Multiemployer Pension Reforms in the Butch Lewis Emergency Pension Plan Relief Act

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American Rescue Plan Act

- Multiemployer pension provisions
  - Temporary funding relief
  - Special financial assistance
- What is not included
  - Fundamental reforms
  - Composite plans

Temporary Funding Relief

- Zone status freeze
- Extend funding improvement and rehabilitation periods
- 30-Year amortization of losses
- Expanded asset smoothing

Temporary Funding Relief

- Meant to provide relief from COVID related losses
- Additional time for plans to reach funding targets
- Similar to temporary mortgage payment relief
- May keep some plans out of yellow or red zone
- Unlikely to have dramatic cost impact
- Long-term funding goal is unchanged

Special Financial Assistance

- Lump sum payments from PBGC to struggling plans
- Plans not required to repay assistance
- Program is generally open for four years
- Projected cost is $86 billion
  - Could vary significantly based on how it is implemented
  - Legislation does not place a limit on cost

Who Gets the Money?

- Critical and declining status, or
- Previously implemented benefit suspensions, or
- Insolvent after 12/16/14 and not terminated, or
- Meets all of the following:
  - Critical status
  - Ratio of actives to inactives less than 2 to 3
  - Current liability funded ratio below 40%

How Much Money?

- General objective – solvency until 2051
- Interpretation 1 – Include current plan assets in projection
- Interpretation 2 – Disregard current plan assets
- Interpretation(s) 3 – Something in the middle

How Much Money?

- Interpretation 1 – Include current plan assets in projection
- Assistance and current assets last until 2051
- Not expected to be permanent solution for any plans
- Wave of insolvencies in 2051
- Not all eligible plans would get any assistance
- Consistent with $86 billion projected cost

How Much Money?

- Interpretation 2 – Disregard current plan assets
- Assistance alone covers 30 years of benefit payments
- Supported by plain reading of the text
- All eligible plans receive assistance
- Likely a permanent solution for most plans
- Some plans would become highly overfunded
- Projected cost far above $86 billion

How Much Money?

- Interpretation(3) – Something in the middle
- Solvency beyond 2051 without over funding plans
- Many potential approaches
- Arguably consistent with Congressional intent
- Requires reading deep into statutory language

Withdrawal Liability

- Financial assistance would decrease underfunding
- Impact on plans
  - Potential for reduced withdrawal liability assessments
  - Also possible 20-year payment cap is still reached
- PBGC regulations
  - Agency may be concerned about large number of withdrawals
  - Regulations may artificially increase assessments
  - Potential for mass withdrawals

Contribution Rates

- Plans receiving assistance stay in critical status
- Potential for lower contribution rates unclear
  - Currently permissible if projected to strengthen plan
  - Assistance may reduce need for high contribution rates
  - PBGC guidance may impose tougher requirements

PBGC Premiums

- Relief bill contains premium increase
  - To $52 per participant
  - Deferred to 2031
  - Current rate is $31 per participant (indexed for inflation)
- Less pressure on PBGC premiums
  - PBGC was projected to be insolvent in roughly 5 years
  - Relief might eliminate projected insolvency

Composite Plans

- Basics of composite plans
  - Operate like current pension plans
  - No withdrawal liability
  - Benefits can be adjusted when necessary
- Included in proposals from both parties
- Procedural impediments to inclusion in this bill
- Relief bill does not reduce need for composite plans

A Look Ahead

- Imminent collapse of system likely averted
- Dramatic improvement in PBGC's finances
- Little changes for plans not receiving assistance
- Long-term costs and risks unchanged
  - Employers cannot insure stock market returns
  - Withdrawal liability is counterproductive
  - Traditional plans significant barrier to organizing
  - Benefit promises remain insecure

Tools Under Current Law

- Variable annuity plans
  - Benefits adjust up and down with asset returns
  - Participants bear investment risk as in 401(k) plans
  - Longevity pooling protects retirees from outliving benefits
  - Stabilization features can minimize volatility
  - Employers protected from stock market losses
  - Not as flexible or powerful as composite plans
  - Permissible under current law, but some regulatory uncertainty exists

Tools Under Current Law

- Conservative investment management
  - Improved benefit security and cost predictability
  - Less risk will tend to result in lower asset returns
  - Lower returns means higher contributions or lower benefit promises
  - Move to conservative investments can be done gradually
- Combined approach
  - Convert portion of benefit package to variable annuity plan
  - Manage existing plan assets more conservatively

Questions?

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