November 2018

IBEW FACT SHEET

JOINT SELECT COMMITTEE ON SOLVENCY OF MULTIEMPLOYER PENSION PLANS

The IBEW opposes solutions that would apply burdensome funding requirements and excessive fees on multiemployer pension programs, including the National Electrical Benefit Fund (NEBF), the second largest multiemployer pension fund in the United States.

Background

Multiemployer pensions are administered by joint labor management committees and funded in part by negotiated employer contributions. They form the backbone of the retirement safety net for millions of Americans. Approximately 550,000 active members, retirees, and survivors participate in the IBEW's multiemployer pension plans.

IBEW members appreciate the difficult task before the members of the Joint Select Committee on Solvency of Multiemployer Pension Plans. However, several concepts or proposals currently being discussed would render the current system unsustainable and rapidly result in government-induced market failure. Most multiemployer plans – more than 60 percent – are stable and in the "green zone." Some proposals could pose problems for green zone plans and exacerbate the issues that a small number of plans are currently facing.

We oppose (1) the use of 30-year Treasury bond or corporate bond rates as the discount rate; (2) new taxes and fees on workers and retirees; (3) an increase in Pension Benefit Guaranty Corporation (PBGC) premiums; and (4) the use of composite plans as a solution. We support a low-interest loan program.

Not a Solution: Arbitrarily prescribed discount rate

Imposing an alternative discount rate on key measurements for multiemployer pension plan funding would move most healthy plans into endangered or critical status, decrease benefits for participants, and increase contributions to levels that would make it difficult for employers to remain competitive. Using lower discount rates based on corporate bonds or 30-year Treasury bonds would likely lead to significant short-term shifts in plan obligations. Even a 0.25% decrease in the discount rate can detrimentally increase unfunded liabilities by hundreds of millions of dollars.

Not a solution: New taxes or fees on workers, retirees and plans

Recently circulated proposals would apply onerous requirements and fees on otherwise healthy funds. One would raise $3 billion annually from healthy multiemployer funds to support participants in failing plans, creating a tax on retirees' pensions. NEBF beneficiaries would be taxed $20-$30 million annually if the fund is moved to the yellow or red zone. Another proposal creates a new $2 per active worker per month fee on unions and employers, which would cost the IBEW over $6 million annually. Still another proposed plan changes the PBGC's per participant annual premium from a flat fee of $28 to a variable premium with an average of $100, which could cost the NEBF $55 million a year. We oppose any fees or taxes on workers, retires and plans.

Not a solution: Use of composite plans

Composite plans do not address plans that cause a risk to the system. Instead, they seek to restructure healthy plans. Unions bargain in good faith on behalf of millions of workers who defer wages on the promise of defined benefits being available to them in retirement.

A solution: a low-interest loan program

A bipartisan group of members of Congress have signaled their support for a plan that would sell bonds to large investors and lend the proceeds of the bond sales to financially troubled pension plans. We support the establishment of a low-interest loan program to restore the solvency of endangered multiemployer plans. Workers in suffering pension plans are victims who should not be penalized for plan mismanagement, adverse public policy, or Wall Street risk-taking. Participants deserve to receive their full benefits. *Members of Congress should co-sponsor the Butch Lewis Act (HR 4444/S 2147) and speak to congressional leadership to bring the bill for a vote.*

Frequently Asked Questions on Defined Benefit Multiemployer Pensions

Question 1: What are defined benefit multiemployer pension plans?

Answer: Multiemployer pension plans are sponsored by multiple employers in the same industry and maintained as part of a collective bargaining agreement. They are defined pensions, plans where participants receive regular monthly benefit payments in retirement.

Question 2: What is the problem and how large it is?

Answer: A number of multiemployer pension funds are designated as in “critical and declining status” by the Pension Benefit Guaranty Corporation (PBGC) and may become insolvent over the next two decades. Among these are the Central States Pension Fund, one of the largest multiemployer plans in the country, and the United Mine Workers Pension Plan, which will become insolvent in four to five years without any changes. In 2013, the PBGC estimated that its obligation to Central States would be $20 billion, which would ultimately make the PBGC insolvent if Central States failed.

Question 3: How did this happen?

Answer: Certain sectors of our economy, particularly trucking and coal mining, have witnessed dramatic changes in recent decades that led to company failures, consolidations and the wide adoption of employer intimidation tactics and union busting, leading to declining membership and negatively affecting the number of active workers in some pension plans. These impacts have been compounded by statutory changes made by Congress, including the deregulation of the trucking industry in the 1980s, which led to the failure of trucking firms and created thousands of “orphan” participants in the Central States Pension fund, whose employers could no longer contribute to the plan.

Question 4: What would be the impact if Congress allowed these pension funds to fail?

Answer: One million Americans participate in critical and declining multiemployer pension plans. If the PBGC were to become insolvent, retirees in these plans would receive only a small fraction of their expected pensions, harming their livelihoods and their communities. For example, a recent analysis by Matrix Global Advisors found that the failure of Central States would lead to the loss of more than 55,000 current jobs in the United States and decrease national GDP by $5 billion in 2025 due to the sharp drop in economic activity from lost pensions.

Question 5: Would federal assistance or a loan program be a “bailout?”

Answer: Millions of workers and retirees in multiemployer plans have put a lifetime of work into their pensions, often sacrificing pay raises in order to have more invested in their retirement. Helping these Americans is not a bailout – as what happened with the financial services and automotive industries during the Great Recession – but an obligation to protect families and communities from financial ruin. Furthermore, Congress has a responsibility to examine how federal policies contributed to this crisis.

The IBEW and the labor movement at large supports enactment of the Butch Lewis Act (H.R. 4444/S. 2147), legislation that would provide low-interest, 30-year loans to troubled pension plans. The Butch Lewis Act is the best solution available for workers, retirees, businesses and taxpayers and would cost less than a recent proposal considered by the Joint Select Committee on the Solvency of Multiemployer Pension Plans.

If you have further questions, please contact the IBEW Legislative Department at (202) 728-6046 or at political@ibew.org.

Talking Points on Joint Select Committee Multiemployer Proposal

The Orrin Hatch-led Republican Plan will dramatically increase costs on active workers, retirees, and employers that will undermine the multiemployer defined benefit pension system.

I. <u>New Taxes and Fees on Workers and Retirees</u>

- The Republican Plan is designed to raise $3 billion annually out of the healthy multiemployer funds to support participants in failing plans.
- The plan will create a tax on retirees' pensions – 0% for Green Plans, 2% for Yellow Plans, 3% for Red Plans, 4% for Declining and Insolvent Plans and 6% for Plans with Liability Removal.
  - National Electric Benefit Fund (NEBF) beneficiaries would pay $20-$30 million annually if the fund is moved to the Yellow or Red Zone.
- The proposal creates a new $2 per active worker per month fee on unions and employers.
  - This fee will cost the IBEW over $6 million annually.
- The plan changes the Pension Benefit Guaranty Corporation (PBGC)'s per participant annual premium from the current flat fee of $28 to a variable premium of $50-$150, with an average of $100 per participant.
  - The new variable premium could cost the NEBF upwards of $55 million a year in additional premiums.

II. <u>New Requirements on Multiemployer Plans</u>

- The Republican Proposal creates a prescribed discount rate capped at the corporate long bond rate + 2% for all plans.
  - A prescribed discount rate is very concerning due to the significant changes in interest rates, thereby making long-term budgeting more difficult and could potentially put a heavy burden on the NEBF.
  - For example, a mere 0.25% decrease in the NEBF's discount rate from 7.5% to 7.25% would increase unfunded liabilities by $500 million.
- The proposal would require pension funds to subtract their credit balance from plan assets in determining a plan's zone status.
  - Use of credit balances are a common industry practice that help pension funds accurately conduct long-term planning.
  - Excluding credit balance from assets would significantly impact the NEBF, most likely moving the fund from a Green to Yellow Zone plan.
- The proposal would eliminate asset smoothing, which are used to by fund actuaries to smooth out short-term fluctuations in market values.

III. <u>Future for Currently Failing Plans</u>

- The proposal will partition failing funds that will place orphan participants' under the PBGC.
- The PBGC will guarantee orphaned participants maximum of $70 per month per years of service.
- The federal Treasury will transfer up to $3 billion annually into the PBGC, depending on the level of funding needed to support partitioned participants.
- The non-partitioned participants will stay in their pension fund and need to meet the requirements above.
- The partitioning program and orphan participant adoption under the PBGC will be a one-time occurrence.

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS®

900 Seventh Street, NW
Washington, DC 20001
202.833.7000
www.ibew.org

LONNIE R. STEPHENSON
International President

KENNETH W. COOPER
International Secretary-Treasurer

August 16, 2018

VIA EMAIL

The Honorable Orrin Hatch
Chairman
Joint Select Committee on Solvency of Multiemployer Pension Plans
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

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

Dear Chairman Hatch and Co-Chairman Brown:

Over half a million active members, retirees, and survivors participate in the International Brotherhood of Electrical Workers (IBEW) multiemployer pension plans. On behalf of these participants, we want to thank you for the work you are doing to find solutions to the issues facing multiemployer pensions. However, there are several concepts or proposals currently being discussed that we believe would render the current system unsustainable and would rapidly result in government-induced market failure.

We do not believe (1) the use of 30-year Treasury bond or corporate bond rates as the discount rate; (2) an increase in Pension Benefit Guaranty Corporation (PBGC) premiums; or (3) the use of composite plans; are solutions and should not be considered by the Joint Select Committee as such. Most multiemployer plans, over sixty percent, are stable and in the "green zone." These proposals would pose new problems for green zone plans and exacerbate the issues that a small number of plans are currently facing. Instead, the IBEW encourages the Joint Select Committee to consider a low interest loan program which would be a sustainable, immediate fix.

Not a solution: Use of 30-year Treasury or corporate bond rates as the discount rate

Prescribing an alternative discount rate on key measurements for multiemployer pension plan funding would move most healthy plans into endangered or critical status. Doing so would decrease benefit levels for participants and increase required contributions to levels that would make it difficult for employers to remain competitive. Additionally, using lower discount rates would introduce fluctuations as rates change. This is particularly troubling because multiemployer pension plan rates are fixed at three or more years through the collective bargaining process. Moreover, an employer's withdrawal exposure would increase if corporate bond rates or 30-year Treasury rates were statutorily imposed.

Not a solution: Increase in PBGC premiums

Protecting the retirement incomes of the more than 40 million American workers in plans covered by the PBGC is important to the IBEW. However, caution should be used when weighing fixes for the PBGC. Overly burdensome premiums applied to green and yellow zone plans would introduce financial burden that would likely increase the number of declining plans. The PBGC is designed to protect workers' benefits in the case of plan failure. Increasing PBGC premiums should not be done in a manner that would cause additional plan failures.

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS®

Not a solution: Use of composite plans

It is troubling that composite plans have been discussed as a solution to multiemployer pension issues. Unions bargain in good faith on behalf of millions of workers each year. Workers defer wages on the promise of defined benefits being available to them in retirement – the Joint Select Committee's efforts should focus on ensuring this promise is kept. Composite plans, by design, do not address plans that cause a risk to the system. Instead, they seek to restructure healthy plans. We do not see the relevance of including this topic in the discourse surrounding the urgent need to protect at-risk pensioners and participants. Composite plans are not a solution and should be debated independently of the Joint Select Committee's work.

A solution: a low-interest loan program

A bipartisan, bi-cameral group of members of Congress have already signaled their support for a plan to create a new agency, the Pension Rehabilitation Administration, that would sell bonds to large investors and lend the proceeds of the bond sales to financially troubled pension plans. We urge you to support the establishment of a low-interest loan program to restore the solvency of endangered multiemployer plans. Workers in suffering pension plans faithfully made their own contributions during their employment, fulfilling their end of the bargain. They are victims who should not be penalized for plan mismanagement, adverse public policy, or Wall Street risk-taking. Participants deserve to receive their full benefits.

It is incumbent upon the members of your committee to come together to find solutions to critical and declining plans, not introduce increasing risk to green zone plans with such proposals as alternative discount rates, crippling PBGC premiums, and composite plans. On behalf of the IBEW, we urge you to consider a low-interest loan program that preserves promised benefits and remove other options from the table.

Sincerely yours,

Lonnie R. Stephenson
International President

Kenneth W. Cooper
International Secretary Treasurer

LRS/KWC:lgd
Copy to All Members of the Joint Select Committee on Solvency of Multiemployer Pension Plans
The Honorable Mitch McConnell
The Honorable Charles Schumer
The Honorable Paul Ryan
The Honorable Nancy Pelosi

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS®

900 Seventh Street, NW
Washington, DC 20001
202.833.7000
www.ibew.org

LONNIE R. STEPHENSON
International President

KENNETH W. COOPER
International Secretary-Treasurer

February 16, 2018

VIA EMAIL

To: All Members of the United States Senate

Dear Senator:

On behalf of the 775,000 active and retired members of the International Brotherhood of Electrical Workers (IBEW), I am writing to urge you to co-sponsor the "Butch Lewis Act of 2017," S. 2147. The Butch Lewis Act of 2017 would provide long-term, low-interest loans to multiemployer defined benefit plans, avoiding harmful cuts to retirement benefits. The bill has a House companion, H.R. 4444, "The Rehabilitation for Multiemployer Pensions Act." Collectively these bills have wide-spread support from members of Congress representing tens of millions of Americans.

Retirement security has always been a priority of unions and pensions have figured prominently in the collective bargaining process for decades. Approximately 10 million workers and their families are covered by multiemployer pension plans.

Multiemployer pensions, administered by joint labor management committees, funded in part by negotiated employer contributions, form the backbone of the IBEW's retirement safety net. An economic downturn or period of high unemployment could be detrimental to a small multiemployer plan. The Butch Lewis Act would create the Pension Rehabilitation Administration within the Treasury Department, to permit qualified multiemployer plans to access low-cost 30-year loans to protect retiree benefits and allow trustees time to improve the plan's financial stability.

A pension is a promise made by an employer to a future retiree. I urge you to contact Mr. Gideon Bragin in Senator Brown's office (Gideon_Bragin@brown.senate.gov) for additional information and to co-sponsor the Butch Lewis Act of 2017. If a pension is a promise made by an employer to a future retiree, S. 2147 will help insure employers are able to keep their word.

Sincerely yours,

Lonnie R. Stephenson

Lonnie R. Stephenson
International President

LRS:lgd