September 21, 2018

The Honorable Orrin Hatch
Co-Chairman
Joint Select Committee on Solvency
of Multiemployer Pension Plans
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown
Co-Chairman
Joint Select Committee on Solvency
of Multiemployer Pension Plans
United States Senate
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Dear Chairman Hatch and Chairman Brown:

The United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada ("United Association") and the Mechanical Contractors Association of America ("MCAA") are long-term, successful industry partners whose affiliates jointly sponsor more than a hundred multiemployer-defined benefit pension plans. We appreciate the opportunity to submit these comments to the Joint Select Committee on Solvency of Multiemployer Pension Plans. As discussed below, we believe that these plans are vital to our employers, industry, and the financial security of our skilled employees and their families and communities. Accordingly, we have, both directly and through our affiliates, taken steps to insure the financial health and stability of the multiemployer defined benefit plans in our industry with substantial success.

We understand that some industries have declined to an extent that ours has not. We understand that the demographics in some geographic areas and even in some declining industries may make it nearly impossible for plans serving those industries to recover from severe market declines. But these represent only a small portion of multiemployer plans. Studies show that most multiemployer plans already have or will recover from the economic challenges of the early 2000s and the Great Recession of 2008 through the responsible, often difficult decisions of the plan trustees. We urge you in the strongest possible terms not to take action suggested to this Committee and mandate the use of conservative interest rates to value multiemployer plan assets and liabilities that will threaten the stability and continuity of the 90% of multiemployer plans that already have or will recover. To do so would magnify this crisis many times over and harm millions of hardworking Americans and their employers.

The United Association represents approximately 340,000 plumbers, pipefitters, sprinkler fitters, service technicians and welders in the United States and Canada. The MCAA represents approximately 2,600 firms in the heating, air conditioning, refrigeration, plumbing, piping, and mechanical service industries in the United States. Together, the UA, the MCAA and their affiliates sponsor 144 multiemployer defined benefit pension plans across the United States that provide retirement security for more than 450,000 participants and their families.

The first decade of this century was challenging for all defined benefit plans. The financial crisis of 2008 followed before plans fully recovered from the down markets in 2000-2002. The challenge for the sponsors of a multiemployer plan has been to address the funding requirements of the plan, while preserving benefits of participants and preserving the competitiveness of contributing employers so that participants work and contributions on their behalf fund the pension plan. It is a delicate balance at the best of times.

Using the flexible tools provided by the Pension Protection Act ("PPA"), the trustees of each of our plans crafted a solution for that plan that evaluated the future work available for employers and employees to generate contributions to fund the plan, whether contributions increases or benefit reductions or both would most likely insure the recovery of the plan and the contribution base that supports it. The trustees of each of our plans made the hard decisions necessary to put each plan on solid financial footing taking into account the specific needs of each plan and industry. Currently, 71 percent of our plans are in the "Green" Zone with only 1 small plan in "Critical and Declining" status. The remaining number of our plans in either Endangered (16%) or Critical (13%) status are working toward solvency using the tools PPA has given them to achieve full funding without inflicting major harm on future retirees.

The problems that a pension plan may experience and the solutions to those problems are unique to that plan and industry. There is no one answer for all multiemployer plans. PPA provided a range of tools and options to be used by the trustees of plans to address the issues unique to that plan. In our experience, in our industry this has been very successful.

We commend Congress for establishing the Joint Select Committee on Solvency of Multiemployer Pension Plans with its statutory direction to "improve the solvency of multiemployer pension plans and the Pension Benefit Guaranty Corporation." Bipartisan Budget Act of 2018, H.R. 1892, 115th Cong. § 30422 (b)(1) (February 9, 2018). However, as noted above, we have grave concerns regarding a proposal that would mandate a remedy for a perceived problem--the use of either the long-term corporate bond rate or the 30-year Treasury bond rate to value liabilities of the healthy and recovering multiemployer plans we sponsor. We have studied the impact of such a change on current plans and the result is that, if such a proposal is adopted, most currently healthy and recovering multiemployer plans will be forced to either raise contributions or slash benefits- a result that in no way meets the Joint Select Committee's goal of improving the solvency of multiemployer pension plans or their ultimate insurer, the PBGC. In addition, such a mandated approach does not allow the plan trustees the flexibility that enabled them to so successfully address the financial crisis.

The mandated use of more conservative interest rates for valuing multiemployer liabilities is likely to aggravate the current pension crisis and push stable, well-funded multiemployer pension plans towards insolvency. Noting that pension liabilities are inherently long-term obligations, a recent Segal Consulting report using data going back to 1927, showed that the five most recent 30-year periods had an average return of 9.3 percent with a range for the 90-year period of 7.6 to 8.5 percent. If plans that are currently in the "Green Zone" are required to use a mandated short-term Treasury bond rate, the Segal report indicates that the resulting shortfall will require contribution increases of 200% to 300%. Putting an increased contribution burden of this magnitude on contributing employers will likely lead to increased business failures and withdrawals from multiemployer pension plans. This will create for our now healthy plans a cycle in which employers withdraw from the ever-weakening plan whose liability may ultimately be placed on the PBGC. The Joint Select Committee has been charged with improving the solvency of multiemployer plans- not recommending changes that will weaken the healthy plans.

We strongly urge you not to support this proposal, which will lead to further destabilization of currently healthy multiemployer plans. Multiemployer plan sponsors appropriately focus on long-term prudent investment in diversified portfolios for the long-term liabilities of these ongoing plans. A mandated short-term rate that does not recognize the long-term nature of pension plan liabilities will restrict the ability of the multiemployer plans we sponsor to meet their obligations to the participants and beneficiaries we serve as fiduciaries.

We understand that an increase in the multiemployer plan PBGC premium will be required because the liabilities of plans that will be unable to recover through their own efforts will exceed the anticipated assets of the PBGC multiemployer guarantee program. We urge the Committee to recommend implementing any such increase in a way that will not force plans that might otherwise have recovered into insolvency. PBGC premiums should provide a safety net and not be another cause of plan failure.

To solve the current problems facing multiemployer pension plans, we think it is important for the Committee to consider the adoption of new plan design options such as the Composite Plan design, which is included in the GROW Act (H.R. 4997). The Composite Plan provides lifetime retirement income based on pooled longevity similar to defined benefit plans. Intended as an alternative to the 401(k)/defined contribution plans that are increasingly proposed when an employer refuses to participate in a defined benefit plan, the Composite Plan design proposed in the GROW Act 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. Lastly, Composite Plans do not threaten the future funding of PBGC since, by preserving the funding of legacy defined benefit plans by otherwise withdrawing employers, the composite plan proposal helps to ensure that those legacy plans will continue as long-term premium payers. We believe that the creation of the Composite

Plan option will strengthen the multiemployer system by attracting new employer contributions into plans whose funding will be on more solid footing without the specter of withdrawal liability.

In closing, the work of your Committee is essential to the retirement security of 10 million Americans and their families in the multiemployer pension system. The policy options that will come out of the Committee will determine how the plans we sponsor will meet their goal of providing meaningful retirement security while permitting our contributing employers to have predictable and reasonable contribution obligations to fund those pensions. We believe that the long-term pension obligations of our plans are best met through prudent investment in diversified portfolios managed for the long term rather than mandated short-term rates based on corporate bond rates or the Treasury bond rate. We also support new plan designs such as the Composite Plan to help not only secure retirement for our members and employees but also provide predictable contribution obligations for our contributing employers.

Please let us know if we can be of any assistance to your important work.

Very truly yours,

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