EXECUTIVE SUMMARY: On June 25, NCCMP provided the Joint Select Committee on Solvency of Multiemployer Pension Plans and NCCMP members with a report prepared by Horizon Actuarial Services, LLC which analyzed the impact of substantially lower discount rates under consideration by certain members of the Committee on the entire multiemployer system based on the information contained in the Form 5500. 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 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 have a number of negative consequences, including making 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. It will 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 and will 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.

Segal notes that 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 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. The 30-year return for the 30 years ending on December 31, 2017 was 8.78 percent. Segal believes 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 discount rates under consideration by some Members of the Joint Select Committee would force most of these healthy plans into critical status.

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.
We strive to ensure that the information contained in this and every issue of Multi-Elert is correct to the extent information is available. Nevertheless, the NCCMP does not offer legal advice. Plan fiduciaries should rely on their own attorneys and other professional advisors for advice on the meaning and application of any Federal laws or regulations to their plans.

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If you have questions about the NCCMP, or about this or other issues of Multi-Elert, please contact the NCCMP, by phone at (202) 737-5315 or by e-mail at nccmp@nccmp.org.