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# Automotive Industries Pension Plan Receives \$1.1 Billion Dollars

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The Automotive Industries Pension Plan ("Plan"), a Taft-Hartley multiemployer (union) pension plan, recently received approximately \$1.1 billion of "Special Financial Assistance" (SFA) from the federal government. Authorized by the American Rescue Plan Act of 2021 (ARPA) for severely underfunded multiemployer pension plans, most of the approximately 90 employers contributing to the Plan are engaged in automotive services and related industries in Northern California.

Prior to the receipt of the \$1.1 billion in SFA, this plan had approximately \$1.2 billion in assets and \$2.2 billion in accrued liabilities for future retirement plan benefits resulting in a funded level of 55%. The Plan has approximately 24,000 individuals eligible for current or future benefits of which only 3,000 are actively working (the other 21,000 individuals are currently receiving retirement benefits or not working but entitled to future retirement benefits). The Plan's application for SFA was approved by the Pension Benefit Guaranty Corporation (PBGC) in July 2023 and the Plan received the \$1.1 billion contribution in August 2023. The Plan was in "critical and declining" status prior to the receipt of the SFA, a term used to describe the worst funded multiemployer pension plans.

There are approximately 1,400 multiemployer pension plans in the U.S. and more than 200 of such pension plans were seriously underfunded prior to the passage and implementation of ARPA. Benefits provided by multiemployer pension plans are insured to some extent by the PBGC, a federally chartered corporation which, prior to the passage of ARPA, had not been funded by general tax revenues but by insurance premiums paid by multiemployer pension plans and investment earnings from multiemployer pension plans it takes over.

The substantial number of multiemployer pension plans expected to be insolvent would have caused the PGBC to become insolvent. To avoid this result, Congress took an exceedingly rare step in ARPA

requiring the federal government to make contributions (i.e., SFA) to the worst-funded multiemployer pension plans using the PBGC as the conduit. The estimated outlays under ARPA for such SFA is currently estimated to be \$80 billion, which will be contributed to the affected multiemployer pension plans no later than 2030.

The SFA provided to these severely underfunded plans is intended to be the amount necessary for the multiemployer pension plans to pay benefits through at least December 31, 2051 (i.e., for the next 30 years). The pension plans that receive contributions under ARPA will not be required to repay such contributions to the federal government.

When a union employer stops contributing to, or no longer has a collective bargaining agreement (CBA) obligation to contribute to, a multiemployer pension plan that is underfunded, the employer is likely to be subject to withdrawal liability under the Employee Retirement Income Security Act (ERISA). ERISA imposes an exit penalty, known as “withdrawal liability,” on employers who withdraw from an underfunded multiemployer pension plan by allocating a portion of the unfunded vested benefits in the pension plan to a participating employer when it withdraws from the pension plan. Employers who withdraw from a multiemployer pension plan should not expect that any withdrawal liability they are assessed will be reduced due to SFA the pension plan receives. The PBGC has issued regulations to ensure that the SFA funds do not subsidize employer withdrawals from participation in multiemployer pension plans.

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