TALKING POINTS: MULTIEMPLOYER COMPOSITE PLAN DESIGN

Contractors want to continue to be able to provide lifetime retirement security for their workers but the current Defined Benefit (DB) system is unstable and contractors are worried about the viability of their businesses and are being driven out of the system. Large and small Defined Benefit (DB) plans are on the verge of collapse. The existing economic realities mean that benefit security under the current DB system is illusory.

A new type of plan called a “Composite Plan”, if authorized, would give bargaining parties a third option. Federal law currently allows only a traditional Defined Benefit Plan or a 401(k) style Defined Contribution Plan. Composite Plans are a hybrid plan, designed to bridge the gap between the existing options. The benefit would be a lifetime benefit; it would be a variable benefit but reliable.

Composite Plans: Employers like it; workers want a lifetime benefit which defined contribution plans don’t provide; active workers are sacrificing a lot in wages to unstable plans while receiving drastically reduced accruals; its use is strictly voluntary by plan trustees, which have an equal number of labor and management representatives.

Positive Features from the Worker Perspective:

- **Not Mandated**: Composite Plan design is simply another tool for plans trustees to use to secure long-term retirement benefits for participants.

- **Lifetime Benefit**: Composite plan benefits would be paid as lifetime annuities – lump sums not allowed.

- **Professional Asset Management and Pooled Risks**: Plan assets would be professionally managed without the fees associated with individual accounts, resulting in far greater efficiency than is available in traditional Defined Contribution plans.

- **Benefit Security**: The flexible benefit structure would protect benefits with strict management and funding requirements – most notably plan benefits would be required to be funded at 120% -- a funding cushion of 20%. There would be safeguards against adverse market experiences and advance protections for severe market declines that would allow for modest reductions early to prevent catastrophic benefit reductions.

- **Already Earned Benefits Protected**: Composite Plans would apply only to benefits earned in the future; benefits already earned in the so-called Legacy Plan would not be lost nor cashed out. Instead, legislative language is being written in a bi-partisan way to tightly protect earned benefits in the transition rules.
Positive Features from the Employer Perspective:

- **Retain and Attract Employers:** By eliminating unfunded liabilities (withdrawal liability) for employers going forward, the composite design would improve the ability of plans to retain existing contributing employers and would remove a significant barrier for attracting new employers.

- **Cost Predictability:** Composite Plans would provide cost predictability -- employers would be required only to contribute the amount negotiated in their collective bargaining agreements and would not take on outside liabilities.

- **Labor Sees Hybrid Plans as a Positive Alternative to Defined Contribution Plan:** Composite Plans are a design that workers would be willing to agree to for the future -- whereas they are generally skeptical and unwilling to negotiate to a Defined Contribution plan.

- **Liabilities in Legacy Plans Gradually Diminish:** As time moves forward, liabilities in the legacy plans gradually diminish as benefits are paid out and participants earn accruals in the new plan.

- **Companies Continue to Provide Good Jobs within a Community:** With a composite plan in place, instead of closing their doors, employers would be able to welcome their children into their businesses with confidence or would be able to sell their businesses when they retire, because the overwhelming burden of uncontrollable, unknowable risk of unfunded liabilities is removed.

- **Private Sector Solution:** The proposal is a private sector solution, not requiring government dollars and is designed to keep the current funding crisis from happening in the future.

Actuarial Aspects of Composite Plan Design:

- **Stress Testing Has Shown that Benefit Levels in Composite Plans are Highly Resilient** – Stress testing was done using severe market conditions. The Composite Plan was able to recover without imposing any reductions on retired participants aside from cuts to ancillary plan features. This analysis illustrates how Composite Plans can stand up to dramatically poor experience without needing to impose unreasonable sacrifices on participants. (Analysis available on request.)
• **Safeguards against Adverse Experience:**
  - 20% funding cushion required – plans must be funded at 120% or action required
  - Other conservative funding rules regarding benefit increases
  - Recovery Program when long-term imbalance arises
    ▪ Increase contributions
    ▪ Reduce future accruals
    ▪ Adjust supplemental benefits

• **At Worst, Early Action Means Modest Adjustments:** In the unlikely event market declines exceed the worst predictions, plans will have the important ability to intervene early by reducing benefits to a sustainable level. This step is only available after all other options have been exhausted. A hard lesson that we have learned from recent experience is that when the worst happens, early action is key.

• **Clear Advantage Over 401(k) Plans for Participants** – In a 401(k), the individual bears the risk of outliving their savings. In a Composite Plan, participants bear risk as a group. While no individual can predict their life expectancy, it is possible to predict with a high degree of accuracy, how long the average retirement over a large population will last. Composite Plans ensure that no retiree or surviving spouse outlives his or her retirement benefits, which is a problem that plagues the 401(k) system. Composite plans can’t payout in lump sums so a retiree can’t blow through funds meant to provide retirement security.

**Conclusion**

Composite Plans will modernize and reinvigorate a multiemployer retirement system that has struggled in recent years. Once Congress authorizes the use of Composite Plans, labor and management will have the option to elect a plan design that would provide a safe and secure lifetime retirement benefit to employees without risking the survival of a sound business that offers good middleclass jobs with important benefits for workers and society.