NATIONAL COORDINATING COMMITTEE FOR MULTIEMPLOYER PLANS

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July 6, 2018

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 Segal Consulting on The Appropriateness of the Current Assumptions Used for Funding Multiemployer Pension Plans

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. That complete report was provided on June 25, 2018. We also asked Segal Consulting, a leading provider of actuarial services to multiemployer plans, to analyze the impact of such changes on certain of their multiemployer clients that would be representative of the broader multiemployer system to provide a more detailed understanding of the impact on individual plans.

The attached report from Segal supports and enhances our earlier submissions. The massive increase in liabilities and the contribution increases from funding improvement and rehabilitation plans that will be mandated as a result of the changes in the discount rate will:

1. Make employers uncompetitive in the market, which is likely to result in a number of contributing employers seeking relief under Chapter 11 or Chapter 7 of the Bankruptcy Code;

2. Likely result in contributing employers losing access to capital as banks and the capital markets allocate these new liabilities to employers as part of their credit and underwriting process;
3. Put employers at a competitive disadvantage for retaining and recruiting active workers (the lifeblood of any pension system) as the active worker's accruals are cut to next to nothing, yet the contributions on their behalf skyrocket.

Of particular significance, Segal notes:

1. The current practice of using the plan actuary's best estimate for long-term rates of return is supported by the historical rates of return available to plans during any 30-year period with a portfolio comprised of 50% equities (S&P 500®) and 50% fixed income. Naturally, as one would expect, the current practice is based on each plan's future expected return for their unique asset allocation.

2. During the nine-decade period [from 1927 through 2017], the *lowest* 30-year return was 6.66 percent. The *highest* return for a 30-year period was 11.65 percent. The 30-year return for the 30 years ending on December 31, 2017 was 8.78 percent.

3. Plan A has been in the green zone every year since the Pension Protection Act of 2006 (PPA'06) became law. Over the past three collective bargaining contracts, the negotiating parties have more than doubled their contribution rate from its pre-2008 level. If the discount rate changed to 3.7%, Plan A's contribution rate would have to *more than double* (to more than $20/per hour) to avoid a funding deficiency. The impact of a 3.0 percent discount rate would be considerably more severe: contributions would have to *nearly triple* (to around $30/ per hour).

4. Plan B has been in the green zone every year since the PPA'06 was enacted. Plan B is currently very well-funded at 105%. Recovery from the 2008/2009 market decline has been slow and somewhat unsteady, but the underlying industry is strong and employment levels are at historic highs. To prevent a funding deficiency if the discount rate were changed to 3.7 percent, Plan B's annual contribution would have to *increase from the current level of $40 million to over $400 within 3 years.*

5. If the contribution increases were not tenable, the trustees would need to address any [funding] imbalance through benefit reductions. At a 3.7 percent discount rate, Plan A would need to reduce future accruals by 55 percent in order to keep the annual cost of accruals the same as they currently are. At a 3.0 percent discount rate, the accrual rate for Plan B would be reduced by 68 percent.

6. For these reasons, we [Segal] believe any change to the underlying discount rate would have the unintended consequence of destabilizing the entire multiemployer retirement system as well as hurting the economy as a whole.

We continue to 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,

Michael D. Scott
Executive Director

cc: Joseph A. LoCicero, JD, MAAA, FCA, EA (Chairman)
David Brenner, JD (Senior Vice President, National Director of Multiemployer Consulting)
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Eli Greenblum, FSA, MAAA, FCA, EA (Senior Vice President, Chief Actuary)

Segal Consulting

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Practical Research for Multiemployer Plans

Summer 2018

The Appropriateness of the Current Assumptions Used for Funding Multiemployer Pension Plans

Lowering the Discount Rate Would Magnify the Current Pension Crisis

Since early this year, the Congressional Joint Select Committee on Solvency of Multiemployer Plans has been deliberating on policy options for improving the position of those multiemployer plans that are in serious financial trouble.

As part of that process, the possibility of using more conservative interest rates for valuing multiemployer plan liabilities has been raised. To determine the impact of a change in the funding rules relating to multiemployer interest rate assumptions used to discount liabilities, Segal Consulting performed a detailed analysis of two national multiemployer plans.

What We Found

Our study illustrates that the increase in the necessary contributions to meet current funding standards would not be sustainable for either of the plans studied, both of which are currently considered healthy. In fact, a change to a considerably lower discount rate would create a much greater pension crisis than the one that already exists.

Segal shared that conclusion with Joint Select Committee in a letter that noted, "implementation of such a measure is not practical or appropriate for multiemployer plans, would not help to prevent future crises, and would seriously harm plans that are currently financially sound and create a new and expanded retirement crisis."[1]

[1] Segal's letter can be accessed from the following webpage: https://www.segalco.com/multiemployer-pension-plan-crisis/#Multiemployer

We Recommend No Change in Current Practice for the Discount Rate

Segal believes pension liabilities, which are inherently long-term obligations, should be measured using expected long-term returns on invested assets. To support that conclusion, this study also includes a graph that summarizes rolling 30-year returns with data going back to 1927 and a second graph that divides that historic investment performance into five ranges of returns. For the five most recent 30-year periods, the average return was 9.13 percent. The most frequent range of returns for the 90-year period studied was 7.6 percent to 8.5 percent.

Segal's Analysis

For the national multiemployer pension plans studied, we modeled three scenarios for discounting liabilities:

- The current single-employer legislated funding rates with "stabilization" relief[2] (discount rate of 5.5 percent);
- The current legislated discount rates[3] for single-employer plans without previously granted relief (discount rate of 3.7 percent); and
- The plan's "current liability" calculated using the 30-year Treasury bond rate (currently approximately 3.0 percent, with legislated mortality).

For our analysis, all other assumptions and funding rules remain unchanged. Both of the plans studied currently have a 7.5 percent investment return assumption.

The results of our analysis for both plans follow.

[2] These are 24-month average high-grade corporate bond yield curve segment rates; under the stabilization provisions of the Bipartisan Budget Act of 2015, these are limited by a corridor around a 25-year average of those rates. For our analysis, 5.5 percent is used as a proxy.

[3] These are 24-month average high-grade corporate bond yield curve segment rates, as required by the Pension Protection Act of 2006. For our analysis, 3.7 percent is used as a proxy.

Analysis of Plan A

Plan A has been in existence since 1962 and covers nearly 50,000 participants across the country. Assets are currently in excess of $7 billion. Plan A has been in the green zone every year since the Pension Protection Act of 2006 (PPA'06) became law.

Over the past three collective bargaining contracts, the negotiating parties have more than doubled their contribution rate from its pre-2008 level. This has helped Plan A remain a healthy green-zone plan in spite of the 2008/2009 investment losses related to the Global Financial Crisis and a subsequent but temporary decline in the employment levels that followed.

In addition to meeting all statutory requirements, Plan A follows a rigorous funding policy analysis before adopting any benefit increases. As a result, although Plan A has always been well-funded, improvements to the fixed-dollar benefit levels had not been made for a number of years and when they were made, it was at a reduced level in order to meet these stringent benchmarks.

Plan A	**Current Facts**	**Impact of Changed Discount Rates**		
		5.5%	**3.7%**	**3.0%**
Zone Status	Green	Yellow	Red	Red
Funded Status	97%	77%	60%	54%
Increase in Cost of Annual Benefit Accruals	N/A	48%	123%	166%
Year of Projected Funding Deficiency	N/A	N/A	2021	2021
Magnitude of Contribution-Rate Increase Required*	N/A	Nearly Double	More than Double	Nearly Triple

* For the 5.5% discount rate, the contribution-rate increase would restore funding to previous levels over a 10-year period. For the 3.7% and 3.0% discount rates, the contribution-rate increase is needed for five years in order to avoid a funding deficiency.

Source: Segal Consulting, 2018

If the discount rate changed to 3.7 percent, Plan A's contribution rate would have to *more than double* (to more than $20/per hour) to avoid a funding deficiency. The impact of a 3.0 percent discount rate would be considerably more severe: contributions would have to *nearly triple* (to around $30/per hour).

Analysis of Plan B

Plan B has been in existence since 1961 and covers over 45,000 participants. Assets total nearly $2 billion. Like Plan A, Plan B has been in the green zone every year since PPA'06 was enacted.

Although Plan B is very well-funded, recovery from the 2008/2009 market decline has been slow and somewhat unsteady. Plan B is highly sensitive to adverse investment experience. To help address this sensitivity, the trustees have restructured the plan's investment allocation.

The underlying industry is strong and employment levels are at historic highs. This has served to keep Plan B in the green zone and has been instrumental in its ability to withstand modest adverse experience.

Plan B	**Current Facts**	**Impact of Changed Discount Rates**		
		5.5%	**3.7%**	**3.0%**
Zone Status	Green	Red	Red	Red
Funded Status	105%	79%	58%	50%
Increase in Cost of Annual Benefit Accruals	N/A	58%	156%	216%
Year of Projected Funding Deficiency	N/A	2022	2019	2019
Magnitude of Contribution-Rate Increase Required to Avoid Funding Deficiency	N/A	Increase 25% each year for 5 years	More than double each year for 3 years	Increase 4-fold each year for 2 years

Source: Segal Consulting, 2018

To prevent a funding deficiency, if the discount rate were to change to 3.7 percent, Plan B's annual contribution would have to *increase from the current level of $40 million to over $400 million in the third year.*

Additional Observations

The analysis of Plan A and Plan B illustrates the expected impact on employer contribution levels in order to meet minimum funding standards. What is not known is how a change in the discount rate would influence the behavior of the plan trustees and bargaining parties. The primary differentiator between plans that have withstood the Global Financial Crisis and those that have not is the stability of the contribution base, supported by the strength of the underlying industry. Would significantly higher contribution requirements drive employers to withdraw, perhaps declaring bankruptcy, thereby making any withdrawal liability uncollectible? How would such contribution increases affect wages and other benefits? What about the impact on an employers' ability to remain competitive, thereby providing jobs for participants in these plans?

The analysis shown on the previous pages focused on the impact of the required contribution increases and did not address benefit levels. If the contribution increases were not tenable, the trustees would need to address any imbalance through benefit reductions. At a 3.7 percent discount rate, Plan A would need to reduce future accruals by 55 percent in order to keep the annual cost of accruals the same as where they currently are. At a 3.0 percent discount rate, the accrual rate for Plan B would be reduced by 68 percent. How would such reduced benefit levels impact plan participants' retirement readiness and their support for the pension plan? And there are important broader social concerns at play: how would such reduced benefits increase plan participants' dependency on social programs? What would be the impact of reduced economic activity as a result of the lower retirement benefits?

For these reasons, we believe any change to the underlying discount rate would have the unintended consequence of destabilizing the entire multiemployer retirement system as well as hurting the economy as a whole. There is no practical solution that will work if multiemployer plans are forced to use a long-term bond rate to value liabilities. Neither benefit cuts nor contribution increases are a solution because of the magnitude of the changes that are needed.

A 30-Year Summary of Investment Returns

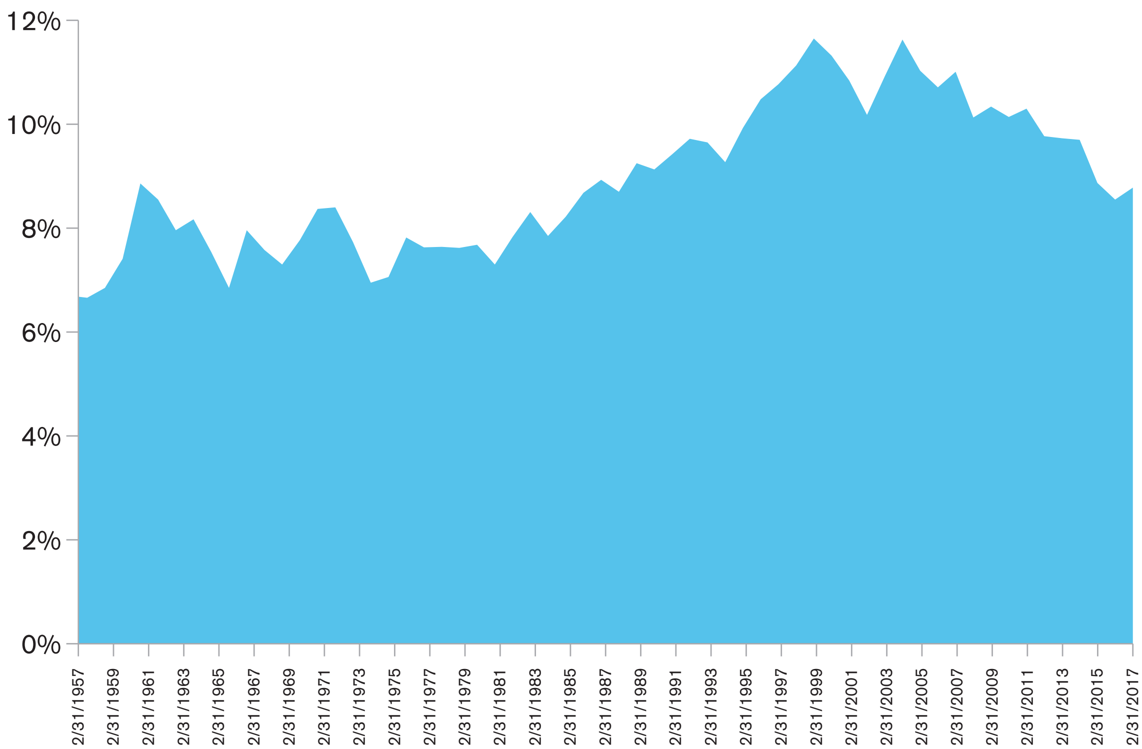
The first graph that follows summarizes rolling 30-year returns of an investment portfolio allocated equally between in equities (the S&P 500®) and a bond index. This analysis reached back to capture investment return data from 1927 through 2017.

During that nine-decade period, the *lowest* 30-year return was 6.66 percent. That was for the 30 years that ended on December 31, 1958.

The *highest* return for a 30-year period was 11.65 percent. That was for the 30 years that ended on December 31, 1999.

The 30-year return for the 30 years that ended on December 31, 2017 was 8.78 percent. Of course, that most recent 30-year period includes the Global Financial Crisis of 2008 and early 2009.

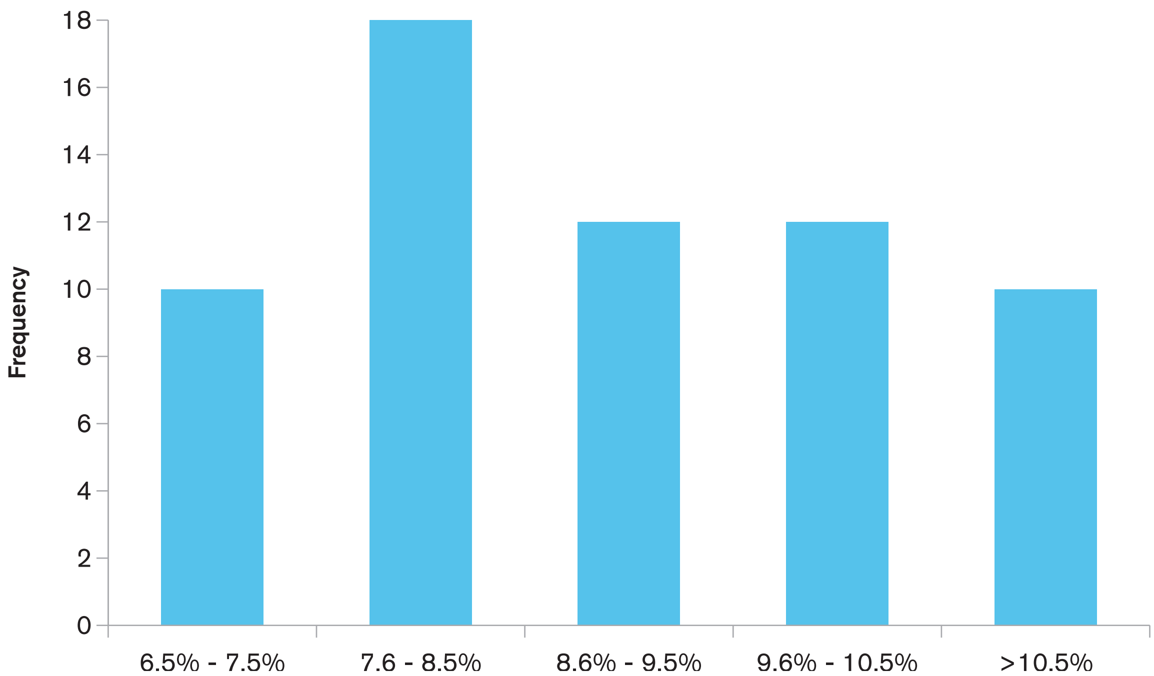
Historic Performance for Portfolio with a 50% S&P 500®/50% Bond Index Asset Allocation (Annualized 30-Year Returns)



Source: Segal Marco Advisors, 2018

The annualized return for the 30-year period that ended on 12/31/2017 was 8.78 percent. For the five most recent 30-year periods (those that ended on 12/31/2013 to 12/31/2017), the average return was 9.13 percent.

Range of Historic Performance for Portfolio with a 50% S&P 500®/50% Bond Index Asset Allocation (Annualized 30-Year Returns)



Source: Segal Marco Advisors, 2018

The portfolio's annual rolling 30-year returns have never gone below 6.66 percent. That return was for the 30-year period that ended 12/31/1958, which includes the 1929 market crash.

Seeking Workable Solutions

Segal feels strongly that it is critical for the Joint Select Committee to craft a legislative solution to address the current crisis that does *not* make changes to the law that would be devastating to the vast majority of multiemployer pension plans that are financially stable. Segal stands ready to help the Committee in its vital role of developing effective and appropriate legislative solutions.

Questions? Contact Us.

For information about Segal's analysis and recommendation, contact your Segal consultant, the nearest Segal office or one of the following experts:

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Segal: A Trusted Advisor to Multiemployer Plans

Since our founding in 1939, Segal Consulting has been a trusted advisor to multiemployer benefit funds. Working with hundreds of multiemployer plans enables us to understand and provide innovative, cost-effective solutions to the challenges facing funds. Our unbiased, objective advice allows funds to make decisions in the broader context of other multiemployer plans. In addition, our ability to aggregate multiemployer data from our extensive client base enables us to determine trends and offer timely advice on emerging developments. In addition to pension consulting, we provide the following services:

- Defined contribution plan consulting;
- Health and welfare plan consulting for active and retiree coverage, including pharmacy benefit management;
- Compliance consulting;
- Participant communications, including personalized statements;
- Administration and technology consulting; and
- Insurance brokerage services for fiduciary liability insurance, fidelity bonds and cyber liability insurance through Segal Select Insurance Services, Inc.

We are a firm with a national commitment to the multiemployer environment. We are actively involved with multiemployer legislation and research and work closely with industry advocacy groups. In working with us, you will have access to professionals who have deep multiemployer subject matter experience and can bring the full resources of Segal to help address your issues.

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