Multiemployer Pension Plans: Composite Plan Design

Construction Employers of America (CEA) Position:

Congress should act quickly to provide employers and employees participating in collectively bargained, multiemployer benefit plans with more choices in retirement plan models. CEA supports the bipartisan Grow Act, H.R. 4997, Giving Retirement Options to Workers Act, which would authorize use of Composite Plan design, a hybrid model, designed to bridge the gap between the existing options of the traditional defined benefit plan and the defined contribution model. The Composite Plan model would enable multiemployer pension plans to voluntarily adopt more flexible plan structures going forward that would reduce risks for contributing employers but still provide reliable, lifetime income for a comfortable retirement for workers. CEA also believes that Congress should ensure that any Pension Benefit Guaranty Corporation (PBGC) premium increases for multiemployer plans reflect reality both in terms of need and effectiveness.

The Issue:

Much of the national news and Congressional efforts have been focused on the PBGC funding crisis and on multiemployer pension plans that are irretrievably headed to insolvency while neglecting the urgent need to modernize the current multiemployer pension system. The failing plans demonstrate that benefit security under the current Defined Benefit system is illusory and that it is time to allow plans the option of a more sustainable approach to providing lifetime benefits. When Congress passed the Multiemployer Pension Reform Act (MPRA), Ways and Means raised last minute jurisdictional issues keeping Composite Plan design out of the 2014 law. The Composite Plan option, now introduced as the bipartisan GROW Act, would provide an option for the 90% of plans that are not immediately facing insolvency but are facing high unfunded liabilities and instability. Labor and Management agreed to the Composite Plan model which would allow plans to voluntarily adopt a more flexible plan structure going forward. Transitioning to a Composite Plan would reduce risk for contributing employers, retain and attract employers, protect already earned benefits, and protect future benefits with strict funding requirements. The GROW Act is NOT a replacement for a loan program or bailout for critical and declining plans.

Why Congress needs to act quickly:

- The majority of construction industry plans have an aging demographic - dominated by retired participants-- and also face diminished employer contributions.
- Market volatility and default by other employers are both totally beyond the control of individual contributing employers but create unpredictable, unacceptable risk.
The resulting unfunded liabilities create withdrawal liability which leads to lending and bonding issues for construction industry employers. The unquantifiable risk serves as a barrier to new employers entering the system and actually creates an incentive for current employers to leave the system, further destabilizing the plans. No other proposal addresses the concerns of unstable (but not yet failing) plans – plans need a viable option before they hit critical status and face insolvency. Plans need options now to meet today’s economic challenges before employers leave the system and before more plans fail. Any PBGC premium increases must be carefully structured. Already strapped plans could be further destabilized by premium levels set too high and without a phase-in period, more employers, who will be asked to cover the increases, could be driven out of the system.

The Solution:

Congress should act to advance Composite Plan design (The GROW Act, H.R. 4997) to allow implementation of more flexible plan structures that would reduce risks for contributing employers but still provide reliable, lifetime income to ensure a secure retirement for workers.

Features of the GROW Act:

- 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. Participants cannot outlive their benefits.
- 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 later. Stress testing models show the funding cushion protects plans against moderate and severe market losses with no changes to core benefits.
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 written in a bi-partisan way to tightly protect earned benefits in the transition rules.

Private Sector Solution: The GROW Act is a private sector solution, not requiring government dollars and is designed to keep the current funding crisis from happening in the future. The GROW Act is NOT a replacement for a loan program or a bailout for critical and declining plans.

Honors the Collective Bargaining Process: Contractors and their labor partners are well-versed in the art of collective bargaining. The GROW Act would leave the decision to transition in the hands of labor and management trustees. In a world where employers are deserting the defined contribution model for 401(k) plans, this Composite Plan design legislation, keeps pension benefit issues as a negotiated issue, not a mandate.

Liabilities in Legacy Plans Gradually Diminish: With Composites, legacy plan liabilities gradually diminish as benefits are paid out and participants earn accruals in the new plan and the legislative language is written so that legacy plans cannot be “starved”.

PBGC Premiums to Legacy Plans Continue: As long as there are remaining participants in the legacy plans, the plans must pay premiums to PBGC.

Key Points:

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. Both large and small DB funds are on the verge of collapse. Employers like the cost predictability of Composite Plans and workers like the lifetime benefit. Its use is strictly voluntary by plan trustees, and plans have an equal number of labor and management representatives.

Status:

H.R. 4997, The GROW Act, has been introduced by Republican Phil Roe and Democrat Donald Norcross, a retired IBEW member.

Note: A temporary Joint Select Committee on the Solvency of Multiemployer Plans has been established with an equal number of Republicans and Democrats with the hope of finding a solution for failing plans. Success on that Committee, which must finish its work by November 30, would likely include Composite Plans.
**H.R. 4997, The Grow Act Sponsor and Co-Sponsors:**

Sponsor: Rep. Roe, David P. (R-TN-1)


**Committees of Jurisdiction:**

Senate Finance; Senate Health, Education, Labor and Pensions (HELP); House Education and Workforce; and House Ways & Means