

Emergency Multiemployer Pension Loan Program

Situational Overview

Between 10% and 15% of multiemployer pension plans are in severe financial distress, and are currently projected to become insolvent and have no assets available to pay benefits within the next 20 years. More importantly, several very large and systemically important plans are projected to become insolvent far more quickly.

In large part, this is a result of the continuing effects of the 2008 financial crisis and the following Great Recession. The financial crisis negatively impacted investment returns and the Great Recession reduced employer contributions to multiemployer pensions as man-hours declined. The combination of these two factors has had a devastating impact on the funding of this small fraction of the multiemployer universe. Unfortunately, the pending insolvency of this small number of plans will have catastrophic consequences far beyond the deeply troubled plans themselves.

Generally, when a defined benefit pension plan does not have enough assets available to pay benefits, the Pension Benefit Guaranty Corporation (“PBGC”) steps in. The PBGC is a government corporation funded solely by plan premiums that provides a modest statutorily guaranteed benefit to the participants of the insolvent plan. Multiemployer premiums are set by statute, and are not risk based. Premiums have risen from \$2.60 per participant in 2005 to \$8.00/\$9.00 (2006-2012), to \$12.00 (2013-2014), to \$26.00 in 2015, to \$28.00 in 2017. Under current law, premiums are scheduled to increase by at least \$1.00 per year going forward. Guaranteed benefit levels are also set by statute.

The PBGC has two separate programs to guarantee pension benefits – one for single employer plans, and one for multiemployer plans. The two funds are entirely financially separate, serve separate purposes, and provide vastly different guaranteed benefits. Since 1975, more than 4,700 single employer plans have been trustee and more than 139,700 plans have undergone standard terminations. In contrast, since 1975, 53 multiemployer plans are receiving financial assistance and the PBGC has booked another 61 plans that they expect to become insolvent. The PBGC is the insurer of first resort for single employer plans and the insurer of last resort for multiemployer plans. In general, the fact that there are numerous employers in multiemployer plans has been a source of strength that has limited PBGC’s exposure.

The maximum guaranteed benefit is also significantly different. In the single employer program, the benefit at age 65 is currently \$64,432 per year, while the statutory maximum guaranteed benefit in the multiemployer program at 30 years of service is \$12,870 per year.

Unfortunately, the multiemployer program currently has a significant deficit in that the program’s assets, including expected plan premiums, fall far short of current projections of the expected guaranteed benefits to be paid. Multiemployer plans in critical and declining status have contributed significantly to the PBGC’s \$58 billion net deficit in its Multiemployer Guarantee Program. The number of plans that make up the net deficit is 168.

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This situation is now a crisis that threatens the retirement of millions of Americans, the solvency of the PBGC, the economic prospects of the job creating employers of America, the employment of the active participants in these plans, the tax revenue of federal, state and local governments, and the broader U.S. economy.

Recognizing these concerns, Congress and multiemployer community worked to develop and pass the Kline-Miller Multiemployer Pension Reform Act (“MPRA”) in December 2014. This legislation provided Plan Sponsors with a powerful new tool to restore plan solvency, and to protect plan participants from the even larger benefit reductions they will see when their plans become insolvent and subject to the PBGC guarantee.

By definition, a successful MPRA application would ensure the long-term solvency of the plan and remove that plan from the list of plans contributing to the PBGC’s net deficit. The net deficit is the principal driver in the PBGC’s calls for higher premiums on multiemployer plans.

Since enactment in December 2014, fifteen plans have filed MPRA benefit suspension applications. The largest and most systemically important plan, Central States, was denied by Treasury in May 2016. This one plan represents more than \$20 billion of the PBGC’s net deficit, which would have been removed from the PBGC’s net deficit rolls if their MPRA application had been approved. Of the three MPRA applications that have been approved by Treasury, two had annual contractual benefits payable to retirees of less than \$15 million and one had benefits payable of approximately \$293 million, as compared to the \$2.9 billion in annual contractual benefits payable to the current retirees of Central States.

The inability of Central States to use MPRA to restore solvency will drive a series of catastrophic economic consequences when the plan goes insolvent. Central States retirees, who would have seen a 34% reduction in benefits under the plan’s MPRA application, will instead see between a 94% and a 98% reduction in benefits paid once the PBGC becomes insolvent. Retirees in currently insolvent plans will see between a 87.5% and a 95% reduction in the benefits paid by the PBGC. These reductions will occur as a matter of current law, unless additional premiums are legislated. Unfortunately, with Central States and other plan insolvencies, the level of PBGC premiums needed to maintain the current guarantee level would have catastrophic economic consequences for the entire multiemployer system.

In 2015, multiemployer plans paid nearly \$1.7 billion in administrative expenses, of which \$248 million were for PBGC premiums. Under current law for PBGC premiums and 3% inflation for other administrative expenses, the multiemployer system will pay \$50.5 billion in total administrative expenses over the 20-year period ending in 2037. This is comprised of \$8.0 billion in premiums and \$42.5 billion in non-premium administrative expenses.

In June 2016, the PBGC published an analysis that indicated that premium revenues sufficient to meet average expected 20-year obligations would need to be \$50.4 billion (the 20-year average annual premium is \$242.74 per participant, \$663.71 per active) over the same 20-year period, compared to current law premiums of \$8.0 billion (the 20-year average annual premium is \$38.50 per participant, \$105.27 per active). This \$42.4 billion increase in premiums would result in total administrative expenses over the 20-year period of \$92.9 billion.

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The simple fact is that the multiemployer system, including the employers and industries in which they compete, are not able to be economically viable with premiums at these levels. Separately, these premiums levels would result in the existing and future benefit packages bargained between employers and labor being used solely to fund the PBGC premiums, which is simply an untenable outcome.

Most importantly, MPRA provided the statutory tools needed for Plan Sponsors to restore solvency to their plans, which would have removed these plans from the PBGC's net deficit calculation and negated much of the need for premium increases.

There is a significant economic risk to the employers and their employees, in the Central States plan as well as other multiemployer plans. This is particularly true where those plans share multiple employers with the Central States plan. Absent a real solution, when Central States becomes insolvent, the financial condition of the shared employers will weaken, which will weaken the condition of the other multiemployer plans. The precise scope of the economic risk is difficult to define today, but it is likely to be significant including reduced revenues and employment levels, reduced access to bank credit and the capital markets, and the potential for a significant number of Chapter 11 and Chapter 7 filings across a number of industries.

The U.S. Government as well as state and local governments will see reduced tax revenues from lower retiree pension income, lower wage income, lower corporate revenues, as well as the reduced economic output and jobs directly linked to these cash flows. They will also see a dramatic increase in social safety-net spending.

Treasury's rejection of Central States' MPRA application, its failure to implement MPRA, the looming insolvency of Central States, and the economic tsunami that this insolvency will have, created the urgent need for the proposed emergency loan program.

Economic Consequences of Inaction – What is at Risk?

Retiree Benefit Reductions Under Current Law

When Central States reaches insolvency, currently projected to be no later than 2025, the PBGC will become insolvent as well. Table 1 shows the impact on the amount of benefits that will be paid to retirees under current law using data from twelve of the fifteen MPRA applicants. Most significantly, it shows that annual contractual benefit payments are \$6 billion. The reductions under MPRA would have preserved \$4 billion of those benefits. However these same retirees will receive between \$141 million and \$353 million annually when the PBGC goes insolvent.

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Table 1: Pension Benefits Payable Under Current Law

(\$ Billions)	Contractual Benefits Payable	MPRA Benefits Payable	PBGC Current Law Benefits Payable	PBGC at Insolvency Benefits Payable
MPRA Applicants*	\$6.02	\$4.06	\$2.83	\$0.14 - \$0.35
Percent Benefit Reduction from Contractual Benefits Payable	0.00%	36%	53%	94% to 98%

* Central States, Southeast and Southwest Areas Pension Plan, New York State Teamsters Conference Pension & Retirement Fund, Western States Office & Professional Employees Pension Fund, Southwest Ohio Regional Council of Carpenters Pension Plan, Iron Workers Local 17 Pension Fund, Teamsters Local 469 Pension Plan, Local 805 IBT Pension & Retirement Plan, Ironworkers Local 16 Pension Fund, Int'l Assoc. Of Machinists Motor City Pension Fund, Alaska Ironworkers Pension Plan, Bricklayers and Allied Craftworkers Local 5 Pension Plan, and the Bricklayers & Allied Craftsmen Local No. 7 Pension Plan

Economic Impact on the Federal, State, and Local Government’s Social Safety Net

It is difficult to project how the loss of between 94% and 98% of a retiree’s pension income is going to affect the social safety net, other than to say it undoubtedly will. The exact amounts are not determinable at this point.

Economic Impact of Pension Payments and Wages on the National Economy and Federal, State, and Local Tax Receipts

The National Coordinating Committee for Multiemployer Plans (“NCCMP”) analyzed the data from all 1,296 multiemployer pension filers of the most current Form 5500 representing a reported 210,865 contributing employers. NCCMP commissioned the National Institute on Retirement Security (“NIRS”) to determine the national economic impact from retiree expenditures derived from benefits paid by multiemployer defined benefit pension plans, as well as from wages paid to active employees in multiemployer plans. The input-output modeling software IMPLAN was used to measure the economic impacts. The following tables summarize the economic data.

Table 2: Pension Payments, Wages Paid to Actives, and Economic Output

(\$ Billions)	2015	Federal Budget Window (10-Year)
Pension Benefits Paid to Retirees	\$41.0	\$438.6
Total Output from Pension Payments	\$83.5	\$893.7
Wages Paid to Active Employees	\$203.1	\$2,124
Total Output from Wages of Actives	\$381.1	\$3,987
Total Economic Impact	\$708.7	\$7,443.3

The data from Table 2 indicate that the \$41 billion paid to multiemployer retirees in 2015, or more than \$438 billion over the 10-year budget window, supported \$83.5 billion in total output, or more than \$893 billion over the 10-year budget window. These pension payments support 510,000 American jobs.

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The data from Table 2 also indicates that \$203 billion was paid in wages to active employees in multiemployer plans in 2015, and that more than \$2.1 trillion will be paid over the 10-year budget window. Spending from these wages supported \$381 billion in total output, or more than \$3.9 trillion over the 10-year budget window. In addition to the 3,800,018 active employees in multiemployer plans, these wages support another 2,275,444 American jobs.

It is estimated that the employers in multiemployer pension plans had 2015 revenues of approximately \$1.2 trillion and will have revenues of \$12.7 trillion over the 10-year budget window.

Table 3: Federal Taxes on Pension Payments, Wages and Economic Output

(\$ Billions)	2015	Federal Budget Window (10-Year)
Federal Taxes Paid on Pension Payments	\$3.5	\$37.2
Federal Taxes Paid on Pension Based Economic Output	\$6.6	\$70.4
Federal Taxes Paid on Wages	\$31.3	\$327.2
Federal Taxes Paid on Wage Based Economic Output	\$30.0	\$314.2
Total Federal Taxes Paid	\$71.4	\$749.0

Table 3 shows that the U.S. Government received approximately \$71 billion in tax revenue in 2015 from multiemployer pension benefits paid to retirees, wages to active employees, and the economic output derived from pension payments and wage income. The federal government will receive \$749 billion in tax revenue over the 10-year budget window.

Table 4: State and Local Taxes on Pension Payments, Wages, and Economic Output

(\$ Billions)	2015	Federal Budget Window (10-Year)
State and Local Taxes Paid on Pension Payments	\$1.9	\$20.4
State and Local Taxes Paid on Pension Based Economic Output	\$4.2	\$44.6
State and Local Taxes Paid on Wages	\$6.5	\$67.8
State and Local Taxes Paid on Wage Based Economic Output	\$19.3	\$202.3
Total State and Local Taxes Paid	\$31.9	\$335.1

Table 4 shows that State and Local governments received approximately \$32 billion in tax revenue in 2015 from multiemployer pension benefits paid to retirees, wages to active employees, and the economic output derived from pension payments and wage income. State and Local governments will receive \$335 billion in tax revenue over the 10-year budget window.

In summary, employers, employees, retirees, all levels of government, and the national economy have an enormous stake in creating a viable policy solution for the multiemployer plans that are facing significant financial challenges.

Emergency Multiemployer Pension Loan Program

The situational overview and the economic consequences of inaction dictate that the U.S. Government provide a policy response to the multiemployer pension crisis in a way that only it can. The following proposal has been designed to enable critical and declining status plans to earn their way through their funding challenges, restore plan solvency, and fully repay the U.S. Government for any borrowings.

The attached exhibit outlines the terms, conditions and structural details of the proposed loan program. It offers three alternative structures that differ based on the level of mandatory reductions in benefits required and who pays the federal credit subsidy costs of the program.

In summary, the federal government creates a federal loan program that lends to critical and declining status multiemployer pension plans at 1% for 30 years. The loans are interest only for the first 15 years, and then level pay for the remaining 15 years. The plans will have to demonstrate that they can achieve solvency and repay the loan using a conservative assumed rate of return on investments.

There are three alternatives as it relates to mandatory benefit reductions and who pays for the federal credit subsidy costs. In Alternative 1, there are no benefit reductions and the U.S. Government pays the full amount of the credit subsidy costs.

In Alternative 2, there is a mandatory 20% benefit reduction (subject to a maximum reduction to the PBGC guarantee level). The benefit reductions are paid to the U.S. Government as a fee and used to pay for the credit subsidy costs. If the fee paid is insufficient to fully cover the credit subsidy costs, the U.S. Government will need to pay the remaining credit subsidy costs.

In Alternative 3, there is a mandatory 20% benefit reduction (subject to a maximum reduction to the PBGC guarantee level). The benefit reductions are paid to the U.S. Government as a fee and used to pay for the credit subsidy costs. If the fee paid is insufficient to fully cover the credit subsidy costs, additional mandatory benefit reductions (subject to a maximum reduction to the PBGC guarantee level) are required in the amount needed to achieve a zero credit subsidy cost.

In developing these alternatives, five critical and declining status plans submitted data that demonstrated the ability of the plans to achieve solvency and full repayment of the federal loan using 5.5% as the assumed rate of investment return. As is the case in any subsidized loan, the interest subsidy is substantial.

There are a number of structural details that are incorporated into the proposal that are specifically designed to (1) achieve the policy and financial objectives of the program, and (2) protect the U.S. Government from default as well as from below expectation investment performance.

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Term or Condition	Alternative Loan Proposal	Comment
Maximum Loan Amount	<p>Maximum Loan Amount is (1) the absolute value of the expected annual average of the next 15 years of Negative Cash Flow multiplied by 20, or (2) such other lower loan amount that demonstrates full repayment and solvency of the plan for 10 years after loan repayment.</p> <p>Negative Cash Flow is defined as:</p> <ol style="list-style-type: none"> 1. Employer Contributions excluding Withdrawal Liability Payments, less 2. The full, unreduced Contractual Benefit Payments, less 3. Administrative Expenses. 	<p>The entire premise of the loan program is to allow a Plan to borrow enough money at 1% and invest at a higher rate that will allow the Plan to earn their way through the funding problems that they face, while ensuring Plan solvency and full repayment of the Federal loan.</p> <p>The loan program is structured so that the corpus of the Loan Account is never needed to pay benefits. The legislation will prohibit the corpus of the Loan Account from being used to pay benefits or administrative expenses.</p>
Loan Disbursement Timing	<p>The full amount of the Maximum Loan Amount will be disbursed within 15 business days of Loan Closing.</p> <p>The loan is interest only for the first 15 years, followed by a 15-year level payment of principal and interest.</p>	<p>In order for the federal loan program to achieve its objectives, Plans need access to the full amount of the loan immediately, and not disbursed over an extended period of time.</p> <p>Extending the final maturity of the loan beyond 30-years increases the cost of the federal credit subsidy unnecessarily.</p>
Interest Rate	1%	
Interest Payable	Paid directly from the Loan Account unless investment returns are below 1%, in which case, Plan Assets will be used to pay the interest on the loan.	Statute will modify ERISA to allow Plan Assets to be used to pay interest on the federal loan.
Loan Tenor	30 years from disbursement.	

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Interest Only Period	First 15 years from disbursement, paid semi-annually.	
Principal and Interest Repayment Period	Level for 15 years after the Interest Only Period, paid semi-annually.	The statute will modify ERISA to allow Plan Assets to be used to pay principal and interest on the federal loan if needed to meet loan obligations.
Assumed Rate of Investment Return	<p>When developing the Application, the Plan Sponsor is required to demonstrate plan solvency and full repayment of the loan using conservative Assumed Rate of Investment Returns for both the Loan Account and the Plan Assets, specifically 5.5%, or such lower rate as determined by the Plan Sponsor.</p> <p>Conservative assumptions regarding rate of investment return expectations are an important issue for the U.S. Government as well as Rating Agencies.</p>	<p>The Alternative Loan Proposal recognizes that both the U.S. Government and the Rating Agencies who will rate the loans will expect the use of the conservative investment return assumptions.</p> <p>The Assumed Rate of Investment Return for the purpose of the loan application is not meant to limit Trustees from developing an investment policy, strategy, and asset allocation that results in a higher target rate of return. Nor is it meant to be the assumed rate of return used in annual actuarial valuations of the plan.</p>
Program Size	<p>\$100 billion in total.</p> <p>Program Size is not the cost of the program it simply is the dollar level of authorized lending.</p> <p>As is the case in all federal credit programs, the “cost” of the program is the amount of federal credit subsidy as calculated under the Federal Credit Reform Act of 1990.</p>	<p>Loans need to be of sufficient size to achieve the policy, solvency, and repayment objectives.</p> <p>Based on data received from five critical and declining status plans used to develop this alternative proposal, these five plans required \$79.4 billion in loans to demonstrate plan</p>

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		<p>solvency and repayment of the federal loan.</p>
<p>Role of Plan Actuary</p>	<p>Certify Critical and Declining Status, and that the expected Contributions, Benefits and Administrative expenses are reasonable in the context of an Application to a federal loan program.</p> <p>As it relates to the Plan Actuary’s certification of (1) the MPRA application, (2) the inability of the Plan to statutorily meet MPRA requirements, or (3) the loan application, and in the event that the Director is concerned that the Plan Actuary has not met their responsibilities under the Actuarial Standards of Practice, the Director shall refer the matter to the Actuarial Board for Counseling and Discipline, and post such referral on the PBGC’s website.</p>	<p>The role of the Plan Actuary should not include a role normally performed by credit professionals (including Rating Agencies). To suggest otherwise would be highly unusual in a federal credit program.</p>
<p>Rating Agency Requirement</p>	<p>The Plan Sponsor is required to seek two rating opinion letters on the loan from two different Rating Agencies (registered with the Securities and Exchange Commission as a nationally recognized statistical rating organization) indicating that the Loan will be rated at least BB (or equivalent).</p> <p>Rating will be updated annually at the expense of the Plan.</p>	<p>Use of rating agencies is a federal credit best practice in loan programs that represent large one-off transactions of a unique nature, such as this proposal.</p> <p>Credit ratings, recovery rates, and default curves are all central components of federal credit subsidy calculations.</p>
<p>Investment Risk</p>	<p>It is not desirable to eliminate investment risk. However, by basing loans on conservative assumed investment returns, Trustees may allocate loan proceeds and Plan Assets.</p>	<p>Below expectation investment returns will be addressed as discussed in the section Negative Variance Returns – Additional Actions Required.</p>

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Permitted Investments	TBD – Likely to exclude hard-to-value and more speculative investments.	
Loan Account	<p>The entire loan amount will be placed in the Loan Account and is not considered Plan Assets for any purpose.</p> <p>The corpus of the Loan Account cannot be used to pay benefits or administrative expenses.</p>	
Fiduciary Duty	While the Loan Account is not Plan Assets, the Trustees shall have the same Fiduciary Duty (including the ban on prohibited transactions) with regard to the Loan Account as they do with Plan Assets under ERISA.	
Collateral	<p>The U.S. Government will be granted a lien on the Loan Account. In the event that the Plan becomes insolvent, the full value of the Loan Account will immediately revert to the U.S. Government.</p> <p>If the Loan Account has any Positive Variance Buffer, and the principal and interest owed to the U.S. Government is fully paid, any excess will be distributed to the Plan Assets.</p>	
Distribution of Investment Returns	<p>Realized positive investment returns exceeding 0.5% (semi-annually), and up to the 4.5% (semi-annually), are distributed to the Plan Assets account every 6 months.</p> <p>The first 0.5% (semi-annually) of realized investment returns are used by the Loan Account to pay the interest on the federal loan. In the event of investment returns below 0.5% (semi-annually), Plan Assets are used to pay the interest portion of the loan.</p> <p>In the event that the Loan Account has a Positive Variance Buffer, and the Loan Account has realized returns below the Assumed Rate of Investment Return, then the Loan Account shall distribute the any Positive Variance Buffer up to the amount of the Assumed Rate of Investment Return in accordance with the Distribution of Investment Returns.</p>	

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	<p>Investment returns from the Loan Account are non-taxable to the Plan.</p>	
<p>Benefit Modifications Allowed as Part of Loan Application</p>	<p>To the extent that future active accruals have been reduced or eliminated (including through a rehabilitation plan or funding improvement plan) prior to the federal loan, future accruals can be modified to incent continued participation by actives and current employers to a maximum of the prior 20-year average of accrual rates less the benefit reduction.</p> <p>This is a two-step process: (1) determine the prior 20-year average accrual rate; and then (2) determine the overall cut percentage (reduce that future accrual rate by the same percentage as the benefit reduction). This process is intended to be applied separately where there are varying accrual rates.</p> <p>No other positive benefit modification is allowed while the federal loan is outstanding.</p>	
<p>Positive Variance Returns</p>	<p>In any year in which the actual annual returns of the Loan Account are above 9%, the amount above 9% is retained by the Loan Account as a future buffer (“Positive Variance Buffer”) to Negative Variance Returns.</p>	
<p>Negative Variance Returns – Additional Actions Required</p>	<p>In any year in which the actual annual returns of the Loan Account are below zero, after taking into account any accumulated Positive Variance Buffer, the Trustees are required to take such actions as necessary to provide the Loan Account with sufficient assets to restore the corpus.</p> <p>The first option is to forfeit the semi-annual distribution of realized positive investment returns from the Loan Account to the Plan until such time as the corpus of the Loan Account is restored.</p> <p>Alternatively, the Trustees may also seek additional benefit reductions or increased contributions in the amount needed to restore the corpus of the Loan Account over a period not to exceed 10 years.</p>	

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Contribution Modifications	None. Employer contributions remain as they would under the Plan’s red-zone rehabilitation plan, except as negotiated in the Negative Variance Returns – Additional Actions Required.	
Loan Qualifications	Applicant (1) must be certified by the Plan Actuary as Critical and Declining Status, and (2) have had their MPRA application rejected or have a certification, and explanation, from the Plan Actuary that the Plan is unable to reasonably fulfill the statutory requirements to suspend benefits under MPRA. MPRA Applications rejected as a result, in whole or in part, of the MPRA Applicant failing to provide all the required information are not eligible for the Loan Program.	
PPA Rehabilitation Plan	No change that increases liabilities or reduces contribution rates, except for changes in active accruals to incent actives and employers going forward as discussed in Benefit Modifications.	
Program Office and Program Administrative Expenses	PBGC is the Program Office. The PBGC is required to cover the Administrative Expenses of the Loan Program within its existing budget authority.	
Application	<p>Application includes a 40-year projection period incorporating loan proceeds and plan assets demonstrating solvency and repayment using conservative investment return assumptions, specifically 5.5% annually, or such lower rate as determined by the Plan Sponsor, with regard to the consolidated the Loan Account and the Plan Assets. The Plan Sponsor will disclose the investment policy and strategy that will be used for both the Plan Assets and the Loan Account.</p> <p>The financial projection included in the application will provide the PBGC with a 40-year spreadsheet containing the beginning market value of assets, loan proceeds, loan interest payments, principal and interest payments, employer contributions, withdrawal liability contributions, unreduced benefit payments, administrative expenses, assumed investment returns (including percentage rate),</p>	The legislation will provide specific requirements for the spreadsheet submission that demonstrate solvency of the Plan and the ability to repay the federal loan. Even though for legal purposes, Plan Assets and the Loan Account cannot be comingled, and the corpus of the Loan Account cannot be used to pay benefits or administrative expenses, for purposes of the Application, the two funds will be treated as one to demonstrate solvency of the Plan and

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	<p>and ending market value of assets. For purposes of the financial projection in the Application, the Plan Assets and Loan Account are shown on a consolidated basis.</p> <p>The Plan Actuary will certify that the employer contributions, withdrawal liability contributions, benefit payments, and administrative expenses are reasonable and consistent with the requirements under the Internal Revenue Code Section 432.</p> <p>In evaluating the Plan Sponsor’s application, the Director shall accept the Plan Sponsor’s determinations (including those of the Plan Actuary), unless it concludes that the Plan Sponsor’s determinations (including those of the Plan Actuary) were clearly erroneous.</p> <p>The Plan Sponsor will include two rating opinion letters on the Loan from two different Rating Agencies (registered with the Securities and Exchange Commission as a nationally recognized statistical rating organization) indicating that the Loan will be rated at least BB (or equivalent).</p> <p>The Plan Sponsor is responsible for providing the Rating Agencies with all of the information needed for them to rate the loan.</p>	<p>repayment of the federal loan.</p>
<p>Application Decision Timing</p>	<p>60 Days from receipt of completed application including two Rating Agency opinions.</p>	
<p>Rules, Regulations or Guidance</p>	<p>The PBGC shall provide a Notice of Funding Availability consistent with the statute and may only provide such application Guidance as necessary to determine solvency and the ability to repay the loan. The substantive form of the application Guidance will be included in the legislation.</p>	
<p>Withdrawal Liability Calculations</p>	<p>Withdrawal liability calculations will be made as if any benefit reductions as part of the federal loan program, or as under Negative Variance, had not been made, and without regard for the Loan Account, except that the calculation will include any realized or</p>	

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	unrealized losses in the corpus of the Loan Account.	
Duration of Program	10 Years from the date of the first successful application.	
Contribution/Benefit – Actuarial Losses	If contributions are less than expected in a year, or the dollar amount of any benefit reduction paid to the U.S. Government under Alternative 2 or 3 is less than expected in a year, additional benefit reductions or contribution increases shall be negotiated as required under Negative Variance Returns.	
Mass Withdrawal	In the event of a Mass Withdrawal as defined in ERISA, the Loan Account will immediately revert to the U.S. Government and Plan Assets will be used to pay any accrued interest or principal balance due. This shall not apply to the plan described in section 9701(a)(3) of the Internal Revenue Code of 1986 (26 U.S.C. 9701(a)(3)).	

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Alternative 1: Credit Subsidy Paid By U.S. Government, No Benefit Reductions

Term/Condition	Proposal	Comment
Benefit Reductions	None	
Federal Credit Subsidy – Paid By U.S. Government	Legislation to provide for permanent authorization and appropriation for the credit subsidy costs.	Credit subsidy costs for this program are extraordinarily high relative to other Federal credit programs.

Alternative 2: Credit Subsidy Paid By Borrower and U.S. Government, 20% Benefit Reduction

Term/Condition	Proposal	Comment
Benefit Reductions	<p>Benefit reductions of 20% across the board.</p> <p>The benefit reduction is paid from Plan Assets to the U.S. Government to offset the Federal Credit Subsidy costs.</p> <p>This shall not apply to the plan described in section 9701(a)(3) of the Internal Revenue Code of 1986 (26 U.S.C. 9701(a)(3)).</p>	<p>Benefits cannot be reduced below the PBGC guarantee.</p> <p>Statute will modify ERISA to allow benefit reductions to be paid to the U.S. Government for purposes of the federal loan.</p>
Federal Credit Subsidy – Split Between Borrower and the U.S. Government	<p>Borrower portion of the Federal credit subsidy costs are paid for through a 20% across the board reduction in benefits.</p> <p>The U.S. Government is responsible for any remaining credit subsidy cost.</p> <p>The borrower is not responsible for Federal credit subsidy re-estimates.</p>	<p>Credit subsidy costs for this program are extraordinarily high relative to other Federal credit programs.</p> <p>The interest rate subsidy is the principal driver in the total credit subsidy rate in this proposal.</p> <p>The total credit subsidy rate, depending on the characteristics of the Plan, is approximately 38%.</p> <p>A 20% across the board benefit reduction will generally require the U.S. Government to appropriate dollars to pay the balance of the federal credit</p>

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	<p>With respect to a loan made to the plan described in section 9701(a)(3) of the Internal Revenue Code of 1986 (26 U.S.C. 9701(a)(3)), the amounts appropriated under a special rule in the draft legislation shall be transferred to the financing account for the loan.</p> <p>Legislation to provide permanent authorization and appropriation for both the borrower paid credit subsidy costs as well as the U.S. Government costs.</p>	<p>subsidy costs. The exact amount is highly dependent on the characteristics of the plan. In the plans studied, the remaining credit subsidy cost ranged from 0% to 20%.</p>
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Alternative 3: Credit Subsidy Paid By Borrower, 20% Benefit Reduction plus Any Additional Reductions Necessary to Achieve a Credit Subsidy of Zero

Term/Condition	Proposal	Comment
<p>Benefit Reductions – Alternative 3: Federal Credit Subsidy Costs are Fully Paid by the Borrower</p>	<p>Benefit reductions are 20%, or such higher amount as necessary to achieve a zero Federal credit subsidy.</p> <p>This shall not apply to the plan described in section 9701(a)(3) of the Internal Revenue Code of 1986 (26 U.S.C. 9701(a)(3)).</p> <p>The benefit reduction is paid from Plan Assets to the U.S. Government to offset the Federal Credit Subsidy costs.</p>	<p>Benefits cannot be reduced below the PBGC guarantee.</p> <p>Statute will modify ERISA to allow benefit reductions to be paid to the U.S. Government for purposes of the federal loan.</p>
<p>Federal Credit Subsidy – Alternative 3: Federal Credit Subsidy Costs are Fully Paid by the Borrower</p>	<p>Borrower portion of the Federal credit subsidy costs are paid for through benefit reductions.</p>	<p>Credit subsidy costs for this program are extraordinarily high relative to other Federal credit programs.</p>

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	<p>The ultimate benefit reduction needed to achieve a zero credit subsidy cost may be higher than 20%.</p> <p>A zero credit subsidy cost means that this program will not require an appropriation of Federal dollars.</p> <p>With respect to a loan made to the plan described in section 9701(a)(3) of the Internal Revenue Code of 1986 (26 U.S.C. 9701(a)(3)), the amounts appropriated under a special rule in the draft legislation shall be transferred to the financing account for the loan.</p> <p>The borrower is not responsible for Federal credit subsidy re-estimates.</p> <p>The legislation will provide for permanent authorization and appropriation of borrower paid credit subsidy costs.</p>	<p>The interest rate subsidy is the principal driver in the total credit subsidy rate in this proposal.</p> <p>The total credit subsidy rate, depending on the characteristics of the Plan is approximately 38%. In Alternative 3, this is fully paid for through benefit reductions.</p>
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