An explanation of the Brown/Neal pension legislation

Brown/Neal: Pension Rehabilitation Administration
Summary

The problem:
Some of the nation's largest multiemployer pension plans are on the verge of collapse because they don't have enough money to pay promised pensions to retirees and workers. These multiemployer plans are paying out more money each year in pensions than they're receiving through employer contributions and investment earnings.

Multiemployer pension plans are industry plans that cover unionized workers, pensioners, and their families. These pension plans are jointly run by employers and labor unions.

The biggest of these financially troubled pension funds is the Central States, Southeast and Southwest Areas Pension Plan which covers approximately 400,000 active and retired truckers. It expects to run out of money in eight years.

Central States and other financially troubled pension funds are considered to be in "critical and declining" condition.

The solution:
This legislation aims at financially supporting the pension plans so they don't fail. The bill would create the Pension Rehabilitation Administration as an agency within the U.S. Treasury Department. The PRA would sell Treasury-issued bonds in the open market to large investors such as financial firms. The PRA would then lend the money from the sale of the bonds to the financially troubled pension plans.

To ensure that the pension plans can afford to repay the loans, the PRA would lend them money for 30 years at low interest rates, around 3 percent. The 30-year loans would buy time for the pension plans so they may invest for the long term instead of worrying about coming up with money immediately to pay for the pensions of retired workers.

How does borrowing enable plans to swap away the retiree payments?
The pension plans borrowing from the PRA **must** set aside the money in separate investments that match the pension payments for retirees. The pension plans can do

this by buying annuities, cash matching with investment grade bonds, or duration matching with a suitable bond portfolio.

Whichever approach is taken retirees and their families are guaranteed their promised benefits and the loan proceeds may never be invested in risky investments.

How do active workers benefit?
The legislation is a win-win for both retirees and active workers. The loans from the PRA will not only enable plans to secure the pensions promised to retirees and their families, but also free up remaining assets and all future contributions to fully protect benefits for active workers.

Will retirees get the full pensions they earned?
Plans that received permission to cut benefits to pensioners will be able to restore full benefits, and plans that have already failed will be able to use the PRA loans to become financially stable and pay pensioners the benefits they earned.

How much is borrowed and on what terms?
Pension plans may borrow as much money as they need to pay current retiree and beneficiary pensions over the next 30 years at low interest rates comparable to that on 30-year Treasury bonds. The interest rate the PRA will charge pension funds may be slightly higher than the interest rate the Treasury will pay to investors so it can cover its costs of operating the new agency.

During the first 29 years of the 30-year loans, the pension plans will pay only fixed interest rates on the money they've borrowed. In the last year, the pension plans will pay interest on the loans and repay all the money they borrowed.

Where does the money come from?
The money comes from the sale of Treasury-issued bonds to financial institutions. These PRA bonds will be fully backed by the Treasury. The PRA will not have trouble raising the money because investors want long term bonds that carry little risk.

Is there oversight?
Pension plans applying for loans to the PRA must submit detailed financial projections. The PRA will approve all the loans. Pension plans that have borrowed money must submit reports every three years to the PRA to show that the loans and working and to take steps if their financial condition begins to deteriorate.

Will this work for all troubled plans?

The loans will not be sufficient to help all the financially troubled pension plans. Some failing pension plans will need additional help from the government. The bill proposes that the Pension Benefit Guaranty Corporation would provide that help. The bill requires Treasury to appropriate the necessary funds needed for PBGC financial assistance. The PBGC would support part of the pension plans' payments for retired and terminated vested workers, up to its usual guaranteed cap on benefits for deeply troubled plans.

The amount of assistance needed is less than would be required if the troubled plans were left to go insolvent thus addressing PBGC's funding problem at a reduced cost. Our mathematical models demonstrate that the loans and PBGC assistance will save the deeply troubled Teamsters' Central States plan.