Question: Does the proposal weaken current funding standards for multiemployer pension plans?

Answer: Yes. For multiemployer plans that transition to composite plans, the legislation permits plans to “refinance” and pay off past liabilities over 25 years—10 years longer than the time period currently permitted under current law. This has the effect of immediately reducing mandatory contribution payments by allowing legacy plans to pay off their outstanding liabilities over a longer period of time, with the balance diverted to composite plans. It’s like refinancing your house with a new, longer-term mortgage. Your monthly payments go down, because you’re paying off the debt more slowly. The same is true of pension plans. Lower payments result in a weaker financial base to fund existing benefits, with much of the contributions redirected to the new composite plans. Reduced funding puts both legacy plans and composite plans on a path to failure.

Question: How will this proposal benefit workers?

Answer: This proposal hurts workers. The moment a traditional multiemployer pension plan transitions to a composite plan, the funding base of the existing plan is significantly reduced and both plans are at risk of being underfunded. During a period of investment returns similar to 2005 to 2014, a typical, mature composite plan would quickly become 25 percent below its target funding rate, and the legacy plan would be in the red zone. Funding shortfalls require benefit cuts to keep the plans afloat, unless employers in a typical, mature composite plan increase composite plan contributions by over 80%. The proposed legislation would force workers in the composite plan to take deep cuts of up to 50% of their future benefits and 35% of their already-earned benefits. At the same time, workers in the legacy plan will face cuts of over 20% of their already-earned benefits.

Question: How will this proposal benefit retirees?

Answer: It won’t. The composite legislation puts retirees at risk of benefit cuts by providing inadequate funding for both legacy and composite plans, making both plans more vulnerable to market fluctuations. The proposed legislation would permit unprecedented cuts to retirees’ composite plan benefits without even the few procedural protections for plan participants offered by the Multiemployer Pension Reform Act (MPRA). These devastating cuts to the benefits of composite plan participants may not be enough to save legacy plans. The legislation caps the amount of incoming contributions that go to a distressed legacy plan by guaranteeing that at least 25% of incoming contributions go to the composite plan. Faced with these limitations, legacy plans may be starved of the funds they need to remain solvent.

Question: Will this proposal undermine the financial health of existing multiemployer pension plans?

Answer: Yes. Even plans that do not transition to composite plans will be harmed by this legislation. By reducing the premium base of the PBGC and weakening legacy pension plans, this legislation has the practical impact of shifting a disproportionate and unsustainable share of the PBGC’s funding obligations onto healthy plans.
Question: Will existing multiemployer pension plans facing severe financial challenges be able to transition to the composite plan design?

Answer: While supporters of the legislation claim that plans currently in the “red zone,” or that are expected to be in the red zone within five years may not transition to composite plans, this limitation is beside the point. Transitioning to a composite plan makes it more likely that a legacy plan and a composite plan—even plans that were healthy before the transition—will face funding shortfalls in times of market instability. Moreover, the restriction on transitioning to a composite plan does not apply if the plan sponsors create a new composite plan, separate from the traditional plan. Finally, this plan does nothing to help plans that are already in the red zone or that will enter the red zone, including the Central States’ Pension Plan.

Question: Does this proposal allow employers to escape their responsibilities to their traditional multiemployer pension plan?

Answer: Yes. This legislation increases the likelihood that employers will withdraw from legacy plans. The “withdrawal liability” payment paid by employers seeking to withdraw from a plan is calculated based on the employers’ contribution to the plan at the time of the withdrawal. By allowing employers to drastically cut their legacy plan contribution rate by “refinancing” through the 25-year “fresh start,” the proposed legislation will reduce the cost of withdrawing from the plan, leaving fewer employers to fund legacy plan benefits.

Question: Will this proposal exacerbate the fiscal challenges facing the PBGC?

Answer: Yes. This proposal simultaneously weakens the financial health of legacy plans—increasing the risk of employer withdrawal and capping contributions to red zone plans—and reduces the PBGC premium base by exempting composite plans from paying PBGC premiums. The PBGC is already projected to be insolvent within a decade. This plan would only increase the risk that the PBGC will lack sufficient funds to meet its obligations.

Question: How will this proposal benefit taxpayers?

Answer: It won’t. The legislation substantially increases the risk that underfunded plans will overwhelm the PBGC and taxpayers may end up footing the bill.