

One million participants in multiemployer plans face a loss of benefits

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MarketWatch Blog by Alicia H. Munnell



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The Butch Lewis Act is a good place to start a dialogue towards finding a solution

We've been focused on multiemployer pension plans in the last few weeks. My colleagues –

J.P. Aubry and Caroline Crawford – and I just released a comprehensive background **study on multiemployer plans**, and Senator Sherrod Brown (D-OH) and Representative Richard Neal (D-MA) introduced versions of a new bill – the Butch Lewis Act – to address the multiemployer pension crisis.

Multiemployer plans are defined benefit plans created by collective bargaining agreements between a labor union and two or more employers and typically exist in industries with many small employers – employers that would not ordinarily establish a defined benefit plan on their own. While the majority of multiemployer plans are returning to financial health since the financial crisis, a substantial minority – covering about one million of the 10 million participants – face serious funding problems and could run out of money within the next 15-20 years. Additionally, the Pension Benefit

Guaranty Corporation (PBGC), the backstop for defunct plans, expects its multiemployer insurance program to run out of money within 10 years.

The most recent legislative effort to address the multiemployer problem – the Multiemployer Pension Reform Act (MPRA) – increased funding for the PBGC and allowed multiemployer plans facing impending insolvency to cut accrued benefits if approved by the Treasury. As of December 2017, the Treasury has approved only four of the 15 benefit-cut requests submitted by these plans. Of the remainder, one application remains under review, five applications have been withdrawn, and five have been denied – including that of Central States Teamsters, the fourth largest multiemployer plan in the nation. As such, MPRA has not proven to be the cure-all as hoped.

On November 16th, Senator Brown and Representative Neal introduced versions of **the Butch Lewis Act**. (The bill's namesake, Estil "Butch" Lewis, was the former head of Teamsters Local 100 and advocated against multiemployer pension benefit cuts.) The proposed legislation would establish a new office in the Department of Treasury – the Pension Rehabilitation Administration (PRA) – that would administer loans to private multiemployer plans for 30 years at low interest rates to ensure that plans can meet their commitments to retirees today, while allowing them to regain solvency in the long term. The money for the loans and the cost of running the PRA would come from the sale of Treasury-issued bonds to financial institutions.

The Butch Lewis Act addresses a key structural issue behind the multiemployer problem – large negative cash flows that result in plan assets declining faster than liabilities. It does so by providing an infusion of cash to ensure plans can fulfill immediate benefit promises and make long-term investments to regain footing. Portfolios can only be invested in fixed

income and other conservative assets. For the first 29 years, the plan only pays interest. In year 30, the plan repays the loan in full, in addition to final interest.

Critics of the Butch Lewis Act contend that alternative solutions exist – such as an increase in employer premiums to the PBGC. However, the most recent estimates suggest that the required increase in premiums to forestall insolvency would require a six-fold increase – from \$26 to \$156 per participant. Adding this increase to what employers are already paying for their rehabilitation plan may be enough to induce more employers to withdraw.

We welcome this legislation as the beginning of a dialogue on solving the crisis in multiemployer plans. In the absence of legislation, the PBGC does not have the resources to serve as a safety net for these plans, so many vulnerable people face the prospect of losing their only source of income.

The bills have been referred to committees for review. The time for action is now, and it requires the consideration of alternative sources of relief. The Butch Lewis Act is a good place to start.