Multiemployer Pension
Recapitalization and Reform Plan – Messaging Guidance

The Multiemployer Pension Recapitalization and Reform Plan is proposed by Senators Charles Grassley of Iowa (chairman of the Senate Finance Committee) and Tennessee's Lamar Alexander (Health, Education, Labor and Pensions Committee chairman).

It was released on November 20, 2019.

The introduction says: "**The cost of … reforms should be borne principally by the stakeholders within the multiemployer system**."[1]

WHAT IS IT?

This white paper seeks to reform the multiemployer pension system, which is in crisis due to several large failing plans. The failure of these plans, including Teamsters' Central States, could threaten the security of the government program created to shore up the pension system, the Pension Benefit Guaranty Corporation (PBGC).

The Grassley-Alexander plan would be devastating to the IBEW's 155 local multiemployer pension plans as well as to the National Electrical Benefit Fund (NEBF).

The details of this plan that have been released indicate that it is at least twice as bad as the Joint Select Committee proposal of November 2018. Like that plan, the Grassley-Alexander white paper would render the current multiemployer pension system unsustainable and rapidly result in government-induced market failure.

It would increase risks to multiemployer pension plans by:

- Drastically increasing PBGC premiums
- Creating new co-pays and taxes on active workers and retirees
- Capping the discount rate that would require plans to increase contributions and cut benefits.

It is an existential threat to the multiemployer pension system.

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[1] Multiemployer Pension Recapitalization and Reform Plan White Paper, page 4

IS THIS THE ONLY WAY TO ADDRESS THE MULTIEMPLOYER PENSION CRISIS?

No. The multiemployer pension system, including the failing plans and the Pension Benefit Guaranty Corporation, could be made whole by taking back one half of one percent of the 14% corporate tax break passed by Congress in 2017.

This would fix entire pension crisis and shore up the PBGC.

The PBGC estimated in its latest report that the multiemployer pension problem will cost $65 billion. Increasing corporate taxes from 21 to 21.5 percent would raise $50 billion in 10 years.

For context, remember Congress authorized a $700 billion bailout to prop up banks and other financial institution in 2008 – with no penalty or payments from those banks – and has provided other corporate tax giveaways in recent years.

HOW WOULD IT AFFECT THE NEBF?

Today, the NEBF pays the PBGC approximately $16 million in annual premiums. Under the Grassley-Alexander white paper, that could go up to $46 million annually, an increase of 188% in the first year.

This plan would also:

- Increase PBGC premiums for each participant from $29 to $80 annually, an increase of 100% of the annual cost of operating expenses.
- Create a new tax on retirees' pensions, explained in greater depth below.
- Create a new variable-rate premium. The amount would equal 1 percent of the current unfunded liability divided by the number of participants.
  - The variable rate-premium would be capped at $250 per participant.
  - This single provision could increase the NEBF's premiums to the PBGC by $140 million and increase the NEBF's annual operating expenses by 500%.
- Create a new stakeholder co-payment of $2.50 per month on each union and participating employer in relation to all active employees covered under a plan, for each defined benefit plan participants are party to.
  - This premium would require an additional $7.8 million per year (or $15.6 million in total) from the IBEW and contributing employers.
- Cap the actuarial discount rate (the anticipated rate of return on plan investments) to 6%.

  - The proposed 6% cap is far below the current average discount rate for multiemployer plans, which has the effect of increasing every plan's unfunded liability.
  - For the NEBF, a 6% discount rate would increase unfunded liabilities by $3.4 billion, which would force fund trustees to increase contributions and decrease benefits.
- Authorize composite plans.
  - Hybrid defined benefit and defined contribution plans put all the risk on workers by eliminating employer withdrawal liability, cuts out the PBGC safety net, and allows fund trustees to reduce pensions whenever they deem it necessary.

Overly burdensome premiums and additional taxes would produce a financial liability that would increase the number of declining plans, moving Green Zone (neither critical nor endangered status as defined by the Pension Protection Act) plans and turning them into Yellow or Red Zone (endangered or critical).

This proposal would decimate every multiemployer plan, including all of the IBEW's.

HOW WOULD IT AFFECT RETIREES?

The Grassley-Alexander white paper creates a new tax on current and future retiree pensions, as high as 10%. Given the other proposed changes to multiemployer plans, all non-exempt retirees should expect to pay an additional 5-7% of their pensions to the federal government under this plan. IBEW actuaries conclude that approximately 60% of the NEBF's payments to retirees would be subject to this tax.

WHAT ABOUT THE BUTCH LEWIS ACT?

The Butch Lewis Act, titled "The Rehabilitation for Multiemployer Pensions Act," (H.R. 397) passed the House of Representatives in July, with IBEW support. This bipartisan compromise would create a low-interest federal loan program for troubled multiemployer pension plans. **It is the best current proposal: it <u>does not</u> increase premiums and fees on healthy pension plans to support failing plans.** Butch Lewis is a loan program, not a bailout.

HOW WOULD THE NEBF BE AFFECTED?

All construction sector members of the IBEW participate in the NEBF, as well as retirees and their beneficiaries – a total of 582,000 participants. Most of the IBEW's multiemployer pension participants are in plans that are financially sound, including the NEBF, the second largest multiemployer pension fund in the country.

HOW DO MULTIEMPLOYER PENSION PLANS WORK?

Defined benefit multiemployer pension plans are administered by a joint labor-management committee and funded in part by negotiated employer contributions. They form the backbone of the retirement safety net for over 10 million Americans[2].

WHAT ABOUT THE MINE WORKERS (UMWA) PENSION PROBLEMS?

The UMWA is opposed to the Grassley-Alexander white paper. The IBEW supports the bipartisan American Miners Act (S. 2788), which secures pensions and healthcare for nearly 100,000 miners, their widows and families. That legislation passed Congress at the end of 2019.

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[2] IBEW Policy Brief, November 2019