PENSIONS & INVESTMENTS: CONGRESS MUST ACT TO SAVE MULTIEMPLOYER PENSION PLANS

_BY_ STEPHEN SANDHERR AND SEAN MCGARVEY | SEPTEMBER 26, 2013

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Retirement security for millions of skilled American workers is at stake without Congress taking action to shore up multiemployer plans.

Tight credit markets and a slowly recovering American economy are wreaking havoc with employers that contribute to multiemployer defined benefit plans and to these pension programs.

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These solutions, which are supported by both business and labor, are outlined in "Solutions Not Bailouts: A Comprehensive Plan from Business and Labor to Safeguard Retirement Security for Multiemployer Plan Participants, Protect Taxpayers and Spur Economic Growth," issued last February by the National Coordinating Committee for Multiemployer Plans. While this report calls on Congress to give employers and employees the tools they need to make tough choices to preserve these plans, what it does not do is call on American taxpayers to bail them out.

Multiemployer pension plans hold nearly $500 billion in assets that play a significant role in generating broader economic activity. If these plans fail, our economy will suffer a devastating blow. These innovative retirement plans for decades have allowed skilled workers to move from job to job while providing portability by maintaining their ability to contribute to a pension.

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Conflicting tax policies made it harder for employers to maintain the solvency of these plans. In addition, current law prevents employers and employees from taking common sense steps to secure them.

For years, tax laws actually prohibited firms from overfunding their plans. At that time, more than three-fourths of fully funded plans had to increase benefits to increase plan liabilities and avoid paying tax penalties. As a result, even greater liabilities were created that needed to be funded from future contributions or investment returns. Today, because of the recession and these misguided rules, nearly a quarter of all multiemployer pension plans are categorized as "critical" — requiring the adoption of aggressive rehabilitation plans to return to financial health — and nearly a quarter of those, including some of the oldest and largest plans, are facing insolvency in the next 10 to 20 years.

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For example, a participant who retired at age 65 with 35 years of service, who would normally receive a benefit of $2,000 per month, would see that benefit reduced to $1,251 per month if the PBGC takes over their plan, and to as low as $125 per month if the PBGC becomes insolvent.

What happens if these plans fail? The Pension Benefit Guaranty Corp. is legally obligated to backstop these plans from the multiemployer guaranty fund. The PBGC itself is facing insolvency and could leave workers and retirees at serious risk of dramatic and unnecessary benefits cuts, sticking taxpayers with the bill.

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The challenges facing multiemployer pension plans can be overcome without costing the taxpayers a dime. Congress should give us the tools we need to preserve benefits, as well as strengthen and secure the current multiemployer system for the long term.

The "Solutions Not Bailouts" plan provides early intervention for the small percentage of deeply troubled multiemployer plans, allowing workers and retirees in those plans to maintain benefits above the PBGC guaranteed amount, and strengthens the majority of plans that have successfully weathered the recent economic crisis and are not threatened.

Using the same example noted above, the "Solutions not Bailouts" plan could maintain lifetime benefits at amounts far greater than the $1,251 – or $125 – guaranteed by the PBGC. If the plan required benefit reductions of just 5% to maintain solvency, those benefits would be preserved at $1,900 per month, and if 15% reductions were required, benefits would be preserved at $1,700 per month. Even under the most extreme case, participants' benefits in this hypothetical plan would never fall below $1,375. Of course, any plan modifications would not be approved without agreement from both labor and management and would only be adopted if the results were materially better for workers and retirees than plan insolvency.

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Tools such as innovative plan designs can insulate contributing employers from financial volatility in the future and shield participants from risk by requiring greater funding discipline. We also think any plan should include safeguards to guarantee regular and reliable retirement security as well as a way to support the long-term preservation of benefit levels above the PBGC guarantee. "Solutions not Bailouts" includes these provisions, and as Congress begins to craft and consider legislation on this topic in the coming months, we hope the policymakers heed these recommendations and this critical moment. By taking these steps, we can make retirement more secure for millions of Americans and protect our emerging economic recovery.