time that they will receive them).¹⁶

Funding Standard Accounts and Funding Deficiencies

Multiemployer DB plans keep track of their funding with a funding standard account, which facilitates the administration of funding requirements. Charges (debits) to the account reduce the account balance and include the cost of benefits earned by participants during the year and investment losses.¹⁷ Credits increase the funding standard account balance and include employer contributions to the plan and investment gains.¹⁸

When the total credits to a multiemployer DB pension plan exceed the total charges, the plan has a “credit balance” and no contributions are required until future charges eliminate the credit balance. When the total charges exceed the total credits, a funding deficiency results and additional contributions to the plan may be required.

Funding Ratios

Pension funding consists of several elements. These include the value of plan benefits that participants will receive in the current and in future years, the amount a plan has set aside to pay for these benefits, and the employer contributions required each year to ensure the plan has sufficient funds to pay benefits when participants retire.

A pension plan’s benefits are a liability spread out over many years in the future. These future benefits are calculated and reported as present values (also called current values). Using a formula, benefits that are expected to be paid in a particular year in the future are calculated so they can be expressed as a present value.¹⁹ This process is called *discounting*, and it is the reverse of the process of compounding, which projects how much a current dollar amount will be worth at a point in the future.

DB plan assets are the value of the investments made with accrued employer (and employee, if any) contributions to the plan. The investments are typically short-term securities (such as Treasury bills), equity (such as corporate stock), debt (such as corporate bonds), and alternative investments (such as private equity).

¹⁶ For an explanation of DB pension plan funding, see https://www.crs.gov/Reports/r46366#_Toc135315674.

¹⁷ Investment losses and investment gains are also called experience losses and experience gains, respectively.

¹⁸ Pension plans are able to amortize experience gains and losses and changes in benefits as a result of changes to actuarial assumptions. Amortization means that plans can spread out the effect of these events over a specified number of years. For example, funding shortfalls as a result of investment losses are generally required to be made up over a period of 15 years, although a provision in the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 (P.L. 111-192) allowed investment losses from 2008 or 2009 to be amortized over a period of 30 years. For more information on this amortization of experience gains and losses, see U.S. Congress, Joint Committee on Taxation, *General Explanation Of Tax Legislation Enacted In The 111th Congress*, committee print, 111th Cong., 2nd sess., March 2011, JCS-1-11 (Washington: GPO, 2011).

¹⁹ A present value is calculated as (Dollar Value of Future Benefit / (1 + Interest Rate)^{Number of Years in the Future}). For example, using an interest rate of 10%, a \$100 payment two years in the future has a present value of $(\$100/(1.1))^2 = \82.64 . Note that discount rate and interest rate are often used interchangeably in the context of calculating present values.

A plan’s funding ratio is a common measure used to assess the plan’s financial health. A plan with a funding ratio of 100% has sufficient assets to pay all promised benefits. In contrast, a plan with a funding ratio of 50% is able to fund half of all promised benefits. The funding ratio is calculated as the proportion of plan assets to plan liabilities.

Multiemployer plans report two values of assets and two values of liabilities: the actuarial (or smoothed) value and the current value of assets, and the actuarial value and the current value (RPA ’94, named for the Retirement Protection Act of 1994) of liabilities.²⁰

The two values of assets are generally similar; the two values of liabilities often differ. The main difference is the value of the discount rate used to value plan liabilities. The actuarial valuation of liabilities typically discounts them using the expected return on assets. The RPA ’94 current liability uses a lower discount rate, based on interest rates on 30-year Treasury securities. The RPA ’94 valuation method results in a higher valuation of plan liabilities compared with the actuarial valuation method. Certain liabilities are calculated based on the purchase price for an annuity at the beginning of the year; PBGC uses this rate to calculate funding ratios.²¹

Table 2 provides the distribution of funding ratios on an actuarial basis for the 2023 plan year among (1) multiemployer DB pension plans and (2) the participants in these plans. One hundred and one plans, covering 1.2 million participants, had a funding ratio of less than 50%. These 101 plans had about 1.2 million participants, or 10.6% of all multiemployer DB plan participants in 2023.

Table 2. Distribution of Multiemployer Defined Benefit Pension Plans by Funding Ratios in 2023 on an Actuarial Basis

Funding Ratio	Plans	Participants
	Number (Percentage)	Number (Percentage)
Less than 50%	101 (8.5%)	1,185,432 (10.6%)
50% to 59%	36 (3.0%)	287,379 (2.6%)
60% to 69%	60 (5.0%)	343,544 (3.1%)
70% to 70%	77 (6.5%)	1,048,366 (9.4%)
80% to 89%	228 (19.2%)	2,362,275 (21.1%)
90% to 99%	256 (21.5%)	3,306,598 (29.6%)
100% or more	431 (36.2%)	2,641,795 (23.6%)
Total	1,189	11,175,389

Source: CRS analysis of DOL Form 5500 data among plans that had a plan year ending in calendar year 2023.

Notes: Percentages may not sum to 100% because of rounding. Multiemployer defined benefit plans are those that on Form 5500 (1) indicated they were a multiemployer plan in Part I(A) and had DB plan characteristics in Part II(8a) or (2) indicated they filed Schedule MB with their Form 5500 in Part II(10)(a)(2).

Table 3 provides the distribution of funding ratios on an RPA ‘94 basis for the 2023 plan year among (1) multiemployer DB pension plans and (2) the participants in these plans. Because the RPA ‘94 discount rate is typically lower than the actuarial discount rate, the value of plan

²⁰ The actuarial or smoothed values of assets uses an average of past, and sometimes expected future, market values of each asset. The smoothing of asset values prevents large swings in asset values and creates a more predictable funding environment for plan sponsors.

²¹ See <https://www.pbtc.gov/documents/pbtc-five-year-report-on-multiemployer-pension-plans.pdf#page=5>.

liabilities is typically higher—and the funding ratios lower—using the RPA '94 rate. Seven hundred and thirty-two plans had a funding ratio of less than 50%. These 732 plans had 8.0 million participants, or 71.6% of all multiemployer DB plan participants in 2023.

Table 3. Distribution of Multiemployer Defined Benefit Pension Plans by Funding Ratios in 2023 on an RPA '94 Basis

Funding Ratio	Plans	Participants
	Number (Percentage)	Number (Percentage)
Less than 50%	732 (61.8%)	7,999,517 (71.6%)
50% to 59%	284 (24.0%)	2,450,488 (21.9%)
60% to 69%	101 (8.5%)	468,111 (4.2%)
70% to 70%	32 (2.7%)	69,594 (0.6%)
80% to 89%	17 (1.4%)	61,771 (0.6%)
90% to 99%	8 (0.7%)	36,978 (0.3%)
100% or more	11 (0.9%)	87,149 (0.8%)
Total	1,185	11,173,608

Source: CRS analysis of DOL Form 5500 data among plans that had a plan year ending in calendar year 2023.

Notes: Percentages may not sum to 100% because of rounding. Multiemployer defined benefit plans are those that on Form 5500 (1) indicated they were a multiemployer plan in Part I(A) and had DB plan characteristics in Part II(8a) or (2) indicated they filed Schedule MB with their Form 5500 in Part II(10)(a)(2). Not all plans reported funding on an RPA '94 basis.

Reporting of Plan Funded Status

The Pension Protection Act of 2006 (PPA; P.L. 109-280) required that the actuary of a multiemployer DB pension plan annually certify the plan’s status—known as the plan’s zone status—based on, among other factors, the funded status of the plan.²² A plan can be in *critical status*, *seriously endangered status*, *endangered status*, or in no category. A plan in critical, seriously endangered, or endangered status must take measures to improve its financial conditions. The PPA provisions that created the zone statuses were scheduled to sunset on December 31, 2014, but were made permanent by the Multiemployer Pension Reform Act of 2014, enacted as Division O in the Consolidated and Further Continuing Appropriations Act, 2015 (MPRA; P.L. 113-235). In addition, MPRA added *critical and declining* as an additional funded status category. These zone statuses are presented below in order from strongest to weakest financial status. **Table 4** provides the number of multiemployer DB plan certifications within each funded status category for 1,188 plans that reported their plan status for the 2023 plan year (the most recent year for which complete information is available).

Green (No Zone) Status

Plans that are not in endangered, seriously endangered, critical, or critical and declining status are considered to be in *green status*. These plans most likely will be able to pay all of the participants’ benefits without changes to employers’ contributions or participants’ benefits.

²² Each pension plan has an actuary that makes estimates of a variety of factors that affect the plan, such as the number of current and future plan participants, current and future plan funding, and future contributions.

Endangered (Yellow Zone) Status

A plan is in endangered status if (1) the plan's funding ratio is less than 80% or (2) the plan has a funding deficiency in the current year or is projected to have one in the next six years. A subcategory of endangered status is *seriously endangered (orange zone)*. A plan is seriously endangered if it meets both of these criteria.

Plans in endangered status must adopt a funding improvement plan, which is a range of options (such as increased contributions and reductions in future benefit accruals) that, when adopted, will result in an increase in the plan's funded percentage by the end of the funding improvement period. The increase in the funded percentage must equal or exceed the sum of (1) the plan's funded percentage as of the beginning of the first plan year in which it is considered endangered and (2) 33% of the difference between 100% and the plan's funded percentage as of the beginning of the first plan year in which the plan is in endangered status. For example, a plan with a funded percentage of 70% at the beginning of the first year in which it is considered endangered must adopt a plan that would improve its funded percentage to at least 79.9% (100% minus 70% is 30%; 33% of 30% is 9.9%; and 70% plus 9.9% equals 79.9%)²³ Plans in seriously endangered status adopting a funding improvement plan must increase their funded status in a similar way, though substituting "20%" for "33%." Plans in endangered status or seriously endangered status must provide notice to plan participants, beneficiaries, the collective bargaining parties, PBGC, and DOL.²⁴

Critical (Red Zone) Status

A plan is in critical status if any of the following conditions apply: (1) the plan's funding ratio is less than 65% and the value of the plan's assets and contributions will be less than the value of benefits in the next six years; (2) in the current year, the employers are not expected to make 100% of the required contributions, or the employers are not expected to make 100% of the required contributions for any of the next three years (four years if the plan's funding ratio is 65% or less); (3) the plan is expected to be insolvent within five years (within seven years if the plan's funding ratio is 65% or less); or (4) the cost of the current year's benefits and the interest on unfunded liabilities are greater than the contributions for the current year, the present value of benefits for inactive participants is greater than the present value of benefits for active participants, and there is expected to be a funding deficiency within five years.

Plans in critical status must adopt a rehabilitation plan. A rehabilitation plan is a range of options (such as increased employer contributions and reductions in future benefits accruals) that, when adopted, will allow the plan to emerge from critical status by the end of a 10-year *rehabilitation period*. If a plan cannot emerge from critical status by the end of the rehabilitation period using reasonable measures, it must either install measures to emerge from critical status at a later time (after the end of the rehabilitation period) or forestall insolvency. Plans in critical status may not increase benefits during the rehabilitation period.

Plans in critical status must provide notice to plan participants, beneficiaries, the collective bargaining parties, PBGC, and DOL.²⁵

²³ A plan's underfunding is the amount by which the plan's liabilities exceed the plan's assets.

²⁴ The funding statuses are available at <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/public-disclosure/critical-status-notices>.

²⁵ The funding statuses are available at <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/public-disclosure/critical-status-notices>.

Critical and Declining (Deep Red Zone) Status

A plan is in critical and declining status if (1) it is in critical status and (2) the plan actuary projects the plan will become insolvent within the current year or within either the next 14 years or the next 19 years, as specified in law. Plans in critical and declining status must provide notice to plan participants, beneficiaries, the collective bargaining parties, PBGC, and DOL.²⁶

Table 4. Multiemployer Defined Benefit Plan Zone Certifications in 2023

Status	Number of Plans (Percentage)	Number of Participants (Percentage)
Neither Critical nor Endangered (Green Zone)	862 (72.6%)	7,199,336 (66.9%)
Endangered (Yellow Zone)	46 (3.9%)	368,082 (3.4%)
Seriously Endangered (Orange Zone)	1 (0.1%)	1290 (0.0%)
Critical (Red Zone)	155 (13.0%)	2,169,422 (20.2%)
Critical and Declining (Deep Red Zone)	124 (10.4%)	1,019,324 (9.5%)
All Plans with Zone Status	1,188	10,757,454

Source: CRS analysis of DOL Form 5500 data among plans that had a plan year ending in calendar year 2023 and had a zone certification on Schedule MB.

Note: Percentages may not add up to 100% because of rounding. Some multiemployer plans did not file a Schedule MB and among those that did several did not include a zone certification.

PBGC’s Multiemployer Insurance Program

PBGC was created by ERISA in 1974 to protect the benefits of participants in private sector DB pension plans. PBGC operates two insurance programs: a single-employer insurance program and a multiemployer insurance program. The two programs function quite differently. In the single-employer program, PBGC becomes the trustee of terminated, underfunded DB pension plans and pays benefits up to a statutory maximum amount. In the multiemployer program, PBGC does not insure against termination. Rather, when a multiemployer DB pension plan becomes insolvent (i.e., a plan cannot pay all benefits owed in a given year), PBGC provides financial assistance in the form of loans to multiemployer DB plans. Because the loans are made to plans that are insolvent and typically do not have employers making contributions other than for withdrawal liability, PBGC does not expect them to be repaid. As a condition for the loans, plans must reduce participants’ benefits to a statutory maximum benefit.

PBGC Maximum Guarantees

PBGC guarantees benefits in pension plans up to a statutory maximum level. When a multiemployer DB pension plan becomes insolvent, the plan must reduce participants’ benefits to the PBGC maximum amount before the plan receives the assistance. The statutory maximum benefit in multiemployer plans that receive financial assistance from PBGC is the product of a participant’s years of service multiplied by the sum of (1) 100% of the first \$11 of the monthly

²⁶ The funding statuses are available at <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/public-disclosure/critical-status-notice>.

benefit accrual rate and (2) 75% of the next \$33 of the accrual rate. For a participant with 30 years of service, the statutory monthly maximum benefit is \$1,073, or an annual maximum benefit of \$12,870 per year.²⁷ The multiemployer guarantee limit has been unchanged since 2001.

Financing of PBGC's Multiemployer Program

Unlike the single-employer insurance program, PBGC does not become trustee of insolvent multiemployer pension plans. For this reason, the only sources of funding for the financial assistance to insolvent multiemployer pension plans are (1) the collection of premiums that multiemployer plan sponsors pay to PBGC and (2) interest income from the investment of past premium income in U.S. Treasury bonds. Premium revenue is, by law, placed in a revolving fund. PBGC's policy is to invest the assets in the revolving fund in U.S. Treasury securities.²⁸ If the amount of financial assistance were to exceed the amount of premium revenue, then the revolving fund containing the investments in U.S. Treasury bonds could become depleted.

At the end of FY2025, PBGC reported a surplus of \$2.6 billion in the multiemployer insurance program.²⁹

PBGC Premium Levels

The PBGC multiemployer insurance program is funded by a per participant premium paid by each pension plan. In 2026, the sponsors of multiemployer DB pension plans pay an annual premium of \$40 for each participant in the plan.³⁰ The premium is set by law and is indexed to increases in the average national wage.

PBGC reported \$426 million in premium income from multiemployer plans in FY2025.³¹ PBGC also reported a gain of \$143 million in investment income from holdings of the U.S. Treasury debt.

Table 5 summarizes PBGC's financial information in FY2025.

²⁷ This monthly maximum benefit is calculated as follows: $[(\$11 \times 30) + (.75 \times \$33 \times 30)]$. For reference, the maximum benefit payable to participants in single-employer DB pension plans that are trusted by PBGC is higher than the multiemployer program maximum benefit. It depends on the year of plan termination, the age at which the participant begins to receive the benefit, and the form of the benefit. For example, the single-employer maximum annual benefit is \$93,477 for an individual who is in a plan that is terminated in 2026, begins to receive the benefit at the age of 65, and receives the benefit in the form of a single life annuity. For more information on PBGC's maximum benefit in the single-employer program, see <https://www.pbgc.gov/workers-retirees/learn/guaranteed-benefits/monthly-maximum>.

²⁸ Under PBGC's current investment strategy, all revolving funds are invested in Treasury securities, though only certain revolving funds are required by law to be invested in Treasury securities. See PBGC, *Annual Report Fiscal Year 2024*, p. 49, <https://www.pbgc.gov/sites/default/files/documents/pbgc-annual-report-2024.pdf> (hereinafter PBGC, *FY2024 Annual Report*).

²⁹ See PBGC, *FY2025 Annual Report*, p. 21.

³⁰ PBGC premiums are set in legislation and were most recently increased for multiemployer plans by MPRA. See PBGC, "Premium Rates," <https://www.pbgc.gov/prac/prem/premium-rates>.

³¹ See PBGC, *FY2025 Annual Report*, p. 21.

Table 5. PBGC Multiemployer Program Financial Information in FY2025

Financial Assistance	Traditional Financial Assistance Paid	\$169 million
	Number of Plans Receiving Traditional Financial Assistance	100
	Special Financial Assistance Paid ^a	\$6,152 billion
	Number of Plans Receiving Special Financial Assistance (SFA) ^a	48
Income	Premium Income	\$426 million
	Investment Income	\$143 million
Net Position	Total Assets	\$4.9 billion
	Present Value of Future Financial Assistance	\$1.9 billion
	Net Position (Total Assets Minus Present Value of Future Financial Assistance and Other Liabilities)	\$2.6 billion

Source: PBGC FY2025 Annual Report, Financial Summary—Multiemployer Program, p. 32, <https://www.pbgc.gov/sites/default/files/documents/pbgc-annual-report-2025.pdf>.

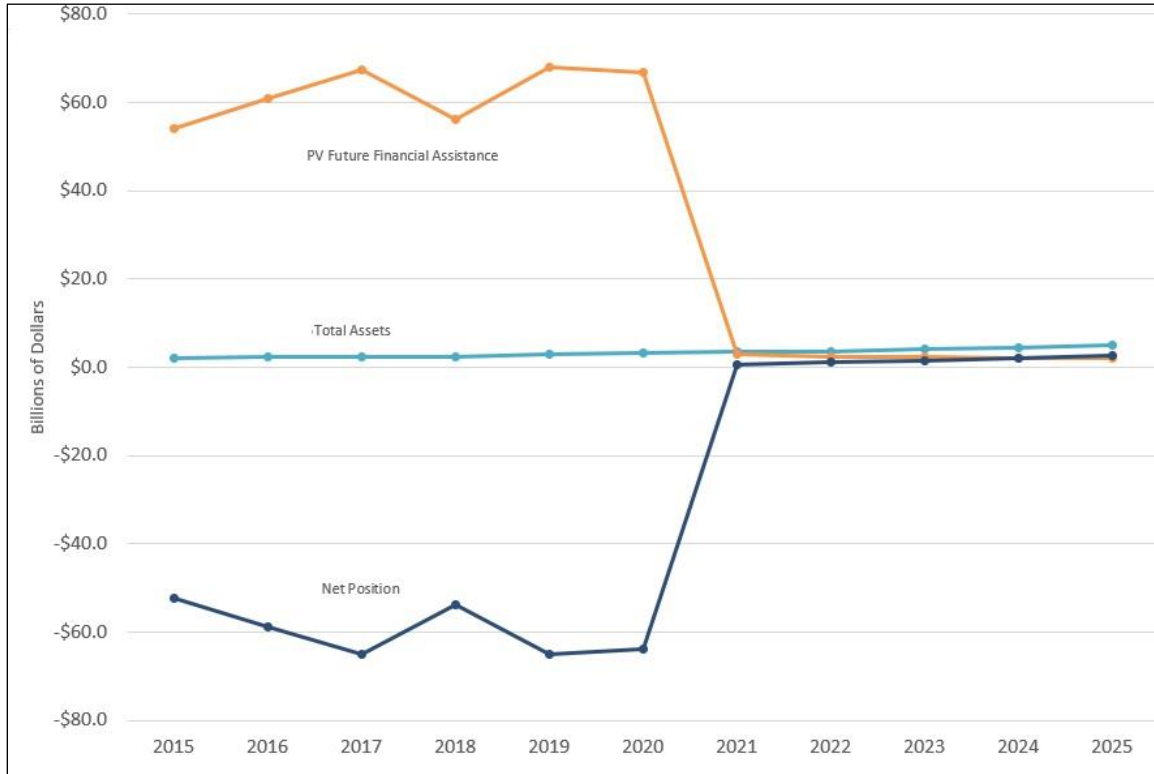
Notes: The present value of future financial assistance consists of the value of benefits to be paid to participants. It consists of payments that PBGC will have to provide at any point in the future to multiemployer plans that are (1) currently receiving financial assistance, (2) terminated but have not yet started receiving financial assistance, or (3) expected to become insolvent within 10 years and would not be able to meet their benefit obligations.

- a. Special Financial Assistance (SFA) provides grants to financially troubled multiemployer plans and was passed in Section 9704 in Title IX, Subtitle H, of the American Rescue Plan Act of 2021 (P.L. 117-2). SFA is discussed later in the report. From December 21, 2021, through May 15, 2026, 196 SFA applications from 161 plans covering 1.8 million participants have been approved for \$77.9 billion in SFA.

Financial Condition of the Multiemployer System Prior to FY2021

Prior to FY2021, the multiemployer system and, relatedly, the PBGC's multiemployer insurance program were in poor financial condition. **Figure 1** shows the financial condition of PBGC's multiemployer program from FY2014 through FY2025. The large increase in the deficit—reaching a peak of \$65.2 billion in FY2019—was a result of the recognition of the likely insolvency of several large multiemployer plans. In FY2021, Special Financial Assistance (SFA) was passed in Section 9704 in Title IX, Subtitle H, of the American Rescue Plan Act of 2021 (P.L. 117-2) to provides grants to financially troubled multiemployer plans. SFA is discussed later in the report. As a result of the enactment of SFA, the multiemployer program has run a surplus since FY2021.

Figure I. PBGC Multiemployer Insurance Program Financial Position
FY2015–FY2025



Source: Pension Benefit Guaranty Corporation, *2024 Annual Report* and *2025 Annual Report*, <https://www.pbgc.gov/sites/default/files/documents/pbgc-annual-report-2024.pdf> and <https://www.pbgc.gov/sites/default/files/documents/pbgc-annual-report-2024.pdf>.

Notes: PV indicates present value.

Congress had expressed concern about the multiemployer program for years leading up to the enactment of SF in FY2021 A. Prior to the enactment of SFA in FY2021, about 10% to 15% of multiemployer plan participants were in plans that PBGC expected to become insolvent. Two of the largest multiemployer plans, the Central States, Southeast and Southwest Areas Pension Plan (Central States) and the United Mine Workers of America (UMWA) 1974 Pension Plan, were both expected to become insolvent and, had that occurred, would have resulted in the insolvency of the PBGC’s multiemployer insurance program. In its plan year 2021 filing, Central States, which covered over 350,000 participants and paid out annual benefits of \$2.9 billion, indicated a projected insolvency date of 2025.³² In 2019 (prior to receiving federal financial assistance, as detailed later in this report), the UMWA plan, which covered about 90,000 participants and paid out over \$500 billion in benefit payments that year, indicated an insolvency date of 2022 or 2023.³³

Insolvent plans are eligible for traditional financial assistance from PBGC. However, while PBGC historically had sufficient assets from which to provide financial assistance to insolvent plans, PBGC’s financial condition was such that the benefit obligations from plans that were

³² See 2021 Form 5500 filing from the Central States, Southeast & Southwest Areas Pension Plan, at <https://www.efast.dol.gov/5500Search/>.

³³ See 2019 Form 5500 filing from the United Mine Workers of America 1974 Pension Plan, at <https://www.efast.dol.gov/5500Search/>.

likely to become insolvent between 2020 and 2030 would likely have resulted in PBGC having insufficient resources from which to pay guaranteed benefits owed to plan participants.

At the time, PBGC indicated that once resources were exhausted in its multiemployer program, insolvent plans would be required to reduce benefits to levels that could be sustained through premium collections only. This would have meant that participants' benefits would have been cut to levels below the maximum benefit.³⁴ PBGC estimated that most participants would have received less than \$2,000 per year because PBGC would have only been able to provide annual financial assistance equal to its annual premium revenue, which averaged \$365.6 million per year from FY2021 to FY2025.³⁵

For participants' benefits to be paid at the guaranteed amount, either (1) premiums would have had to rise to levels that many plan sponsors, plan participants, and policymakers would have found unreasonable or (2) federal financial assistance to PBGC would have been required. In 2016, PBGC estimated that premium levels would have needed to increase in the range of 59% to 85% to ensure solvency over the subsequent 10 years and in the range of 363% to 552% to ensure solvency over the subsequent 20 years.³⁶

Congressional Actions Related to Improving the Solvency of the Multiemployer System Prior to FY2021

After the 2007-2009 recession, some Members of Congress expressed interest in addressing the challenges faced by the sponsors of multiemployer DB pension plans and by PBGC's multiemployer insurance program.³⁷ For example, the House Education and Workforce Committee (including the Health, Employment, Labor, and Pensions subcommittee) held six hearings in 2012 and 2013 addressing multiemployer pension policy issues.³⁸

³⁴ See GAO, *Multiemployer Plans and PBGC Face Urgent Challenges*, GAO-13-428T, March 5, 2013, <http://www.gao.gov/assets/660/652687.pdf>.

³⁵ See PBGC, "PBGC Projections: Multiemployer Program Likely Insolvent by the End of 2025; Single employer Program Likely to Eliminate Deficit by 2022," press release, August 3, 2017, at <https://www.pbgc.gov/news/press/releases/pr17-04>. Additionally, the National Coordinating Committee for Multiemployer Plans (NCCMP) estimated that participants in 12 plans that applied for benefit reductions under MPRA would see a 53% reduction in benefits as a result of the PBGC maximum guarantee were these plans to become insolvent and receive PBGC financial assistance. The presentation did not indicate what percentage of participants in those plans would see benefit reductions. See National Coordinating Committee on Multiemployer Pensions, *Multiemployer Pension Facts and the National Economic Impact*, January 5, 2018, at <http://nccmp.org/wp-content/uploads/2018/01/Multiemployer-Pension-Facts-and-the-National-Economic-Impact-Jan-5-2018.pdf>.

³⁶ See PBGC, *PBGC MPRA Report*, June 17, 2016, <https://www.pbgc.gov/sites/default/files/legacy/docs/MPRA-Report.pdf>.

³⁷ For example, in 2012, Representative Phil Roe, then-chairman of the Subcommittee on Health, Employment, Labor, and Pensions in the House Education and Workforce Committee said that "[m]aintaining the status quo is no longer possible. Provisions in the law governing multiemployer pensions will expire in two years, which means Congress has an important opportunity to study the system, assess its strengths and weaknesses, and pursue solutions that support workers without discouraging participation in the voluntary pension system." See U.S. Congress, House Committee on Education and the Workforce, Subcommittee on Health, Employment, Labor, and Pensions, *Challenges Facing Multiemployer Pension Plans: Evaluating PBGC's Insurance Program and Financial Outlook*, 112th Cong., 2nd sess., December 19, 2012.

³⁸ See <https://www.congress.gov/committee/house-education-and-workforce/hsed00?q=%7B%22source%22%3A%22committee-meetings%22%2C%22search%22%3A%5B%22multiemployer%22%5D%2C%22within%22%3A%5B%22multiemployer%22%5D%7D>.

In 2014, Congress enacted the Multiemployer Pension Reform Act of 2014 (MPRA; P.L. 113-235) to address the projected increase in plan insolvencies and provide options to improve funding for multiemployer plans. Among other provisions, MPRA allows financially distressed plans that meet certain conditions to apply to the U.S. Treasury for permission to reduce participants' benefits to stave off insolvency. In 2015, one relatively large plan, the Central States plan, applied to reduce benefits. In 2016, its application was denied.³⁹ As of the date of this report, 18 plans have been approved to reduce benefits under MPRA. The most recent approval occurred in 2020, and the most recent application to reduce benefits under MPRA was submitted on February 26, 2021, and was subsequently withdrawn.⁴⁰

In addition, the Bipartisan Budget Act of 2018 (P.L. 115-123), enacted on February 9, 2018, created the Joint Select Committee on Solvency of Multiemployer Pension Plans to address the impending insolvencies of several large multiemployer DB pension plans and PBGC, but the committee did not provide legislative language by its November 30, 2018, deadline.⁴¹

In 2019, Congress enacted the Bipartisan American Miners Act of 2019 (enacted as Division M of The Further Consolidated Appropriations Act, 2020 [P.L. 116-94]), which authorized annual general fund payments to the UMWA 1974 Pension Plan to address the solvency of that plan. The act established a new cap of \$750 million annually on the aggregate amount of General Fund payments to certified states and tribes, UMWA health benefit plans, and the UMWA pension plan combined.⁴² The cap serves as a mechanism to control federal direct spending from the U.S. Treasury. After in lieu payments to certified states and tribes and supplemental payments to the UMWA health benefit plans each fiscal year, the act authorizes any remaining amount within the \$750 million annual cap to be transferred to the UMWA pension plan. The federal financial assistance to the UMWA plan is projected to prevent its insolvency.

Special Financial Assistance (SFA)

Section 9704 in Title IX, Subtitle H, of the American Rescue Plan Act of 2021 (P.L. 117-2) provided financial assistance in the form of grants to eligible financially troubled multiemployer DB plans. Specifically, it established a fund within the PBGC and appropriates from the general fund "such amounts as are necessary" to provide *Special Financial Assistance (SFA)* to certain multiemployer DB plans and necessary administrative and operating expenses. SFA does not have to be repaid. Following the enactment of SFA, the PBGC's financial assistance program for insolvent multiemployer plans not eligible for SFA began to be referred to as *traditional financial assistance* (and continues to operate alongside SFA).

³⁹ The Central States, Southeast and Southwest Areas Pension Plan (Central States) has about 400,000 participants. U.S. Treasury found that benefit reductions under the Multiemployer Pension Reform Act of 2014 (MPRA) would not allow the plan to return to solvency. Central States indicated that it would not submit a reapplication.

⁴⁰ See U.S. Treasury, Applications for Benefit Suspension, at <https://home.treasury.gov/services/the-multiemployer-pension-reform-act-of-2014/applications-for-benefit-suspension>.

⁴¹ For transcripts of hearings, see "Joint Select Committee on Solvency of Multiemployer Plans," at <https://www.congress.gov/committee/joint-select-committee-on-solvency-of-multiemployer-pension-plans/jspp00>.

⁴² 30 U.S.C. § 1232(i)(3)(A). For more information, see the section titled "Federal Financial Assistance for UMWA Health and Pension Benefit Plans," in CRS Report R46266, *The Abandoned Mine Reclamation Fund: Reauthorization Issues in the 116th Congress*.

As of May 15, 2026, 196 SFA applications from 161 plans covering 1.8 million participants have been approved for SFA.⁴³ The dollar amount of SFA for these approved plans is approximately \$77.9 billion.⁴⁴

Eligibility for Special Financial Assistance

Plans could apply for SFA through December 31, 2025. A plan was eligible if it met at least one of the following conditions: the plan (1) had been in critical and declining status in any plan year from 2020 through 2022; (2) had an application to suspend benefits under MPRA (enacted as part of P.L. 113-235) approved prior to the enactment of SFA; (3) had been in critical status in any year from 2020 through 2022 and had a modified funded percentage of less than 40% (calculated as the current value of plan assets divided by the present value of plan liabilities, using a specified interest rate), and the ratio of active to inactive participants in the plan was less than 2:3; or (4) became insolvent after December 14, 2014, and was not terminated by the date of enactment. PBGC was authorized to issue regulations specifying that for two years following enactment only plans meeting certain conditions were able to apply for SFA.⁴⁵ The plans were those likely to become insolvent within five years of enactment, those for which PBGC would have been obligated to provide more than \$1 billion in financial assistance in the absence of any special financial assistance, those that had reduced benefits under MPRA, or those that met other conditions as determined by PBGC.

PBGC maintains a list of plans that have submitted applications for SFA, been approved for SFA, been denied SFA, or withdrawn their SFA applications. This list includes the amount of SFA requested by each plan, and, if approved, the amount paid to each plan. PBGC updates this list on a weekly basis.⁴⁶

Among the plans that were approved for SFA as of May 15, 2026,

- 90 were approved because they met the condition of having been in in critical and declining status in any plan year from 2020 through 2022,
- 18 were approved because they had their benefits suspended under MPRA,
- 33 were approved because they were in critical status and met the additional required criteria, and
- 20 were approved under the insolvency condition.

Additionally, 178 plans had submitted and subsequently withdrew their applications for SFA and all but 24 reapplied for SFA. Three plans were denied SFA: two based on their ineligibility for SFA and one for an incomplete application.

⁴³ Information on SFA applications is available at <https://www.pbgc.gov/arp-sfa/sfa-applications>. PBGC regularly updates the list of SFA applications. They are available at <https://www.pbgc.gov/arp-sfa/applications>. Some plans are listed twice in the dataset because they submitted initial and supplemental applications.

⁴⁴ The dollar amount reflects an estimate of the final SFA amount approved and includes interest and FA loan repayments.

⁴⁵ PBGC issued an interim final rule on July 12, 2021, and a final rule on July 8, 2022, establishing priority periods for applications. See Pension Benefit Guaranty Corporation, “Special Financial Assistance by PBGC,” 86 *Federal Register* 36598-36631, July 12, 2021, <https://www.govinfo.gov/content/pkg/FR-2021-07-12/pdf/2021-14696.pdf>, and Pension Benefit Guaranty Corporation, “Special Financial Assistance by PBGC,” 87 *Federal Register* 40968-41024, July 8, 2022, <https://www.govinfo.gov/content/pkg/FR-2022-07-08/pdf/2022-14349.pdf>.

⁴⁶ See PBGC, Special Financial Assistance applications, at <https://www.pbgc.gov/arp-sfa/applications>.

Amount of Special Finance Assistance

The amount of SFA is the amount needed to pay participants' full plan benefits through the 2051 plan year. To determine the present value of benefits, the plan must use the interest rate from its most recent zone certification before January 1, 2021, subject to a maximum limit. The limit is the interest rate used by single-employer DB pension plans to discount their benefits to be paid 20 years or more in the future (referred to as the *third segment rate* in Title 26, Section 430(h)(2)(C)(iii), of the *U.S. Code*) prior to adjustment for the funding corridor in the month (or preceding three months) of the application, increased by two percentage points.⁴⁷ In February 2021, the third segment rate was 3.59%, so the limit would have been 3.59% + 2.0% = 5.59%.⁴⁸ The median interest rate multiemployer plans used to value benefit obligations in 2022 and 2023 was 7.0%.⁴⁹ Using lower interest rates results in larger amounts of SFA.

SFA is paid to the plan as a lump sum, is kept separate from other plan assets, and must be invested only in investment-grade bonds or other securities as determined by PBGC.

Participants' benefits in plans receiving SFA are not to be reduced to the PBGC maximum guarantee.

Conditions on Receiving Special Financial Assistance

Section 9704 of the law imposes a number of conditions on plans that receive SFA regarding, among other things, participants' benefits, withdrawal liability, and PBGC premiums.

A plan that had previously received approval for benefit suspensions under MPRA is required to (1) reinstate the benefits and (2) provide payments for benefits that participants and beneficiaries had not received because of the benefit suspensions.

PBGC could impose reasonable conditions on plans receiving SFA relating to increases in future accrual rates, retroactive benefit improvements, allocation of plan assets, reductions in employer contribution rates, diversion of contributions to—and allocation of—expenses to other benefit plans, and withdrawal liability. PBGC could not impose conditions relating to prospective reductions in plan benefits, changes to plan governance, or funding rules relating to receiving SFA.

Plans that receive SFA continue to pay PBGC premiums, are deemed to be in critical status through the plan year ending in 2051, and are ineligible to apply for MPRA benefit suspensions.

⁴⁷ The funding corridor is a range above and below a baseline interest rate to which interest rates are adjusted if they fall outside the corridor. For more information, see CRS Report R46366, *Single-Employer Defined Benefit Pension Plans: Funding Relief and Modifications to Funding Rules*, https://www.crs.gov/Reports/r46366#_Toc135315695.

⁴⁸ See IRS, *Pension plan funding segment rates*, "Funding table 3A for 2021," at <https://www.irs.gov/retirement-plans/pension-plan-funding-segment-rates#table-3a-2021>.

⁴⁹ CRS analysis of the *Valuation Liability Interest Rate* on Schedule MB of the Form 5500 for the 2022 and 2023 plan years.

Policy Considerations

Some proponents viewed federal financial assistance to multiemployer plans as fulfilling part of a promise made to workers.⁵⁰ Opponents argued that it is inappropriate to provide federal financial assistance to private sector pension plans.⁵¹

Simulations by the Congressional Budget Office in February 2021 indicated that an average of 185 plans would receive \$86 billion in special financial assistance.⁵² In a September 2022 letter, CBO indicated that SFA would total \$90.4 billion from FY2022 to FY2032.⁵³ CBO stated that the cost increase was a result of differences between the interim final rule which was the basis for CBO's 2021 estimate and the final rule adopted by PBGC in July 2022.

An earlier estimate from CBO indicated that PBGC's multiemployer program would remain solvent through the mid-2040s.⁵⁴ Because SFA allows plans to delay or prevent insolvency, CBO estimated that PBGC would spend \$2 billion less in financial assistance to these plans. Retirees would pay \$1.7 billion in federal income taxes on benefits that would not have been received in the absence of SFA.

Participants' Benefits

Participants in multiemployer plans that receive SFA do not have their benefits reduced to the PBGC maximum benefit level. Plans that became insolvent *prior to* December 14, 2014, reduced participants' benefits to PBGC maximum guarantee levels. These plans are ineligible for SFA. In addition, under current law, participants in plans that become insolvent in the future (beyond the application window for SFA) will have their benefits reduced to the PBGC maximum guarantee.

Amount of Special Financial Assistance

The interest rate is an important component for determining the amount of SFA paid to qualifying plans. Because the law's specified interest rate limit is typically lower than the median interest rate used by plans when calculating the value of benefits for plan funding purposes, for most plans, the value of benefits for SFA purposes is larger than the actuarial value of these benefits.

Greater Benefit to Certain Employers

Certain employers (e.g., the United Parcel Service and Kroger) pledged to "top up" the benefits of some retired former employees in certain plans if they are reduced as a result of PBGC traditional financial assistance or MPRA. Because SFA does not require plans to reduce participants'

⁵⁰ See, for example, Statement of Martin J. Walsh Secretary of Labor Before the Subcommittee on Labor, Health And Human Services, Education, And Related Agencies Committee On Appropriations United States House Of Representatives, April 27, 2022, at <https://docs.house.gov/meetings/AP/AP07/20220517/114647/HHRG-117-AP07-Wstate-WalshM-20220517.pdf>.

⁵¹ See, for example, "Biden Celebrates \$90 Billion Bailout of Private Union Pension Plans," July 7, 2022, at <https://allen.house.gov/news/documentsingle.aspx?DocumentID=5120>

⁵² Congressional Budget Office, *Reconciliation Recommendations of the House Committee on Ways and Means As ordered reported on February 10 and 11, 2021*, February 17, 2021, p. 17, <https://www.cbo.gov/system/files/2021-02/hwaysandmeansreconciliation.pdf#page=17>.

⁵³ See Phillip L. Swagel, *Effect of the Pension Benefit Guaranty Corporation's Final Rule on Special Financial Assistance*, Congressional Budget Office, September 30, 2022, <https://www.cbo.gov/system/files/2022-09/58540-PBGC.pdf>.

⁵⁴ See Congressional Budget Office, *Reconciliation Recommendations of the House Committee on Ways and Means* (February 15, 2021), <http://www.cbo.gov/publication/57005>.

benefits, these employers potentially benefited financially by not having to make the top-up payments for participants in plans that received SFA.⁵⁵

No Structural Changes to Plans

The law did not impose any changes to the structure of multiemployer DB plans or plan funding rules to ensure that currently financially healthy plans do not need financial assistance in the future. It is possible that some plans, including some that received SFA, may need financial assistance in the future.

Interest Rate on Plan Assets in SFA Applications

Some stakeholders raised concerns over the assumption that plans make on the interest rates of their SFA assets.⁵⁶

In determining the amount of SFA a plan needs, a plan sums the amount of benefits it expects to pay through 2051 and subtracts the amount of resources it expects to have available through 2051. The amount by which expected benefits exceeds expected resources is the amount of SFA a plan would receive.

The amount of resources includes (1) a plan's assets, which are the accumulated contributions from employers participating in the plan, and (2) the investment returns on the plan assets. Because SFA is received as a lump-sum payment and is also invested, the expected investment returns on SFA assets are also included as part of a plan's resources. Plans must make assumptions about the expected interest rate (also called the expected rate of return) on plan investments to determine the projections.

The provision authorizing SFA requires that SFA funds be (1) segregated from non-SFA assets and (2) invested conservatively.⁵⁷ In general, the more conservative an investment portfolio, the lower the expected rate of return on those invested assets.⁵⁸ As a result, one of the topics that PBGC addressed in regulations was the interest rate permitted for SFA and non-SFA assets.⁵⁹

⁵⁵ UPS indicated that it would not have to pay \$5.5 billion in "coordinating benefits" to the Central States plan as a result of SFA. See <https://investors.ups.com/sec-filings/all-sec-filings/content/0001090727-22-000007/0001090727-22-000007.pdf#page=81>. As part of its withdrawal from Central States in 2017, Kroger established a new pension fund that it indicated would restore benefit reductions above the level guaranteed by the Pension Benefit Guaranty Corporation (PBGC) if the Central States pension fund became insolvent and were reduced. See Kroger, "Kroger and International Brotherhood of Teamsters Protect Pensions," press release, December 13, 2017, <https://ir.kroger.com/news/news-details/2017/Kroger-and-International-Brotherhood-of-Teamsters-Protect-Pensions/default.aspx#:~:text=Kroger's%20withdrawal%20from%20Central%20States,current%20associates%20and%20our%20company>. CRS is not aware of other companies that had similar top-up arrangements with their unionized employees.

⁵⁶ In general, *interest rate* and *rate of return* can often be used interchangeably. SFA legislative text, the PBGC Interim Final Rule, and PBGC Final Rule refer to *interest rates*.

⁵⁷ See 29 U.S.C. §1432(i), which requires that "special financial assistance shall be invested by plans in investment-grade bonds or other investments as permitted by the corporation." PBGC's final rule requires 67% of SFA funds to be invested in investment grade bonds; the remainder may be invested in Return Seeking Assets, such as publicly traded stock, mutual funds, and Exchange Traded Funds (ETFs). See PBGC, "Special Financial Assistance by PBGC," 87 *Federal Register* 40968-41024, p. 40989, July 8, 2022, available at <https://www.govinfo.gov/content/pkg/FR-2022-07-08/pdf/2022-14349.pdf>.

⁵⁸ See, for example, *Risk and return*, <https://www.investor.gov/additional-resources/information/youth/teachers-classroom-resources/risk-and-return>.

⁵⁹ See 29 U.S.C. §1432(e)(3), which says, "(i) IN GENERAL.—In determining the amount of special financial assistance to be specified in its application, an eligible multiemployer plan shall—“(I) use the interest rate used by the plan in its most recently completed certification of plan status before January 1, 2021, provided that such interest rate does not exceed the interest rate limit....”

PBGC's Interim Final Regulation (IFR) called for the same interest rate to be used for projecting the rate of return on both SFA and non-SFA assets, while the final regulation indicated that plans could use separate (referred to as *bifurcated*) interest rates for the expected rates of return on SFA and non-SFA assets.⁶⁰

In the IFR, PBGC wrote that it “does not have authority to provide a different rate or bifurcate the statutorily mandated interest rate.”⁶¹ A number of comment letters on the IFR mentioned that using the same interest rates for SFA and non-SFA assets would cause plans to receive less SFA than would be needed to keep plans solvent through 2051. For example, a comment letter from seven Democratic Senators noted that possible results of requiring plans to use a single interest rate risks negative outcomes that “were not consistent with Congressional intent.”⁶²

PBGC's final regulation changed its position from the IFR, indicating that “after further review of the statute, PBGC observes that section 4262(e) of ERISA is general in its language regarding the determination of the amount of SFA and does not speak directly to the precise question of the use of an interest rate to project returns on SFA assets.”⁶³

On August 10, 2022, PBGC's Office of the Inspector General (OIG) requested an opinion from the U.S. Government Accountability Office (GAO) on the use of bifurcated interest rates, and on September 8, 2022, the PBGC OIG issued a Risk Advisory.⁶⁴ The Risk Advisory noted that because PBGC had already approved SFA applications with bifurcated interest rates, then “if GAO's decision were to contradict PBGC's position in its Final Rule, SFA payments, made while the decision was pending, risk being deemed improper payments, and additionally raise a reputational risk for PBGC.”⁶⁵

On September 30, 2022, a Congressional Budget Office (CBO) letter indicated that as a result of changes to the Final Rule, the total amount of SFA was projected to increase from \$85.9 billion to \$90.4 billion.⁶⁶ That same day, the House Education and Workforce Committee sent a letter to the PBGC director asking, among other things, the “specific Congressional authority for the July 2022 final rule's use of two separate interest rates for calculating SFA under ARPA.”⁶⁷

⁶⁰ The cap is the interest rate used by single-employer DB plans for valuing their long-term benefit obligations, referred to as the third segment rate. For more information on the interest rates used by single-employer plans, see CRS Report R46366, *Single-Employer Defined Benefit Pension Plans: Funding Relief and Modifications to Funding Rules*, https://www.crs.gov/Reports/r46366#_Toc135315684.

⁶¹ See Pension Benefit Guaranty Corporation, “Special Financial Assistance by PBGC,” 86 *Federal Register* 36603, July 12, 2021, available at <https://www.govinfo.gov/content/pkg/FR-2022-07-08/pdf/2022-14349.pdf>.

⁶² See, “United States Senators Sherrod Brown, Tina Smith, Charles E. Schumer, Tammy Baldwin, Gary C. Peters, Debbie Stabenow, and Robert P. Casey Jr.,” press release, August 11, 2021, <https://www.pbgc.gov/sites/default/files/sfa-ifr-comment-senators.pdf>.

⁶³ See PBGC, “Special Financial Assistance by PBGC,” 87 *Federal Register* 40968-41024, p. 40989, July 8, 2022, available at <https://www.govinfo.gov/content/pkg/FR-2022-07-08/pdf/2022-14349.pdf>.

⁶⁴ See Nicholas J. Novak, *Risk Advisory*, PBGC Office of Inspector General, September 8, 2022, <https://oig.pbgc.gov/pdfs/SR-2022-12.pdf>.

⁶⁵ See Novak, *Risk Advisory*, p. 3.

⁶⁶ See Phillip L. Swagel, *Re: Effect of the Pension Benefit Guaranty Corporation's Final Rule on Special Financial Assistance*, Congressional Budget Office, Letter, September 30, 2022, <https://edworkforce.house.gov/uploadedfiles/foxx-smith-sfaletter.pdf>.

⁶⁷ See House Education and Labor (Workforce) Committee, *Letter to PBGC Director Gordon Hartogensis*, September 30, 2022, https://edworkforce.house.gov/uploadedfiles/09.30.22_-_letter_to_hartogensis_re_wv_vs_epa.pdf.

On August 9, 2023, GAO concluded that “PBGC used its ARPA appropriation for its stated purpose and as such, neither the purpose statute nor the Antideficiency Act are violated by PBGC’s interest rate determinations.”⁶⁸

SFA Overpayments for Deceased Participants

A March 2023 report by the PBGC’s OIG indicated that it was likely that PBGC approved SFA applications in which some of the participant counts included deceased participants.⁶⁹ As a result, PBGC may have made improper payments to these plans.⁷⁰ PBGC’s OIG conducted an audit of five plans and found that the deceased participants included in SFA counts were participants who were no longer active participants in the plan (i.e., they no longer worked for an employer participating in the plan) but were not yet receiving benefits from the plan (because they were not yet retired). These participants are referred to as *terminated vested participants*.⁷¹

Deceased participants were included in participant counts when some plans submitted their SFA applications based on the instructions in PBGC’s IFR. The IFR did not require plans to conduct a death audit by cross-checking the participant census with death files. In addition, when applying for SFA, plans were required to use the assumptions in their most recent plan certification before January 1, 2021.⁷² In some cases, participants became deceased between the time of their plans’ application submissions (using data as of the plan certification date) and their plans’ approvals for SFA.

The final regulation required documentation of a death audit.⁷³ However, a subsequent PBGC OIG report from June 2023 noted that plan death audits might not be satisfactory in identifying deceased participants because they rely on private companies to verify participants’ statuses and are prone to making errors.⁷⁴ PBGC noted that the problem may be especially acute for separated, vested participants.

In PBGC’s single-employer and multiemployer insurance programs, PBGC checks participant censuses against Social Security’s Death Master File (DMF), which is a file compiled by the Social Security Administration (SSA) that includes over 90% of all deaths in the United States. Only selected federal agencies have access to the full DMF.⁷⁵ The June 2023 PBGC OIG white paper noted that PBGC indicated that it intended to request the plan census underlying an SFA

⁶⁸ See U.S. Government Accountability Office, Pension Benefit Guaranty Corporation—Use of Appropriations Provided in the American Rescue Plan Act of 2021 for Special Financial Assistance, B-334541, August 9, 2023, <https://www.gao.gov/assets/830/828163.pdf>.

⁶⁹ See PBGC OIG, *PBGC Should Exclude Deceased Terminated Vested Participants from Special Financial Assistance Calculation Report*, March 22, 2023, at <https://oig.pbgc.gov/pdfs/EVAL-2023-05.pdf>.

⁷⁰ Improper payments are those that should not have been made or that were made for the wrong amount. For more information, see CRS Report R48296, *Improper Payments: Ongoing Challenges and Recent Legislative Proposals*.

⁷¹ A PBGC white paper noted the difficulties that plans face when trying to account for the death of separated, vested participants. See PBGC OIG, *White Paper: Searching Plan Records for Deceased Participants*, June 12, 2023, <https://oig.pbgc.gov/pdfs/SR-2023-10.pdf>.

⁷² See 29 U.S.C. § 1432(e)(2).

⁷³ See page 41013. (11) Documentation of a death audit to identify deceased participants that was completed no earlier than one year before the plan’s SFA measurement date, including identification of the service provider conducting the audit and a copy of the results of the audit provided to the plan administrator by the service provider.

⁷⁴ See PBGC OIG, *White Paper: Searching Plan Records for Deceased Participants*.

⁷⁵ For more information on the DMF, see CRS Report R46640, *The Social Security Administration’s Death Data: In Brief*, and the appendix of PBGC OIG, *White Paper: Searching Plan Records for Deceased Participants*.

request and perform an independent death search on the file. The OIG paper stated that it was its understanding “that PBGC will use the Full DMF” to conduct such searches.⁷⁶

In November 2023, Senator Bill Cassidy sent a letter to Sean O’Brien, General President of the International Brotherhood of Teamsters (a union whose members constituted many of the Central States plan participants), that inquired how deceased participants were included in the SFA application and whether the Central States plan intended to return the \$127 million attributable to them.⁷⁷ At a Senate Health, Education, Labor, and Pensions (HELP) committee hearing, Senator Cassidy received a commitment from Mr. O’Brien that the plan would return the money.⁷⁸

DOL issued a statement that indicated that while plans may have expressed concerns that returning excess payments could violate fiduciary obligations, DOL would not take any enforcement action against plans that return excess amounts of SFA.⁷⁹ On March 15, 2024, PBGC issued a statement that it “supports the Department of Labor’s (DOL) position that such repayments would not violate” ERISA or the Internal Revenue Code.⁸⁰

In the 118th Congress, on January 30, 2024, Representative Virginia Foxx introduced H.R. 7135, and Senator Bill Cassidy introduced S. 3682, The GHOST Act, identical bills that would have required PBGC to audit plans that were approved for SFA to determine whether a plan had received any amounts of SFA on behalf of deceased participants. Plans would have been required to repay the PBGC for any SFA overpayments.

On April 8, 2024, Central States entered into an agreement with the Department of Justice to repay the funds.⁸¹ Also on April 8, 2024, PBGC indicated that Central States had repaid the money.⁸²

In the 119th Congress, some members continued to conduct oversight of this issue. For example, a February 20, 2025, letter from Representative Tim Walberg, Chairman of the House Committee on Education and Workforce, and Representative Rick Allen, Chairman of the Subcommittee on Health, Employment, Labor, and Pensions, to Attorney General Pamela Bondi, sought information “about the steps DOJ is taking to ensure that taxpayer money is recovered after the Biden-Harris administration made improper payments to multiemployer pension plans.”⁸³ The

⁷⁶ See PBGC OIG, *White Paper: Searching Plan Records for Deceased Participants*, p. 8.

⁷⁷ See letter from Senator Cassidy to Sean O’Brien, November 14, 2023, at https://www.help.senate.gov/imo/media/doc/sob_pensions_bailout_letter.pdf.

⁷⁸ See U.S. Senate Committee on Health, Education, Labor, and Pensions, “Ranking Member Cassidy Secures Commitment from Teamsters President to Return \$127 Million in Taxpayers Funds Wrongfully Obtained in Democrats’ Pension Bailout,” November 14, 2023, at <https://www.help.senate.gov/rep/newsroom/press/ranking-member-cassidy-secures-commitment-from-teamsters-president-to-return-127-million-in-taxpayer-funds-wrongfully-obtained-in-democrats-pension-bailout>.

⁷⁹ See DOL, *Statement of Enforcement Policy Regarding Return of Excess Special Financial Assistance Payments*, <https://www.dol.gov/sites/dolgov/files/ebsa/employers-and-advisers/plan-administration-and-compliance/retirement/statement-of-enforcement-policy-regarding-return-of-excess-sfa-payments.pdf>.

⁸⁰ See PBGC, *PBGC Statement on Department of Labor’s Statement of Enforcement Policy Regarding Return of Excess Special Financial Assistance Payments*, March 15, 2024, <https://www.pbgc.gov/news/statements/st11>.

⁸¹ See U.S. Department of Justice, “Press Release: Central States Pension Plan Agrees to Repay Excess Special Financial Assistance Funds,” April 8, 2024, at <https://www.justice.gov/archives/opa/pr/central-states-pension-plan-agrees-repay-excess-special-financial-assistance-funds>.

⁸² See PBGC, *PBGC Statement on Central States’ Repayment of \$126.5 Million in Special Financial Assistance*, April 8, 2024, at <https://www.pbgc.gov/news/statements/st12>.

⁸³ See letter from Representatives Tim Walberg and Rick Allen to Attorney General Pamela Bondi, February 20, 2025, at https://edworkforce.house.gov/uploadedfiles/02.19.25_letter_to_doj_re_sfa.pdf.

letter also noted that, “as of February 7, 2025, about 30 of these 60 plans have voluntarily repaid nearly \$30 million.”⁸⁴

PBGC’s updated list of plans that have been approved for SFA includes information about plans that repaid SFA, including the amount repaid and date of repayment.⁸⁵ As of April 29, 2026, PBGC data indicated that 67 plans have repaid \$261.0 million in overpayments.⁸⁶

⁸⁴ This letter indicated that the committee had sent two previous letters in 2024 to then-Attorney General Merrick Garland but had not received responses. See Letter from Chairwoman Virginia Foxx & Chairman Bob Good to Attorney General Merrick B. Garland, August 7, 2024, at https://edworkforce.house.gov/uploadedfiles/08.07.24_garland_letter_on_sfa.pdf; and Letter from Chairwoman Virginia Foxx & Chairman Bob Good to Attorney General Merrick B. Garland, December 16, 2024, at https://edworkforce.house.gov/uploadedfiles/12.16.24_letter_to_doj.pdf.

⁸⁵ See PBGC, Special Financial Assistance applications, at <https://www.pbgc.gov/arp-sfa/applications>.

⁸⁶ See SFA Applications Status, SFA Repaid-Census Adjustments tab, <https://www.pbgc.gov/sites/default/files/documents/sfa-application-status-current.xlsx>.

Appendix. Defined Benefit Plan Funding

This appendix provides background on basic concepts related to the funding of DB pension plans.

Defined Benefit Plan Balance Sheet

Figure A-1 depicts a typical DB pension plan’s balance sheet. It consists of plan assets, which are the value of the investments made with accrued employer (and employee, if any) contributions to the plan, and plan liabilities, which are the value of participants’ benefits earned under the terms of the plan. Plan assets are invested in equities (such as publicly traded stock), debt (such as the U.S. Treasury and corporate bonds), private equity, hedge funds, and real estate.

Figure A-1. Typical Balance Sheet of a Defined Benefit Pension Plan

Assets	Liabilities
Investments (from contributions by plan sponsors)	Discounted Value of Future Benefit Payments

Source: Congressional Research Service (CRS).

Defined Benefit Plan Funding Ratio

The funding ratio measures the adequacy of a DB pension plan’s ability to pay for promised benefits. The funding ratio is calculated as

$$\frac{\text{Value of Plan Assets}}{\text{Present Value of Plan Liabilities}}$$

A funding ratio of 100% indicates that the DB plan has set aside enough funds, if the invested funds grow at the expected rate of return or better, to pay all of the plan’s benefit obligations. Funding ratios that are less than 100% indicate that the DB plan will not be able to meet all of its future benefit obligations. Because benefit obligations are paid out over a period of 20 years to 30 years, participants in an underfunded plan will likely receive their promised benefits in the near term. However, if the underfunding persists without additional contributions, plan participants might not receive 100% of their promised benefits in the future.

In response to strong investment returns in the 1990s, many multiemployer DB pension plans increased benefits to participants. Many of these plans then became underfunded during the early 2000s as financial markets weakened. Their financial position worsened as a result of (1) stricter funding rules put in place in the Pension Protection Act of 2006 (P.L. 109-280), (2) the decline in equity markets in 2008, (3) low interest rates as a result of weak economic conditions, and (4) the bankruptcy of some of the firms participating in the plans.

The Value of Plan Assets

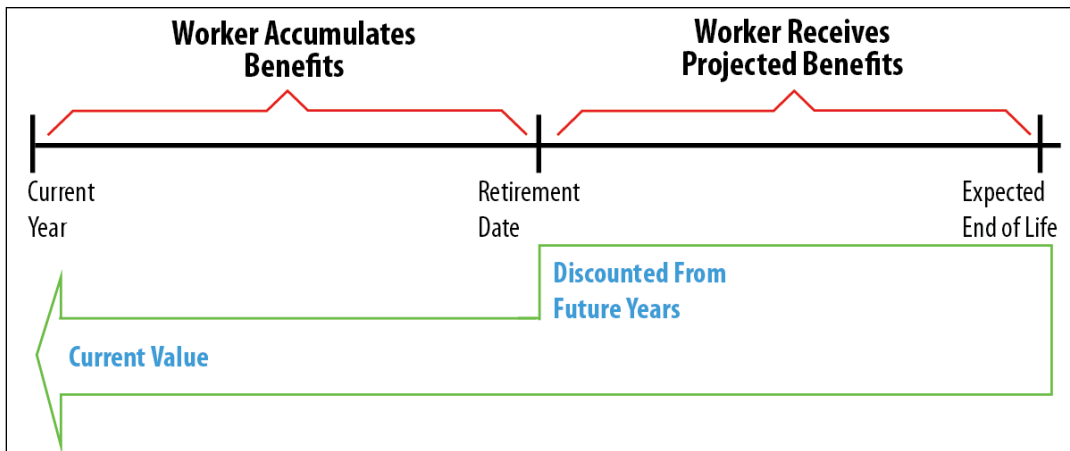
Pension plans report the value of plan assets using two methods: market values (the value at which each asset can be sold on a particular date) or smoothed values (the average of the past, and sometimes expected future, market values of each asset). The smoothing of asset values

prevents large swings in asset values and creates a more predictable funding environment for plan sponsors. One of the drawbacks of smoothing is that smoothed asset values may be substantially different from market values. Some advocates of reporting market values note that smoothed values are often higher than market values (particularly during periods of market declines), which could overstate the financial health of some pension plans. Some advocates of smoothing argue that market values are useful only if a plan needs to know its liquidated value (e.g., if the plan had to pay all of its benefit obligations at one point in time), which is unlikely to be the case, as most pension plans are likely to be ongoing concerns.

Plan Liabilities

A pension plan’s benefits are a plan liability spread out over many years in the future. These future benefits are calculated and reported as current dollar values (also called present value). **Figure A-2** shows the process by which future benefits are discounted. Using a formula, benefits that are expected to be paid in a particular year in the future are calculated so they can be expressed as a current value. The process is called *discounting*, and it is the reverse of the process of *compounding*, which projects how much a dollar amount will be worth at a point in the future.

Figure A-2. How Future Pension Benefits Are Discounted



Source: CRS.

The formula by which future values are calculated as current values is in **Figure A-3**.

Figure A-3. Present Value Formula

$$\text{Current Value} = \frac{\text{Dollar Value of Future Benefit}}{(1 + \text{Discount Rate})^{\text{Number of Years in the Future}}}$$

Source: CRS.

For example, assuming a discount rate of 10%, \$121 in two years’ time is worth $\frac{\$121}{(1.1)^2} = \100 today. The present value of a dollar amount is inversely related to both the discount rate and the number of years in the future. As the discount rate or number of years in the future increases, present value decreases; as the discount rate or number of years decreases, present value

increases. In the above example, if the discount rate is 15%, then \$121 in two years' time is worth $\frac{\$121}{(1.15)^2} = \91.49 today, and \$121 in three years' time is worth $\frac{\$121}{(1.1)^3} = \79.56 .

Discount Rate Used to Value Future Benefits

In the context of DB pension plans, plan actuaries calculate the present value of future benefit obligations by estimating (1) the dollar amount of the benefits accrued by plan participants and (2) the years in the future in which the benefits are expected to be paid. The Internal Revenue Code does not require multiemployer pension plans to use a specific discount rate to value their future benefit obligations. The assumptions a plan uses must be reasonable and offer the best estimate of the plan's expected experience.⁸⁷ In practice, multiemployer plans generally discount plan liabilities using the expected rate of return on the plan's assets. However, multiemployer plans are required to value plan liabilities using rates of returns to bonds, as well. On Schedule MB of Form 5500, multiemployer plans report the present value of future benefits discounted by the expected return on plan assets (listed as the *Accrued Liability Under Unit Credit Cost Method*) and by long-term bond yields (listed as the *Current Liability* under the "RPA '94" Information).⁸⁸ The RPA '94 discount rate is generally lower than a plan's expected return on assets.

Pension policy experts have several viewpoints on the appropriate discount rate that pension plans should use to value plan liabilities.⁸⁹ Broadly speaking, some actuaries recommend that pension plans discount future benefits using the expected rate of return on plan investments (the current practice for multiemployer DB pension plans). Some financial economists, by contrast, recommend that plans discount the liabilities using a discount rate that reflects the likelihood that the benefit obligation will be paid.

The rationale for the actuaries' approach is as follows: because funds are to be set aside to pay an obligation in the future, the amount that has to be set aside should consider the rate of the return on the investment. For example, given an expected return of 10%, a \$100 obligation payable in one year would be valued at \$90.91 in today's dollars ($\$100 \div 1.1 = \90.91), and \$90.91 could be set aside today to pay the \$100 future obligation.

The rationale for the approach favored by financial economists is that pension obligations should be discounted based on the likelihood that they will be received by plan participants. Because participants are very likely to receive most of their pension benefits (e.g., because of vesting provisions in ERISA and PBGC guarantees), their pension benefits should be discounted using a discount rate close to the risk-free rate. Financial economists say that the actuaries' approach may

⁸⁷ See 26 U.S.C. §431.

⁸⁸ Most private sector pension plans are required to annually report to the Internal Revenue Service (IRS) information about the plan, such as the number of participants, financial information, and the companies that provide services to the plan. This information is reported on Form 5500.

⁸⁹ The context for much of the recent policy discussions on the appropriate rate for discounting pensions has been in the area of pension plans for state and local government employees. Although there are many differences between state and local government pension plans and multiemployer DB pension plans (for example, state and local government plans are much less likely to become insolvent), many aspects of the discount rate discussion apply to all DB pension plans, including multiemployer plans. For more information, see Milliman, *Setting the Discount Rate for Pension Liabilities*, July 2012, <http://publications.milliman.com/periodicals/peri/pdfs/PERi-07-17-2012.pdf>; Douglas Elliott, *State and Local Pension Funding Deficits: A Primer*, Brookings Institution, December 2010, https://www.brookings.edu/wp-content/uploads/2016/06/1206_state_local_funding_elliott.pdf; the American Academy of Actuaries and the Society of Actuaries, *Pension Actuary's Guide to Financial Economics*, 2006, <http://www.soa.org/Files/Sections/actuary-journal-final.pdf>; and Congressional Budget Office, *The Underfunding of State and Local Pension Plans*, May 2011, <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12084/05-04-pensions.pdf>.

make an inappropriate connection between the value of liabilities and the rate of return on assets. For example, the value of the obligation can be increased or decreased by changing the assumption on the rate of return, which suggests that a pension plan could eliminate some of its underfunding by investing the plan's assets in riskier investments.⁹⁰

The approach suggested by some actuaries results in discount rates that are generally higher than the rates that result by using the approach suggested by some financial economists. One effect of this divergence of opinion is that the value of pension plan benefit obligations is higher (and funding ratios are lower) using the approach favored by some financial economists. For example, as noted above, the RPA '94 rate is typically lower than the expected rate of return; as a result, the measurement of multiemployer plan liabilities is higher using the RPA '94 interest rate than the expected rate of return.⁹¹ The funding of state and local pension plans is another area where there are differences of opinion regarding the appropriate discount rate. Like multiemployer DB plans, state and local pension plans typically use the expected rate of return on assets as the interest rate for discounting liabilities. However, some argue that state and local plans should use an interest rate that is close to the risk-free interest rate to value liabilities.⁹² One study estimated the pension liabilities for 646 state and local pension plans and found that at the end of 2022 the unfunded liabilities of the plans as measured by the expected return on assets was \$1.6 trillion, and as measured by the risk-free rate was \$5.1 trillion.⁹³

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⁹⁰ However, CRS is not aware of any reports of pension plans using this hypothetical strategy to lower the plan's underfunding.

⁹¹ See also Lisa Schilling and Patrick Wiese, *U.S. Multiemployer Pension Plan Contribution Indices*, Society of Actuaries, January 2018, <https://www.soa.org/493469/globalassets/assets/files/resources/research-report/2018/2018-01-multi-emp-pen-cont-indices.pdf>, which noted that multiemployer plan liabilities in 2015 were four times larger when measured on a current liability basis (\$535 billion) compared with an actuarial basis (\$133 billion).

⁹² The risk-free rate of interest is an interest-rate in which there is no risk of financial loss. Because there is no risk of financial loss, the interest rate is typically lower than when there is an amount of default risk. The interest rates on short-term U.S. Treasury securities are considered to be examples of a risk-free rates. For more information, see <https://corporatefinanceinstitute.com/resources/valuation/risk-free-rate> and Jules H. van Binsbergen, William F. Diamond, and Marco Grotteria, *Risk-free Interest Rates*, National Bureau of Economic Research, Working Paper 26138, August 2019, https://www.nber.org/system/files/working_papers/w26138/w26138.pdf.

⁹³ See Stanford Institute for Economic Policy Research (SIEPR), *Public pensions are mixing risky investments with unrealistic predictions*, February 5, 2024, <https://siepr.stanford.edu/news/public-pensions-are-mixing-risky-investments-unrealistic-predictions>.

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