Prepared Remarks of
Michael D. Scott
Executive Director
National Coordinating Committee for Multiemployer Plans
at
NCCMP's 2019 Annual Conference
September 23, 2019

Good morning.

As we were planning the conference, Mariah informed me of some changes for 2019. She felt that I needed to give more of an elevator speech, and not the elevator at the Burj Khalifa in Dubai.

So, she wacked my allotted time.

I will try to be more interesting and concise, for I fear Mariah's wrath will leave me without any future speaking roles.

This session is titled Update from the NCCMP, but before I delve into pensions, I want to cover two other issues that are particularly important to all of us.

The first is about the Cadillac Tax, and I just want to note that the House overwhelmingly voted to repeal it in July and that it is now with the Senate. We wrote an OpEd that was published on September 13th in Real Clear Policy which we hope frames the reasons that the Senate should finish this tax off, once and for all.

We note that private sector healthcare subsidizes Medicare and Medicaid by at least $430 billion annually, money that we would not be spending if the U.S. Government didn't undercompensate providers in a manner that causes them to lose money on every Medicare and Medicaid patient.

We conclude that high quality healthcare should be encouraged and celebrated, not punished.

The second item is the NCCMP's comment letter to the Department of Labor on their proposal for new regulations governing Industry Recognized Apprenticeship Programs or IRAPs.

The self-financed and highly regulated apprenticeship programs of the Building Trades have been the absolute gold standard, and without a carve out for the building and construction industry, we will oppose the creation of IRAPs whose sole purpose seems to be to create a race to the bottom, which is bad for workers, as well as the asset owners who need highly skilled labor to build projects.

Let's move onto pensions. A lot has happened over the last eighteen months, and we want to provide you with our perspective on where things are heading, how you can help us achieve multiemployer pension reform this year, and the consequences of failure.

The good news is that since the start of 2019, Congress has been more aware of the urgency of the crisis in multiemployer pensions, more committed to act, and has been seeking input from the multiemployer community. We have seen this urgency and commitment in the House with the passage of H.R. 397 in July, which provides an important action forcing event in the Senate.

In the Senate, Majority Leader McConnell and Finance Committee Chairman Grassley have been very interested in working toward a solution that embraces the liability removal framework that came out from the Joint Select Committee.

They understand that certain parts of the JSC "proposal" caused great concern in the multiemployer community and have been willing to fully evaluate the concerns and work towards solutions that would not needlessly damage multiemployer plans, participants, employers, unions, or the system as a whole.

Minority Leader Schumer, Senator Brown and Senator Murray have also been very active in working towards a bipartisan solution.

In May, the NCCMP's Board adopted Common Sense Principles for Multiemployer Pension Reform which provides a framework for a comprehensive solution.

In July, NCCMP signed onto an industry-wide letter to Senate and House leadership which embraced the Common Sense Principles and provided the outline for comprehensive legislative reform.

However, there is a huge amount of work that needs to be done over the next two months.

I have been asked by many, how can I help? The answer is simple – plans, unions, employers, participants, and plan professionals need to reach out to Senate and House leadership, and members, and drive home the importance of bipartisan reform legislation **THIS YEAR**.

As you heard from former Congressman Miller, it is also important to stay on message.

Unity is powerful. Dissention is fatal.

There does seem to be uncertainty by some in Congress and in the multiemployer community as to why reform must be signed into law this year. Let me take a couple of minutes to run through this.

We are running out of time to prevent the insolvency of the United Mine Workers pension fund, the Central States Pension Fund, the insolvency of the PBGC, and the serious harm to the contributing employers in all of our plans that a very public insolvency of Central States will bring.

Central States is burning between $2.1 billion and $2.5 billion annually and is projected to go insolvent by January 2025.

We have lost 2017 and 2018, and unless Congress delivers a bipartisan solution in 2019 that can pass both chambers, 2019 will also be lost.

2020 is a presidential election year and it is highly unlikely that something this complex gets done in 2020, which means that the next opportunity will be in the new Congress in 2021.

In that scenario, the most optimistic case is that reform is signed into law by July 1st.

This would stop the cash hemorrhaging at Central States, but only after they have burned another $5.2 to $5.8 billion in cash.

The 2018 hearings of the Joint Select Committee highlighted the serious consequences for employers in the Central States plan.

More than a few banks have taken notice of the looming insolvency of Central States.

This is resulting in banks increasing the cost of credit when facilities come up for renewal, not renewing or extending credit facilities on the margin and denying increases to new credit.

Absent a legislative solution, more banks will do so, which will tighten or eliminate credit for these employers, threatening their economic viability.

The no deal in 2019 scenario will drive market-based reactions in 2020 and beyond. It starts with banks tightening credit or reducing credit exposure to employers in Central States.

This has the very real potential to spill over into employers that participate in other multiemployer plans, particularly if those plans are not very well funded.

This is the type of market contagion that is difficult to predict or control, but that has been repeatedly seen in analogous situations throughout history, most recently during the financial market crisis for borrowers in various industries.

Last time, the bank led portion of the crisis accelerated as bank regulators got more and more nervous.

And at that point, particularly because pension funds are not operating businesses that can file for reorganization, it is almost impossible to put Humpty-Dumpty back together.

The insolvency of Central States is an enormous problem by itself. It will have devastating impacts on participants, employers, other Teamster plans, the PBGC, and on the tax receipts and social safety net spending of the U.S. Government.

But its impact will cascade throughout the entire multiemployer system.

The second market-based reaction to the insolvency of Central States, will be from the

Financial Accounting Standards Board, or FASB.

FASB would be highly likely to revisit multiemployer pension accounting which threatens to put the proportional share of the unfunded liability of plans on the balance sheets of the employers.

In 2010, FASB proposed new multiemployer pension accounting standards that did this but settled on footnote disclosures.

The insolvency of Central States, a systemically important plan, is likely to generate new concerns and interest from FASB, and the broader accounting profession.

We have seen these types of responses from FASB in the past during other crises, including the 2008 financial crisis and the failures of Enron and Worldcom.

This represents an existential threat to the contributing employers in all multiemployer plans that are underfunded, and which would lead many employers to seek protection and reorganization under the Bankruptcy Code.

The insolvency of Central States is not your ordinary, run of the mill problem for the U.S. Government.

There are at least three factors that distinguish it from the more common failure of an individual business.

The first is that it is connected to the multiemployer system as a whole, and the multiemployer system is a huge financial contributor to the U.S. Government.

In 2015 alone, the multiemployer system provided $158 billion in taxes to the U.S. Government.

We also provided $41 billion in pension income to our retirees and paid more than $203 billion in wages to our 3.8 million active workers.

Combined, the pension and wage income supported 13.6 million American jobs and generated $1 trillion in GDP.

This is real money, even to the U.S. Government.

We are not the only ones who look at it this way.

In Berkshire Hathaway's annual letter released in February, Warren Buffet told his shareholders that “Like it or not, the U.S. Government “owns” an interest in Berkshire’s earnings of a size determined by Congress” and that the “Treasury Department holds a special class of our stock – call this holding the AA shares – that receives large “dividends” (that is, tax payments) from Berkshire.”

In our case, the $158 billion in annual dividends from the multiemployer system is quite meaningful, and which makes this a very different analytical exercise for the U.S. Government.

The government's financial interest in preventing a realized crisis is aligned with ours, which means that they have a significant stake in being constructive with real solutions.

The second factor is, that unlike the failure of any single business, the insolvency of the Central States Pension Fund will push the Pension Benefit Guaranty Corporation into insolvency in its multiemployer program.

This will dramatically reduce the pension benefits payable to the retirees in insolvent plans, with beneficiaries receiving 94 percent to 98 percent cuts to their pension checks.

Our analysis shows the U.S. Government will lose at least $32 billion in tax revenue over the 10-year budget window from the lost pension and wage income resulting from the collapse of critical and declining status plans.

However, the loss of tax revenue is only one cost that the government will see from the insolvency of these plans and the PBGC, which brings us to the third distinguishing factor.

Retirees that see a 94% to 98% reduction in their pensions will be forced onto the social safety net entitlement programs that the U.S. Government and the States provide.

Based on 2017 data, we estimate that the U.S. Government will have new safety net spending over the 10-year budget window of $138 billion.

Combined, the 10-year cost to the U.S. Government of not finding a bipartisan solution to the multiemployer pension crisis is at least $170 billion.

These costs will continue for decades after the first 10-year budget window and, on a net present value basis, will cost at least $332 billion over 30-years.

The actual costs are likely to be higher, perhaps significantly.

This depends on whether additional plans currently in critical status are unable to restore themselves to health through their rehabilitation plans, or decline further into critical and declining status, how the broader contagion plays out with employers and other plans, and how the impact of the market-based responses of banks, the capital markets, FASB and the accounting profession play out with the contributing employers.

The bottom line, and the point that needs to be made to Congress, is that any solution that solves the problem is going to save the U.S. Government almost five times the cost of a real solution.

Interestingly, in 2012 former Senator Orrin Hatch, then Ranking Member of the Senate Finance Committee, produced a report that raised concerns about lost tax revenue and safety net spending in the context of potential reductions to state and local government pensions.

The benefit reductions coming to multiemployer pensions absent a solution to this crisis are dramatically worse than anything the pensions of state and local governments will suffer.

I am going to close with two items. As I mentioned, we need everybody's help in reaching out to Congress.

Congress needs to know that reform must get done this year, and that the contours of legislative reform are the Common Sense Principles of Multiemployer Pension Reform.

We are happy to help everyone prepare for meetings, or to answer any questions.

Please take us up on this.

Finally, for 45 years, the NCCMP has been working to ensure that multiemployer pensions, as well as health and welfare plans can thrive, and our vital work continues.

As a membership organization, we rely on membership to provide the funding for our vital work.

We appreciate all of the plans, unions, and employers that are members. If your plans are not, I would encourage you to consider joining.

Thank you.