Horizon Actuarial Services, LLC

Summary of the Multiemployer Pension Recapitalization and Reform Plan

On November 20, 2019, Senators Charles E. Grassley (R-IA) and Lamar Alexander (R-TN) released a proposal to address the immediate financial challenges faced by a subset of multiemployer pension plans and also to secure the multiemployer pension system over the long term — the "Multiemployer Pension Recapitalization and Reform Plan." The following is a high-level summary of the proposal – it is not an exhaustive list of all provisions.

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Limitation on Funding Valuation Discount Rates. The proposal imposes a cap on the discount rate used to determine actuarial liabilities for statutory funding purposes based on the *lesser* of (a) a 24-month average of the third segment rate of the yield curve plus 2.00% (currently 6.33%) or (b) 6.00%. The rate change would be phased in over a 5-year period. Any increase in unfunded liability as a result of this change is amortized over a period of 30 years.

Increase in PBGC Premiums. Premiums paid to the PBGC would increase under the proposal through higher flat-rate premiums and the introduction of a variable-rate premium, stakeholder co-payment, and retiree co-payment.

- *Flat-Rate Premiums.* The flat-rate premium would be increased from $29 to $80 per participant per year.
- *Variable-Rate Premiums*. The proposal would introduce a variable-rate premium equal to 1% of a plan's unfunded current liability[1]. There is a cap on this premium up to $250 per participant per year depending on the average level of benefits provided to retirees.
- *Stakeholder Co-Payment*. The proposal would also impose a stakeholder co-payment equal to $2.50 per active participant per month payable by both the union and the employers.
- *Retiree Co-Payment*. Further, the proposal would require a percentage of retiree benefit payments to be paid directly to the PBGC on a monthly basis. This percentage depends on a plan's zone status and whether the plan received a partition. The co-payment would be 0% for unrestricted/stable plans; 3% for endangered plans; 5% for critical plans; 7% for declining, frozen, or insolvent plans; and 10% for plans that receive a partition. Participants and beneficiaries over age 80 and disabled retirees would be exempt. There would be a phase-out for retirees between age 75 and 80.

Increase in PBGC guarantees. The maximum guaranteed benefit from the PBGC would increase to 100% of the first $56 in monthly benefit accrual rate. Under the proposal, the maximum guaranteed monthly benefit for a worker with 30 years of service would rise from about $13,000 annually to about $20,000 per year.

Changes in Withdrawal Liability Rules. Withdrawal liability would be defined in terms of the duration of payments (rather than an allocation of UVBs). The duration of payments would depend on the Plan's funded percentage, which would be determined using the same assumptions (including the discount rate) that are used for minimum funding. Mass withdrawal would be eliminated.

- *Payment Duration*. The payment duration would be based on funded status:
  - Over 140% funded: 0 years (no withdrawal liability).
  - 90% - 139% funded: generally 5 years.
  - Less than 90% funded: 1 additional year for every 2% below 90%, with a cap of 20 years.
  - The cap is increased to 25 years for terminated or declining plans.
- *Payment Amount.* The payment would be equal to the employer's highest contribution base units (CBUs) in the last 20 years multiplied by their highest contribution rate in the last 10 years. In no event would the payment be lower than the employer's highest contribution in the last 20 years.

Composite Plans. The proposal provides for an optional plan design called a composite plan that combines features of both a defined benefit and defined contribution plan. A composite plan would not be covered by the PBGC and therefore would not pay PBGC premiums. In addition, contributing employers would not be subject to withdrawal liability on benefits earned under a composite plan. Composite plans must target a funded percentage of 120% and accrued benefits may be subject to reduction if necessary. Plans that are in critical status or projected to be in critical status within 5 years are not eligible.

Changes in Zone Status Rules. The proposal includes material changes to both the criteria for entry into the various zones and the rules for operation in each zone. In addition, the green zone would be split into two zones: unrestricted and stable.

- ***Unrestricted*****.** The plan's projected actuarial funded percentage in 15 years must be at least 115% or the plan's current liability[1] funded percentage must be at least 80%. These plans are permitted to increase benefits and/or reduce contribution rates if they still meet the criteria after the change.
- ***Stable*****.** Similar to the current "green zone", these are plans that do not meet any of the other zone status criteria. Stable plans would not be required to take corrective action, but they would be restricted from certain benefit improvements and/or contribution rate reductions.
- ***Endangered*****.** The plan's funded percentage is less than 80% or there is an accumulated funding deficiency (AFD) projected within 10 years. Early retirement subsidies must be eliminated and future accruals must be reduced to 1% of contributions in the default schedule. The plan may adopt alternative schedules under which other adjustable benefits may be reduced or eliminated. Benefit increases that do not require a plan amendment (e.g., contribution rate increase in a % of contributions plan) are permitted.
- *Critical.* The plan's funded percentage is less than 65% or there is an AFD projected within 7 years. Early retirement subsidies must be eliminated and future accruals must be reduced to 1% of contributions in the default schedule. Future accruals must be reduced to 1% of contributions in all schedules if the plan is not projected to emerge within the 10-year rehabilitation period. Benefit increases are not permitted.
- *Declining.* The plan is projected to go insolvent within 30 years or the plan was in critical status in the prior year and either (1) its projected funded status in 15 years is less than its current funded status, or (2) it is forestalling possible insolvency (rather than projecting emergence). The rules for declining plans are similar to the rules for critical plans. In addition, declining plans have access to the MPRA tools (such as benefit suspensions), and are required to adopt a solvency plan to avoid projected insolvency. If a declining plan is projected to go insolvent within 5 years, the plan must freeze benefit accruals and reduce benefits to the PBGC guarantee level immediately.

Special Partitions of Eligible Plans. The proposal establishes a special elective partition program to relieve eligible multiemployer plans from a sufficient amount of liabilities to ensure that the plans remain solvent indefinitely. Eligible plans must apply to the PBGC within one year of enactment of the proposed legislation.

- *Eligibility*. Eligible plans include (1) The Central States Teamsters Plan, the Road Carriers Local 707 Plan, and the United Mine Workers of America Plan; (2) plans that were certified to be in critical and declining status under current law prior to November 20, 2019; (3) plans that previously suspended benefits under MPRA; and (4) critical status plans that are below 40% funded using current liability[1] and have an active to inactive ratio below 40%.
- *Amount of Partition*. Eligible plans can transfer the benefit liability necessary for the original plan to remain solvent indefinitely, but no more than 100% of the revised PBGC guaranteed benefit level.
- ***Conditions for Approval.*** Future benefit accruals must be reduced to 1% of contributions and the plan must take "all reasonable measures" to avoid insolvency including benefit suspensions up to 10% (plans that suspended benefits under MPRA could undo the suspensions and seek a special partition). Projections of plan assets and liabilities would generally be based on assumptions to be specified by the PBGC.

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[1] *Note: The proposal bases certain items on "current liability" as described in this summary. A plan's current liability is different than its actuarial liability. Current liability is based on statutory discount rates and mortality tables (the current discount rate is around 3.0%), which produce a much higher liability than the actuarial liability.*

This is a high-level summary of the key components of the proposal. There are other important provisions that have not been summarized herein. It does not represent legal, tax, or other professional advice. Please contact your Horizon Actuarial consultant for more information on how the proposal could affect your multiemployer pension fund if enacted.
Contact information: Ben Ablin: ben.ablin@horizonactuarial.com, David Pazamickas: david.pazamickas@horizonactuarial.com.