

MULTIEMPLOYER PENSION REFORM

Support Adoption of the Composite Plan Design

Action Needed:

Enact the composite plan design, which is supported by both labor and management.

Composite plans offer advantages over existing plan designs. The combination of composite plans and provisions in the Multiemployer Pension Reform Act should alleviate need for a PBGC premium increase.

Background:

- The Multiemployer Pension Reform Act of 2014 was modeled after the proposal, *Solutions Not Bailouts*, and includes many (but not all) of the proposed reforms. One reform not included was the creation of a plan option that is a hybrid between a defined contribution and a defined benefit plan, the composite plan.

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 Fiscal Viability.** The design creates a benefit formula to determine the retirement income each participant receives. A Board of Trustees consisting of both 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 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 to help guarantee solvency. A plan's funding ratio must equal or exceed 120 percent. If the ratio falls below 120 percent, the plan is required to improve its projected funding level. 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.
- **Composite Plans Have Been Stress Tested and Have a Proven Track Record.** The proposed composite plan model has been thoroughly reviewed and stress tested. Modeling shows that a composite plan would have survived a comparable 2008 financial crisis without causing undue harm to either contributing employers or participants. Additionally, the design is common practice throughout much of Canada, where they are highly successful with a growing employer base.
- **The Combination of Composite Plans and Provisions in the Multiemployer Pension Reform Act Should Alleviate the Need for a PBGC Premium Increase.** The PBGC has reported significant funding shortfalls of its multiemployer program. 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 Multiemployer Pension Reform Act may have on large, insolvent plans. 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.