

July 10, 2018

The Honorable Orrin Hatch  
Co-Chair  
Joint Select Committee on Solvency  
of Multiemployer Pension Plans  
United States Senate  
Washington, D.C. 20510

The Honorable Sherrod Brown  
Co-Chair  
Joint Select Committee on Solvency  
of Multiemployer Pension Plans  
United States Senate  
Washington, D.C. 20510

Dear Chairman Hatch and Chairman Brown:

We write on behalf of the Multiemployer Pension Alliance (“Alliance”), a coalition of sound multiemployer pension plans. Thank you for your leadership of the Joint Select Committee on Solvency of Multiemployer Plans (“JSC”). We appreciate your careful attention to these important issues. As the JSC considers proposals to improve the solvency of troubled multiemployer pension plans and the Pension Benefit Guaranty Corporation (“PBGC”), it should ensure that healthy plans remain sound. The vast majority of multiemployer plans — providing retirement security to nearly six million workers, retirees, and their families — are sound. Any new legislation should not undermine these healthy plans, or create new barriers to their continued success.

Alliance members support a resilient multiemployer pension system that provides continued retirement security to millions of American workers and their families. We look forward to working with the JSC as you hold hearings and develop legislative solutions. We are available to answer questions, brief Members of Congress and their staffs, and testify before the JSC. Meanwhile, we wanted to share the following thoughts regarding guideposts that should be reflected in any new legislation and facts about the PBGC:

#### **LEGISLATIVE GUIDEPOSTS**

##### ***A Well-Designed Loan Program Can Save The Most Troubled Plans and the PBGC’s Insurance Program***

- A loan program should maximize the chances that troubled plans avoid insolvency. If this goal is accomplished, workers and retirees can avoid devastating benefit cuts, and the PBGC insurance program can be saved.
- At the same time, a loan program should not impose undue costs on healthy multiemployer plans and their members. For example, loan programs should not be paid for by imposing “membership fees” on active workers and retirees of healthy plans or other “cost sharing” mechanisms like union and employer surcharges.

***Interest rate assumption rules did not cause the solvency crisis facing troubled plans and are not an appropriate “lever” to avoid future crises***

- Central States, the United Mine Workers’ Pension Funds, and other deeply troubled plans’ looming insolvency was caused primarily by drastic reductions to these plans’ contribution bases as a result of industry decline, employer bankruptcies, and reduced union membership — not because these plans used permitted interest rate assumptions to calculate the value of future benefit obligations. With reduced contribution bases, these troubled plans lacked reserves to withstand severe financial challenges, such as market downturns and additional employer bankruptcies.
- Current law requires that each year, an independent actuarial firm certify that the expected rate of return on a multiemployer plan’s investments is reasonable. This rate of return then is used to calculate the value today of future benefit obligations. On average, healthy multiemployer plans assume investment rates of return between 7% and 7.5% — rates appropriate for long-term investments and in line with many healthy plans’ historical returns.
- Congress should not require that multiemployer plans assume a lower rate of investment returns. Doing so would cause a massive increase in each plan’s liabilities and a corresponding precipitous drop in funding level — even though the plan’s actual amount of assets, future benefit obligations, and expected long-term investment returns all remain unchanged.
- Draconian benefit cuts or massive increases in employer contributions would be required, imposing lasting harm on the ability to attract and retain employers — potentially, sending an otherwise healthy plan into a death spiral.

***Sound multiemployer plans cannot pay for the Administration’s PBGC premium proposal without sustaining substantial harm***

- The Administration’s budget proposal seeks to raise \$16 billion in PBGC premiums over ten years: a more than 500% across-the-board yearly increase in PBGC premiums.
- In practice, the proposed premium increase would be even more painful. The PBGC intends to waive PBGC premium increases for troubled plans — which will have the practical effect of shifting even greater premium payment obligations onto healthy plans.
- In order to raise the amounts contemplated by the budget proposal, while at the same time exempting troubled plans from new obligations, healthy plans could face yearly premium increases of 1,000% to 2,000% or more.
- A premium increase of this magnitude would make PBGC premium payment obligations the greatest administrative expense of the vast majority of healthy plans — reducing the funds available to pay for retirement benefits, decreasing reserves needed to weather future market downturns, and harming plans’ ability to attract and retain employers.

## FACTS ABOUT THE PBGC

### *Multiemployer plans — not employers — pay PBGC premium increases*

- Contrary to the suggestion that *employers* pay for PBGC premium increases, premium payments are made by multiemployer pension *plans* out of funds that otherwise would be available for retirement benefits. While employers pay for PBGC premiums in single-employer pension plans, this is not the case for multiemployer plans.
- Employer contributions to a multiemployer plan are determined through collective bargaining agreements between employers and unions that remain in place for a number of years. There is no built-in mechanism for multiemployer plans to pass on the cost of additional premium obligations to employers.
- Even if there were, doing so would break a fundamental promise to employers by requiring that they pay more than they bargained for — thereby undercutting efforts to attract new employers and increasing the risk of existing employers leaving healthy plans.

### *PBGC premium increases do not — and are not intended to — address the solvency crisis facing troubled plans*

- PBGC premium increases will not extend the solvency of any troubled plan or otherwise help prevent these plans' failure.
- Rather, PBGC premium increases are intended to extend the time that the PBGC can provide benefits to participants in plans that have already failed at the significantly reduced amounts provided for by the PBGC multiemployer insurance program.
- This goal of extending the solvency of the PBGC multiemployer insurance program need not be addressed by PBGC premiums alone. A well-designed loan program that maximizes the chances that troubled plans avoid insolvency will dramatically reduce the PBGC's expected liabilities and can save the PBGC insurance program.

### *The PBGC multiemployer benefit guarantee is very low as compared to the single employer guarantee — making the different premium amounts for multiemployer and single employer plans an apples-to-oranges comparison*

- The PBGC multiemployer insurance program guarantees only up to \$12,870 of annual pension benefits for a retiree who worked for thirty years to earn his or her pension. This means that a retiree who earned a yearly retirement benefit of any amount greater than \$12,870 will face devastating benefit cuts. A retiree who earned a benefit for less than thirty years would face even greater benefit cuts.
- By contrast, the PBGC single-employer insurance program guarantees annual pension benefits of up to \$65,045 starting at age 65 without regard to how long the retiree worked

to earn his or her benefit — an amount approximately five times greater than the benefit guaranteed by the multiemployer plan insurance program.

- Because multiemployer plan premiums fund drastically lower insurance coverage than the single employer insurance program, the different PBGC premium obligations for single employer and multiemployer plans are not a relevant source of comparison.

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We appreciate the JSC's attention to these matters and hope this additional information will inform the Committee's deliberations. We look forward to working with you to protect the hard-earned retirement benefits of American workers and retirees, while strengthening the multiemployer retirement system as a whole. Please contact us if we can be of assistance.

Sincerely,

1199SEIU Health Care Employees Pension Fund  
1199SEIU Home Care Employees Pension Fund  
AFTRA Retirement Plan  
Directors Guild of America - Producer Pension Plan  
Equity-League Pension Fund  
IAM National Pension Fund  
IATSE Local 751 Pension Fund  
IATSE Local 764 Pension Fund  
IATSE Local 798 Pension Fund  
IATSE Local One Pension Fund  
IATSE National Pension Fund  
Motion Picture Industry Pension Plan  
New York State Nurses Association Pension Plan  
Nurses and Local 813 IBT Retirement Fund  
Producer-Writers Guild of America Pension Plan  
Screen Actors Guild – Producers Pension Plan  
SEIU Affiliates' Officers and Employees Pension Plan  
SEIU Local 3BJ-Broadway League Pension Fund  
United Food & Commercial Workers International Union Pension Plan for Employees  
United Scenic Artists Local 829  
Western Conference of Teamsters Pension Trust

cc: The Honorable Paul Ryan, Speaker, U.S. House of Representatives  
The Honorable Nancy Pelosi, Minority Leader, U.S. House of Representatives  
The Honorable Mitch McConnell, Majority Leader, U.S. Senate  
The Honorable Chuck Schumer, Minority Leader, U.S. Senate  
Members of the Joint Select Committee on the Solvency of Multiemployer Pension Plans