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Multiemployer Pension Plans Could See Significant Change

By *Keith Nichols*

Major changes in the operation and management of multiemployer pension plans may be coming. On November 20th, U.S. Senators Chuck Grassley (R-IA) and Lamar Alexander (R-TN), released a white paper on a proposal that if passed, would dramatically change the playing field for multiemployer pension plans.

Grassley (Finance Committee chairman) and Alexander (Health, Education, Labor and Pensions Committee chairman) released the 12-page white paper which illustrates various components to help plans fulfill the financial obligations to their retirees. These are outlined below.

PBGC Premium Structure Would Be Reformed

The PBGC estimates the multiemployer system will be bankrupt by 2025. In order to help stabilize the system, and to provide for increased benefits, PBGC multiemployer premiums would be increased from the current $29 per participant to $80 per participant.

In addition, plans that are more at risk of failing would be required to make additional payments based on the amount of their shortfall.

The proposal also introduces "copays" to active participants and retirees. Since the members of a poorly funded pension plan stand to benefit the most from the PBGC guarantees, the proposal would require a "copayment" of up to 10% of their monthly benefit. Older retirees and disabled participants would be exempt.

PBGC Multiemployer Insurance Guarantee Would Increase

The proposal calls for the minimum benefit for participants in multiemployer plans to be increased significantly. The current maximum benefit for a participant with 30 years of service in a multiemployer plan is just over $1,000/month, compared to over $15,000/month for a similar participant in a single employer plan. The proposal would increase the guarantee to a more reasonable value, but likely still far below the single employer guarantee.

Expanded Partition Authority Would Address Orphaned Participants

Partitioning is a way to separate participants who have been "orphaned" by employers who have left the plan without paying their full share of contributions. The proposal would expand a plan's ability to transfer the liability for these orphaned participants to the PBGC.

In essence, the proposal creates a "healthy" plan that continues to be operated as before, and a "sick" plan that requires assistance from the PBGC. This reduces the overall plan liability because once a plan is partitioned, the benefits for the members of the "sick" plan are decreased to the PBGC guarantee limits.

Mandated Actuarial Funding Assumptions Would Be More Conservative

Although single employer pension plans have been required to use mandated funding assumptions for many years, the multiemployer actuaries have been free to use their best estimate of long-term rates of return.

The proposal would gradually transition the funding assumptions to more conservative funding assumptions and would likely include changes to the methodology used to determine required contributions.

Revised Zone Certifications May Result in Additional Restrictions

Multiemployer plans are categorized or "certified" by zones based on their financial health. The current system of zone certifications would be revised and restrictions on benefit changes would be increased. Plans would be required to prepare additional projections to determine how they would stand up in times of significant economic or demographic change.

New upper-tier zones would be created for very healthy plans. Fewer restrictions would be placed on the very healthy plans, but they would still need to demonstrate long-term health and an ability to handle unexpected economic or demographic changes.

Calculation of Withdrawal Liability Could Be Simplified

Withdrawal liability is the required payment made by employers who wish to withdraw from underfunded pension plans. The rules for determining the amount of the payments are extremely complex and often utilize different assumptions from those used for actual plan funding.

The proposed calculation rules would be simpler and more transparent and would determine the withdrawal liability using the same methods and measures used by the plan for funding and reporting purposes. This would allow contributing employers to better understand their overall liability to the plans, and would reduce unforeseen obligations.

Federal Funding Would Be Required

Due to the pending insolvency of the PBGC and the amount of substantial additional stress that will be placed on the system when several large multiemployer funds become insolvent within the next few years, additional federal funds will be needed to support the system. The proposal calls for a "transfer of a limited amount of federal taxpayer funds to PBGC" in order to ensure sufficient funds are available to provide the federal guaranteed minimum benefits.

For additional information, the white paper can be found Multiemployer Pension Recapitalization and Reform Plan White Paper.

The Senate Finance committee is currently accepting public comments on the proposal, which can be submitted to: *MultiemployerReform2019@finance.senate.gov*.

Questions? Contact the Findley consultant you normally work with, or Keith Nichols, *Keith.Nichols@findley.com*, *724.933.0631*.