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MULTIEMPLOYER PENSION REFORM

Support the Adoption of Composite Plans: A New Approach to Modernizing Multiemployer Retirement Benefits

Action Needed:

Enact the composite plan design, which is supported by both labor and management. Current pension law limits employers to offering either defined contribution plans, such as the 401(K) model, or traditional defined benefit pension plans. Composite plans are neither.

Background:

- The Multiemployer Pension Reform Act of 2014 (MPRA) was modeled after the proposal, *Solutions Not Bailouts*, and includes many (but not all) of the proposed reforms. Reforms that were included in the Act consist of: a permanent extension of the Pension Protection Act along with technical corrections; optional suspension of benefits for plans headed for insolvency and a doubling of the Pension Benefit Guaranty Corporation (PBGC) premium for multiemployer pension plans. However, the law did not create "composite plans," a hybrid between a defined contribution and a defined benefit plan. AGC will continue to advocate for adoption of the composite plan design and oppose future PBGC premium increases that would be detrimental to troubled plans.

AGC Message:

- **Composite Plans Offer Advantages Over Existing Plan Designs.** Composite plans take the best features from each type of plan by combining the predictable costs of 401(k)-style defined contribution plans with the lifetime income features of traditional defined benefit plans. Composite plans provide for professional asset management and the pooling of risks.
- **Mechanics of Composite Plans Ensure Plans are Fiscally Viable in the Future.** The design creates a benefit formula to determine the amount of retirement income each participant receives, with additional optional features. A board of trustees consisting of an equal number of employee and employer representatives sets the plan's provisions. Employers contribute based on bargaining agreements' contribution rates with no liability outside the negotiated rate or withdrawal liability. The adoption of a composite plan design would not eliminate legacy liabilities under existing defined benefit plans. Employers would continue to contribute to the pension trust where a portion of the contribution would pay down legacy costs and a portion would go towards the new composite plan.
- **Composite Plans Improve Upon the Current Multiemployer Pension System.** Composite plans project funding for 15 years into the future to help guarantee plan solvency. A plan's funding ratio must equal or exceed 120 percent. If the ratio falls below 120 percent then the plan will be required to improve its projected funding level. Similar to a defined benefit plan, the options for improving the funding level include higher contribution rates, reducing the rate of future benefit accruals and even scaling back ancillary benefits in rare cases. The composite plan is a better alternative than a traditional defined benefit plan because the 120 percent funding cushion, emphasis on responsible funding policies, early intervention

to address funding imbalances, and the ability to attract and retain contributing employers limit the chance of plan failure or insolvency.

- **Composite Plans Have Proven to Be Viable.** The proposed composite plan model has been thoroughly reviewed and stress tested. In fact, modeling shows that a composite plan would have survived a comparable 2008 financial crisis without causing undue harm to either contributing employers or participants. While the composite plan concept is new in the United States, the design is common practice throughout much of Canada. The history of the plans in Canada show them to be highly successful, with a growing employer base and few instance of benefit reductions to maintain adequate funding levels.
- **PBGC Premiums Should Not Increase.** The PBGC has reported significant funding shortfalls of its multiemployer program. However, many of their estimates have varied wildly from year-to-year and a true accounting of their shortfalls is difficult to evaluate. Defined benefit plans pay a yearly insurance premium to the PBGC on a per participant basis. Any future premium hikes should first consider the impact that the benefit suspension provisos of the Multiemployer Pension Reform Act may have on large, insolvent plans, along with the 2015 doubling of the premium. The rate for 2015 was raised by 100 percent in the Act to $26 per participant (indexed in future years). The ability for plans to take earlier, corrective action and increase premium revenue may be enough to put the PBGC on a better fiscal path. The PBGC is also required to report on its fiscal condition in a reformat to Congress in June 2016.