Multiemployer Pension Plans: Potential Paths Forward

Capitol Hill Briefing

June 27, 2017

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Today's Presenters

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Agenda

- The Basics
- Multiemployer Challenges
- Potential Paths Forward
  - Legacy benefits
  - Future benefits
- Q & A

Multiemployer Pension Plans: Potential Paths Forward

Today's briefing is based on the Multiemployer Subcommittee's issue brief, *Overview of Multiemployer Pension System Issues.*
http://www.actuary.org/multiemployer

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Introduction

- Over one million people may lose expected retirement income
- There are only two overarching approaches, or some combination of:
  - More money
  - Lower benefits
- All alternatives have pros and cons
- The longer we wait the harder the options are to implement (and the fewer there are)
- Ideally, address short-term needs AND shore up retirement security for the future

THE BASICS

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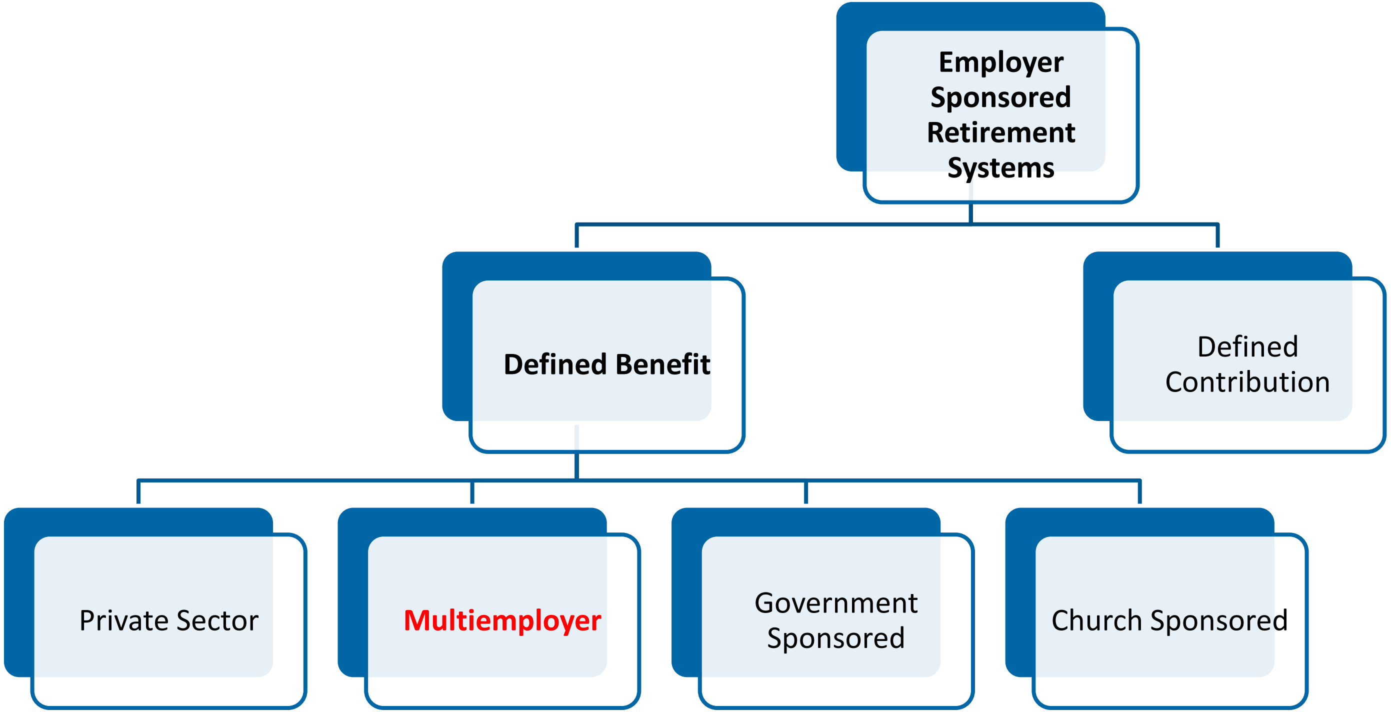
Brief Overview

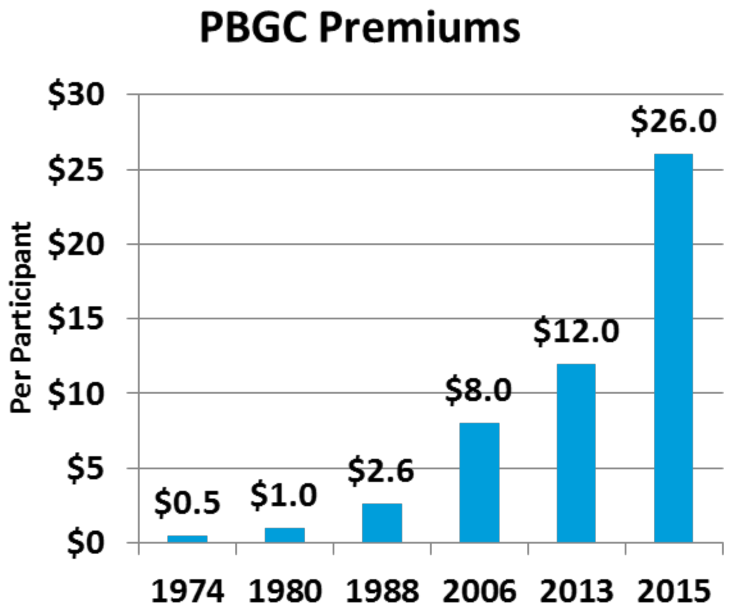


Multiemployer Plan Basics

- Contributions are collectively bargained
- Benefit levels are set by trustees
- Plans are typically organized industry by industry
- Multiemployer system principles
  - Aligned with industry workforce patterns
  - Conducive to collective bargaining process
  - Aligned with employee needs

Multiemployer PBGC Basics

- PBGC is a federal agency created by ERISA
  - PBGC has separate single and multiemployer programs
- Pays a guaranteed level of benefit when a plan becomes insolvent
  - For a participant with 30 years of service, the maximum guarantee is $12,870 per year
- Financing comes primarily from per participant insurance premiums
  - Premiums have increased significantly, particularly in recent years
  - Premiums still represent a relatively small portion of a participant's wage package



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Recent Key Legislative Changes

- Pension Protection Act of 2006 (PPA)
  - Created “critical” and “endangered” zone status
  - Incorporated projections into funding standards
  - Required funding improvements and rehabilitation plans
- Multiemployer Pension Reform Act of 2014 (MPRA)
  - Created “critical and declining” zone status
  - Created process for benefit reductions
  - Doubled PBGC premiums

MULTIEMPLOYER CHALLENGES

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The Current Landscape

- Roughly 1,400 multiemployer plans
  - Over 10 million active, inactive, and retired workers
- Approximately 100 plans are critical and declining
  - Projected to exhaust their assets within the next 20 years
  - These plans contain roughly 1 million participants
- Additional plans are already insolvent
- Others projected to fail beyond 20 years

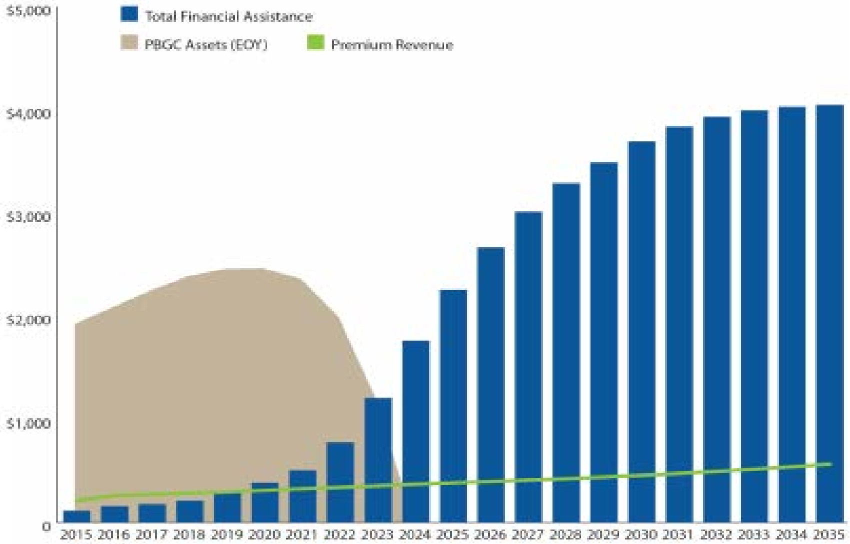
The Current Landscape

- Remaining plans projected to have sufficient assets to pay benefits
  - Not immune from risk
- Risk magnified because:
  - Plans struggle to retain contributing employers
  - Very few companies willing to join the system
  - Industries continue to change

The Current Landscape

- PBGC assistance may be constrained
  - Multiemployer program underfunded by nearly $60 billion
  - Projected to exhaust its assets in 8 years

PBGC Multiemployer Program
Projected Assets vs. Financial Assistance



Source: PBGC

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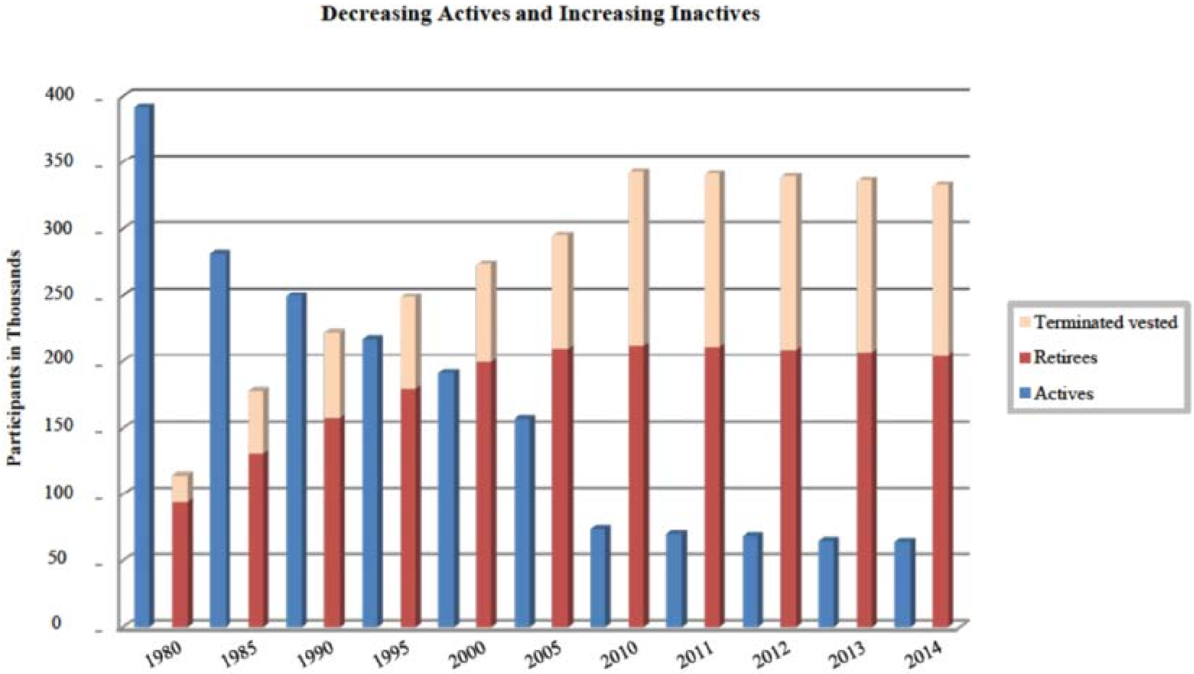
The Current Landscape

- PBGC multiemployer guarantee is already low
  - Participants in failing plans face benefit losses even if PBGC is able to pay its guarantee
- Dramatically larger benefit losses if PBGC fails
- Hypothetical illustration for a participant with 30 years of service:
  - Underlying benefit payable from plan: $26,000
  - Amount covered by PBGC guarantee: $12,870
  - Amount payable after PBGC insolvency: $2,000
- Benefit losses could impact other social welfare programs

How The Current Situation Developed

- Benefits supported by diversified asset portfolios
- Past surpluses not retained to offset future losses
- Plans became more mature
- Declines in covered workforce
- Employers have exited the system
  - Often without paying full withdrawal liability
- Dramatic asset losses in the “Great Recession”

Plan Maturity Case Study



Source: Central States, Southeast and Southwest Areas Pension Plans. - Page 18.2

Key Challenges

- How can the legacy pensions be addressed
  - PBGC guarantee
- How can these issues be prevented in the future

POTENTIAL PATHS FORWARD: LEGACY BENEFITS

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Options for the PBGC

- Options to preserve the PBGC guarantee:
  - Increase revenue
  - Early intervention
  - Reduce payouts

- Affected stakeholders:
  - Participants & beneficiaries
  - Unions & employers
  - Taxpayers

Options for the PBGC: Increase PBGC Revenue Options

- Increase PBGC premiums
- Create specific industry tax or premium
- Impose modest payment from all existing retirees receiving multiemployer plan pensions
- Other government support

Options for the PBGC: Issues With Increasing Revenue

- Participants & Beneficiaries
  - Additional costs may be directly or indirectly passed on to the employees
  - Participants in low wage industries
- Unions & Employers
  - May drive healthy employers and employee organizations out of system
  - Industry may not be healthy enough to pay the amount needed
  - Equity concerns for employers who never participated
- Taxpayers
  - Taxpayers with no relationship to struggling pension plans
  - Equity concerns for taxpayers who have no pensions of their own

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Options for the PBGC: Early Intervention

- PBGC could take over multiemployer plans prior to insolvency
- Resources could be conserved by:
  - Identifying plans before they fail
  - Reducing benefits before plans fail
- Issue:
  - Participants would experience benefit reductions earlier

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Options for the PBGC: Reduce Payouts

- Congress could reduce guaranteed benefit level to the amount of resources available
- Issues:
  - Many retirees live on fixed incomes
  - Reduced pension payouts may not be sufficient
  - Benefits guaranteed by PBGC already very low

Legacy Benefits

- Reductions in claims can help keep the PBGC solvent
- Will likely require some combination of:
  - Increased plan revenue
  - Reduced benefit payments

MPRA

- MPRA was intended to address legacy liabilities
  - Benefits could be suspended to as low as 110% of the PBGC guarantee if plan is projected to remain solvent after the suspensions
    - Only one plan has been approved
    - Several applications denied or withdrawn
  - Plan could be partitioned with PBGC immediately paying guaranteed benefits for a portion of the plan
    - No partitions have been approved so far
- If MPRA is going to be a meaningful part of the path forward, many more plans will need to have suspensions approved

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Potential Components of Solution

- Isolate liabilities attributable to employers that left the plan ("orphan liabilities")
- Loans to troubled plans or employers
- Strengthen withdrawal liability and bankruptcy laws
- Increase minimum funding requirements
- Promote growth in economy, particularly for affected industries

Loans to Troubled Plans or Employers

- Borrow money at a low interest rate and invest the proceeds in the plan
  - Provides a longer timeframe for employers to pay the costs
  - Provides leverage on plan investment returns relative to the borrowing rate
- Transfer some risk from employers, participants, and the PBGC to the entity that issues or guarantees the loan
- Participants can retain a portion of the risk by converting their fixed benefits to benefits that vary with investment returns
  - Converting legacy fixed benefits to variable benefits is a strategy that could also be combined with some other options

Withdrawal Liability and Bankruptcy

- Employers that withdraw or declare bankruptcy without paying their full withdrawal liability on mass withdrawal assumptions have transferred a liability and/or a risk to the remaining employers
- An option could be to increase the priority of plan claims for withdrawal liability on employers and raise the cap on withdrawal liability payments
- Increasing the plan's claims on employers reduces the ability of other creditors to collect on their claims

POTENTIAL PATHS FORWARD: FUTURE BENEFITS

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Securing Future Benefits

- Need to do more than address currently troubled plans
- Desired long-term solution
  - Cost predictability/stability for employers
  - Retirement security for employees
- Need to manage risks to reflect changes in workforce demographics and the economic environment

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New Structures to Secure Future Benefits

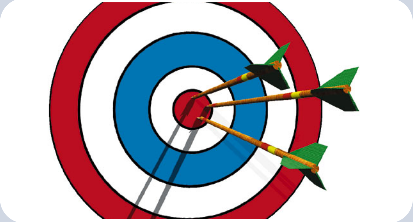
- DC – follows corporate trends
- Risk-sharing – combines DB and DC features
- Trade-offs between two objectives
  - Predictable cost
  - Predictable benefit

Approach	Objectives	
	Predictable Cost	Predictable Benefit
Defined Benefit	✓	✓✓✓
Defined Contribution	✓✓✓	✓
Risk-sharing	✓✓	✓✓

New Structures to Secure Future Benefits

- Restructure withdrawal liability and bankruptcy laws
  - Make joining the system more attractive to new employers
- Review and enhance funding and investment requirements
  - Consider plan maturity and ability to take risk
- Improve transparency
  - Communicate risks in advance

Bringing it all together


Urgency

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Who Pays?

Multiemployer Pension Plans: Potential Paths Forward

Questions?

For More Information, contact:

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