EDUCATION AND THE WORKFORCE
COMMITEE CHAIRMAN JOHN KLINE

SUMMARY OF A DISCUSSION DRAFT TO MODERNIZE MULTIEMPLOYER PENSIONS

Background on Multiemployer Pensions

There are two major types of pension plans: defined contribution plans and defined benefit plans. The classic example of a defined contribution plan is the 401(k) plan. Upon retirement, the worker is entitled to the funds in an individual account, including employee and employer contributions and investment returns. Defined benefit plans provide specific monthly benefits at retirement based on a formula that may include years of service and final salary. The employer guarantees the benefit will be available at retirement.

Multiemployer defined benefit pension plans provide portable retirement benefits to employees in various unionized industries, such as trucking and construction. These plans are created by collective bargaining agreements, sponsored by multiple employers, and administered by a board of trustees composed equally of management and union representatives. Due to a number of long-term challenges, including a slow economy and fewer participating employers, a significant number of multiemployer pension plans are on the brink of insolvency.

Additionally, the federal backstop to the multiemployer pension system, known as the Pension Benefit Guaranty Corporation (PBGC), is also on a path toward insolvency. The PBGC multiemployer insurance program is funded through premiums paid by multiemployer plans. However, PBGC faces a multi-billion dollar deficit and is expected to run out of money in less than 10 years. These and other challenges facing the multiemployer pension system have long posed significant risks to America’s employers, workers, retirees, and taxpayers.

Bipartisan Reforms to Strengthen Existing Multiemployer Pensions

In February 2013, a coalition of unions and employers, organized by the National Coordinating Committee for Multiemployer Plans (NCCMP), proposed a set of policy recommendations that were intended to help existing plans avoid insolvency and modernize the multiemployer pension system. Among its recommendations, the coalition proposed permitting trustees of failing plans to adjust the benefits of retirees in order to save plans from insolvency and avoid the risk of retirees losing everything. They also proposed an innovative multiemployer plan structure known as “composite plans” that would provide workers a new option to save for retirement.

In response to these consensus recommendations, in 2014, Congress passed and President Obama signed into law the bipartisan *Multiemployer Pension Reform Act.* Introduced by Rep. John Kline (R-MN) and former Rep. George Miller (D-CA) after more than three years of congressional work, the law provides trustees new tools to rescue severely underfunded plans and increases premiums to improve the PBGC’s long-term stability. While these reforms address the challenges facing the existing multiemployer pension system, Congress did not adopt reforms that would modernize multiemployer pensions for current and future generations of workers.

A New Retirement Option Protecting
Workers, Employers, Retirees, and Taxpayers

Because of pervasive funding challenges that pose risks to employers and participants in defined benefit plans, defined contribution plans have grown increasingly popular. However, the traditional defined benefit structure is still preferred in certain industries. To help strengthen the retirement security of workers in those industries, NCCMP devised a proposal for composite plans, which would combine aspects of both defined benefit and defined contribution retirement plans. By passing legislation to authorize the creation and adoption of multiemployer composite plans, Congress will:

- Strengthen the retirement security of American workers;
- Protect workers and retirees in traditional multiemployer pensions;
- Improve the competitiveness of American businesses; and
- Protect taxpayers.

For these reasons, Rep. Kline, chairman of the House Committee on Education and the Workforce, has put forward a draft proposal that would allow unions and employers to create composite pension plans. The committee is soliciting public feedback on the proposal, and it is also interested in receiving ideas for other reforms to improve the long-term fiscal health of the PBGC. The purpose of this ongoing effort is to continue advancing bipartisan reforms that promote the best interests of workers, employers, retirees, and taxpayers.

Key Features of the Draft Multiemployer Pension Modernization Act

- <u>Strengthens the retirement security of American workers</u>. A composite plan is a new type of retirement plan that combines the flexibility and certainty of a 401(k)-style defined contribution plan with the lifetime income provided by a defined benefit pension plan. Composite plans will be professionally managed, and benefits will be provided in the form of annuities. The trustees managing the composite plan will set benefit levels based on incoming contributions and conservative funding requirements. If the plan is not expected to be 120 percent funded in 15 years, the plan will be required to implement a remediation strategy that may include contribution increases, benefit accrual decreases, and benefit adjustments. These strict funding requirements will ensure composite plans are better able to weather any challenges they might face, providing workers a stable, secure retirement benefit.

- <u>Protects workers and retirees in traditional multiemployer pensions</u>. The proposal will ensure that existing multiemployer pension plans, also known as legacy plans, are sufficiently funded. This will be true even for employers and unions who choose to transition to new composite plans. Employers who contribute to a composite plan will be required to fund existing multiemployer pension commitments.

- <u>Improves the competitiveness of American businesses</u>. Employers need more flexible retirement options to promote the competitiveness of their businesses. This proposal allows employers to contribute to plans that provide retirement benefits without the burdens and risks associated with the current defined benefit pension system. By providing a retirement option that offers more certainty and flexibility, employers will have more opportunity to expand their businesses and hire new workers.

- <u>Protects taxpayers</u>. Unlike a traditional defined benefit plan, retirement benefits offered through a composite plan will not be eligible for the PBGC insurance guarantee. This will protect taxpayers from greater risk of footing the bill for a multi-billion dollar bailout.