NATIONAL COORDINATING COMMITTEE FOR MULTIEMPLOYER PLANS

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Members of the United States Senate &
United States House of Representatives
Joint Select Committee on Solvency
of Multiemployer Pension Plans
219 Dirksen Senate Office Building
Washington, D.C. 20510

Re: Attached Report from Horizon Actuarial Services on The Impact of Alternative Discount Rates on Multiemployer Pension Plan Funding

Dear Ladies and Gentlemen:

On May 24, 2018 the National Coordinating Committee for Multiemployer Plans (NCCMP) provided the Joint Select Committee on Solvency of Multiemployer Pension Plans with a submission that provided detailed answers to each of the questions that the Committee Members asked during April 18, 2018 hearing.

In it, we expressed grave concern regarding the proposal to change the discount rates that multiemployer plans currently use, including a change to the 30-year Treasury rate, or alternatively, to the interest rates required by single-employer plans. We indicated that this change would cause severe repercussions, including the collapse of the entire multiemployer system, the bankruptcy or liquidation of many contributing employers, the loss of much of the federal tax revenue attributed from multiemployer pensions and wages ($158.5 billion in 2015), and consequences for the national economy.

Following our May 24th submission, we felt that it would be helpful for the Joint Select Committee to have a more complete understanding of the economic impact of changing the discount rates to either the 30-year Treasury rate or the interest assumptions used by single-employer plans. We asked Horizon Actuarial Services, LLC to analyze the impact of such changes on the entire multiemployer system based on the information contained in the Form 5500. Horizon's complete report is attached.

The results of the study are astonishing.

1. Over 60% of multiemployer plans are currently certified in the green zone. If discount rates were based on current corporate bond yields, only 7% of multiemployer plans would be in the green zone. This percentage drops to 2% if discount rates were based on current 30-year Treasury yields. The required funding improvement and rehabilitation plans would force many plans that are likely to remain healthy under the current statute to decrease benefits to levels that would not represent a meaningful replacement of pre-retirement income for participants and increase contributions to levels that would make it difficult, or more likely impossible, for employers to remain competitive.

2. The majority of plans would see dramatically increased contribution requirements ranging from 1.7 to 2.4 times current contribution requirements when moving to corporate bond discount rates and from 2.0 to 3.0 times current contribution requirements when moving to 30-year Treasury discount rates. Because most of these increases are attributable to previously earned benefits, changes in future benefit levels for employees would have a limited impact in addressing the increased contribution requirements for many multiemployer plans.

3. The use of alternative discount rates would introduce additional contribution volatility for most plans. In other words, contribution requirements could change considerably from year-to-year solely due to fluctuations in the level of discount rates. This added volatility would be especially burdensome for multiemployer pension plans, since contribution rates are generally fixed for three or more years through the collective bargaining process. Having a stable funding target is important for any organization and increasing contribution volatility is likely to exacerbate the concerns of the employers participating in these plans.

4. The percentage of payroll required to fund a representative multiemployer pension plan that provides modest benefits of $28,080 annually for 30-year career employees would more than double from 22% to 46% using corporate bond rates and would almost triple to 59% using 30-year Treasury rates. These levels are not compatible with competitive businesses.

5. Most plans would be forced to decrease benefits to levels that would not be appreciated by participants and increase contributions to levels that would be unsustainable for employers. Using alternative discount rates would likely result in decreased plan participation and increased employer bankruptcies and withdrawals, which would hasten the demise of the system rather than fortify it.

We strongly urge the Joint Select Committee to maintain the current approach to actuarial assumptions for multiemployer plans. The vast majority of multiemployer plans today are healthy and are succeeding in their mission to provide secure and reliable lifetime income to their participants. The discount rates under consideration by some Members of the Joint Select Committee would force most of these healthy plans into critical status. These plans would be forced to take immediate and drastic action to correct a new problem that would only be created by the legislation enacted by Congress.

Surely we have seen enough unintended consequences from federal legislation on the multiemployer system to not knowingly enact changes where the severe consequences are predictable and have been credibly explained to Congress.

NCCMP stands ready to assist the Members of the Joint Select Committee in your efforts to stabilize and strengthen the system for the future.

Respectfully submitted,

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Executive Director

cc: Stan Goldfarb, FSA, EA, MAAA
Ben Ablin, ASA, EA, MAAA
David Pazamickas, ASA, EA, MAAA