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Funding for Multiemployer Pension Plans Hard to Pin Down

The sponsors of multiemployer pension plans are suffering just as much heartburn over funding levels as corporate pension plan sponsors, and the mounting liability may soon begin showing up in corporate balance sheets.

Corporations whose employees are members of multiemployer plans, such as plans sponsored by trade unions or collective bargaining units, typically make up half of the oversight committee for multiemployer plans, said Jon Waite, chief actuary for consulting and actuarial firm SEI. In a recent survey of multiemployer plan sponsors, SEI's pension management research panel found such plans are most troubled over poorly funded plans, managing funding status in volatile markets, investment alternatives, and scrutiny of the investment process.

Half of the 31 major multiemployer plan sponsors surveyed by SEI said their plans were below 80 percent funded, and three out of four plans follow guidelines that allow them to smooth over recent losses to make their funded status look healthier than it really is. Nearly 40 percent of plan sponsors report they have increased their asset allocations into alternative investments in the past year, and 67 percent said they are looking more closely at their plan liabilities when determining their investment strategies.

Waite said corporations increasingly are taking note of underfunded multiemployer plans that they contribute to on behalf of their employees, particularly as the Financial Accounting Standards Board considers requiring companies to show those liabilities on the face of the balance sheet. Currently, that liability appears nowhere in corporate financial statements, he said.

Yet at the same time, companies are having a hard time deciphering their exact obligation because of some relief provided to multiemployer plans in 2008 on the disclosure requirements. With the Worker, Retiree, and Employer Recovery Act of 2008, Congress allowed companies to "freeze" the funded status of their plans and overlook their 2008 numbers, considering them anomalous because of market conditions in the midst of crisis. That enables sponsors to look to a healthier earlier year in reporting their funded status, Waite said.

“Do they really know what year they are really looking at?” Waite said. “This is a kind of warning that you could be looking at 2010, 2009 or 2008 numbers. Employers need to understand what the sponsors are measuring their plans by.”

Accounting & Auditing Update



The “Accounting & Auditing Update” is written by Tammy Whitehouse, a veteran business writer who has been a regular contributor to Compliance Week since 2005. Her work has also appeared in industry journals and periodicals including Journal of Business Strategy, Strategy & Leadership, Compensation & Benefits Review, Inc, Buyside, and myriad others. Whitehouse welcomes questions and comments from readers; she can be reached via email at twhitehouse@complianceweek.com.

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