Multiemployer Alert

Update on Issues Affecting Taft-Hartley Plans **FEBRUARY 2019**

Uncertainty persists for multiemployer pension plans: Joint Select Committee and Congressional deadlines pass without agreement on solutions

Why was the Committee needed?

As we reported in our Fall 2018 Multiemployer Pension Funding Study,[1] the aggregate funded percentage of the over 1,200 multiemployer plans was about 81% as of June 30, 2018, with a total aggregate shortfall of $125 billion. In particular critical ("red") and critical and declining ("deep red") plans had an aggregate funded percentage around 57%. As a group, these plans have not improved their funded percentage over the last decade. One of the main reasons for this trend is a declining active membership base, which has resulted in annual contributions being much smaller than they used to be relative to the size of their respective plans. That situation makes long-term recovery from poor economic performance quite difficult. As a result, many of these plans will not be able to pay the full value of promised benefits to future retirees, and additional measures will be needed in order for them to do so.

Of immediate concern is the Pension Benefit Guaranty Corporation's (PBGC) multiemployer trust fund, which is expected to be exhausted by 2025, following the projected insolvency of the Central States, Southeast & Southwest Areas Pension Plan (Central States Teamsters) and several other deeply troubled plans that are expected to become insolvent during the next six to seven years.

What was the Committee's charge?

The Joint Select Committee (JSC) on the Solvency of Multiemployer Pension Plans was created under the continuing appropriations law signed in February 2018, to address the multiemployer pension crisis. Eight senators and eight representatives represented equally by both parties were charged with providing a recommendation to improve the solvency of multiemployer plans and the PBGC multiemployer program.

The JSC held five public hearings in 2018 during which it gathered testimony and comments from experts and participants about the status of multiemployer pension plans. The last hearing was held in Washington, D.C. on July 25. In general, discussions focused on three main areas: protection of retiree benefits, improved funding of ongoing plans, and increased revenue to the PBGC's multiemployer program.

The committee was expected to vote on a package by November 30, 2018, and send the recommendation to Congress for a vote in December. This vote did not occur. Senators Sherrod Brown (D-OH) and Orrin Hatch (R-UT), leaders of the JSC, issued a statement on November 29 that the committee will continue its work toward a bipartisan solution. It is likely that the discussion of proposed legislation will be taken up by key Congressional committees in 2019.

What solutions were being considered by the JSC?

In late November, some of the items the JSC was considering were made public. The general areas discussed are summarized below, and may provide a roadmap that the 116th Congress may follow in 2019 toward possible legislation. All stakeholders in the multiemployer community would have been impacted to varying degrees by this proposal. Stakeholders should remain alert, work with their consultants to understand the impacts, and be prepared to respond to their elected officials on possible legislation as necessary.

1 See http://www.milliman.com/uploadedFiles/insight/Periodicals/multiemployer-pfs/mpfs-fall-2018.pdf?_cldee=ZGFycmVuLmhhcnJpc0BtaWxsaW1hbi5jb20%3d&recipientid=contact-4ce64cc5101de8118105e0071b716c61-249acc12a2ee48368727f7a51a438a2a&esid=a602a10e-e003-e911-a972-000d3a370e23.

Some of the items discussed include the following:

1. Retiree protections:
   - Eliminate benefit suspensions under the Multiemployer Pension Reform Act of 2014 (MPRA)
   - Increase to the PBGC guarantee benefit level
2. Changes to plan funding rules:
   - Limits how high the discount rate can be for measuring plan liabilities
   - Changes in credit balance treatment and actuarial value of assets calculation
   - Changes in the zone status rules that may accelerate movement into "yellow" or "red" zones
3. Increases to PBGC revenue:
   - Transfer of funds from the U.S. Treasury to the PBGC
   - Increases to PBGC premiums, including introduction of a variable premium
   - Stakeholder premiums for employers, local unions, and retirees
   - Exit premiums for withdrawing employers
   - Changes to withdrawal liability assumptions

While Congress did not address the pending crisis in the December Continuing Resolution, the crisis remains. In the coming weeks we will take a deeper dive into the above topics, including addressing some of the specifics that became public, and ideas that emerge from Congressional committees.

While the final details of any ultimate proposal remains uncertain at this time, multiemployer plan stakeholders must remain vigilant. As always, please feel free to contact your local Milliman consultant for further information and for any assistance.