Committee on Education and the Workforce
Subcommitte on Health, Employment, Labor, and Pensions

"Discussion Draft to Modernize Multiemployer Pensions"

Thursday, September 22, at 9:30 a.m.
Rayburn House Office Building, Room 2175
Washington, DC.

Chairman Roe, Ranking Member Polis and Members of the Committee, it is an honor to appear before you today on this important topic affecting millions of working men and women. My name is Rick Terven. I am the Executive Vice President of the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada and a member of UA Local 99, Bloomington, Illinois. The United Association and its affiliated local unions co-sponsor with their collective bargaining partners more than 150 multiemployer defined benefit pension plans and many defined contribution plans. The United Association welcomes the opportunity to present testimony to this Subcommittee in support of the Discussion Draft to Modernize Multiemployer Pensions. The discussion draft, if enacted, would make a composite plan option available to Boards of Trustees and collective bargaining parties to continue to provide lifetime retirement income to the employees in multiemployer plans.

The United Association views composite plans not as an alternative to defined benefit plans. In our view, defined benefit plans provide the most secure lifetime retirement benefit to our members. But, as I will discuss, our defined benefit plans are threatened and it is becoming increasingly difficult to retain employers in those plans and to attract new employers. The United Association views the composite plan option as an alternative to the inadequate defined contribution plans that would otherwise replace existing defined benefit plans. The United Association also applauds the provisions of the discussion draft that supports the funding of the "legacy" defined benefit plan. We believe this is an important provision and will preserve some defined benefit plans that might otherwise have failed due to an eroding contribution base.

Multiemployer plans exist in industries such as construction, trucking and entertainment characterized by frequent short term employment. Multiemployer defined benefit plans have enabled skilled workers to earn a pension that provides lifetime income. These plans have provided essential safeguards for the financial security of construction workers and have been the primary form of retirement benefit in the construction industry. While defined contribution plans have replaced defined benefit plans in many industries, in construction they generally remain supplemental to defined benefit plans.

Many multiemployer defined benefit plans suffered significant investment losses in economic downturns in the last decade. Defined benefit plans in many industries suffered further losses from reduced contribution streams because work on which employer contributions were required remained depressed for years following the 2008 crash. Employer bankruptcies in which obligations to Plans have been discharged have further attacked the funding of defined benefit plans. Some plans that were once solidly-funded found themselves in critical or endangered status under the Pension Protection Act. In most cases, unions and employers have worked together to stabilize these plans but even the plans that are recovering financially are not as secure as they once were due to changes that threaten the continued existence of multiemployer defined benefit plans and the financial security of covered employees.

In 2010 the Financial Accounting Standards Board proposed changes in corporate financial statements that would have required an employer to make complicated disclosures about potential withdrawal liability if it withdrew from a multiemployer plan. Although this proposal was ultimately modified to limit disclosures, the publicity surrounding this proposal made lending institutions aware that employers' potentially face withdrawal liability. As a result, employers have advised that they now find it difficult to obtain credit even if they have no intention of withdrawing from a multiemployer defined benefit plan.

Employers cannot operate without access to credit and threatened with losing their companies, employers have used various methods to leave plans. Employers will negotiate and pay withdrawal liability once a plan becomes relatively well funded rather than face the continued uncertainty that even if they make their required contributions, forces beyond their control could cause such liabilities to re-emerge. More importantly, new employers will not enter a defined benefit plan for fear of withdrawal liability. As employers leave a multiemployer defined benefit plan and no new employers replace them, the contribution base of the plan is severely undermined. Employers and employees may see little advantage to continuing the plan.

The United Association believes that it is essential to the retirement security of our members to offer a plan that will provide life time income. It has been our experience that for most of our members this security cannot be achieved through current defined contribution plans. The intermittent nature of the work, the access to retirement funds typical of defined contribution plans, self-directed investments and the immediate impact of market changes tend to limit the growth of account balances.

The proposed reforms in the discussion draft issued by Chairman Kline offer a new "composite" plan design that will preserve the life time income feature of a defined benefit plan but will not drive contributing employers out of the system because of the threat of withdrawal liability. The eroding employer support is causing significant harm to traditional defined benefit plans and is certainly one of the reasons for plan insolvency. As long as the threat of withdrawal liability exists, the pool of employers contributing to multiemployer defined benefit plans will not increase sufficiently to support the system. There will be a growing trend toward defined contribution plans which typically cannot ensure the desired income security to workers in the mobile industries that rely on multiemployer plans. It has been our goal to help to formulate creative and realistic solutions to the challenges facing our multiemployer defined benefit plans that balance the interests of all of the plans' stakeholders. We believe the composite plan proposed by Chairman Kline is a critical piece of such a solution for reasons that include the following:

- Composite plans provide life time retirement income based on pooled longevity similar to defined benefit plans. In contrast, workers who must solely rely on defined contribution retirement vehicles face the real possibility of outliving their retirement savings or losing their savings through poor investment decisions.
- Composite plans are not intended to replace defined benefit plans but are intended to be an alternative to the 401(k)/defined contribution plans that are increasingly proposed when an employer refuses to participate in a defined benefit plan.

- Composite plans have features of both defined benefit and defined contribution plans. These plans provide for the accumulation of benefits and provide a life time benefit in a manner similar to traditional defined benefit plans. In times of economic distress, benefits may be reduced like a defined contribution plan but the reduction is not immediate and the advance funding provisions are sufficient to protect participants. Furthermore, our Canadian members have plans subject to similar provisions and those plans have run very well over the years providing life time benefits to our Canadian members.

- The proposal includes provisions to protect and support the continued funding of the legacy defined benefit plans. This serves to protect the current pension benefits earned by retirees.

- Composite plans do not threaten the future funding of PBGC and by preserving the funding of legacy defined benefit plans by employers that would otherwise leave those plans, the composite plan proposal helps to ensure that those legacy plans will continue as long term premium payers.

The composite plan discussion provides an additional option to secure life time retirement income for our employees where support for traditional defined benefit plans continues to erode. If composite plans are not made available, we believe that many existing defined benefit plans will eventually be replaced with defined contribution plans. The opportunity for creative solutions to our retirement income challenges is within our grasp. We strongly encourage Congress to take advantage of it and expand available offerings to enable labor and management to find solutions which best meet their specific needs.

In closing, I would once again thank you for your work to improve the retirement security for our members and for the rest of the 10.4 million participants in multiemployer pension plans. I look forward to your questions.

Respectfully submitted,

Rick Terven
Executive Vice President