Multiemployer Pension Plans: Composite Plan Design

Construction Employers of America (CEA) Position:

Congress should act quickly to provide employers and employees participating in collectively bargained, multiemployer benefit plans with more choices in retirement plan models. CEA supports Composite Plan design, a hybrid model, to bridge the gap between the existing options of traditional defined benefit plans and the defined contribution model. The Composite Plan model would enable multiemployer pension plans to voluntarily adopt more flexible plan structures going forward that would reduce risks for contributing employers but still provide reliable, lifetime income for a comfortable retirement for workers.

The Issue:

Since the Multiemployer Pension Reform Act (MPRA) passed in 2014, an increasing number of multiemployer pension plans are submitting applications for benefit suspensions to the U.S. Treasury Department because they are irretrievably going insolvent and headed to the Pension Benefit Guaranty Corporation (PBGC). Once the approval process is complete, MPRA allows pension benefit reductions for retirees. Plans want to avoid going to the PBGC because benefit cuts there are deeper and plans cannot be saved for future generations — and also because PBGC itself is going insolvent, so that safety net is not secure. What Congress neglected to include in MPRA in 2014 was a provision for new plan design for the 90% of plans that are not immediately facing insolvency but **are** facing high unfunded liabilities and instability. Labor and Management agreed to the Composite Plan model which would allow plans to *voluntarily* adopt a more flexible plan structure going forward. Transitioning to a Composite Plan would reduce risk for contributing employers, retain and attract employers, protect already earned benefits, and protect future benefits with strict funding requirements. The problem for contributing employers:

- Many construction industry plans have an aging demographic - dominated by retired participants - and face diminished employer contributions.

- Market volatility and default by other employers, both totally beyond the control of individual contributing employers, create unpredictable, unacceptable risk.

- Resulting unfunded liabilities create withdrawal liability which leads to lending and bonding issues for construction industry employers.

- The unquantifiable risk serves as a barrier to new employers entering the system and actually creates an incentive for current employers to leave the system, further destabilizing the plans.

- The PBGC Multiemployer program continues to face financial challenges.

- Plans need options now to meet today's economic challenges and before employers leave the system

- No other proposal addresses the concerns of CEA employers

The Solution: **Congress should act to advance Composite Plan design** to allow implementation of more flexible plan structures that would reduce risks for contributing employers but still provide reliable, lifetime income to ensure a secure retirement for workers.

Positive Features from the Worker Perspective:

- **Not Mandated**: Composite Plan design is simply another tool for plans trustees to use to secure long-term retirement benefits for participants.

- **Lifetime Benefit:** Composite plan benefits would be paid as lifetime annuities – lump sums not allowed.

- **Professional Asset Management and Pooled Risks:** Plan assets would be professionally managed without the fees associated with individual accounts, resulting in far greater efficiency than is available in traditional Defined Contribution plans.

- **Benefit Security:** The flexible benefit structure would protect benefits with strict management and funding requirements – most notably plan benefits would be required to be funded at 120% -- a funding cushion of 20%. There would be safeguards against adverse market experiences and advance protections for severe market declines that would allow for modest reductions early to prevent catastrophic benefit reductions. Stress testing models show the funding cushion protects plans against moderate and severe market losses with no changes to core benefits.

- **Already Earned Benefits Protected:** Composite Plans would apply only to benefits earned in the future; benefits already earned in the so-called Legacy Plan would not be lost nor cashed out. Instead, legislative language is being written in a bi-partisan way to tightly protect earned benefits in the transition rules.

Positive Features from the Employer Perspective:

- **Retain and Attract Employers:** By eliminating unfunded liabilities (withdrawal liability) for employers going forward, the composite design would improve the ability of plans to retain existing contributing employers and would remove a significant barrier for attracting new employers.

- **Cost Predictability:** Composite Plans would provide cost predictability -- employers would be required only to contribute the amount negotiated in their collective bargaining agreements and would not take on outside liabilities.

- **Labor Sees Hybrid Plans as a Positive Alternative to Defined Contribution Plan**: Composite Plans are a design that workers would be willing to agree to for the future – whereas they are generally skeptical and unwilling to negotiate to a Defined Contribution plan.

- **Liabilities in Legacy Plans Gradually Diminish:** As time moves forward, liabilities in the legacy plans gradually diminish as benefits are paid out and participants earn accruals in the new plan.

- **Companies Continue to Provide Good Jobs within a Community:** With a composite plan in place, instead of closing their doors, employers would be able to welcome their children into their businesses with confidence or would be able to sell their businesses when they retire, because the overwhelming burden of uncontrollable, unknowable risk of unfunded liabilities is removed.

- **Private Sector Solution:** The proposal is a private sector solution, not requiring government dollars and is designed to keep the current funding crisis from happening in the future.

Key Points:

Contractors want to continue to be able to provide lifetime retirement security for their workers but the current Defined Benefit (DB) system is unstable and contractors are worried about the viability of their businesses and are being driven out of the system. Both large and small DB funds are on the verge of collapse. The existing economic realities mean that benefit security under the current DB system is illusory. It has advantages for both workers and management. Its use is strictly voluntary by plan trustees, which have an equal number of labor and management representatives.

Status:

Legislative language has been re-drafted and reviewed by key committee staff but no bill has been introduced. It is unclear if Composite Plans can be included in tax reform. No other current proposals address the concerns of CEA employers.

Committees of Jurisdiction:

Senate Finance; Senate Health, Education, Labor and Pensions (HELP); House Education and Workforce; and House Ways & Means